Final Report

India-EU Trade & Investment Agreement: Prospects for the Accountancy Sector

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List of Abbreviations

ADRs/GDR	American Depositary Receipt/Global Depositary Receipt
BPO	Business Process Outsourcing
CA	Chartered Accountant
CECA	Comprehensive Economic Cooperation Agreement
CPA	Certified Public Accountant
DTT	Deloitte Touche Tohmatsu
E&Y	Ernst and Young
EC	European Commission
ENT	Economic Needs Test
EU	European Union
FAO	Financial and Accounting Outsourcing
FEE	Fédération des Experts Comptables Européens
GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
ICAI	Institute of Chartered Accountants of India
ICSI	Institute of Company Secretaries of India
ICWAI	Institute of Costs and Work Accountants of India
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financing Reporting Standards
IPMR	Indicator of Product Market Regulation
IPO	Initial Public Offering
ISA	International Standards on Auditing
JETCO	Joint Economic and Trade Committee
KPO	Knowledge Process Outsourcing
MOC	Ministry of Commerce
MRA	Mutual Recognition Agreement
NACE	statistical Nomenclature of economic Activities in the European Community
PWC	PricewaterhouseCoopers
SEC	Securities and Exchange Commission
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Contents

List of Tables

List of Figures

India-EU Trade & Investment Agreement: Prospects for the Accountancy Sector

Parthapratim Pal
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I. Introduction

In the era of rapid globalization, the accountancy sector plays a vital role in supporting firms in the collection, retention and dissemination of financial information. It also helps firms by providing advice and assistance on taxation matters, financial reporting and commercial strategy. Accountancy is also viewed as a strategic tool to attain good corporate governance. With the spread of multinational companies and clients across the world and with increased relocation of global production, there is rapid internationalization of accountancy services. Also, the complexities of modern day business like stock market listing across various countries, international mergers and acquisitions, and preparation of company tax reports for different countries with different accounting norms and procedures have ensured that the demand for specialized accounting services is on the rise.

However, all is not well with this sector. In the last decade a string of high-profile accountancy frauds have highlighted that pressures and complexities of market economies can lead to ethical breaches among the best of accountancy firms. The famous case of the bankruptcy of the large multinational energy company, Enron, in 2001 and the involvement of the accounting firm Arthur Anderson are examples of this problem. There are also allegations of increasing conflict of interest among accountancy firms; accounting and audit firms are increasingly diversifying into consultancy and management services, which are more lucrative forms of business. As a result, audit firms are becoming more dependent on their clients for a wide range of businesses. This has cast doubt on the professional integrity of audit firms and may have resulted in erosion of auditor independence. This issue has led to serious governance problems and some countries, including the US, are introducing statutory provisions to check this problem.

Demand for accountancy and audit services results from both mandatory legal requirements, such as financial reporting, and disclosure norms. In a market-based economy, auditors perform the role of informing shareholders about the performance of a firm and its management. Therefore, the credibility and fairness of audit and accountancy firms is considered to be crucial for the proper functioning of a market economy. There are positive social externalities associated with a well-functioning accounting sector as it safeguards reliable financial information, which is essential for trust in capital markets and the financial system as a whole (Rubalcaba 2007). Because of this crucial role, accountancy is treated as an accredited profession like medicine and law. For accredited professions, the right to practice is generally restricted and the profession is subject to various accreditation requirements and procedures, including licensing or authorization. In such services, 'the professional is expected to maintain high professional conduct and standards and to uphold the welfare of clients and society over and above pursuing pure profit maximization'.[1] As a result, international trade in accountancy services is severely restricted by local qualification and licensing requirements for individual practitioners as well as conditions on the ownership and management of firms. In other words, for most countries around the world, accounting firms are required to be locally owned and independent.[2]

With the rapid spread of globalization the inward-looking structure of this sector is gradually changing. The Big Four firms, which dominate the global accounting market, have a presence in more than 140 countries. With increasing relocation of global production process, it has now become extremely important to internationalize and standardize the accounting process. Also with increased integration of global capital markets and heightened focus on corporate transparency, the demand for international accounting standards is on the rise. As the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting recently pointed out this is also important for the coherence and efficient functioning of financial infrastructure, as well as the mobilization of financial resources for economic development.

Increased globalization and this new wave of standardization of accounting practices are slowly liberating the accountancy sector from the clutches of domestic regulations and have opened up huge possibilities for international trade in accountancy and audit services. According to the latest figures, the global accountancy market grew by 5.7% in 2006 to reach a value of $215 billion. In 2011, the global accountancy market is forecast to have a value of $274.1 billion, an increase of 27.4% since 2006. The audit segment generates 42.9% of the global market's value.[3]

This has created new international markets for accounting professionals. It is also notable that with rapid improvement in telecommunication technology and the so-called 'death of distance', cross-border trade in this sector is gradually increasing. And it is not surprising that a number of Indian BPOs and KPOs have made significant progress in the Financial and Accounting Outsourcing (FAO) business.

In this scenario, India has a significant advantage as it produces a large number of accountants who are conversant with English and are one of the most competitive in the world. These factors not only make India a formidable force in Mode 4 but also ensure that India becomes a major player in Mode 1.

For this study, a number of professional accountants and experts of various accounting firms were interviewed. These experts feel that many European Union countries provide significant business opportunities to Indian accountants. Countries like the UK and Ireland have accounting norms similar to India and have a long tradition of association with the Institute of Chartered Accountants of India (ICAI). Therefore, these countries are their priority choices in the EU market. According to

[1] "Trade and Development Aspects of Professional Services and Regulatory Frameworks". Note by UNCTAD Secretariat, Document Number TD/B/COM.1/EM.25/2 dated 25 November 2004, p. 8.

[2] The accountancy sector operates somewhat differently from most other professional services. Unlike most other professional services, which are practiced at an individual level, accountancy services in most countries are conducted through partnerships and firms.

[3] Accountancy: Global Industry Guide, Datamonitor, Oct 2007.

Indian accountants, other European countries with large multinational headquarters (like Germany, France, the Netherlands, Sweden, and Denmark) are also big potential markets.

However, experts also expressed apprehension that the Indian system is not producing enough accountants to meet the domestic and global demand and that this sector is likely to face shortages of skilled accountants unless remedial measures are taken. It is notable here that the ICAI has recognized this problem and has recently increased its student intake so as to produce around 25,000 Chartered Accountants (CAs) per year starting from 2010. This is more than double the number of CAs produced annually between 2001 and 2006.

Against this background, this report studies the opportunities and barriers faced by Indian accountants in the EU market. Section II takes a global overview of the sector where basic characteristics, overall structure and the size of the sector are discussed. Section III looks into the structure of the accountancy sector of India and analyzes the domestic regulations which govern this sector. Section IV discusses the domestic regulations of the accountancy sector in EU countries. Section V examines the opportunities for the Indian accountancy sector in the EU market. In view of India's export interest in select EU countries, Section VI analyzes the EU Revised Offer of 2007. Drawing from the previous sections, Section VII discusses the trade-offs faced by the Indian accountancy sector and suggests possible strategies which can be adopted for this sector. Section VIII concludes the study and offers some negotiating suggestions. We have included a special section on the United Kingdom in this study, which is given in Section IX.

II. Global overview of the sector

The global accountancy sector is characterized by high market concentration. In this sector, four large accountancy firms (the so-called 'Big Four') have a virtual monopoly. These four firms are Deloitte Touche Tohmatsu (DTT), Ernst and Young (E&Y), KPMG and PricewaterhouseCoopers (PWC). These firms are structured as a network of separate and independent firms, each of which works under the same brand name and network agreement, but are legally separate entities. To work under the same brand name, these member firms have to follow a common set of principles and policies. In return, they have access to common resources and expertise. Thus, each of the Big Four accounting firms can be described as a set of independent member firms bound together by a contractual relationship across countries.

The market power of the Big Four firms can be judged from their spread across the world and the volume of their business. According to the Annual Reports of these companies, in 2006 each of these four companies had a presence in more than 140 countries and together they employed more than 462,000 people. Their combined revenue in 2007 was more than US$70 billion (Table 1). All the four firms managed double-digit growth rate of revenues during 2004-2005. Estimates suggest that the 'Big Four' audit more than 78 per cent of all U.S. public companies, representing 99 per cent of public company sales (Bloom and Schrim 2005). In the UK, the Big Four firms audited all of the FTSE 100, and 343 of the FTSE 350 companies in 2004 (Cousins, Mitchell and Sikka 2004).

Table 1: The 'Big Four' Accounting Firms in 2005

	Presence in Countries	Employment	All member firms' revenue (USD billion)	Rate of Growth
DTT	142	146,000	23.1 (FY 2007)	15.5%
E&Y	140	114,000	18.4 (FY 2006)	9.0%
KPMG	144	113,000	16.9 (FY 2006)	9.6%
PWC	148	130,203	25.2 (FY 2007)	14.4%

Source: Annual Reports of the respective companies.

Apart from the Big Four firms, there are medium- and small-sized firms in this sector. In the middle rung there are a number of companies which are smaller than the Big Four but still have a formidable presence in the sector. Some of these firms provide services to bigger clients including some Fortune 1000 companies. Examples of such firms are Grant Thornton, BDO Seidman, and McGladrey & Pullen.[4] At the bottom end of the sector, there are small proprietorship or partnership firms which cater to small and medium businesses and local clients. Sometimes the smaller firms become associates of the Big Four and work as domestic partners of the bigger firms. For example, KPMG had more than 6000 such partners in 2005.

Another important feature of the accountancy sector is that apart from providing accounting and audit services, accountancy firms are getting involved in a wide range of management and consultancy activities. It is generally argued that audit services are not very profit-making and big accountancy firms often use auditing as a 'loss leader' to market more profitable non-audit services like management and consultancy. Also, with the increase in mergers and acquisitions, merger audits have become a specialized service for accountancy firms. Along with this, these firms also specialize in insolvency services, tax advice, investment services and management consulting. The global spread and outreach of these firms also allows them to provide investment banking and risk advisory services to new entrants particularly in developing country markets. Because of the large basket of services provided by these firms, they have become the world's largest suppliers of consultancy services.

The Security and Exchange Commission (SEC) of USA has pointed out cases where firms and their audit clients have entered into an increasing number of business relationships, such as strategic alliances, co-marketing arrangements, and/or joint ventures.[5] This has led to a widespread concern that because of these activities, audit firms may end up losing their professional integrity as statutory auditors. The extent to which the Big Four depend on non-audit income can be gauged from the fact that in 2005 around 52 per cent of DTT's total revenue came from non-audit services and 49

[4] It must be kept in mind that these firms are not small firms by any means, although they are smaller than the 'Big Four'. For example, McGladrey and Pullen has 130 offices in 25 states of the USA and more than 7,000 employees.

[5] http://www.sec.gov/news/extra/audback.htm

per cent of PWC's total revenue came from non-audit and assurance services. A similar breakup of income holds for other big accountancy firms as well.

Size of the Sector

Like many other sectors in services trade, it is difficult to accurately judge the market size of the accountancy services sector. The situation is more complicated for the accountancy sector because there is no common definition for accountancy activities, given the wide range of additional services currently provided by accountancy firms, and because accountancy statistics are often clubbed together with data for other activities (WTO 1998).

However, certain pointers allow us to form a rough estimate about the size of the sector. UNCTAD (2004) estimates that in 2002 the global market for all professional services was more than US$1 trillion. At the sub-sector level, total worldwide revenues for the accounting industry were estimated at around US$142 billion. According to this UNCTAD estimate, the Big Four accounting firms account for about one-third of the industry's (accounting and auditing) worldwide revenue. Their share in auditing business alone was 67 per cent in 2002.

Assuming that the share of the Big Four accountancy firms remains unchanged at 33 per cent of global accountancy services and that their total revenue exceeds US$80 billion, one can estimate that the global market for accountancy and other related services was around US$240 billion in 2006/7. If one looks at the audit and non-audit revenues of the Big Four firms, one finds that around 50 per cent of their revenue comes from audit services. [6] If one assumes that their share in the global audit business is maintained at 67 per cent, one has a rough estimate of the size of the world audit market at around US$50 billion in 2005.

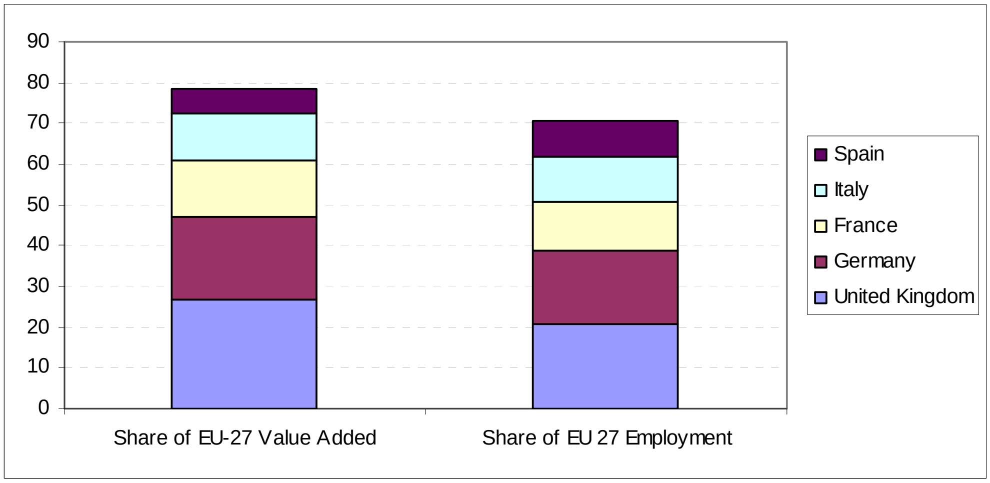
According to the latest Eurostat report[7], there are around 1.4 million enterprises active in the EU-27's legal, accounting and management services sector (NACE Group 74.1). These firms together generated €221.6 billion of value added in 2004, accounting for 30.0% of the business services total (NACE Divisions 72 and 74). These sectors employed 4.4 million people and contributed more than one-fifth (22.6%) of the business services workforce. Eurostat (2008) shows that legal, accounting and management services had the largest value added among the business services activities covered in Subchapters 22.1 to 22.6 and was the second largest employer across these activities in 2004. A country-wise breakup shows that the UK is the biggest market in Europe in this sector and it generated more than one-quarter (26.8 %) of the EU-27's value added in this sector in 2004. Germany contributed another 20.2 per cent (Figure 1).

The British consultancy firm, Key Note, estimates that the total accountancy market in UK increased in value by 10.5% in 2006, to £19.59 billion. This figure includes an estimate for the growth in the consultancy market, which accountancy firms also serve. According to the magazine Accountancy Age, the fee income generated by the

[6] From the annual reports of the Big four firms.
[7] http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-BW-07-001/EN/KS-BW-07-001-EN.PDF

top 50 UK accountancy firms is around £9.2 billion. The Big Four accounts for around 72 per cent of these incomes.

Figure 1: Percentage Share of Top 5 EU countries in EU-27's legal, accounting and management services sector



Source: Eurostat (2008).

The International Federation of Accountants (IFAC) provides an estimate of the number of professionals involved in this sector worldwide. IFAC is an international organization for the accountancy profession and consists of over 160 member bodies from more than 120 countries. According to the IFAC website (www.ifac.org), its member bodies constitute more than 2.5 million accountants who are employed worldwide in public practice, industry, commerce and government.

III. Accountancy Sector: India

The genesis of the accountancy profession in India stems from the two Companies Acts which were introduced in 1857 and 1866. The first Act introduced the concept of maintaining company balance sheets on a voluntary basis, while the second Act imposed legal requirements for periodic auditing of accounts for Indian firms. In independent India, the Chartered Accountant Act of 1949 led to the formation of the Institute of Chartered Accountants of India (ICAI) and this law, with some modification, governs the profession of chartered accountancy in India. Likewise, the Cost and Works Accounts Act, 1959 governs the profession of cost accountancy.

The ICAI has a three-pronged role in the accounting sector in India. It is the institution which grants chartered accountancy qualifications, sets accounting and auditing standards in India, and acts as the watchdog for the industry by maintaining discipline and standards among its members.[8] ICAI is one of the founding members of IFAC and among IFAC's 2.5 million registered accountants, ICAI accounts for around 123,500 professionally-trained accountants. The ICAI website suggests that about 4,000 of its members reside and practice abroad. Other professional bodies in

[8] Source: ICAI website (www.icai.org).

this sector are the Institute of Costs and Work Accountants of India (ICWAI), whose membership was 19,335 in 2005[9] and the Institute of Company Secretaries of India (ICSI).

The Indian accounting and auditing standards are developed on the basis of international accountancy standards. Though there are some gaps between Indian accounting standards and the International Financing Reporting Standards (IFRS), in the past five years ICAI has made considerable progress in aligning Indian standards with the IFRS.[10] Along with improving the quality of financial reporting and corporate governance in the country, this has also helped Indian accountants to provide international standard services to prospective clients.[11] Another factor which has helped the image of Indian accountants is that to date there has not been any large-scale litigation against audit practitioners in India.

Unlike the global accounting scenario where a few firms dominate the industry, the Indian accounting sector is characterized by small- and medium-sized firms. Small firms typically have 2-3 Chartered Accountants with a few Article Clerks; the medium-sized firms employ around 5-6 Chartered Accountants. According to the ICAI website, there are more than 53,000 such audit firms in India. Some of these firms are associates of the global big players. Compared to the global accountancy sector, market concentration in India is much lower. According to a World Bank study, about 1,000 firms audit at least one economically significant unit while 15 of the largest firms audit more than 70 per cent of the top 100 listed firms.[12]

Domestic regulations in India

The difference in structure of the Indian accountancy sector stems from the Chartered Accountants Act and certain regulations imposed by the ICAI. According to the Chartered Accountants Act an accountant is prohibited from soliciting customers, and paying commission, brokerage or share of profits to anybody other than another accountant. They are also not allowed to publish advertisements about their products and services. The number of partners a firm in India can employ is currently limited to 20 and the number of clients that firms can service is restricted to 30 statutory audits per partner.[13] Due to these restrictions, in India there is a dearth of big accountancy firms.[14] Most of the bigger Indian firms are associates of the global big players (Table 2).

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[9] Source: the ICWAI website (http://myicwai.com/key-stat.asp).

[10] Presently, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards (ASs) based on the IFRS. The major differences are there only to make it consistent with the legal and economic environment of the country. For more technical details, see the ICAI publication (Appendix III for departures of the Indian system from IFRS), http://www.icai.org/icairoot/announcements/announ1186.pdf

[11] It is notable that the USA has not yet adopted the IFRS. ICRIER (1999) opines that as we live in a unipolar world dominated by the US it may be necessary to have tighter adherence to the US GAAP.

