



ICAEW REPRESENTATION

ICAEW submission to the House of Lords EU Internal Market Sub-Committee inquiry into the future of trade between the UK and the EU in non-financial services

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ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 145,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

EXECUTIVE SUMMARY

1. The UK's professional and business profession, of which accountancy is a key element, is a global success story. Accountancy plays a key role as an enabling force in the global economy. Through its advice, networks and capabilities, the sector can facilitate growth in other businesses, large and small, across the UK and beyond.
2. The UK profession is unique in Europe. This submission reflects this by considering three broad aspects which need to be carefully considered in the scope of the future UK-EU trade relationship.
 - The UK has a single profession covering auditors, accountants in professional practice and finance professionals in business whereas in much of Europe, there are separate auditing and accountancy professional bodies. This reflects the fact that the skills and qualifications of UK qualified accountants such as ICAEW members are highly valued as being important to running businesses.
 - The high mobility of UK nationals with ICAEW (and other UK) qualifications who assume senior roles in European member firms of the major accounting networks, associations and businesses.
 - The demand for ICAEW as a qualification provider to offer access to the ICAEW ACA qualification directly in other European countries (as well as further afield) where trainees are overwhelmingly non-UK nationals.
3. As the UK formally leaves the EU and begins to negotiate its future trade relationship with the EU, professional services have a crucial role to play. Our expertise and international relationships will be vital as the UK negotiates a settlement with the EU and strikes trade deals with countries around the world.
4. This process will present both challenges and opportunities for the profession and the wider UK economy. This submission seeks to capture these and layout priorities for Government when negotiating the UK's future trade relationship with the EU. ICAEW is an active participant of the Professional and Business Services Council and is grateful for their input to this submission.

Our top line recommendations are:

- **Place financial and professional related services, including the accountancy profession, at the heart of UK-EU trade:** Research done for the last Government's industrial strategy showed the PBS sector employed 3.8 million people, is worth £153 billion (11% of the UK economy) and generates a significant trading surplus. Despite the historic and competitive advantages the UK service sector enjoys we cannot afford to be complacent. While trade deals covering services may be more complex than deals which cover goods alone, putting the service sector at the heart of the UK's international trade strategy is key to our long-term competitiveness.
- **Protect the free movement of skilled labour:** Freedom of movement of skilled labour underpins a successful professional services based economy. Our close relationship with the EU sees highly-skilled professionals living, working, trading and selling their expertise freely across borders, to the benefit of UK business and society. To remain competitive, businesses and the work force must remain resolutely international in make-up and attitude. At a time when the UK economy is facing a prolonged period of uncertainty, business and staff must not be further undermined by threats to established relationships with European and international talent. The mobility of ICAEW members and the capacity of ICAEW to continue offering access to ICAEW qualification and training in other European markets is at stake.

- **Maintain regulatory coherence in order to protect and enhance market access:** Promoting smart regulation in areas such as capital markets and financial services, strong corporate governance and a competitive tax system, will all contribute to the long-term economic prosperity of the UK. The UK's reputation for proportionate regulatory structures, transparency and good governance is already internationally respected and should not be compromised as we leave the EU. Instead, Government should seek to align the regulatory framework for the professional and business services sector with the existing EU framework. As Government begins to look internationally with increased intensity it should also remain committed to and seek to influence global standards for the sector.

SECTORAL OVERVIEW

Please provide us with an overview of trade in your sector. Please include a summary of the significance of the sector to UK trade in services, including employment statistics (linked to trade if possible), the volume and balance of trade, value added and Foreign Direct Investment (FDI), and UK strengths and specialisations in the sector.

5. The UK accountancy profession is one of the UK's most successful business sectors. The largest global accountancy firms can trace their roots back to UK firms. Those firms provide services to the largest global companies and it is important for them to move partners and staff to different parts of the world, both to increase the experience of those staff and to ensure global consistency in the quality of services provided.
6. The success of the UK accountancy profession is depends upon a number of factors:
 - Skills and qualifications – Qualifications provided by UK accountancy bodies, such as ICAEW's ACA, are highly valued both in professional practice and by businesses, with over 50% of ICAEW's members working in businesses.
 - Thought leadership – The UK profession has a tradition of leading the development of new thinking, not just on financial reporting and auditing but on broader matters, such as corporate governance. Many ideas developed by the UK profession have been adopted as best practice globally.
 - Global standards – The accountancy profession benefits from having international financial reporting standards. These not only make annual reports globally comparable, they remove barriers to the provision of accountancy services. The UK also exerts more than its fair share of influence on the development of International Financial Reporting Standards. This is helped by the fact that the International Accounting Standards Board, which sets IFRS, is based in London, perhaps the only UK based global regulatory or standard setting body.
 - Numbers – The concentration of numbers of highly skilled UK accountants, not just in London but in other UK centres, including Birmingham, Bristol, Edinburgh and Manchester, allows those professionals to specialise, allowing their firms to better compete.
 - Clustering – The accountancy profession is interdependent on other businesses and other professions. Many studies have shown the benefits of clustering together non-financial businesses, financial businesses, support services and professions, such as accountancy and law.
 - Respected regulators – UK regulators are respected and influential. This goes beyond accountancy and includes matters such as banking and insurance regulation, notwithstanding the criticism UK regulators received for their performance before, during and after the financial crisis. Many regulatory developments, such as bank recovery and resolution plans, become adopted globally. The accountancy profession often provides consultancy and advisory services in implementing these developments. The fact that many are developed first in the UK gives UK professionals an advantage in providing services in other jurisdictions.