[12] Source: World Bank (2004a).

[13] 'Accountancy's tangled web' by Barney Jopson and Amy Yee. *Financial Times*, July 25 2006.

[14] 'Turf protected; small CA firms can breathe easy' by K.R. Srivats, *The Hindu Business Line*, April 18, 2003.

Table 2: Structure of Indian Accountancy firms

Profile	No of Firms	% of Total No of Firms
Proprietary Firms	34,505	72.68
Firms with 2 to 3 members	10,114	21.30
Firms with 4 to 10 members	2,742	5.78
Firms with more than 10 members	118	0.24
Total	**47,479**	**100.00**

Source: Indo-UK Accountancy Task Force: Research Findings into the Accountancy Sector, November 2006.

These regulations have also not allowed accountancy firms to increase their spread. There are only a handful of accountancy firms which operate on an all-India basis. The fragmented nature of accountancy in India has generated a significant number of jobs for local accountants but there is a feeling that lack of big players in India's accountancy sector is restricting the country's ability to take advantage of the potential global market in accountancy services.

It is also notable here that in India, the global big firms are not allowed to undertake audit works in their own name. KPMG, Deloitte and Touche, and Ernst & Young have local associates in Bharat S Raut, S B Billimoria and S R Batliboi, respectively (see Table 3). These firms undertake audit work in India, while the global partner provides management consulting, taxation, company law and various other services. However, an ICAI panel has recommended that multinational accounting firms, including the Big Four, should be prohibited from offering management consultancy services under their current names. To bypass this legislation, Ernst & Young, KPMG and PricewaterhouseCoopers use their pre-merger names or adopt names that are different from their international brand names.

Table 3: Indian Partners of Global Accountancy Firms

Global Firm	Local Firm
PricewaterhouseCoopers	Price Waterhouse Lovelock & Lewis
Deloitte and Touche	Deloitte Haskins & Sells S B Billimoria & Co C C Chokshi & Co A F Ferguson & Co
KPMG	BSR & Co
Ernst & Young	S R Batliboi & Co
BDO Stoy Howards	Lodha & Co

Source: Indo-UK Accountancy Task Force: Research Findings into the Accountancy Sector, November 2006.

However, it seems that even the surrogate presence of the Big Four is leading to a change in the structure of the domestic accountancy sector. Recent reports indicate that foreign firms operating in India prefer the Big Four firms for their auditing work and this is forcing smaller CA firms down the value chain. These reports also indicate that something similar is happening in joint venture firms where there are pressures from the foreign partner to use one of the Big Four firms as a statutory auditor. This is forcing some Indian Chartered Accountants to do low value added works for foreign firms in India.[15] It is also worth mentioning here that, on the grounds of reciprocity, ICAI at present does not recognize any foreign qualifications.

Anant and Zutshi (1999) have pointed out that under the framework of GATS and WTO reciprocity is no longer an admissible basis to justify policy. They suggest that ICAI should take more initiative to adopt Mutual Recognition Agreements with other countries. ICAI, on the other hand, is of the opinion that ICAI rules are not discriminatory because, according to their rules, a citizen of any country can acquire Indian chartered accountancy qualification by taking the required tests, which is not the case in many countries where residency is an essential criterion.

IV. Domestic regulation in the Accountancy sector of EU countries

In an influential paper White (2000) has studied why internationally there is so much regulation in the Accountancy sector. He finds that accounting has been subject to substantial domestic regulation in virtually all countries. Though detailed requirements vary from country to country, accountants typically must satisfy education and practical experience requirements and a local residency requirement; in some countries, they must also pass a qualifying or licensing exam. The organizational structure of accounting firms is often limited to partnerships or sole proprietorships; corporate forms are often prohibited; and ownership of accounting firms is often limited to accounting professionals. Also, accounting standards and auditing procedures are usually regulated. In many countries, restrictions or bans are placed on advertising or on other forms of promotion and price competition.

Types of Regulations in EU countries

Professional services in Europe are highly regulated in most countries. The regulations of these sectors can be broadly divided into two categories: Regulations on market entry and Regulations on market behavior or conduct.

1) Regulations on market entry

    a. Qualification requirements
    b. Length of practice and/or professional examinations
    c. Registration or membership in a professional body
    d. Rules on areas of reserved practice – exclusive rights for certain professions to offer specific services or goods on the market
    e. Economic Needs Test

2) Regulations on market behavior or conduct
    a. Regulation of prices and fees
    b. Regulation of advertising and marketing

[15] 'An Endangered Species?' by N.S. Vageesh and Mythili Rajkumar, *Businessline*, Saturday, Nov 27, 2004. http://www.thehindubusinessline.com/canvas/2004/11/27/stories/2004112700140300.htm

c. Regulation of location and diversification (geographical restrictions on offering services, restrictions on establishing branch offices)
d. Restrictions on inter-professional cooperation or, for example, restrictions on forms of business (e.g., whether incorporation is allowed and under what preconditions)

These restrictions can either be discriminatory or non-discriminatory. For example, rules about price-setting or advertisement affect both foreign and domestic practitioners, but nationality requirements restrict foreign providers more than domestic providers and thus are considered discriminatory.

Most of these regulations are applicable to the accountancy sector in EU countries. Table 4 explains how different restrictions and regulations affect the accountancy sector in EU countries.

Table 4: Accountancy Sector Barriers in the EU

Restriction Category	**How these barriers affect the Accountancy Sector-**
Establishment	
Monopolies and other quantitative restrictions	Only specific providers are allowed to perform accountancy
Nationality or residence requirements	In some Member States, nationality is required to practise
Authorization and registration procedures	Accountancy is a regulated business service and in several Member States the service provider needs authorization or specific education
Restrictions on multidisciplinary activities	a. In several Member States an accountant is not allowed to provide consultancy in tax matters. b. Restrictions related to TV and radio advertising
Legal form	General restrictions on imposition of a particular legal form
Professional qualifications for foreign firms	Specific restrictions for each sector
Condition on the exercise of service activities	a. Rules on minimum license requirements b. Fee settings c. General rules on taxation
Uses of Input	
Deployment of staff	Specific restrictions on deployment of executives, senior managers or specialists
Use of foreign temporary workers	Specific restrictions on the length of stay or prior authorization rules
Sales of Services	
Price settings	Specific restrictions concerning accountancy

Source: Copenhagen Economics (2005).

Another notable fact of this sector is that in almost all countries compulsory membership in a professional body is required for auditors and accountants. These body/bodies are regularly involved in the formulation and implementation of regulation as well as in the decision of disciplinary sanctions. One finds that in Europe mandatory membership for auditors in the respective professional body exists in Austria, Belgium, Denmark, France, Germany, Italy, Portugal, the United Kingdom, Luxembourg and Ireland. In the United Kingdom and Ireland membership is compulsory only in cases where Chartered or Certified Accountants want to work as a Registered Auditor (and for this purpose need to be licensed to do statutory audits). No compulsory membership in a professional body is found in Finland, Spain and Sweden (Paterson et al 2003).

Across different services sectors, the accountancy sector has the highest degree of regulations. For this sector, market entry in all countries requires some form of licensing, but the scope of exclusive rights to offer services varies considerably. Also, almost all EU countries have qualification requirements for the accountancy sector. To understand the market regulation of the accountancy sector in EU countries, it is important to study the different forms of regulations in the EU services market. One important study by IHS Geneva (Paterson et al 2003) has examined various services sectors and developed a restrictiveness index for these sectors. The range of this index is from 0 to 12, with 12 denoting the highest level of restriction. The results of this study are given in Table 5.[16]

Table 5: IHS Regulation Indices for Different Sectors (scale 0-12)

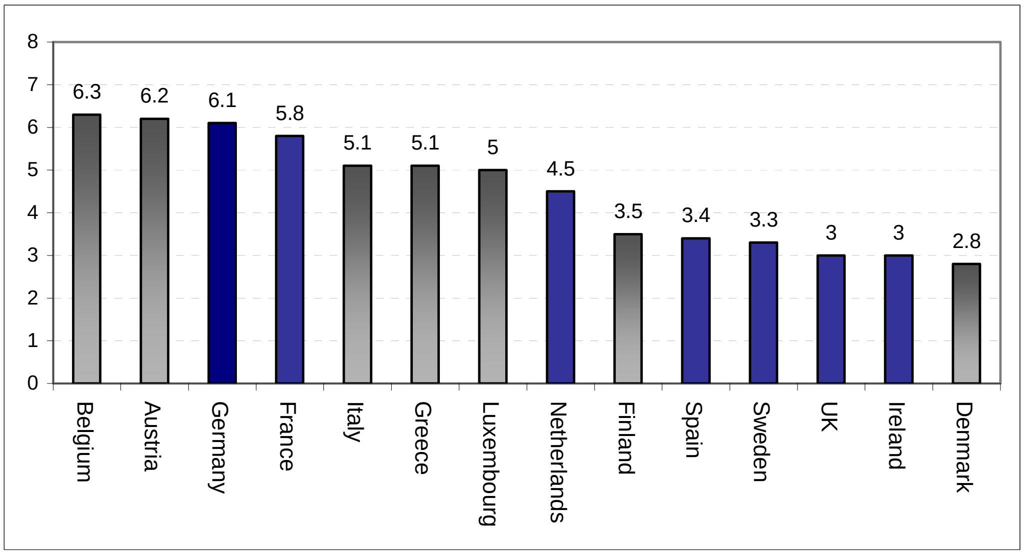
Country	Accountants	Legal	Architects	Engineers	Pharmacists
Austria	6.2	7.3	5.1	5	7.3
Belgium	6.3	4.6	3.9	1.2	5.4
Denmark	2.8	3	0	0	5.9
Finland	3.5	0.3	1.4	1.3	7
France	5.8	6.6	3.1	0	7.3
Germany	6.1	6.5	4.5	7.4	5.7
Greece	5.1	9.5	n.a.	n.a.	8.9
Ireland	3.0	4.5	0	0	2.7
Italy	5.1	6.4	6.2	6.4	8.4
Luxembourg	5.0	6.6	5.3	5.3	7.9
Netherlands	4.5	3.9	0	1.5	3
Portugal	n.a.	5.7	2.8	n.a.	8
Spain	3.4	6.5	4	3.2	7.5
Sweden	3.3	2.4	0	0	12
UK	3.0	4	0	0	4.1

Source: Paterson et al (2003).

[16] Paterson et al take into account two large groups of regulations: regulations on market entry and regulations on "market behaviour" or conduct. Typical market entry regulations are qualification requirements (formal certificates of qualifications, i.e., university degrees, length of practice and/or professional examinations), registration or membership in a professional body, rules on areas of reserved practice (i.e. exclusive rights for one – or sometimes more – professions to offer specific services or goods on the market), and in some cases economic needs tests. Typical conduct regulations are regulation of prices and fees (fixed prices, minimum and/or maximum prices etc.), regulation of advertising and marketing, regulation of location and diversification (geographical restrictions on offering services, restrictions on establishing branch offices), restrictions on inter-professional cooperation or, for example, restrictions on forms of business (e.g., whether incorporation is allowed and under what preconditions).

This table shows that the accountancy sector, along with pharmacy and legal services, is the most restricted professional services sector in EU countries. There is also significant variation among EU countries regarding the restrictiveness for accountants. As Figure 2 shows, the accountancy sector is highly regulated in countries like Belgium, Austria, Germany and France; regulations are more moderate in Italy, Greece, Netherlands and Luxemburg, while Finland, Spain, Sweden, the UK, Ireland and Denmark have less regulated accountancy sectors. Among the more regulated countries, India has a strong business interest in Germany, France and the Netherlands.

Figure 2: Total IHS Regulation Indices for Accountants (EU Countries)

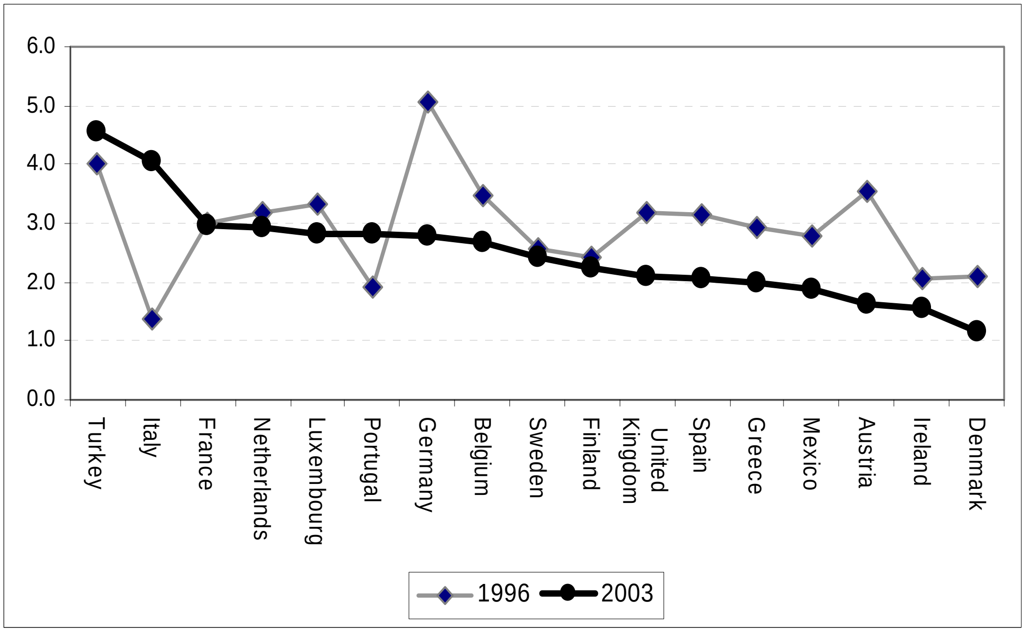


Source: Paterson et al (2003).

A more detailed examination of country-level data reveals interesting patterns. The 'Indicator of Product Market Regulation' (IPMR) database of OECD publishes restrictiveness indices for its member countries.[17] The country-specific data on the accountancy sector also gives more detailed indices based on five criteria: Regulation on prices and fees, Regulation on advertisements, Regulation on form of business and inter-professional cooperation, Educational requirements, and Licensing. Based on these indices, the IPMR database calculates a composite index of regulation. The latest IPMR data give us indices for the years 1996 and 2003.

[17] The OECD has developed a range of indicators of product market regulation at both the economy-wide and sectoral levels. All these indicators measure the extent to which policy settings promote or inhibit competition in areas of the product market where competition is viable.

Figure 3: Change in the Index of Regulation for the Accountancy Sector (1996 and 2003)



Source: OECD IPMR database.

Some interesting observations can be made from these indices. First, in most European countries, the restrictiveness of the accountancy sector has come down over the years. Among the 17 countries mentioned in Figure 3 only three countries (Turkey, Italy and Portugal) had lower levels of regulation in 1996 compared to 2003. For almost all the other countries, the level of regulation was lower in 2003. Only France has maintained the same level over the years.

More disaggregated data are also available to study individual countries' regulation levels at a more micro level. These are shown for EU countries in Table 6 (Table A1 in the Appendix gives more detailed country-level data and the IPMR methodology). From Table 6 it is clear that licensing and education requirements[18] are the two most important barriers for the accountancy sector in EU countries. Moreover, in the EU countries where India has significant business interests, namely, France, Germany and the United Kingdom, these two barriers are quite significant. Interestingly, according to the OECD IPMR none of the countries mentioned in the table has an Economic Needs Test (ENT) or quotas for the accountancy sector. Overall it can be said that together with variations in the degree of conduct regulation, this leads to a high intensity of regulation in, for example, Belgium, Austria, Germany, Italy, France, Greece and Luxembourg. In all the other countries, regulation lies in the medium category.

[18] See Appendix 1 for the methodology used in the IPMR database to codify the different barriers.

Table 6: Indicators of regulatory conditions in professional services sectors (Accountancy Sector, 2003)

	Licensing	Education requirements	Quotas and economic needs tests	Regulations on the form of business and inter-professional cooperation	Regulations on Advertising	Regulations on prices and fees
Austria	***4.5***	***3.6***	0.0	0.0	0.0	0.0
Belgium	***4.5***	***4.0***	0.0	***3.3***	***3.0***	0.0
Czech Republic	***6.0***	***4.3***	0.0	2.3	***6.0***	0.0
Denmark	1.5	***4.3***	0.0	0.0	0.0	0.0
Finland	***3.0***	***4.0***	0.0	2.5	***3.0***	0.0
France	***6.0***	***4.7***	0.0	2.5	***3.0***	0.0
Germany	***6.0***	***4.0***	0.0	2.3	***3.0***	0.0
Greece	***6.0***	***4.0***	0.0	0.0	0.0	0.0
Hungary	***6.0***	***4.0***	0.0	0.0	0.0	0.0
Iceland	***6.0***	2.7	0.0	0.0	***3.0***	0.0
Ireland	1.5	***4.6***	0.0	0.0	***3.0***	0.0
Italy	***6.0***	***3.8***	0.0	***3.0***	***3.0***	***6.0***
Luxembourg	***6.0***	***4.0***	0.0	2.5	***3.0***	0.0
Netherlands	***4.5***	***4.0***	0.0	2.5	***3.0***	2.0
Poland	***6.0***	***3.9***	0.0	2.3	***3.0***	0.0
Portugal	***3.0***	***4.3***	0.0	..	..	..
Spain	1.5	***3.7***	0.0	2.5	***3.0***	1.0
Sweden	***3.0***	***4.9***	0.0	2.5	***3.0***	0.0
Turkey	***6.0***	***5.3***	0.0	2.3	***6.0***	***6.0***
United Kingdom	***6.0***	***4.6***	0.0	0.0	0.0	0.0

Note: The methodology of the IPMR database is given in the appendix; 6 denotes maximum regulation and 0 denotes no regulation. Color Coding: Red is for indices greater than 5; Green is for less than 3; otherwise Blue.

This table throws up one important message for negotiators. Entry barriers for foreign accountants and firms and educational requirements appear to be the most constraining factors for this sector in key European countries. Therefore, it is important that these two issues are given priority while negotiating for better market access in these countries.

To better understand the regulatory regime of the EU, it is important to point out that there are broadly three different services offered by accounting professionals: audit services, tax and accounting services, and consulting. Audit services are more restricted than the other categories and, among audit services, provision of statutory auditing is the most restricted activity in all EU countries. This is a mandatory requirement because approval to undertake statutory audit is regulated by a specific EU Directive, the Eighth Company Law Directive (84/253/EC).[19] In turn, EU practice

[19] It should also be noted that a revision of the Eighth Directive has been approved by the European Parliament and Council (but not yet published) in a way which confirms the current approach on

is in line with the global approach and reflects the major public interest dimension of statutory audit.

Apart from audit services, other accounting services like various tax services, different book-keeping activities, administrative and human resource management activities (payroll preparations, employment contract and internal work regulations etc.), and various consultancy and advisory services are also rendered by professional accountants. These services are less restricted than statutory audit. A comprehensive snapshot of market access rules for these different accountancy and audit services for selected European countries has been conducted by FEE (2005). The main findings of the report show that among different activity areas of accountancy, most market access regulations apply in the area of statutory audit in all the EU countries. The report also finds that registration of statutory auditors is organized in different ways across EU Member States. In a few EU countries, individuals who are not members of a professional accountancy body are permitted to carry out statutory audit, usually in the case of small companies or not-for-profit entities. However, registration with the local authorities is required. The detailed survey results of FEE (2005) are given in Table A2 in the Appendix.

It must be highlighted here that the licence to provide statutory audit is an additional certification for professional accountants. For example, even if a professional is a certified chartered accountant, s/he still needs to get a "practicing certificate" by meeting further requirements such as purchasing adequate insurance and undergoing regular inspections. This registration of statutory auditors is organized in different ways across EU Member States.[20] In a few EU countries, individuals who are not members of a professional accounting body are permitted to carry out statutory audit, usually in the case of small companies or not-for-profit entities. Additionally, public registration with the local authorities is mandatory.

From the negotiating viewpoint, three things are important here: First, in most European countries, it is difficult to get the licence to carry out statutory audit and there are many restrictions on such auditors. During our interviews for this study, it emerged that given the difficulties associated in getting a practicing licence for statutory audit services in EU countries, Indian professionals are not keen about this segment of the market in the short-run. They think that the European countries will be extremely protective about this particular segment and it will be difficult to get any significant latitude for Indian professionals. This may be true because after several years of deliberation, the EU has introduced a new directive for statutory audit (2006)[21] and it will be difficult to make them relax these regulations.

Second, as some practising CAs have pointed out, in spite of such restrictions there will be some employment generation for foreign (non-EU) accountants in the audit segment. The EU rules impose restrictions only on the auditor who signs the audit

market access, and also introduces more detailed regulation on the practice of statutory audit, including public oversight of the profession.

[20] There is some divergence about the regulations to provide statutory audit among the member countries of the EU. Efforts are on to achieve more harmonized standards for the EU countries (see http://eur-lex.europa.eu/LexUriServ/site/en/com/2004/com2004_0177en01.pdf)

[21] Directive 2006/43/EC of The European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts.

report, but this does not preclude the use of non-EU accountants for preparation of audit reports. However, the possible downside is that without the ability to sign audit reports, the market value of these accountants will be less than it would have been otherwise.

Finally, there are significant business opportunities for accounting professionals and Indian firms beyond the few audit services which are heavily regulated. There are non-statutory audit services which are less regulated and there are tax, accounting and consultancy services. In fact these services account for more than 60 per cent of the revenues of big accounting firms in Europe. Mode 1, Mode 3 and Mode 4 are the possible modes for delivering these services. Indian accountancy service providers are more likely to gain market access in these services.

For Mode 1, 'Outsourced Accounting Engagements' can provide a significant market for Indian BPOs and KPOs. These services include work related to a) Statutory books and records, b) Management books and records, c) IT implementation, d) Preparation and compilation of accounting documents (financial statements/annual report), e) Preparation of periodic financial statements, and f) Organization of accounting systems and related internal control. A recent report by FEE (Fédération des Experts Comptables Européens[22] which is the representative organization for the accountancy profession in Europe) shows that for these services market access is quite open in almost all major countries in Europe. The only exception is France where there are restrictions on these services. Overall, this mode is much less restricted; during our interviews most Indian firms said that they are positive about this mode and they think that cross-border supply is going to be a major source of business in the years to come. So far in the accountancy sector Indian BPOs and KPOs mostly deal with the US market and business with the European market is only gradually increasing. But Indian BPOs and KPOs are extremely keen on the European market as well as for their business expansion.

There are a few concerns about the laws of different EU countries regarding Mode 1 service provision. Commercial presence is sometimes required to provide services in this sector. Removal of this requirement is one of India's requests in the multilateral forum. Issues regarding data protection and privacy have not yet created much problem for service providers in this sector but these are potential problem areas which should be taken care of.

It is also apparent that even within the EU, there are demands to further harmonize the regulations to facilitate Mode 1. Recently, in a press release titled 'Time to advance cross-border regulation of audit firms' the FEE said:[23]

"After the progress made regarding the convergence of accounting standards, it is now time for audit regulators worldwide to cooperate and find solutions that are both workable across borders and respect the different regulatory models which have been, or are being, put in place.

[22] 'Provision of Accountancy, Audit and Related Services in Europe: A Survey on Market Access Rules' FEE, December 2005.

[23] http://www.fee.be/fileupload/upload/PR95%20Audit%20Conference%20071127261120075710 6. pdf

To deliver on such an ambition, it is essential that the main stakeholders are involved appropriately in the audit public oversight bodies, including regulators, investors, companies, and professional accountants."

For **Mode 3,** apart from the professional licensing issues discussed above, commercial presence involves handling the domestic rules and regulations of starting up and operating a business in a foreign country. All the EU countries do not offer similar ease of such operations. The World Bank's 'Doing Business Database' provides useful statistics. It shows that doing business in some European countries is not easy. The rules and regulations of some countries are far more restrictive than those of India. This is shown in Table 7.

Table 7: Different Components of World Bank Doing Business Database: Data for Select European Countries

Economy	Starting a Business	Dealing with Licences	Employing Workers	Registering Property	Closing a Business	Ease of Doing Business Rank
	Rank	**Rank**	**Rank**	**Rank**	**Rank**	**Combined Rank**
India	93	133	83	108	135	**132**
Greece	***146***	44	***144***	95	37	**95**
Poland	***118***	***154***	62	86	85	**68**
Hungary	91	88	***94***	101	52	**51**
Italy	58	77	56	52	25	**50**
Spain	***108***	48	***152***	41	15	**38**
France	10	18	***146***	***162***	34	**32**
Netherlands	38	84	***97***	21	7	**23**
Belgium	37	36	35	***159***	8	**19**
Germany	65	13	***140***	37	29	**16**
Finland	22	38	***128***	16	5	**14**
Sweden	21	16	***111***	8	18	**13**
Iceland	15	24	42	9	13	**11**
Norway	17	56	***100***	6	3	**10**
Ireland	5	21	33	76	6	**8**
United Kingdom	7	54	19	19	9	**6**
Denmark	16	6	11	36	21	**5**

Source: World Bank Doing Business Database. Ranks lower than India's are marked in red.

This table also validates the point raised by some medium and large Indian accounting firms about the problems of starting and closing businesses in countries like France and Germany. The labor laws in these countries make it inconvenient to have a short- or medium-term establishment in these countries. However, on the positive side the table shows that the UK and Ireland, which are the two big English-speaking markets for Indian accountants, rank very high in the database. Some of the Scandinavian countries are also well-placed.

India has not committed to open Mode 3 in this sector in the WTO negotiations. It is almost certain that EU countries will request India to open Mode 3. In that case, India should ask for similar and reciprocal treatment for Indian firms in the EU market. Especially for countries with a lower rank than India in the Doing Business Database, negotiators could ask for at least equivalent treatment for Indian firms.

Further issues that also affect Mode 3 (and Mode 4) in this particular sector are the restrictions on deployment of foreign staff and use of foreign temporary workers in many of the EU countries. A study by Copenhagen Economics 2005 shows that in the accountancy sector, the entry of executives, senior managers or specialists is restricted in Spain, Greece and Italy. In Germany, Denmark, Finland and Sweden there are restrictions on their duration of stay while in Belgium, France and Poland prior declaration is required for such deployment of staff. Similarly for the use of foreign temporary workers in this sector, there are restrictions in Germany, Spain and Finland. In most other countries including Belgium, Denmark, France, the UK, Greece, Hungary, Ireland, Italy, the Netherlands, Portugal and Sweden there are rules regarding prior authorization and establishment for such workers. India should push for more liberal treatment of foreign workers in these countries.

Another important form of legal barrier, which can potentially act as a serious market access barrier for Indian accountants, is the 'nationality requirement' for this sector. A study by Copenhagen Economics (2005) has listed the countries with various levels of nationality and residence requirements for the sector. This is shown in Table 8.

Table 8: Nationality of residence requirements in Accountancy Sector

Restriction Category	Countries
Citizenship/Nationality required to practise + Permanent or prior residence (more than 12 months)	Austria, Spain, Finland, Italy, Greece
Citizenship/Nationality required to practise + less than 12 months of prior residence	None
No Nationality requirements + Permanent or prior residence (more than 12 months)	Germany, Denmark, UK, Hungary, Portugal, Sweden
No Nationality requirements + Domicile or representative office only	France, Belgium
No restrictions	Netherlands, Poland

Source: Copenhagen Economics (2005).

The table shows that in some countries nationality requirements are quite stringent. For foreign professionals, this can act as a major market access barrier in the accountancy sector. Moreover, many of the EU countries have stringent requirements regarding qualification and training of accountants. Table 9 summarizes the country positions. From the table it can be seen that for Finland, France, Hungary, Poland and Portugal there is no set and standard rule for all foreign professionals; they are allowed on a case-by-case basis. Not surprisingly, this leads to a high level of opacity in the system and makes it difficult for professionals to access these markets.

Table 9: Professional Qualifications for foreign service providers in Accountancy Sector

Restriction Category	Countries
Local examination and training required for a licence	Austria, Germany, Spain, UK, Netherlands and Sweden
Local examination required	Denmark, Italy
Case-by-case assessment of foreign licence and qualifications	Finland, France, Hungary, Poland and Portugal
Foreign licence and qualifications sufficient for practice	Lithuania

Source: Copenhagen Economics (2005).

Even more important from the Indian perspective is that many of the major EU markets (Germany, Spain, the UK, the Netherlands and Sweden) require foreign professionals to both pass the local examination (which for accountants includes local tax and company law variations) and go through local training (or articleship) in order to practise. This implies that a Chartered Accountant from India will not only have to pass the examination but also they will have to undergo a period of articleship in that country. Since CAs get only a stipend during their period of articleship, it becomes difficult for the person to sustain himself in a foreign country. This provision acts as a major barrier and efforts should be made to remove this particular requirement.

There are some strong reasons to argue for its removal. First, with increasing standardization of accountancy rules across the globe, it is difficult to understand why a trained and experienced CA from another country has to go through the basic local training again. There is considerable duplication because the EU is increasingly adopting international accounting practices and accounting standards in India are currently well aligned with international accountancy standards.[24] Second, Indian company and tax laws are closely based on the corresponding rules of many European countries, especially the United Kingdom. Historical proximity and similarity of tax and accounting laws should provide Indian negotiators with strong grounds to argue for the removal of the local training requirement for Indian CAs.

It must be kept in mind that the requirement to undergo local training acts as a major disincentive for a trained and experienced CA to access the market in one of these countries. This point was repeatedly mentioned by several CAs during our interviews. Our negotiators should try to get this requirement waived for Indian CAs.

In this context, the role of Mutual Recognition Agreements or MRAs becomes paramount. India currently does not have MRAs with any of the EU countries. Though ICAI has started the process of entering into an MRA with the Institute of Chartered Accountants in England and Wales (ICAEW), no MRA has been signed

[24] The ICAI is a full-fledged member of the International Federation of Accountants (IFAC), and it has taken measures to adopt the International Accounting Standards Board's (IASB) pronouncements to facilitate global harmonization of accounting standards. A Board was set up by ICAI to incorporate International Accounting Standards (IASs) issued by the International Accounting Standards Committee (predecessor body of the IASB) or International Financial Reporting Standards (IFRSs) issued by the IASB, to the extent possible, in light of the conditions and practices prevailing in India.

yet.[25] A number of legal barriers regarding professional qualifications can be overcome if MRAs can be signed with important EU countries. It will also open up the market for statutory audit for Indian accountants. It is worth reiterating that in this sector it will be extremely important for ICAI and the respective professional associations in the EU countries to make tangible progress through MRAs. In the trade negotiations between the EU and India, the role of the government and the negotiators can be to act as facilitators or a catalyst for such dialogues.

During our interviews with Indian CAs practising abroad and persons associated with the International Accounting Standards Board (IASB) it emerged that in the developed countries there is a perception that the ICAI syllabus does not meet international standards; hence, there is a feeling that Indian accountants may not be at par with their counter-parts in developed countries in their knowledge of International Financial Reporting Standards (IFRS). Though ICAI is updating its course content, the process is not very dynamic as it requires statutory ratification.

While discussing why an MRA between ICAI and ICAEW is not progressing well, Indian CAs practising in the UK hinted at the problem of discrimination in the UK against Asians; a mix of perceptions about the quality and work ethics of Indian accountants coupled with possible racial prejudice leads to such discrimination.[26] They warned that even if an MRA between India and the UK is signed, it may not translate into significant employment generation for Indian accountants if such discrimination continues. However, such behavior is not evident when British firms outsource accountancy-related work to Indian firms.

Along with the sector-specific issues mentioned here, there are two horizontal factors which may restrict market access of Indian professionals in the EU market. First is the problem of visas. Though this problem is not documented as a major barrier for Indian professionals, almost all the accountants and business managers interviewed during this study identified it as one of the major hassles of doing business with EU countries. According to them, streamlining the visa procedure should be an important target for Indian negotiators. This issue is not specific to this sector but is a 'horizontal' issue which the negotiators should try to address.

Another barrier which acts as a quantitative restriction for the services market is the Economic Needs Test (ENT) that is required in certain countries.[27] The ENT should be abolished as it goes against the basic premise of trade and competitiveness. In the revised offer, the EU has proposed removing the ENT for many sectors, including professional services. Also, India has asked for the removal of the ENT in the GATS negotiations and this stance should be maintained.

What is also notable in our discussion so far is that there is considerable heterogeneity among the European countries about the licensing model followed for the

[25] The UK gives ICAI members concessions on the number of papers they have to appear in, in order to receive a CA qualification certification in that country.
[26] It is sometimes euphemistically called 'poor cultural fit'!
[27] It is interesting to note here that neither the OECD databases nor any of the papers surveyed in this study show that countries are still using ENTs to protect their domestic accountancy services sector. However, from the new UK visa rules (valid from April 1, 2008) it appears that for accountancy services, book-keeping services and taxation advisory services, an ENT will not be required.

accountancy sector and the rules regarding professional qualifications for foreign firms. To make matters more complex, harmonization of accounting laws across EU has not yet been achieved. As Veerle (2005) points out, though the EU has made progress towards harmonization of accounting law, harmonization of financial accounting information across Europe through the accounting directives did not reach the intended level of comparability and transparency.

To improve harmonization, the EU is making a transition to IFRS and through the adoption of IFRS a higher level of harmonization is likely to be achieved. But this is a gradual process and at present the implementation of IFRS in many European countries is only required for the consolidated statement of listed companies. It is expected that the EU will made the transition to IFRS by 2009 and a more harmonized accounting law for statutory accounting of listed and non-listed companies is expected to be put in place. However, the move to IFRS may not lead to uniform domestic regulations among all EU countries.

In the past few years the EU has introduced new rules for statutory audit. The new Audit Directive of May 17, 2006 enforces the use of "International Standards on Auditing" (ISAs) for all statutory audit to be performed in the EU. However, certain rules and regulations regarding non-EU audit firms are still under consultation. Recently, in a notification dated August 4, 2008 a decision was taken granting a transitional period for the registration requirements for audit firms from 30 non-EU countries (the list includes India). The decision clarifies how the competent authorities in Member States should deal with third-country audit firms under the Statutory Audit Directive. It allows third-country audit firms to continue their audit activities regarding third-country companies listed on European markets by granting the concerned audit firms a transitional period in respect to registration requirements until July 1, 2010. However, transition will only be granted if third-country audit firms comply with the minimum information requirements necessary for investors in Europe. Audit firms from third countries that do not fall under the transitional regime will be subject to full registration and oversight by competent authorities in EU Member States.

This seems to be a rapidly changing area and Indian negotiators need to keep track of this set of developments. The link given in the footnote has the official documents regarding the Audit Directive and the notification which are important for non-EU countries.[28]

These developments are significant for Indian audit firms because, as mentioned by Rahul Roy of Ernst & Young, a number of Indian conglomerates have set up subsidiaries in European countries or got listed on European exchanges for fund raising. To audit these companies, Indian auditors need to comply with the European directive[29] and take transparency measures like publishing reports on their web sites declaring details such as the names of their clients, total income from fees, share of total income from auditing, etc. If Indian auditors cannot abide by the guidelines in

[28] See http://ec.europa.eu/internal_market/auditing/relations/index_en.htm

[29] Commission Decision of 29 July 2008 concerning a transitional period for audit activities of certain third country auditors and audit entities (notified under document number C(2008) 3942).

time, these conglomerates will have to appoint separate auditors from other countries.[30]

The discussion throws up the fact that though the European Commission is trying to develop a set of common laws for the EU market, the degree of convergence of rules in services among the EU countries is still quite low and this obviously makes negotiation with the EU a tricky proposition.

To summarize the discussion of this section:

1. Accountancy is highly regulated in the EU, but there are differences in the level of regulation across countries. The accountancy sector in Austria, Belgium, France and Germany are more regulated than in the UK, Sweden, Ireland, Denmark and Finland.

2. Restrictions and legal barriers for this sector include:

    a. Licensing requirements, including nationality requirements.
    b. Educational requirements.
    c. Regulations on the form of business.
    d. Restrictions on deployment of foreign staff and foreign temporary workers.

3. The Doing Business Database indicates that commercial presence in some of the European Countries can be quite cumbersome.

4. In the accountancy sector, educational and local training requirements often do not take into account the work experience and prior training of the foreign accountant. This acts as a major disincentive for Indian professionals.

5. Within the accountancy sector, audit services are more regulated than other accounting and book-keeping services. Statutory audit is virtually closed for foreign professionals.

6. The other sub-sectors are relatively more open but subject to the restrictions mentioned above.

7. As noted above, there are considerable differences in the level of regulation across different countries in the EU. Lack of harmonization will make the negotiations complex.

8. Without MRAs, Indian CAs will find it difficult to access the audit market in the EU. MRAs are not moving fast because there is an adverse perception about the ICAI course structure. The ICAI is updating its course and, with increased standardization, this problem should gradually disappear.
9. MRAs with many European countries are feasible because of the standardization of accounting practices both within the EU and in India. In particular, there is similarity between the accounting system, tax laws and company laws of India and the UK/Ireland.

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[30] See 'Auditors need to fulfil EU quality norms to operate in Europe'. *The Hindu Businessline*, http://www.thehindubusinessline.com/2008/07/08/stories/2008070850930700.htm

10. MRAs with English-speaking EU countries should be a major priority. The government and professional bodies should work towards it.

11. The status of Economic Needs Test for this sector is not clear. Whereas the OECD databases and the literature survey indicate that EU countries do not have ENT or quota restrictions in this sector, practical experience indicates that at least the UK still has an ENT for accountancy professionals. A more transparent picture of the ENT is required. Negotiators should seek to remove ENTs.

V. Opportunities for the Indian Accountancy Sector in the EU

India's position in the accountancy sector is a mixed bag. On the one hand, India has strengths arising from its pool of English-speaking and trained accountants and its dominant position in the BPO and KPO industry which makes this country a potential big player in the accountancy market. On the other hand, domestic regulations in the accountancy sector have resulted in an industry structure which is dominated by small- and medium-sized firms; this is in contrast to the international accountancy sector where a few very big firms dominate. This means that while India has strengths in Mode 1 and Mode 4, in Mode 3 Indian firms find it difficult to compete with international big players. As a result, India's position regarding the accountancy sector in international negotiations is somewhat cautious. This section discusses these issues and suggests negotiating options based on India's strengths, weaknesses, opportunities and threats.

India has a large pool of qualified professionals who are internationally competitive and can gain if international trade in the sector is liberalized. Indian accountants are becoming more aware of the huge potential of the international market. Our interviews with professional accountants and ICAI members show that nowadays the accountancy profession in India is fairly confident about the quality of Indian accountants. They feel that in a more globalized world, Indian accountants are ready to take advantage of the expanding markets in Europe and the rest of the world.[31] India's advantage in this sector comes from four different factors:

First, India's biggest advantage in this sector is the huge number of trained accountants it produces every year and the relatively low wages in this country. ICAI is one of the founding members of IFAC and among IFAC's 2.5 million registered accountants, ICAI accounts for around 140,000 professionally trained accountants (2007). The ICAI website suggests that about 4,000 of its members reside and practise abroad. Other professional bodies in this sector are the Institute of Costs and Work Accountants of India (ICWAI), whose membership was 19,335 in 2005,[32] and the Institute of Company Secretaries of India (ICSI).[33]

[31] Also see http://www.blonnet.com/2007/11/07/stories/2007110752411200.htm

[32] Source: the ICWAI website (http://myicwai.com/key-stat.asp)

[33] However, in per capita terms there is a shortage of accountants in the country. While the UK and the US have one CA/CPA for every 500/800 people, India has only one CA for every 10,000 persons. K. Vikamsey (2007), "CA Profession: Looking Beyond", *CA Journal*, July 2007.

Table 10: Trends in the Accountancy Profession in India

	2001	2002	2003	2004	2005	Forecast 2010
No of Chartered Accountants	96,392	101,730	110,256	116,091	123,546	159,746
Growth in numbers	3,412	5,338	8,526	5,835	7,455	36,200
Growth in %	3.67	5.54	8.38	5.29	6.42	5.86
Chartered Accountants in:						
Practice	67,645	70,156	75,399	78,079	78,158	90,528
Industry	28,747	31,065	34,857	38,012	45,388	69,218
Growth in Numbers						
Practice	1,802	2,511	5,243	2,680	79	
Industry	1,610	2318	3,792	3,155	7,376	
Growth rate of CAs moving into Practice (in %)	52.82	56.58	55.52	45.93	1.06	
Growth rate of CAs moving into Industry (in %)	47.18	43.42	44.48	54.07	98.94	

Source: Indo-UK Accountancy Task Force: Research Findings into the Accountancy Sector, November 2006.

Secondly, recent literature on demographic transitions in many developed countries, particularly in countries of Europe, show that the total population is likely to stagnate or even decrease. Given the rapidly ageing population in most of continental Europe, the infusion of a foreign workforce will become important in the coming years. Therefore, from the demand side also a significant number of jobs for foreign service providers will be generated in Europe. According to some estimates, there was a shortage of about 50,000 auditors in Europe in 2007.[34] Indian accountants, because of their low wage rate, are likely to have an advantage in such a situation. Greene (2006) estimates that while the hourly wage rate for an accountant is $23.35 per hour in the USA, it is around $6-10 in India. Familiarity with international accounting standards and expertise in English are other skills which have helped Indian accountants. Also, a number of factors have led to increased demand for trade in accountancy services; these factors include the increased presence of foreign firms in developing countries, a steep rise in global FDI flows including a boom in mergers and acquisitions, the development and spread of electronic commerce, and requirements to follow a common, accepted set of accounting principles.

Along with the advantage of a large pool of trained professionals, knowledge of English and cultural affinity with England puts India in a strong position in the UK, which is one the biggest markets for accountancy services. Indian accountants have a further advantage in the UK because Indian and English accountancy laws are based on 'Company laws'. It is notable here that US accountancy laws are based on

[34] 'Is Audit Facing an Ethical Crisis?' *Accountingweb*, 29th June, 2007. (http://www.accountingweb.co.uk/cgi-bin/item.cgi?id=169907&d=526&h=524&f=525)

'Security laws'. The UK, Ireland and much of Europe follow Company law-based accountancy practices. This makes it easier for Indian accountants to adapt to the European system.

Also knowledge of English puts India in a stronger position in the English-speaking countries of the EU. England and Ireland are thus considered big markets for India. In fact, ICAI has a long history of association with the Institute of Chartered Accountants in England & Wales (ICAEW) which is the largest professional accountancy body in Europe.

The third reason why Indian accountants are increasingly confident about the EU market is the fact that both India (through ICAI) and European countries are moving towards the adoption of International Financial Reporting Standards (IFRS).[35] Eliminating differences in financial reporting should lead to greater market efficiency and lower costs. An internationally harmonized standard will greatly assist the understanding of potential investors and improve confidence in reporting. As India is adopting international standards in accounting, Indian accountants will be much better positioned to take advantage of the EU market. Another factor which has helped the image of Indian accountants is that to date there has not been any large-scale litigation against audit practitioners in India.

The fourth reason is the increasing trend of Finance and Accounting Outsourcing (FAO). Mode 1 or cross-border trade is becoming an increasingly important mode of delivery of non-audit accountancy services. With improvements in information and communication technology and with the advent of digital signatures, it is now possible for Indian accountants to provide services which do not require physical presence. For example, taking advantage of this, American CPA (Certified Public Accountant) firms are outsourcing their work to India. According to a CNN report, in the 2002 tax year, accounting firms sent some 25,000 tax returns to be completed by accountants in India. Estimates indicate that the number is expected to grow exponentially in the coming years.[36] Apart from the financial aspect of outsourcing,[37] this helps CPA firms to share their workload as they find it difficult to mobilize sufficient trained manpower during the two-month crunch period of tax filing.

These trade opportunities are only expected to rise in the coming years. Most developed countries undertake considerable amount of work through back-office operations and this trend is on the rise. It is estimated that the Back Office Operations and other Business Process Outsourcing services in India, which amounted to US$2 billion in 2002, will reach US$22 billion by 2008.[38] A number of big Indian BPO/KPOs provide non-audit accountancy services. A list of the top offshore providers [39] shows that most large offshore suppliers of accountancy services are from India. In fact recently Infosys bought the captive division of Royal Philips Electronics

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[35] The Institute of Chartered Accountants of India (ICAI) has decided to fully converge with International Financial Reporting Standards (IFRS) from April 1, 2011.

[36] 'Guess which jobs are going abroad', February 25, 2004, by Leslie Haggin Geary, *CNN* (http://money.cnn.com/2003/12/30/pf/offshorejob/)

[37] The CNN report quoted the CEO of a tax outsourcing firm who said "We've estimated firms will save between $40,000 to $50,000 for every 100 returns that are outsourced."

[38] Source: Press Release by Press Information Bureau, Government of India, February 4, 2005, New Delhi, http://commerce.nic.in/Feb05_release.htm

[39] http://www.faotoday.com/pdf/1852.pdf

NV's finance and accounting business process outsourcing unit for US$28 million. As part of the deal, Infosys will enter into a seven-year contract worth US$250 million with Philips to provide finance and accounts (F&A) services.[40]

Along with the traditional outsourcing business, the 'Near-Shoring' model is gradually emerging as a new business opportunity for Indian IT firms. Near-shoring is concerned with the cultural similarities between service request and service provision and the business is outsourced to countries which are geographically proximate but are low-cost options. Indian firms can collaborate with firms in these low-cost countries to leverage local knowledge of the business environment and language skills while providing its technical knowledge and technological expertise for successful near-shoring.

These strengths imply that there is significant potential for India in Mode 1 and Mode 4. As discussed above, **Mode 1 or cross-border trade** is becoming an increasingly important mode of delivery of accountancy services. According to sector experts, India could emerge as one of the preferred destinations for accounting and related job outsourcing in one to three years. Indian BPOs and KPOs can be a hub for outsourced accounting services from the EU. From the demand side also, a significant increase in demand for cross-border trade is expected. The pressure to remain competitive in an international market prompts many companies to outsource some of their non-core activities to reduce costs and the recent economic downturn in most developed countries is likely to exacerbate this trend. Second, from a medium-term perspective, demographic factors like the possible high 'dependence ratio' in many European countries will force them to seek service provisions either through Mode 1 or Mode 4 from developing countries like India. Given India's strength in Mode 1, the European Union, therefore, is likely to become a big market for Indian service providers in the near future.

Though Mode 1 holds promise for the Indian accountancy sector, the maximum potential for Indian accountants comes from **Mode 4** (Movement of Natural Persons). This mode includes both the cases of accountants practising abroad in an individual capacity or as a part of foreign accountancy firms established abroad. For big firms, Mode 4 is a means of mobilizing specific expertise and is becoming increasingly important (Ganguly 2005). But this potential is often difficult to realize because of the many market access barriers they face in developed countries.

Unlike Mode 1 and Mode 4, India's position in Mode 3 is somewhat weak. Internationally, **Mode 3 or Commercial Presence** is the most dominant mode of delivery for accountancy services, because domestic regulations in most countries require that accounting firms are locally owned and independent. Accountancy firms also prefer local presence as it allows them to serve their clients better by using knowledge of the local market and domestic laws. Local presence also helps these firms expand their business by diversifying into related consultancy services for local firms and foreign firms entering the market. For long-term market access in this sector, this mode offers maximum potential for a country like India which has a proven comparative advantage in audit and accountancy services. Moreover, this mode also has strong and positive inter-sectoral linkages. Mode 3 facilitates

[40] http://www.forbes.com/feeds/afx/2007/07/25/afx3949953.html

movement of labor (Mode 4) in the form of intra-corporate transfers. It also leads to increased cross-border supply (Mode 1) in the form of delivery of offshore services through voice, satellite, or electronic means.[41] As India has strong comparative and cost advantages both in Mode 1 and Mode 4, increased commercial presence should help India to increase business through these modes.

However, in the short run, Mode 3 does not hold much promise for India because of India's present market structure in this sector. As discussed earlier, Indian accountancy firms are regulated by ICAI guidelines which prevent them from growing beyond a certain size; thus, most of these firms lack the economies of scale or the resources to have a commercial presence in a foreign market. The biggest Indian firms, on the other hand, are already associates of the Big Four in the Indian market. These firms may not want to compete with other associates of the Big Four in a foreign market. For medium-sized Indian firms, it is possible to have Mode 3 presence in Europe. But during our interviews with different professionals it appeared that most of these firms have not fully explored this opportunity in the European market for a number of reasons. Because of strict domestic regulations, many European markets are difficult to access; as the World Bank 'Doing Business Database' shows, the laws in some European countries can be more restrictive than those of India. For example, it was mentioned that it is difficult to open an office in France for a short period of time because it is extremely difficult to hire local staff on a short-term basis. Also, the nature of auditing services[42] is such that reputation and brand-name play a bigger role than the cost of the services provided; since most Indian firms have not yet developed a global brand-name, they tend to lose out in these services. However, this is true only of audit services; for non-audit services Indian medium- to large-sized firms should be able to take advantage of the European market provided the domestic regulations of those countries allow smooth functioning of business. Finally, Indian firms appear to be less comfortable having a Mode 3 presence in non-English speaking countries.

A recent regulation can make the foreign markets more appealing to small and medium Indian firms. The revised code of ethics for the profession[43] evolved by a global body of various national accounting regulators, including the IFAC and ICAI, prevents an accounting firm from offering certain services to a company if an affiliate of the firm offers some services to that company or its subsidiary in another country. The International Ethics Standards Board for Accountants (IESBA), an independent standard-setting board within the International Federation of Accountants (IFAC), has made certain definitional changes to focus on how 'affiliates' of networked companies operate and how they present themselves to third parties. The revised definition classifies firms as network firms "if the firms belong to a larger structure that is aimed at cooperation and is clearly aimed at profit or cost sharing, or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name or a significant part of professional resources".[44] Essentially this means that an Indian

[41] See Chanda (2006) for a detailed discussion on inter-sectoral linkages.
[42] This is true for auditing services only; in other accounting and book-keeping services the price advantage does play an important role.
[43] 'Code of Ethics for Professional Accountants Section 290 (Revised)' by International Ethics Standards Board for Accountants, IFAC.
[44] See http://www.icai.org/post.html?post_id=2063&c_id=238

affiliate of a 'Big Four' will not be able to do the statutory audit of a company if its parent or subsidiary in any other country is getting tax advice in that country from the MNC accounting firm or a local partner there.[45] The European Commission has already enacted IFAC's code under a statute called the Eighth Directive that came into force in April 2007, but companies in Europe have two years to comply with it. Once companies are forced to follow this rule, it will increase the market for smaller firms in the service.

To sum up, it can be said that in the accountancy sector, Mode 3 presence is important because it not only allows firms to better serve their clients by customizing their service according to the local laws and norms, but also in many cases Mode 3 presence is a pre-requisite for providing services through Mode 1 and Mode 4 (for example, Austria has this requirement in the EU Revised Offer). Given India's commercial interest in these two modes, it is advisable that Indian firms and ICAI take steps to remove the barriers which constrain the abilities of Indian firms to have offices abroad.

Mode 2 or Consumption Abroad can be a useful mode of trade for India in this sector. Since several foreign firms are setting up business units in India, their demand for accounting and audit services can be met through supply of services through this mode. However, most foreign firms are not yet willing to appoint local auditors for a variety of reasons that include conformity to SEC (Security and Exchange Commission) rules for US firms, stock market requirements in the domestic country, disclosure norms, etc. In fact, Indian firms are increasingly using international auditors. However, Indian accountants can gain employment if the bigger foreign accountancy firms expand their presence in India. Similarly they can benefit if some of the bigger companies move the accountancy services segment of their global operations to this country. However, this mode is not very relevant for this study.

VI. India's Export interest and the EU Revised Offer of 2007

Mode 1 and Mode 4 have been identified as the modes of maximum interest to India in the accountancy sector. To understand how the EU proposes to liberalize these two modes, it is important to analyze the EU offers made in the WTO negotiations. This will give us an idea of the extent of liberalization that the EU is willing to undertake in the near future.

In the initial offer of November 14, 2002, the EU promised to liberalize its Mode 4 requirements by relaxing restrictions on the movements of skilled professionals. For the accountancy sector, it proposed that foreign accountants be allowed to review and compile financial statements and other accounting information for EU clients subject to the fulfillment of the domestic regulations of the respective countries. Though the revised offer dated October 30, 2007 did not introduce any new flexibilities for the accountancy sector, it extended the original offer to the new Member States of the EU. Table 11 is based on the EU's revised offer and summarizes the market restrictions in the two key modes where India has the most export interest.

[45] http://economictimes.indiatimes.com/rssarticleshow/msid-2551342,prtpage-1.cms

Table 11: Summary of the EU Revised Offer for Major Markets

Mode 1

Accounting Services:	Unbound in France (MA, NT)
Auditing Services:	Unbound in most major markets. Residency and qualification requirements in Sweden
Book-keeping Services	Unbound in France
Taxation advisory	Unbound for the drafting of legal documents

Mode 4

Accounting Services:	<u>ICT and BV</u> FR: Condition of nationality, case-by-case approval AT: Mode 3 presence required Determined by horizontal commitments for other Members <u>CSS</u> AT, DE, NL, UK, SE: University degree and professional qualifications and three years' experience in the sector.
Auditing Services:	<u>ICT and BV</u> Unbound in most major markets, numerous requirements in others PL: Nationality requirement. Foreign auditors might practise after confirmation of their qualifications. SE: Only auditors approved in Sweden may perform legal auditing services in certain legal entities, a.o. in all limited companies. Only such persons may be shareowners or form partnerships in companies which practise qualified auditing (for official purposes). Swedish exam, work experience and residency are required for approval. <u>CSS</u> Unbound in all markets
Book-keeping Services	<u>ICT and BV</u> Subject to horizontal commitments and subject to following specific limitations FR, IT: Condition of nationality <u>CSS</u> Mostly unbound, based on horizontal commitments in most major markets
Taxation advisory	<u>ICT and BV</u> Subject to horizontal commitments and subject to following specific limitations: FR (MA): Condition of nationality unless waived by ministerial authorization IT (NT): Residence requirements <u>CSS</u> All Member States except DK, ES, EE, LU, NL, UK, SE: Unbound DK, ES, EE, LU, NL, UK, SE: Unbound except as indicated in the horizontal section and subject to the following specific limitations: DK, NL, UK, SE: University degree and professional qualifications and three years' professional experience in the sector.

Note: See Appendix for country abbreviations.

The revised offer by the EU in the present round of WTO negotiations is considered to be one of the best offers it has made in any form of services trade negotiation. However, Mode 4 of the accountancy sector is still under a significant amount of regulation in most EU markets. Domestic regulations like nationality requirements and qualification requirements are present in most big markets. Among accountancy services, the audit services sub-sector is the most restricted. However, Table 11 indicates that Mode 1 is fairly liberalized in the EU and, apart from France, none of the other big markets have significant barriers in this mode.

VII. India's Possible trade-offs and strategy for this Sector

1. Mode 3 and Reciprocity

In the present round of negotiations, in the initial offer for accountancy services, India offered to make full commitments in accounting and book-keeping services under Mode 1 and Mode 2, while no offers have been made for commercial presence under Mode 3, and Mode 4 has been kept unbound subject to horizontal commitments. India's revised offer for liberalization of Accounting, Auditing and Book-keeping Services (CPC 862) indicates that India offered to undertake commitments for Accounting and Book-keeping services, but it has not offered to undertake commitments on Auditing Services. India's offer focuses primarily on Mode 1 and Mode 2. For Accounting and Book-keeping Services, India has offered to open up its markets completely in these two modes. However, it has kept both Mode 3 and Mode 4 unbound. For this sector, there is not much difference between the initial and the revised offer, except that some improvements have been made under market access limitations.

From the strategy adopted by India in the WTO, it is apparent that there are reservations about opening up Mode 3 in this sector. It is also not surprising that getting access to the Indian accountancy sector through this mode is of maximum interest to the EU. The proceedings of the Annual Meetings of the Indo-UK Economic Summits show that opening up the accountancy sector to foreign firms was repeatedly suggested in these meetings. For example:

"I am told that the accountancy system in India is under such pressure that there may soon not be enough professionals to service domestic demand. By opening up that sector, foreign firms will be able to compete and offer a real choice for Indian companies and individuals. Britain leads the world in accountancy services."

Speech by Alistair Darling MP, Former Secretary of State for Trade and Industry in the First Annual UK/India Investment summit, London, October 10, 2006.[46]

"In Legal and Accountancy Services I am told that there are not enough Indian accountants and lawyers to satisfy domestic demand. India needs to press on with its process of liberalising this sector, or it will lose out to other international markets."

Speech by Alistair Darling MP, Former Secretary of State for Trade and Industry in the Third Annual UK/India JETCO summit, Delhi, January 16, 2007.[47]

[46] http://www.berr.gov.uk/pressroom/Speeches/page34077.html

Given the interest in opening up Mode 3, it is important to analyze the dynamics of commercial presence in this sector. All the Big Four firms of global accounting are present in India; they are not allowed to do audit works but they have tied up with Indian partners who provide audit jobs to the companies. So, in spite of Mode 3 restrictions and domestic regulations which prohibit these firms from practising in India, the big accountancy firms are already present in the Indian market through their (surrogate) partners. These Big Four firms mainly provide consultancy services to Indian companies. However, apart from these four firms, not many other big global accountancy firms are present in the Indian market, perhaps because their consultancy services business is not as large as that of the Big Four companies'.

In spite of prohibiting global accounting firms from auditing in India, increasing numbers of corporate firms are procuring services from the Big Four. This trend has been largely market-driven because as Indian companies go for ADRs/GDRs, seek foreign listings or plan to have acquisitions abroad, they have to appoint internationally renowned firms to do their auditing work as Indian auditors are not recognized in many developed countries. Therefore, if foreign accounting firms are legally prohibited in India, Indian MNCs will have to approach foreign subsidiaries of these global accounting firms. Market forces may lead to a situation where despite restrictions on Mode 3, most Indian corporate firms move to global accounting firms for auditing. Similar findings have been reported by the Indo-UK Accountancy Task Force (see Table 12). Their findings show:

- "In respect of statutory audit under the Indian Companies Act, Corporate India prefers global accounting firms / big Indian firms to provide the audit services though the audit report is signed in the name of the local Indian firm which is not considered to be an issue which impacts Corporate India.
- Corporate India would appoint global accounting firms to assist it with presentation of its financial statements which are compliant with US GAAP/ IFRS.
- In view of the fact that in compliance with local regulation 60% of any IPO is subscribed to by institutional investors (primarily foreign institutional investors), merchant bankers advise companies planning to raise funds through an IPO to appoint a global accounting firm as its auditors prior to the IPO.
- Corporates and Private Equity Investors rarely look outside the global accounting firm universe for selecting their advisors to investment transactions.
- Regulators have a higher level of comfort when vetting an offer document for an IPO which has been certified by a global accounting firm."

Table 12: Profile of firms auditing big Indian Companies

Classification	Firm Profile	No. of audits	% of audits
A	Global accounting firms	29	58.0
B	Big Indian firms	10	20.0
C	Small & Medium Indian firms	11	22.0
	Total	**50**	**100.0**

[47] http://www.berr.gov.uk/pressroom/Speeches/page37007.html

Against this backdrop, Indian negotiators should be prepared to open Mode 3 for the accountancy sector. In opening up Mode 3, the threat will come not from the Big Four because they are already here, but from the big accountancy firms of Europe which are on the next rung. The main question is whether this will adversely affect professionals/CAs in India. The general view is that it will not, because it is unlikely that foreign accountants will come to India to compete with Indian CAs at Indian wage rates. Even if some foreign accounting firms come to India, they will have to hire Indian professionals, which will help Indian accountants.[48]

Given such a scenario, in the current round of negotiations, market access in Mode 3 of the accounting sector can be used as a bargaining chip to gain reciprocal treatment in the EU market. Indian negotiators must emphasize that reciprocity is important for granting any market access to EU firms in this mode. This point was emphasized by all the professionals interviewed for this study, including top officials from ICAI. There is unanimous opinion that the Indian accountancy sector is ready to face the challenge from foreign firms in its domestic market but Mode 3 should only be made open if EU countries simultaneously open up Mode 1 and Mode 4 access to India.

2. Mode 4 Issues. India should be aggressive in Mode 4. This is one area where India has the maximum advantage. Not much threat is expected through this mode.

2a. Mutual Recognition of Qualifications. In Mode 4, it is important to push for MRAs with European countries. ICAI must align its course structure/syllabus to ensure that it is at par with these countries. ICAI and the government should try to expedite the MRA between ICAI and ICAEW. Given that ICAEW is a leading professional association of accountants in the EU, this will help Indian accountants. Another impediment regarding this issue is the lack of transitivity of MRAs. As the EU countries are going for harmonization of their accounting standards, the possibility of transitivity of MRAs between EU members and their preferential trading partners should be looked into.

According to some Indian chartered accountants who currently practise abroad, there is still a problem of how Indian accountants are perceived in certain developed countries. The ICAI syllabus is seen as being geared towards Indian laws and accountancy rules, while the international component is weaker than the corresponding syllabus in most developed countries. This possibly explains the reluctance of many developed countries to enter into an MRA with ICAI. But many ICAI members feel that these sentiments are vestiges of the past and ICAI is aligning its curriculum in view of the new global markets.

[48] As a validation of this assertion, the following facts are relevant: "KPMG India has entered into a joint venture with KPMG International to deploy skilled professionals from India in a front-end role to support global accounts. KPMG India has invested as a 50 per cent stakeholder in this joint venture. The new entity, registered as KPMG Resource Centre Private Ltd (KRCPL), will provide a mechanism to bring together experienced Indian advisors to work with KPMG's global clients as a part of an integrated delivery model for KPMG International…According to a press release, KRCPL has 150 people working on its various international assignments in the field of information risk management (IRM). KRCPL is also slated to act as a platform for Indian advisors not only in the field of IRM, but also in other risk and business advisory functions." *The Hindu Business Line*, November 4, 2005.

Moreover, even the MRA between India and Singapore is not progressing well. One of the key points of the Indo-Singapore CECA is that it intends to promote mutual recognition of professionals. The Agreement has stipulated that the professional bodies of the two countries must finalize agreements or arrangements providing for mutual recognition of the education or experience within twelve months of the date of entry into force of the CECA Agreement. The accountancy and auditing sector has been earmarked as one sector where this MRA has to be established. India's schedule of commitments in the Singapore CECA shows that for CPC 862 (except Auditing services, where India has made no commitments) India has made full commitments in Mode 1 and Mode 2; Mode 3 has been kept unbound; and Mode 4 is unbound except when it is subject to horizontal commitments for independent professionals on the basis of contract (subject to fulfillment of criterion of registration with the relevant accountancy body in India and obtaining of professional indemnity insurance from the home country for a period of stay of up to 12 months). Singapore's commitments show that for accountancy services (except for financial auditing) Singapore has made full commitments in Modes 1, 2 and 3. Mode 4 is subject to horizontal commitments. For auditing services, Singapore has imposed some limitations on National Treatment. For Modes 1 and 3, it requires that public accountants must be effectively resident in Singapore or at least one of the partners of the firm must be effectively resident in Singapore.

Though the Indo-Singapore CECA initiated an MRA in the accountancy sector, even after a few years of negotiations the MRA has not been signed. The process has slowed down and interviews with Indian Chartered Accountants indicated that most of them are not very enthusiastic about improved market access in Singapore because Singapore does not offer Indian accountants a large enough market. A paper by Baijal and Jain (2006)[49], which analyzes the Singapore CECA, also does not indicate that the accountancy sector has so far made much tangible gains from the CECA. However, if the mutual recognition clause is signed it will be a step forward and this MRA could be used as a template for current agreements in trade in services with the EU.

If the signing of MRAs gets delayed, a possible way out is to offer internationally recognized professional qualifications in accountancy within the country. PricewaterhouseCoopers conducts joint programs with the Chartered Institute of Management Accountants (CIMA); and Tata Sons and ICAEW have collaborated to deliver ACA (Associate Chartered Accountant) qualifications in India.[50]

Most people agree that some standardization of educational qualification is required. They see no problems if accountants are tested to ascertain the level of knowledge of domestic accounting practices in EU countries. However, efforts should be made to ensure that the logistics of these tests do not become non-tariff barriers.

2b. Visas. As with other services sectors, the problem with lack of visa streamlining is important for this sector. India should maintain its position expressed in GATS and ask the EU to do the following:

[49] http://www.icai.org/icairoot/publications/complimentary/cajournal_may06/1593.pdf
[50] http://www.icaew.com/index.cfm?route=145973

- Provide transparent and objective implementation of visa and work permit regime
- Provide a strict timeframe for issue of visas
- Provide full commitments in respect of the category of independent professionals de-linked from commercial presence
- Put in place a visa system to ensure the fulfillment of horizontal and sectoral commitments undertaken
- Undertake to put in place a visa system to grant multiple-entry visas to professionals
- Allow inter-firm mobility to professionals
- Have easier renewal and transfer procedures

2c. Economic Needs Test. The discussion in the previous section pointed out that there is some confusion about the ENT requirements for the accountancy sector in the EU. It will be useful if EU countries can provide information about the ENT and its applicability for this sector. One of India's prime objectives in the current round of negotiations has been to request countries to eliminate the Economic Needs Test and Labor Market Test. Wage parity norms are more acceptable but, to ensure that it is not acting as a non-tariff measure, it can be suggested that absolute wage parity should be replaced by a provision which allows hiring firms a certain degree of flexibility when offering wages to service providers from developing countries.

2d. Domestic Regulations in the EU

In this sector there are considerable variations in the EU market regarding domestic regulations on licensing requirements, including nationality requirements, educational requirements, regulations on the form of business, and restrictions on deployment of foreign staff and foreign temporary workers. One main demand in the negotiations should be for better harmonization of EU rules.

3. Issues Relating to Mode 1

The phenomenal growth in Mode 1 has largely been a technology- and cost-driven affair. Domestic or multilateral trade policies did not play any major role in the growth of business through this mode. Apart from France, other major EU countries do not have major restrictions in this mode. But there is a sign of incipient protectionism in developed countries where new rules have been introduced or proposed to check the growth of BPOs and KPOs (see Chaudhuri 2005 and World Bank 2004b). This is a disturbing trend and India should try to secure liberal cross-border trade in this sector. In this context, sector experts have warned that concerns over data privacy and data security can halt the export of back-office jobs to India.

Overall, it can be said that the Indian accountancy sector is sufficiently competitive and, in the EU-India trade negotiations, India should take an aggressive position on this sector. The requests will mainly center on opening up Mode 3 and India should be in a position to offer Mode 3 market access. However, it is important to ensure that reciprocity is given to Indian firms as well. Reciprocity should also be sought in mutual recognition of professional degrees and in removal of domestic regulations which restrict setting up and running businesses in EU countries.

VIII. Conclusions and some Negotiating Suggestions

The study of the Indian accountancy sector highlights that Indian accountants are in a position to take advantage of India's increased integration with the global economy. India produces large numbers of trained and English-speaking accountants who are sought after in the international market; in the past few years many global accounting firms have hired large numbers of Indian accountants. With increased standardization and harmonization of accounting practices in India and the EU (both moving towards adopting IFRS), there appears to be a large market for Indian accountants in European countries. Due to demographic factors, many countries in Europe will require large numbers of services professionals, including trained auditors and accountants in the near future and most of these professionals will come from developing countries. Given the low wage cost of Indian accountants, they will be highly competitive in most of these markets. Therefore, the potential for Mode 4 market access in Europe is significant. However, currently Mode 4 is highly regulated in Europe and it is important for negotiators to ask for the maximum possible degree of market access in this mode.

Things are also bright for Mode 1 in this sector. Already a significant amount of Financial and Accounting Outsourcing (FAO) business of large European companies has been cornered by large Indian BPOs and KPOs. So far these firms are doing non-audit jobs and other back-end accounting jobs. As statutory audit works are extremely sensitive and are still highly regulated, it is unlikely that in the near future statutory audit jobs will be allowed to be done over the wire; however, many companies are outsourcing their internal audit work to Indian companies. But concern about data privacy remains very high and, for this mode, it is important to ensure that EU countries do not impose stringent data protection and data privacy norms to curb the market.

Things are somewhat different for Mode 3. Because of domestic regulations in India, the Indian market is dominated by small and medium firms and there are numerous domestic regulations which prevent accountancy firms from increasing their reach and size. They are also not allowed to advertise their services. Because of the small size of these firms, it may not be feasible for them to have a commercial presence in European countries. On the other hand, the biggest Indian accounting firms are partners of the Big Four companies of the accounting world. As the Big Four have affiliates in all the European countries, it is again unlikely that Indian firms will be interested in having a commercial presence in these markets as it may lead to intra-group rivalry.

Because of these domestic regulations and their small size, most Indian accountancy firms have not been able to establish an international brand name or reputation. In accountancy, especially in audit services, the reputation and integrity of the auditors are more important than cost competitiveness. Lack of international credibility and brand name make it difficult for the majority of Indian firms to service the audit market in Europe.

To sum up, in this sector, India has significant business interests and the potential to emerge as one of the leading accounting hubs of the world. Therefore, in the negotiations India should take an aggressive position in this sector. Since the accounting and audit services market is closely associated with the huge market for consultancy services, if Indian professionals and firms do well in the European accountancy and audit market, it will give them a foothold in the management consultancy services business in those countries.

So far India has restricted Mode 3 access in its domestic market and foreign firms are not allowed to provide audit services in India. However, as discussed in Section 3, increased globalization of corporate India and the surrogate presence of big global accounting firms are increasingly making this restriction less effective. There is ample evidence that increasing numbers of Indian corporate firms are appointing international auditors or getting their accounts audited by Big Four firms (through local partners). In the face of such a losing battle, there seems to be a case to use Mode 3 market access in India to get access to the European market.

In Mode 3, the incremental threat from European countries does not seem to be very high. First, the Big Four firms are already in India through their surrogate presence and opening Mode 3 may attract second-tier European accounting firms to India. Even in such a scenario, Indian accountants are likely to get more employment because European professional accountants are unlikely to accept Indian wage rates. ICAI's stand on this matter is unclear. During our interviews, most Chartered Accountants associated with the Big Four felt that ICAI is taking a protectionist view and is influencing the government to keep the Indian market closed. They hinted that the men who are propagating this view are a handful of influential tax professionals who want to protect their domestic turf and do not have any ambitions to tap the huge international market. However, ICAI officials were unanimous in saying that ICAI is ready to open up but they need reciprocity from European countries. The official ICAI position can be better understood from the comment below.

> "We are not averse to opening up of the accounting sector. However, it should not be unilateral but on a reciprocal basis. We see opening up under the WTO regime as an opportunity and not a threat. We are in touch with the Commerce Ministry, which has assured that the ICAI will be consulted on matters relating to the accounting profession. We are in discussion with accounting bodies in Singapore, Australia and the UK in this regard. Things are looking positive. While global firms may be keen on becoming Indian, we at the ICAI are keen on making Indian firms global." (T. N. Manoharan, President, ICAI (2006), *Business Line*, September 14, 2006).

The demand for reciprocity from ICAI is not unfair. However, it needs to be understood what reciprocity means and how this reciprocity can be achieved. In absolute reciprocity the same market access conditions are offered and received across all four modes or for selected modes, whereas in relative reciprocity there are some inter-modal tradeoffs in which the gains and losses of the trading partners are more or less balanced.

It will be difficult for Indian negotiators to guarantee absolute reciprocity for EU countries. The level of domestic market regulation is still quite high in EU countries, with considerable variation across countries. Table A3 in the Appendix shows the level and type of domestic regulations in select markets in the EU as well as a survey of market access rules for different sub-sectors of the accountancy sector in EU markets. These documents highlight that in the accountancy sector, the internal market for services in several EU countries is highly regulated and the domestic markets of different European countries are diverse and not harmonized. Given this asymmetry among the EU states, it will be an onerous task to negotiate and ensure absolute reciprocity with EU countries.

The other option is to ask for relative reciprocity through inter-modal tradeoffs. In India's case the demand can be for better market access in Mode 1 and Mode 4 in exchange for market access in Mode 3 to India. Given India's overwhelming business interest in Modes 1 and 4, any perceived loss from opening up Mode 3 is likely to be more than compensated. This option will provide the negotiators with a more workable solution.

However, there may be two problems with this approach. First, in the accountancy sector sometimes Mode 1 and Mode 4 are tied to commercial presence. It needs to be ensured that this requirement does not hamper India's market access in the two key modes. Also, it is important to ensure that this tradeoff is implemented without any hidden barriers from the other side. The history of trade negotiation with developed countries has shown many instances where developed countries have managed to insert clauses or rules which allow them to circumvent some of their commitments.[51] Indian negotiators must remain cautious about this possibility. This is especially true for the accountancy sector where there are myriad domestic regulations in EU countries.

Second, it is not certain whether this will satisfy the demand for reciprocity from professional accountancy bodies in India. The negotiators need to ask these organizations for the type of tradeoff they will accept. This should be confidential information available within a select group of policymakers.

It is important to mention here that getting Mode 4 access to EU will not be easy. In countries like Germany, France, Italy, Belgium and the Scandinavian countries, the labor unions tend to be extremely strong and protectionist, as can be seen from political developments in these countries. There is no reason to believe that professional associations for the accountancy sector will be much different, and it is unlikely that these bodies will allow Mode 4 access without resistance. It is not surprising that the ICAEW has been dragging out the signing of an MRA with the ICAI since 2001. There are also allegations of racial prejudice against Asian accountants in some European countries.

Overall, the European Union offers a great accounting and auditing market for Indian professionals, but it will not be easy to access this market or negotiate better market access. The accountancy sector is regulated in most EU countries, and the audit services market (CPC 86213 and 86219) is especially highly regulated.

A few negotiating suggestions are given below.

[51] An obvious example of this will be the treatment of agricultural subsidies in the WTO Agreement on Agriculture which was signed in the Uruguay Round.

Negotiating Suggestions on this sector.

1. Prioritizing the markets. The lack of harmonization in domestic regulations in European countries means that Indian negotiators will need to hold bilateral negotiations with the member countries. In such a case it is important to prioritize the markets according to their importance for Indian service suppliers.

Priority 1 Markets

Using the OECD database, we checked the countries with the highest trade volumes (debits + credits) in the accountancy sector. According to this criterion, the UK ranks first in Europe. The credit and debit figures for the sector (accounting, auditing, book-keeping and tax consulting services) were US$1818 million and US$565 million, respectively for 2005. Interestingly, the UK has larger trade volumes than the USA (credit US$373 million and debit US$957 million for 2005). This makes the UK the biggest market for these services in the EU. Given the familiarity with the language and similarity of tax and company laws, the UK is the most preferred and natural market for India in this sector. It is also notable that the OECD IPMR index for the accountancy sector in the UK is about 2.1. This makes it a moderately protected market. Overall, the UK should be the top country on the priority list of Indian negotiators for the accountancy sector (see the Addendum in Section 9 for further details).

Priority 2 Markets

Other countries with large trade volumes in this sector include France, Germany, Luxembourg, the Netherlands and Spain. With the exception of Spain, these countries have higher levels of protection for the accountancy sector than the UK.[52] Though lack of familiarity with the language can be a restricting factor in these markets, they have sufficient volumes to place them in the second priority markets. Among these countries, Luxembourg is a tax haven and its services sector is dominated by the banking and financial sector. Poland can also be included in this list though the trade volume is much less than other countries in this group. Low-cost Indian suppliers may have some business opportunities in this country.

Many CAs have identified Ireland as a potential market. However, from the OECD statistics, Ireland appears to be a fringe player. Closer scrutiny reveals that Ireland is a big player in global outsourcing and is considered to be a competitor of India. However, Irish accountants do not possess a wage advantage over their Indian counterparts and it may be possible that some of the jobs outsourced to Irish companies in the accounting sector will be further outsourced to Indian BPOs and KPOs.[53] Ireland can be a gateway for India's near-shoring of accountancy services to the rest of Europe.

[52] According to the OECD IPMR database.
[53] ICICI OneSource, the Indian back-office services specialist, has opened two call centers in Northern Ireland to strengthen its British operations.

Priority 3 Markets

Some of the Scandinavian countries like Finland and Denmark do not appear to have a very big external market for this sector but the presence of large MNC headquarters in these countries make them potential markets for Indian accountants.

2. Harmonization

The previous discussion has highlighted that lack of harmonization of the services market makes the bilateral negotiation process with the EU extremely complex and cumbersome. To avoid the transaction costs of lack of harmonization, negotiators must demand that EU countries align their domestic regulations to a certain extent because bilateral negotiation with a common market makes sense. Otherwise it will be the same as negotiating 15 or 25 bilateral treaties. Though the EU has taken steps to harmonize its statutory audit methods and it is moving towards adopting IFRS, domestic regulations are still quite divergent. A harmonized domestic system for entry and setting up of business ventures is an ideal but unlikely situation. The negotiators, in fact, can ask for a timetable for possible harmonization of the domestic rules of EU member countries.

3. Mutual Recognition Agreement

There is an almost universal feeling that lack of MRAs between India and the European countries is the most important market access barrier for Indian professionals. ICAI initiated an MRA with its counterpart in England in 2001, but no deal has been signed to date. There is a strong feeling among Indian practitioners that ICAEW is deliberately dragging its feet to maintain a protective barrier. They feel that though the MRA is a deal between two professional bodies, the government must try to speed up the process in every possible way. Also, the licence to do statutory audit is given by local authorities in many European countries; in such cases, the government may want to check whether some reciprocal arrangement is possible.

4. Economic Needs Test

The ENT is the services equivalent of licensing and QR (quantitative restrictions) in goods and it goes against the basic principle of free trade based on comparative advantage. Efforts must be made to remove the ENT is all possible sectors. In accountancy, there is some confusion about the applicability of ENT; the OECD database and the literature do not show that ENT is required for this sector. It is important to get the real picture of ENTs in all potential markets. The negotiators must take a very strong position on this issue and ask for the complete removal of ENT requirements

In the revised offer by the EU in the WTO, the ENT is not mentioned for any of the leading markets (except Finland and Poland for Intra-Corporate Transfer) either in the horizontal or in the section on accounting services. It appears that the EU countries may be ready to remove ENTs.

5. The WTO Revised Offer

The WTO Revised Offer (RO) by the EU is considered to be one of the best offers given by the EU in any form of trade negotiations. This should be used as the baseline for this trade negotiation. However, following India's request in this sector, the following should be demanded:

1) Removal of conditions of nationality, citizenship requirements and residency requirement for and after grant of license.

2) Ensure than ENTs are not introduced in different guises.

3) Even in the revised offer the audit services (86213 and 86219) are severely restricted. Opening up this segment should be emphasized.

6. Mode 1 issues

As the WTO revised offer of the EU reveals, Mode 1 is currently not highly protected. Except for France, which has kept the mode unbound, the other major markets are fairly open. However, possible job losses due to outsourcing can change the picture and there are incipient signs of protectionism in some countries. It will be in India's interest to secure stable market access through this mode.

Other Issues

a. It will be important not to confine the negotiations to intra-sectoral bargaining. For sectors like accountancy, inter-sectoral bargaining is important, especially when market interests in a certain sector are asymmetrical.

b. One of the shortcomings of a bilateral trade negotiation is that the bargaining power between two negotiating sides is perceived to be somewhat proportional to their economic powers. The EU has a larger trade and investment share in the world and though India's bargaining power is much higher than what is suggested by its trade and investment shares in the global market, it is still likely to be at a disadvantage in such negotiations. Therefore, it is possible that pressure will be applied on Indian negotiators to accept terms which may not lead to a balanced outcome for both sides.

During the preparation of this report we had a chance to interact with representatives from professional accounting bodies of the EU who are also involved in these negotiations. They felt that sometimes Indian negotiators and ICAI are not transparent in their positions. This, according to them, leads to a lack of trust among the negotiators and hence slows down the negotiations. They were also not sure whether the professionals on the Indian side had a clear negotiating mandate on behalf of their community.

One is not sure how much merit there is in these observations, but from the perspective of Indian negotiators it is important to take the officials of professional accounting bodies on board and get a clear idea from them about their positions regarding negotiations in the accounting sector. However, given the multiple roles and conflicting interests that members of such professional bodies may have, it is important to synthesize their views and take a position which is best suited for the country. While discussing the issues regarding the accountancy sector it became clear that this is a sensitive sector where stakeholders and members of professional bodies sometimes different speak in different voices which do not always match their official positions. This study tried to synthesize opinions after consulting various stakeholders.

Typically it is said that in negotiations where trust levels are not very high it is important for both parties to establish their positions before making demands. As far as the accountancy sector is concerned, this is true for this round of bilateral trade and investment negotiations between India and the EU.

IX. Addendum: Roadmap of Negotiation with the UK

The United Kingdom is potentially the biggest market for the Indian accountancy sector in Europe. There are several reasons for this. London is a financial hub and home to a number of financial institutions such as Deutsche Bank, Barclays Bank, Bank of America, Citigroup and HSBC. The presence of the London Stock Exchange and the presence of the market for Eurobonds, energy futures, and the global insurance markets make London a huge center for financial activities. As a result, there is significant demand for trained accountants in London and it is a potentially attractive destination for Indian accountants.

Eurostat data reveal that legal, accounting and management services generated more than €220 billion of value added in 2004 and England is the biggest market for these services in Europe, accounting for more than 26 per cent of the total EU-27 market. According to a UK-based market research firm, Key Note, the total size of the accountancy market is expected to be more than £20 billion in 2008.

On the supply side, Indian accountants are English-speaking and conversant with the British financial system which, like India, is based on Company law. Therefore, Indian accountants feel that given an opportunity, Indian accountants will do well in the UK. Also, Indian accounting bodies like ICAI and ICWAI have some institutional collaboration with professional bodies in the United Kingdom (like the Institute of Chartered Accountants of England & Wales, ICAEW). Therefore, the UK is a potential source of employment for Indian accountancy professionals.

However, it will be difficult for Indian firms to enter the UK market. The market structure in UK mirrors the international accountancy market where the Big Four dominate the industry. The website/magazine, Accountancy Age, shows that the Big Four account for about 72 per cent of the total fee income of the top 50 firms in the accountancy business in the UK. It also shows that the number of partners of these top 50 firms was around 2,700 and the professional staff was around 60,000.[54] Table 13 lists the top 20 UK accountancy firms.

[54] More details, see http://ivory.vnunet.com/assets/binaries/accountancy-age/pdf/aa-top-50-2008.pdf

Table 13: Top 20 UK Accountancy firms, fee income and number of partners, 2008

Ranking	Name of firm	UK fee income (£m)	No. of UK partners
1	PricewaterhouseCoopers	2100.00	822
2	Deloitte and Touche	1802.00	641
3	KPMG	1607.00	559
4	Ernst & Young	1226.00	473
5	Grant Thornton	389.00	310
6	BDO Stoy Hayward	350.00	243
7	Baker Tilly	204.60	117
8	Smith & Williamson	170.70	192
9	PKF	143.20	98
10	Tenon Group	137.50	134
11	Moore Stephens	120.20	160
12	Mazars	101.00	105
13	Vantis	97.30	135
14	RSM Bentley Jennison	72.40	71
15	Haines Watts Group	60.00	91
16	Saffery Champness	49.00	58
17	Horwath Clark Whitehill	46.60	71
18	UHY Hacker Young	43.40	86
19	Kingston Smith	39.00	49
20	Menzies	33.00	43

Source: Accountancy Age.

On the other hand, the UK has emerged as a major market for outsourcing of accountancy-related services to India. Apart from private sector work relating to accounting which is being outsourced to India, a large number of accounting and finance functions within the British National Health Service (NHS) are outsourced to India and other countries. The downside is that only low-end accounting jobs are currently outsourced. However, experts think that more value added jobs are likely to be outsourced as the reputation and credibility of Indian firms are increasing.

Because of these factors, the UK provides significant business opportunities for Indian accountants and firms both in Mode 1 and Mode 4. However, because of the domestic regulations in India, Indian firms are unlikely to be in a position to establish their commercial presence in the UK market. The reasons have been discussed in previous sections.

The interest in the accountancy market is not one-sided; British firms also have a strong interest in the Indian market. The high growth rate of India's services industry and the increased presence of large numbers of multinational corporations and their affiliates make India an attractive market for foreign accountancy firms. Also, there is a perception in the UK that the Indian accountancy sector is facing an acute shortage of accountants and hence British firms will have significant business in India if they are allowed to offer audit and accountancy services. As currently foreign firms are not allowed to have a commercial presence in the accountancy sector, there is a strong demand for India to open Mode 3 in this sector. It is notable that, in spite of these restrictions, some of the top global accountancy firms, including the Big Four, have already established their presence in India and are either providing consultancy services or have tied up with local partners to provide accountancy services through them. Among the non-Big Four firms, Grand Thornton and BDO Stoy Hayward, among others, have entered the Indian market.

Such mutual interest in each other's market makes the accountancy sector interesting for negotiations. India's strength, as discussed above, is in Mode 1 and Mode 4. In the UK, Mode 1 is not highly restricted and if issues related to data protection and data privacy are settled there is not much need to pursue increased Mode 1 liberalization with the UK. The only thing will be to ensure that no new restrictions are imposed on Mode 1 either because of growing resentment against outsourcing or due to problems with data privacy and protection.

However, a number of factors need to be addressed in Mode 4. Accountancy professionals have pointed out that an MRA between Indian accountancy bodies and their British counterparts should be treated as the starting point for negotiations on Mode 4. However, MRA and membership of English professional bodies[55] will only allow CAs to be employees in a firm. Independent professionals (i.e., CAs who sell services to the public rather than acting as employees) must gain a "practising certificate" by meeting further requirements such as purchasing adequate insurance and undergoing regular inspections. Moreover, CAs who hold "practising certificates" can only become "Registered Auditors" if they can demonstrate the necessary professional ability in that area. A Registered Auditor is able to perform statutory audits in accordance with the Companies Act 1985. These certificates are given by local government authorities. <u>The present negotiation should try to ensure that the process of obtaining such certificates is more transparent and there are no hidden or discriminatory barriers in the whole process.</u>

Streamlining of the visa procedure is an important factor which has been recommended by accountancy professionals. The visa system of UK has been recently changed to a 'points-based system' which intends to bring more transparency to the system and is supposed to benefit skilled and highly skilled workers under Mode 4. It is too early to conclude whether the new visa system is proving more useful for Indian accountancy professionals and this needs to be studied in more detail.

There was some confusion about the status of the Economic Needs Test (ENT) as the British visa rules are not clear. From the new visa rules (valid from April 1, 2008) it appears that an ENT will not be required for accountancy services, book-keeping services and taxation advisory services[56] but is still required for management consulting services. As many accountancy firms and professionals also provide management consultancy services, in certain cases the ENT norms are still applicable to them.

[55] Like the Institute of Chartered Accountants in England & Wales, the Institute of Chartered Accountants of Scotland or the Institute of Chartered Accountants in Ireland.

[56] See the GATSA and GATSB guidelines available at http://www.ukba.homeoffice.gov.uk/workingintheuk/workpermits/workpermitarrangements/gats/

To prepare a roadmap for negotiation, it will be useful to address concerns regarding an MRA and certification issues. It is important to explore whether the government can play a role in expediting the process. Since MRAs are generally a drawn-out process, in the interim it would be useful to explore whether examinations to become members of British and Indian professional bodies can be held in each other's country. The experience acquired in India as a CA should be counted towards any eligibility requirements.

In the negotiations, as a quid pro quo there will be a demand for opening up Mode 3. In our view the trade-off in getting Mode 1 and Mode 4 access while giving away Mode 3 is not unfavorable for the Indian accountancy sector. As mentioned above, Indian professionals do not see much additional threat from British accountancy firms. They also feel that the British perception that the Indian accountancy sector is facing an acute shortage of CAs is exaggerated and, at most, there is only a temporary mismatch. ICAI has already increased its intake and the situation is likely to improve in a few years.

However, any negotiating trade-off must take care of reciprocity and the concessions to each other must be granted on a simultaneous basis. Any pressure to have sequential moves should be rejected unless it allows India the first mover advantage. We also came across some allegations regarding perception problems and racial discrimination in the British accountancy sector. According to some Indian CAs practising in the UK, these issues may prevent Indian CAs from getting employment in the UK even if the procedural problems are addressed. These may be valid points but one wonders how these broader social issues can be addressed in a trade negotiation.

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Appendix 1. Country Abbreviations

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	The Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovak Republic
UK	United Kingdom

Table A1: OECD Product Market Regulation Database. SECTOR: Accounting

Question number in *OECD Regulatory Indicators Questionnaire*	**Item**	**Austria**	**Belgium**	**Canada**	**zech republic**	**Denmark**	**Finland**	**France**	**Germany**	**Greece**	**Hungary**	**Iceland**	**Ireland**
Licensing													
Q 4.1.1	How many services does the profession have an exclusive or shared exclusive right to provide?	3	3	3	12	1	2	>6	6	12	6	12	1
Education requirements													
Q 4.2.1	What is the duration of special education/ university/ or other higher degree?	0	4	5.5	5	5	4	6	4	4	4	4	3
Q 4.2.1	What is the duration of compulsory practice necessary to become a full member of the profession?	5	3	2.5	3	3	3	3	3	6	3	0	5
Q 4.2.1	Are there professional exams that must be passed to become a full member of the profession?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Quotas and economic needs tests													
Q 4.3.1	Is the number of foreign professionals/firms permitted to practice restricted by quotas or	No	No	No	No	No	No	No	No	No	No	No	No

Question number in *OECD Regulatory Indicators Questionnaire*	Item	Austria	Belgium	Canada	Czech republic	Denmark	Finland	France	Germany	Greece	Hungary	Iceland	Ireland
	economic needs tests?												
Regulation on form of business													
Q 4.4.1	Is the legal form of business restricted to a particular type?	No restrictions	Partnership and some incorporation allowed	Incorporation forbidden	No restrictions	No restrictions	Partnership and some incorporation allowed	Partner ship and some incorporation allowed	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions
Regulations on prices and fees													
Q 4.4.2	Are the fees or prices that a profession charges regulated in any way (by government or self-regulated)?	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation	No regulation
Regulations on advertising													
Q 4.4.3	Is advertising and marketing by the profession regulated in any way?	No specific regulations	Advertising is regulated	Advertising is regulated	Advertising is prohibited	No specific regulations	Advertising is regulated	Advertising is regulated	Advertising is regulated	No specific regulations	No specific regulations	Advertising is regulated	Advertisin g is regulated
Inter-professional cooperation													
Q 4.4.4	Is cooperation between professionals restricted?	All forms allowed	Only allowed with comparable professions	Generally forbidden	Only allowed with comparable professions	All forms allowed	Generally allowed	Generally allowed	Only allowed with comparable professions	All forms allowed	All forms allowed	All forms allowed	All forms allowed

Question number in *OECD Regulatory Indicators Questionnaire*	Item	Italy	Luxembourg	Netherlands	Norway	Poland	Portugal	Slovak Republic	Spain	Sweden	Switzerland	Turkey	United Kingdom
Licensing													
Q 4.1.1	How many services does the profession have an exclusive or shared exclusive right to provide?	12	>6	3	7	8	2	8	1	2	1	12	5
Education requirements													
Q 4.2.1	What is the duration of special education/ university/ or other higher degree?	4	4	4	3	..	5	5	3	4	0	4	3
Q 4.2.1	What is the duration of compulsory practise necessary to become a full member of the profession?	2.5	3	3	3	2.5	3	5	3	5	0	6	5
Q 4.2.1	Are there professional exams that must be passed to become a full member of the profession?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Quotas and economic needs tests													
Q 4.3.1	Is the number of foreign professionals/firms permitted to practice restricted by quotas or economic needs tests?	No	No	No	No	No	No	No	No	No	No	No	No

Question number in *OECD Regulatory Indicators Questionnaire*	Item	Italy	Luxembourg	Netherlands	Norway	Poland	Portugal	Slovak Republic	Spain	Sweden	Switzerland	Turkey	United Kingdom
Regulation on form of business													
Q 4.4.1	Is the legal form of business restricted to a particular type?	Sole practitioner only	Partnership and some incorporation allowed	Partnership and some incorporation allowed	No restrictions	No restrictions	..	No restrictions	Partnership and some incorporation allow ed	Partnership and some incorporation allowed	No restrictions	No restrictions	No restrictions
Regulations on prices and fees													
Q 4.4.2	Are the fees or prices that a profession charges regulated in any way (by government or self-regulated)?	Minimum prices on all services	No regulation	Non-binding recommended prices on all services	No regulation	No regulation	..	No regulation	Non-binding recommended prices on some services	No regulation	No regulation	Minimum prices on all services	No regulation
Regulations on advertising													
Q 4.4.3	Is advertising and marketing by the profession regulated in any way?	Advertising is regulated	Advertising is regulated	Advertising is regulated	No specific regulations	Advertising is regulated	..	No specific regulations	Advertising is regulated	Advertising is regulated	No specific regulations	Advertising is prohibited	No specific regulations
Inter-professional cooperation													
Q 4.4.4	Is cooperation between professionals restricted?	All forms allowed	Generally allowed	Generally allowed	All forms allowed	Only allowed with comparable professions	..	All forms allowed	Generally allowed	Generally allowed	All forms allowed	Only allowed with comparable professions	All forms allowed

Source: The OECD International Regulation Database.

The indicators of professional services are calculated according to the following tables:

Note that the indicator for each profession is calculated as the simple average of the indicators of entry and conduct regulation. The overall indicator of professional services is the simple average of the indicators for accounting, architect, engineer, and legal.

Panel A: Entry regulation

	Weights by theme (b_j)	**Question weights (c_k)**	Coding of data				
Licensing:	2/5						
How many services does the profession have an exclusive or shared exclusive right to provide?		1	0 0	1 1.5	2 3	3 4.5	>3 6
Education requirements (only applies if Licensing not 0):	2/5						
What is the duration of special education/ university/ or other higher degree?		1/3	equals number of years of education (max of 6)				
What is the duration of compulsory practice necessary to become a full member of the profession?		1/3	equals number of years of compulsory practise (max of 6)				
Are there professional exams that must be passed to become a full member of the profession?		1/3	no 0			yes 6	
Quotas and economic needs tests	1/5						
Is the number of foreign professionals/firms permitted to practice restricted by quotas or economic needs tests?		1	no 0			yes 6	
Country scores (0-6)			$\sum_j b_j \sum_k c_k$ answer$_{jk}$				

Panel B: Conduct regulation

	Weights by theme (b_j)[1]	Question weights (c_k)	Coding of data						
Regulations on prices and fees Are the fees or prices that a profession charges regulated in any way (by government or self-regulated)?	0.38		No regulation	non-binding recommended prices on some services	non-binding recommended prices on all services	maximum prices on some services	maximum prices on all services	minimum prices on some services	minimum prices on all services
		1	0	1	2	3	4	5	6
Regulations on advertising Is advertising and marketing by the profession regulated in any way?	0.23		no specific regulations		advertising is regulated		advertising is prohibited		
		1	0		3		6		
Regulation on form of business Is the legal form of business restricted to a particular type?	0.19		no restrictions		partnership and some incorporation allowed	incorporation forbidden		sole practitioner only	
		1	0		2	5		6	
Inter-professional cooperation Is cooperation between professionals restricted?	0.19		all forms allowed		generally allowed	only allowed with comparable professions		generally forbidden	
		1	0		3	4.5		6	
Country scores (0-6)			$\sum_j b_j \sum_k c_k$ answer$_{jk}$						

Table A2: Survey of Market Access Rules in Accountancy and Audit Services (Conducted by FEE)

The respondents to the survey were asked to classify specific services into one of four categories:

1. FCC = Subject to free consumer choice (FCC), with no restrictions on market access and therefore choice of service providers.

2. ROP = restricted to other professionals. Denotes market access restrictions that reserve service provision to other professionals and thereby to the exclusion of professional accountants.

3. SOP = shared with other professionals. Market access restrictions which reserve service provision to the members of different professions among which professional accountants are included.

4. RPA = restricted to professionally qualified accountants. Market access restrictions which reserve service provision to professionally qualified accountants, to the exclusion of all others.

Source: Provision of Accountancy, Audit and Related Services in Europe: A Survey on Market Access Rules, Fédération des
Experts Comptables Européens (FEE), December 2005.
(http://www.fee.be/publications/default.asp?content_ref=539&library_ref=4)

1. Audit and Assurance Engagements

	Statutory audits of historical financial statements	Voluntary audits of historical financial statements	Reviews of historical financial information	Report on mergers (3rd & 6th EC Directive)	Audit of contributions in kind (2nd EC Directive)	Forensic audits and other litigation services	Operational audits	Reports on internal control (1)
Austria	RPA	RPA	RPA	RPA	RPA	SOP	SOP	SOP
Belgium	RPA	RPA	RPA	RPA	RPA	FCC	FCC	FCC
Cyprus	RPA	FCC	FCC	FCC	FCC	FCC	FCC	FCC
Czech Republic	RPA	RPA	FCC	SOP(3)	SOP(3)	FCC	FCC	FCC
Denmark (2)	RPA	RPA	RPA	RPA	RPA	FCC	FCC	FCC
Estonia	RPA	RPA	FCC	RPA	RPA	SOP	FCC	FCC
Finland	RPA (5)	FCC	FCC	RPA	RPA	FCC	FCC	FCC
France	RPA	RPA	RPA	RPA	RPA	SOP	SOP	SOP
Germany	RPA	FCC	FCC	RPA	SOP	FCC	FCC	FCC
Greece	RPA	SOP	SOP	RPA	SOP	FCC	FCC	RPA
Hungary	RPA	RPA	RPA	RPA	RPA	SOP	SOP	RPA
Ireland	RPA	FCC	FCC	RPA	RPA	FCC	FCC	FCC
Italy	RPA	FCC	FCC	RPA	RPA	SOP	FCC	SOP
Latvia	RPA	FCC	RPA	RPA	SOP	FCC	FCC	FCC
Lithuania	RPA	RPA	FCC	RPA	FCC	SOP	SOP	FCC
Luxembourg	RPA	RPA	FCC	RPA	RPA	FCC	FCC	FCC
Malta	RPA	RPA	FCC	FCC	FCC	FCC	FCC	FCC
Netherlands	RPA	RPA	FCC	RPA	RPA	FCC	FCC	FCC
Norway	RPA	FCC	FCC	RPA	RPA	FCC	FCC	FCC
Poland	RPA	RPA	RPA	RPA	SOP	SOP	FCC	FCC
Portugal	RPA	RPA	RPA	RPA	RPA	FCC	FCC	FCC
Romania	SOP	SOP	SOP	SOP	SOP	SOP	SOP	SOP
Slovak Republic	RPA	RPA	RPA	RPA	RPA	SOP	FCC	FCC
Slovenia	RPA	RPA	RPA	RPA	RPA	ROP	FCC	FCC
Spain	RPA	RPA	RPA	SOP	SOP	RPA	FCC	SOP (4)
Sweden	RPA	FCC	FCC	RPA	RPA	FCC	FCC	RPA
United Kingdom	RPA	FCC	FCC	RPA	RPA	FCC	FCC	FCC

Notes: It is worth mentioning that in several countries, regulators may ask accountants to carry out specific assurance engagements on the internal control systems in specific sectors such as banks or insurance companies.
(2) In Denmark, a state authorized or registered public accountant must perform voluntary audits and reviews of historical financial statements if one assumes that the audit or review in question is requested for as a professional service performed for the benefit of third parties (the different users of financial statements). Assurance engagements must be performed by a state authorised or registered public accountant if one assumes that assurance engagement in question is requested for as a professional service performed for the benefit of third parties.
(3) Must be approved by the court.
(4) The law against money laundering requires certain companies to have specific internal control procedures which are reviewed annually by an external expert.
(5) In Finland, statutory audits of the historical statutory accounts are reserved to qualified accountants in compliance with the European 4th and 8th Directives. However since all limited liability companies and some non profit associations are also subject to the statutory audit in Finland, the national law stipulated lower qualification requirements for those who want to be authorized to carry out statutory audit in smaller companies or associations below the thresholds defined by the European Directive.

2. Outsourced Accounting Engagements

	Statutory books and records	Management books and records	IT implementation	Preparation and compilation of accounting documents (financial statements/annual report)	Preparation of periodic financial statements	Organisation of accounting systems and related internal control
Austria	RPA	RPA	SOP	RPA	RPA	SOP
Belgium (1)	RPA	FCC	FCC	RPA	RPA	FCC
Cyprus	FCC	FCC	FCC	FCC	FCC	FCC
Czech Republic	FCC	FCC	FCC	FCC	FCC	FCC
Denmark	FCC	FCC	FCC	FCC	FCC	FCC
Estonia	FCC	FCC	FCC	FCC	FCC	FCC
Finland	FCC	FCC	FCC	FCC	FCC	FCC
France	RPA	RPA	FCC	RPA	RPA	SOP
Germany	FCC	FCC	FCC	FCC	FCC	FCC
Greece (2)	ROP	ROP	ROP	ROP	ROP	ROP
Hungary	FCC	FCC	FCC	SOP	SOP	FCC
Ireland	FCC	FCC	FCC	FCC	FCC	FCC
Italy	FCC	FCC	FCC	FCC	FCC	FCC
Latvia	FCC	FCC	FCC	FCC	FCC	FCC
Lithuania	FCC	FCC	FCC	FCC	FCC	FCC
Luxembourg (1)	RPA	RPA	FCC	RPA	RPA	RPA
Malta	FCC	FCC	FCC	FCC	FCC	FCC
Netherlands	FCC	FCC	FCC	FCC	FCC	FCC
Norway	SOP	FCC	FCC	FCC	ROP	FCC
Poland	SOP	SOP	FCC	SOP	SOP	FCC
Portugal	RPA	FCC	FCC	RPA	RPA	RPA (3)
Romania	SOP	SOP	FCC	FCC	FCC	FCC
Slovak Republic	FCC	FCC	FCC	FCC	FCC	FCC
Slovenia	FCC	FCC	FCC	FCC	FCC	FCC
Spain	FCC	FCC	FCC	FCC	FCC	FCC
Sweden	FCC	FCC	FCC	FCC	FCC	FCC
United Kingdom	FCC	FCC	FCC	FCC	FCC	FCC

Notes: (1) In Belgium and Luxembourg, accounting constructive engagements may also be carried out by licensed accountants or bookkeepers who are not members of the FEE Member Bodies. In Luxembourg, the latter group may only provide some of the above-mentioned services to smaller companies.
(2) Answers on the situation in Greece only consider the situation of statutory auditors/ members of SOEL.
(3) Only organisation of accounting systems is restricted to accountants (Technicos Officiais de Contas).

3. Tax Services

	Preparing tax returns for individuals	Preparing tax returns for organisa-tions	Tax planning for individuals	Tax planning for organisations	Submission of tax declarations for individuals	Submission of tax declarations for organisations	Representation before tax authorities	Representation before certain tribunals for tax purpose	Representa-tion before Courts in tax matters	Assurance services in tax matters (also assurance engagement)
Austria	RPA	RPA	SOP	SOP	RPA	RPA	RPA	RPA	SOP	SOP
Belgium	SOP	SOP	SOP	SOP	SOP	SOP	SOP	SOP	SOP	SOP
Cyprus	RPA	RPA	FCC	FCC	RPA	RPA	FCC	FCC	FCC	FCC
Czech Republic	ROP	ROP	FCC	FCC	ROP	ROP	ROP	ROP	ROP	FCC
Denmark	FCC	FCC	FCC	FCC	FCC	FCC	FCC	ROP	ROP	FCC
Estonia	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC
Finland	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC
France (1)	SOP	SOP	SOP	SOP	SOP	SOP	ROP	ROP	ROP	SOP
Germany	SOP	SOP	SOP	SOP	SOP	SOP	SOP	SOP	SOP	SOP
Greece	ROP	ROP	ROP	ROP	ROP	ROP	ROP	ROP	ROP	ROP
Hungary	SOP	SOP	FCC	FCC	FCC	FCC	SOP	FCC	FCC	ROP
Ireland	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC
Italy	FCC	FCC	FCC	FCC	FCC	FCC	SOP	SOP	ROP	SOP
Latvia	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC
Lithuania	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC
Luxembourg	FCC	FCC	FCC (3)	FCC (3)	FCC	FCC	FCC	SOP	ROP	FCC
Malta	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	RPA
Netherlands	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC
Norway	SOP	SOP	SOP	SOP	FCC	FCC	SOP	SOP	ROP	RPA
Poland	SOP	SOP	SOP	SOP	SOP	SOP	SOP	ROP	ROP	ROP
Portugal	FCC	RPA (3)	FCC	FCC	FCC	RPA (2)	ROP	ROP	ROP	FCC
Romania	FCC	FCC	FCC	FCC	FCC	FCC	FCC	RPA	RPA	FCC
Slovak Republic	ROP	ROP	ROP	ROP	FCC	FCC	FCC	FCC	ROP	ROP
Slovenia	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC
Spain	FCC	FCC	FCC	FCC	FCC	FCC	FCC	ROP	ROP	FCC
Sweden	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC
United Kingdom	FCC	FCC	FCC	FCC	FCC	FCC	FCC	FCC	ROP	FCC

Notes: (1) For engagements shared with lawyers the expert comptable can only perform engagements as accessories of the main accounting assignment with the same client. The expert comptable cannot represent his client before the courts.
(2) Restricted to Technicos Officiais de Contas.
(3) Also subject to legal advice regulations

Table A3: Internal Market Access Barriers for Accountancy Sector in European Countries

Restriction Category	AUT	BEL	CZE	DEU	DNK	ESP	EST	FIN	FRA	GBR	GRC	HUN	IRE	ITA	LTU	LUX	NLD	POL	PRT	SWE
1. Establishment																				
1.1. Monopolies and other quantitative restrictions																				
Monopoly and quantitative restrictions on access to activities	y	y	n	n	n	n	n	n	y	n	y	n		n	n		n	n	y	n
Monopoly on access to activities (no quantitative restrictions)	n	n	n	n	n	y	n	n	n	y	n	n		n	n		n	n	n	n
Quantitative restrictions on access to activities (no monopoly)	n	n	n	y	y	n	n	y	n	n	n	n		y	n		y	n	n	y
No restrictions on access activities	n	n	y	n	n	n	y	n	n	n	n	y		n	y		n	y	n	n
1.2. Nationality or residence requirements																				
Nationality required to practice + Permanent or prior residence (more than 12 months)	y	n		n	n	y	n	y	n	n	y	n		y	n		n	n	n	n
Nationality required to practice + less than 12 months for prior residence	n	n		n	n	n	n	n	n	n	n	n		n	n		n	n	n	n
Nationality required to practice + Domicile or representative office only	n	n		n	n	n	n	n	n	n	n	n		n	n		n	n	n	n
No nationality requirements + Permanent or prior residence (more than 12 months)	n	n		y	y	n	n	n	n	y	n	y		n	n		n	n	y	y
No nationality requirements + less than 12 months for prior residence	n	n		n	n	n	n	n	n	n	n	n		n	n		n	n	n	n
No nationality requirements + Domicile or representative office only	n	y		n	n	n	n	n	y	n	n	n		n	n		n	n	n	n
No restrictions	n	n	y	n	n	n	y	n	n	n	n	n		n	y		y	y	n	n
1.3. Authorisation and registration procedures																				
Prior authorization requirements	y	y	n	n	y	n	n	y	y	y	n	y		n	n		n	y	y	y
Registration requirements needed	n	n	y	y	n	y	y	n	n	n	y	n	y	y	y		y	n	n	n
Declaration requirements needed	n	n	n	n	n	n	n	n	n	n	n	n		n	n		n	n	n	n

Restriction Category	AUT	BEL	CZE	DEU	DNK	ESP	EST	FIN	FRA	GBR	GRC	HUN	IRE	ITA	LTU	LUX	NLD	POL	PRT	SWE
No authorization and registration requirements	n	n		n	n	n	n	n	n	n	n	n		n	y		n	n	n	n
1.4.a. Restrictions on multi-disciplinary activities																				
Restrictions on association with other professions	y	y	n	n	y	n	n	n	y	n	n	y		y	y		y	y	y	y
Restrictions on the exercise of different core activities	y	y	n	y	n	y	y	n	y	n	y	n		y	y		y	y	y	y
Restrictions on the exercise of activities in different locations	n	n	n	n	n	n	n	n	n	n	n	n		n			n	n	n	n
No restrictions	n	n	n	n	n	n	n	n	n	n	n	n		n			n	n	n	n
1.4.b. Other Restrictions on multi-disciplinary activities																				
Restrictions on the use of the international/foreign name of a firm	n	y		y	n	y		n	n	n	n			y			n		n	n
Restrictions on the international relationship of locally established firms	y	y		n	n	n		n	n	n	n			y			n		n	n
No restrictions	n	n		n	n	n		n	n	n	n			n			n		n	n
1.5.Legal form																				
Imposition of a particular legal form	y	y	n	y	y	y	y	n	y	n	y	n		y	n		y	n	y	y
Imposition of a particular internal structure	y	y	n	y	n	y	n	n	y	n	y	n		y	n		y	y	y	y
Firms must be owned or controlled by local professionals	y	n	n	y	y	y	n	n	y	n	y	n		y	n		y	n	y	y
Partnership or joint venture restrictions	y	y	n	n	y	n	n	n	y	n	y	n		y	n		n	n	n	n
Restrictions on foreign investment/ownership	y	y	n	y	y	n	n	y	y	n	y	n		y	n		y	n	y	y
Obligation to employ local employees	y	n	y	y	n	n	y	y	n	n	y	n		y	n		y	y	y	n
Minimum capital requirements	y	y	y	y	y	y	y	y	y	y	y	y		y	y		y	y	y	y
Minimum number of employees	y	n	n	y	y	n	y	y	y	n	y	n		n	n		y	n	n	y

Restriction Category	AUT	BEL	CZE	DEU	DNK	ESP	EST	FIN	FRA	GBR	GRC	HUN	IRE	ITA	LTU	LUX	NLD	POL	PRT	SWE
1.6.a. Professional qualifications (for foreign firms)																				
Local training required for a full licence	y	n		y	n	y	n	n	n	y	y	n		y	n		y	n	n	y
Local examination required in all cases	n	n		n	y	n	n	n	n	n	n	n		y	n		n	n	n	n
Case-by-case assessment of foreign license and qualifications	n	y	y	n	n	n	y	y	y	n	n	y		n	n		n	y	y	n
Aptitude tests	n	n		n	n	n	n	n	n	n	n	n		n	n		n	n	n	n
Foreign licence and qualifications sufficient to practice	n	n		n	n	n	n	n	n	n	n	n		n	y		n	n	n	n
1.6.b. Professional qualifications (for local firms)																				
Compulsory membership of professional association	y	y	n	y	n	n	y	n	y	y	y	y		n	n		y	y	n	n
Professional examination	y	y	y	y	y	y	y	y	y	y	y	y		y	y		y	y	y	y
Practical experience	y	y	y	y	y	y	y	y	y	y	y	y		y	y		y	y	n	y
Higher education	y	y	y	y	y	y	n	y	y	y	y	y		y	y		y	y	y	y
1.7.Conditions on the exercise of service activities																				
Professional liability insurance regulations	n	n	y	n	n	n	y	n	n	n	n	y		n	y		n	y	n	n
Rules on taxation	y	y	n	y	y	y	n	y	y	y	y	y		y	n		y	y	y	y
Rules on the use of infrastructures	n	n		n	n	n	n	n	n	n	n	n		n			n	n	n	n
Minimum licence requirements	n	y	n	y	y	y	y	y	y	y	y	y		n	n		y	y	y	y
Fee Settings	y	n	n	y	y	n	n	n	y	y	y	n		y			n	n	y	n
No restrictions	n	n	n	n	n	n	n	n	n	n	n	n		n			n	n	n	n
1.8.State Control																				
Government expenditures represents more than 45% of GDP	y	y	n	n	y	n	n	y	y	n	y	n		n	n		n	n	n	y
Government consumption represents more than 20% of GDP	n	y	n	n	y	n	y	y	y	n	n	n		n	n		y	n	n	y

Restriction Category	AUT	BEL	CZE	DEU	DNK	ESP	EST	FIN	FRA	GBR	GRC	HUN	IRE	ITA	LTU	LUX	NLD	POL	PRT	SWE
National, state or provincial governments have special voting rights (e.g. golden shares) in any firms within the business sector	n	y	y	n	n	y	y	n	y	n	y	n		y	n		y	n	y	n
Public sector employment represents more than 6% of the population	n	y	y	y	y	n	y	y	y	y	n	y		n	n		y	n	y	y
Strategic choices of some publicly-controlled firms have to be reviewed and/or cleared in advance by national, state, or provincial legislatures	n	y	y	n	y	y	n	y	n	n	y	n		y	n		y	n	n	y
Legal or constitutional constraints to the sale of the stakes held by the State in publicly-controlled firms	y	y	y	y	y	n	y	y	n	n	y	n		y	n		y	n	y	y
2. Use of inputs																				
2.1. Deployment of Staff																				
No entry of executives, senior managers or specialists	y	n		n	n	y	n	n	n	-	y	n	-	y	n		-	n	y	n
Limitation on the length of stay	n	n		y	y	n	n	y	n	-	n	n	-	n	n		-	n	n	y
Prior Declaration requirement	n	y		n	n	n	y	n	y	-	n	n	-	n	y		-	y	n	n
Administrative requirements	n	n	y	n	n	n	n	n	n	-	n	y	-	n	n		-	n	n	n
No restrictions	n	n		n	n	n	n	n	n	-	n	n	-	n	n		-	n	n	n
2.2. Use of Foreign Temporary Workers																				
Prohibition on the use of foreign temporary staff	y	n		y	n	y	n	y	n	n	n	n	n	n	n		n	n	n	n
Prior-authorization rules and establishment requirements	n	y		n	y	n	n	n	y	y	y	y	y	y	n		y	n	y	y
No restrictions	n	n	y	n	n	n	y	n	n	n	n	n	n	n			n	y	n	n
2.3. Other difficulties (Disparities between national regulations)																				
Disparities on remuneration regulations							n					n			n			n		
Disparities on taxation												n			n			n		

Restriction Category	AUT	BEL	CZE	DEU	DNK	ESP	EST	FIN	FRA	GBR	GRC	HUN	IRE	ITA	LTU	LUX	NLD	POL	PRT	SWE
Disparities on social protection							n					n			n			n		
Disparities on pension schemes and obstacles to the transfer of supplementary pensions							n					n			n			n		
No Remarkable Disparities			y				y					y			y			y		
2.4.Cross-border use of business services																				
Prohibition on the use of foreign service providers	n	n		n	n	n	n	n	n	n	n	n	n	n	n		n	n	n	n
Restrictions on the use of foreign service providers	y	-		-	-	y	n	-	-	-	-	n	-	y	n		-	n	-	-
Authorization required for the use of foreign service providers	n	n	y	n	n	n	y	n	n	n	n	n	n	n	y		n	y	n	n
No restrictions	n	n		n	n	n	n	n	n	n	n	y	n	n	n		n	n	n	n
2.5. Cross-border use of equipment and material																				
Prohibition on the use of foreign equipment and material	n	n		n	n	n	n	n	n	n	n	n	n	n	n		n	n	n	n
Restrictions on the use of foreign equipment and material	y	n		n	n	y	n	n	y	y	n	n	n	y	n		n	n	n	y
Authorization required for the use of foreign equip. and material	n	n		n	n	n	n	n	n	n	n	n	n	n	n		n	n	n	n
No restrictions	n	y	y	n	y	n	y	y	n	n	y	y	y	n	n		n	y	y	n
3. Promotion																				
3.1. Authorization, registration and declaration procedures																				
Authorization required for communications and promotion							n					n			n			n		
Restrictions apply to some groups or activities							n					n			n			n		
Declaration to specific bodies are needed							n					y						n		
General legal requirements			y				y					n			y			y		
3.2. Bans on commercial communication																				

Restriction Category	AUT	BEL	CZE	DEU	DNK	ESP	EST	FIN	FRA	GBR	GRC	HUN	IRE	ITA	LTU	LUX	NLD	POL	PRT	SWE
Prohibition of advertising, marketing and solicitation	n	n		n	n	n	n	n	n	n	n	n	n	n	n		n	n		n
Restrictions apply to some groups or activities	y	y		y	n	y	n	y	y	n	n	n	n	y	n		n	n		n
Authorization is required	n	n		n	n	n	n	n	n	y	n	n	y	n	n		n	n		n
General legal requirements	n	n	y	n	n	n	y	n	n	n	n	y	n	n	y		n	y		n
3.3. Content of commercial communication																				
Restrictions imposed on the type of information	y	y		y	n	y	n	y	y	y	n	y	n	y	n		n	n	n	n
Restrictions in respect of the target audience			n	n			n	y				n		y	n			n		
Restrictions in the use of arguments	y	n	y	n	-		y		y			y	y	y	y			y		y
Restriction on the language used			y	n			y					n			y			y		
3.4. Form of commercial communication																				
Prohibition of communications without prior consent	y	y		y	y	n	n	n	n	n		n		n	n			n		n
Restriction related to specific forms of canvassing	y	n		y	y	y	n	y	n	y		y	y	y	n			n		y
No restrictions	n	n	n	n		n	y			n		n	n	n	y			y		n
3.5. Non-commercial communication																				
Prohibition of communications without prior consent							n					n			n			n		
Restriction related to specific forms of canvassing							n					n			n			n		
No restrictions			y				y					y			y			y		
4. Distribution																				
4.1. Monopolies and other quantitative restrictions																				
Monopoly and quantitative restrictions on access to activities	y	y		n	n	n	n	n	y	n	y	n		n	n		n	n	y	n
Monopoly on access to activities (no quantitative restrictions)	n	n		n	n	y	n	n	n	y	n	n		n	n		n	n	n	n

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Quantitative restrictions on access to activities (no monopoly)	n	n		y	y	n	n	y	n	n	n	n		y	n		y	n	n	y
No restrictions on access activities	n	n	y	n	n	n	y	n	n	n	n	y		n	n		n	y	n	n
4.2. Nationality or residence requirements																				
Nationality required to practice + Permanent or prior residence (more than 12 months)	y	n		n	n	y	n	y	n	n	y	n		y	n		n	n	n	n
Nationality required to practice + less than 12 months for prior residence	n	n		n	n	n	n	n	n	n	n	n		n	n		n	n	n	n
Nationality required to practice + Domicile or representative office only	n	n		n	n	n	n	n	n	n	n	n		n	n		n	n	n	n
No nationality requirements + Permanent or prior residence (more than 12 months)	n	n		y	y	n	n	n	n	y	n	y		n	n		n	n	y	y
No nationality requirements + less than 12 months for prior residence	n	n		n	n	n	n	n	n	n	n	n		n	n		n	n	n	n
No nationality requirements + Permanent or prior residence (more than 12 months)	n	y		n	n	n	n	n	y	n	n	n		n	n		n	n	n	n
No restrictions	n	n	y	n	n	n	y	n	n	n	n	n		n	n		y	y	n	n
4.3. Authorization and registration procedures																				
Prior authorization requirements	y	y		n	y	y	n	y	y	y	n	n		n	n		n	n	y	y
Registration requirements needed	n	n	y	y	n	n	y	n	n	n	y	y		y	n		y	n	n	n
Declaration requirements needed	n	n		n	n	n	n	n	n	n	n	n		n	n		n	n	n	n
No authorization and registration requirements	n	n	n	n	n	n	n	n	n	n	n	n		n	n		n	y	n	n
4.4. Internal structure and legal form																				
Imposition of a particular legal form	y	y		y	y	y	y	n	y	n	y	n		y	y		y	y	y	y
Imposition of a particular internal structure	y	y		y	n	y	n	n	y	n	y	n		y			y	y	y	y
Firms must be owned or controlled by local professionals	y	n		y	y	y	n	n	y	n	y	n		y	n		y	n	y	y

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Partnership or joint venture with local professionals required	y	y		n	y	n	n	n	y	n	y	n		y	n		n	n	n	n
Limits to the number or proportion of shares that can be acquired by foreign investors in certain firms	y	y		y	y	n	n	y	y	n	y	n		y			y	n	y	y
Obligation to employ local employees	y	n	y	y	n	n	y	y	n	n	y	n		y	n		y	y	y	n
Minimum capital requirements	y	y		y	y	y	y	y	y	y	y	y		y	y		y	y	y	y
Minimum number of employees	y	n		y	y	n	n	y	y	n	y	n		n	n		n	n	n	y
4.5. Professional requirements																				
Disparities between national requirements on professional qualifications			n				n					n			n			n		
Disparities between national requirements on experience			n				n					y			n			n		
Disparities between national requirements on professional titles			n				n					n			n			n		
Validate requirements required			y				y					y			y			y		
4.6. Imposition of conditions on the exercise of an activity																				
Territorial limits applying to a licence							n					n						n		
Existence of rules governing a professional code of good conduct			y				y					y			y			y		
Existence of rules governing the protection of a general interest			y				y					y			y			y		
No impositions							n					n						y		
4.7. Transport and postal services																				
Disparities between national requirements on the characteristics of the vehicles used																				
Disparities between national requirements on the arrangements for the provision of transport services																				
Diversity of national rail systems																				

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Disparities between national requirements on national rules on access to networks																				
Existence of several different and incompatible management system in the air sector																				
Significant disparities on the delivery time for postal services																				
Disparities on the delivery time for postal services																				
Relevant postage-rate differences on cross-border distribution activities																				
4.8. Restrictions on the receipt of services																				
Exclusive provision of services for nationals or residents							n					n			n			n		
Additional conditions and guarantees for foreign entities							n					n			n			n		
No restrictions on foreign firms			y				y					y			y			y		
5. Sales of services																				
5.1. Formation and content of Contracts																				
Mandatory and/or public policy rules applied							y					n			y			n		
Prior notification of terms and conditions required							n					n			n			n		
No restrictions			n				n					y			n			y		
5.2 Price Settings																				
Maximum prices, minimum prices or prices are set	n	n		n	n	n	n	n	n	n	y	n	n	n			n	n	y	n
Maximum prices, minimum prices or prices are recommended	y	n		n	n	y	n	n	n	y	n	n	n	y			y	n	n	n
Setting prices freely	n	y	y	y	y	n	y	y	y	n	n	n	y	n			n	y	n	y
5.3. Taxation																				
Compulsory VAT obligations for non-established firms	y	y	n	y	y	y	n	y	y	y	y	y	y	y	n			y	y	y

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Periodic VAT declarations cannot be submitted electronically	n	n		n	n	n	n	y	n	n	n	n	n	y	y		n	y	n	n
Conditions on the means of VAT payments			n				y					y			y			y		
Longer VAT reimbursement periods for cross-border transactions			n				n					n						y		
No restrictions			y				n					n			y			n		
5.4. Reimbursement, subsidy or aid to the service recipient																				
Authorization for the reimbursement of medical costs incurred in other Member Stated required							n					y			y			y		
Reimbursement of costs below the level granted in the country of social insurance affiliation			y				y					n						y		
More favourable tax treatment for services received from local providers			n				n					n						n		
No restrictions							n					n						n		
5.5. Public contracts and concessions																				
Single-tendering and negotiated procedures	-	y	y	y	y	y	n		-			y	-	-	n		-	n	-	
Requirements for local content or rules favour domestic suppliers of publicly procured goods and services	-	n	y	n	n	n	n	-	n	n	-	n	n	-	n		-	y	n	-
Nationality or residency requirements to participate in public procurement bids	n	-	y	n	n	y	n	n	-	n	y	n	-	n	n		-	n	-	y
Contractual conditions governing the performance of contracts			y				n					y			y			y		
Mandatory for suppliers interested in participating in public contracts to register as contractors or be qualified as such	n	y	y	n	n	n	n	n	-	n	n	y	n	n	y		n	y	n	y
Long-term concessions			y				n					y			n			n		
Open tendering			n				y	y		y	y	n			y			y		y

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6. After sales aspects of services																				
6.1. Liability, professional-indemnity insurance and guarantee systems																				
Compulsory liability insurance schemes			y				y					y			y			y		
Conditions imposed on the field of activities to be insured							n					y			y			y		
Conditions imposed on the minimum amount of coverage							n					y			y			y		
Mandatory financial guarantee schemes							n					y			y			y		
6.2 Debt collection																				
Debt collection agency can be used only for established firms			n				n					n			n			n		
Average payment period larger than 55 days			y				y					y						y		
Debt collection costs are not always charged to the debtor			y				y					n						y		
Administrative and debt recovery costs are not recognised			n									n						y		
6.3. After sales services																				
Mandatory conditions applied							n					n			n			n		
Prior notification of terms and conditions required							n					n			n			n		
No restrictions			y				y					y			y			y		
6.4.a. Legal redress (apply to foreign firms)																				
Appeal procedures are not available to foreign parties	-	n		n	n	n		n	n	n	n		-	n			n		-	n
Foreign owned or controlled firms have not redress through competition agencies against business practices that are perceived to restrict competition and hence prevent effective access	-	n		n	n	n		n	n	n	n		-	n			n		-	n

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Foreign owned or controlled firms have not redress through trade policy agencies against business practices that are perceived to restrict competition and hence prevent effective access	-	n		-	y	n		n	-	n	n		-	n			y		-	y
Foreign owned or controlled firms have not redress through regulatory authorities against business practices that are perceived to restrict competition and hence prevent effective access	-	n		-	y	n		n	-	n	n		-	n			y		-	n
Foreign owned or controlled firms have not redress through private rights of actions against business practices that are perceived to restrict competition and hence prevent effective access	-	n		-	y	n		n	-	n	n		n				y		n	n
No explicit recognition of national treatment principle																				
6.4.b. Legal redress (apply local firms)																				
Insecure that their consumer rights would be protected in another country of the EU (less than 30% feel well protected)	n	n		n	n	n		n	n	n	y		n	n			n		n	n
In-doubt tat their consumer rights would be protected in another country of the EU (between 50% and 30% feel well protected)	n	y		n	n	y		n	n	n	n		n	y			n		n	n
Confident that their consumer rights would be protected in another country of the EU (more than 50% feel well protected)	y	n		y	y	n		y	y	y	n		y	n			y		y	y
7. Non-legal barriers																				
7.1. Lack of regulatory information																				
Guidance on plain language drafting is not issued	-	-	y	y	y	-	y	y	-	y	y	n	y	y			-	n	-	y
National rules and interpretation is only available in the local language			y				n					n			n			y		
Customer services are not available			y				n					n			y			n		

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Absence of systematic procedures for making regulations known and accessible to affected parties	n	y	y	n	n	n	n	n	y	n	n	n	n	n			n	n	n	n
There are not specific provisions which require that regulations be published to the public at the international level			n				y					y						y		
Government policy do not impose specific requirements in relation to the following aspects of regulatory quality assurance: Transparency/freedom of information	y	n	n	n	y	n	n	n	n	n	y	n	n	n			n	n	n	n
Absence of a complete count of the number of permits and licenses required by the national government (all ministries and agencies)	y	n	y	y	y	n	y	n	n	n	y	n	y	y	y		y	n	n	y
Absence of a single contact point for getting information on licenses and notifications	n	y	y	n	n	n	y	n	y	n	n	n	n	n			n	n	n	y
7.2. Lack of awareness of the internal market																				
More than 75% of the consumer feel badly informed	n	n		n	n	n		n	n	n	n		n	n			n		n	n
More than 50% of the consumer feel badly informed	n	n		n	n	n		n	n	n	n		n	n			n		y	n
More than 25% of the consumer feel badly informed	n	y		y	n	y		n	y	n	y		y	n			n		n	n
Less than 25% of the consumer feel badly informed	y	n		n	y	n		y	n	y	n		n	y			y		n	y
7.3. Different Regulatory environments																				
Official translation of documents are required			y				y					y			y			y		
National authorities web pages are only available in the local language			n				n					n			n			n		
National authorities only provide customer service in the local language			y				y					n			n			y		
Limited knowledge of a foreign language (less than 40% of the population speak a foreign language)			y				n					y			n			y		

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7.4. Market conditions																				
Heavy dependence on word of mouth to gather information on consumer issues (more than 60% overall consumers mentioning Local Consumer organisations, local advice centres and colleagues and relatives as the main sources of information)	y	y		y	y	n		n	y	y	y		y	y			y		n	y
High dependence on word of mouth to gather information on consumer issues (between 60% and 40% overall consumers mentioning Local Consumer organisations, local advice centres and colleagues and relatives as the main sources of information)	n	n		n	n	y		y	n	n	n		n	n			n		y	n
Standard dependence on word of mouth to gather information on consumer issues (between 40% and 20% overall consumers mentioning Local Consumer organisations, local advice centres and colleagues and relatives as the main sources of information)	n	n		n	n	n		n	n	n	n		n	n			n		n	n
Low dependence on word of mouth to gather information on consumer issues (less than overall consumers mentioning Local Consumer organisations, local advice centres and colleagues and relatives as the main sources of information)	n	n		n	n	n		n	n	n	n		n	n			n		n	n

Source: Copenhagen Economics IMRIS Database