- Law and language – English law and the English language are generally used as the standard for international trade as they are widely understood and trusted.
7. As at 31 December 2015, the seven accountancy bodies (ICAEW, ACCA, ICAS, CIPFA, CIMA, ATT & CAI) had over 342,000 members in the UK and ROI and over 497,000 members worldwide. The compound annual growth rates for the 2011-15 period are 2.4% in the UK and ROI and 3.2% worldwide.
 8. ICAEW has approximately 5,500 of its members working in the EU outside of the UK, and some 1500 students, the overwhelming majority of whom are non-UK nationals. We currently offer ICAEW qualification and training in Cyprus, Greece, Malta, Central and Eastern Europe and are developing in the Baltic States. 22,000 ICAEW members work internationally in non-EEA countries, leaving approximately 118,500 living and working in the UK.
 9. The Office for National Statistics (ONS) does not compile trade statistics for the PBS sector; instead the sector's results are included within the category of International Trade In Services (ITIS), which excludes travel, transport and banking. The latest ONS statistics for ITIS relate to 2014 and the key points are:
 - Total UK ITIS exports were £12bn in 2014.
 - Total UK ITIS exports to Europe were £59 billion, making Europe the most significant market for ITIS (Americas £34bn; Asia £20bn; Africa £5bn; Australasia £2bn).
 - The professional, scientific and technical industrial grouping, much of which overlaps with the PBSC, was the largest in terms of UK service exports in 2014.
 - Total UK ITIS imports were £54bn in 2014, of which £29bn came from Europe (Americas £15bn; Asia £8bn; Africa £1bn; Australasia £1bn).
 - Accordingly, the UK is a net exporter of services. The UK trade balance for services stood at £65bn in 2014.
 10. In addition, the UK profession plays a key role in developing and maintaining technical expertise across the networks and associations of major international professional services firms.
 11. Furthermore, ICAEW is directly supporting the development of expertise on the part of professional bodies and some regulators in the sphere of quality assurance monitoring, particularly in Southern, Central and Eastern Europe. This is part of ICAEW's overall strategy to maintain qualification and training markets: ICAEW works in partnership with local bodies, thereby ensuring that ICAEW training requirements and local training can be aligned to some degree and thereby integrate international and national components.

EU AND MARKET ACCESS

How and to what extent does the EU facilitate enhanced market access for your business/in your sector? Is there a harmonised Single Market framework that allows you full access to other member states' markets? If not, how (and how well) does the Single Market function in your sector?

12. The Single Market refers to the EU as one territory without any internal borders or other regulatory obstacles to the free movement of goods and services. In principle, a functioning Single Market stimulates competition and trade, improves efficiency, raises quality, and helps cut prices. The profession benefits both directly and indirectly from thriving economic activity in the EU as a whole.
13. Two EU Directives – the Statutory Audit Directive (SAD) and the Directive on the Recognition of Professional Qualifications (RPQ) – currently provide a mechanism whereby UK-qualified auditors and chartered accountants can work without the impediment of full requalification in other EU member states (and EU auditors and accountants can do likewise in the UK). These

Directives are critical not only for the mobility of individual ICAEW members: they also form the basis of country-specific agreements for market entry by ICAEW to offer access to ICAEW qualifications and training.

14. It is the case that trade in services, including accountancy services, has been far less integrated than trade in goods. This means, for example, that even within the Single Market framework there exists restrictions for certain taxation, audit, and finance services barriers to operate across the EU27. However, it should also be recognised that in all markets in Europe (and further afield) tax, accounting, governance will inevitably include national components: the international network and association structures in the accountancy profession reflect this, as does ICAEW's strategy of working in partnership with local bodies.
15. Many of the competitive advantages the UK profession has extend back to the time before there was a single EU market for services. The free movement of skilled professionals across Europe has, however, benefitted UK firms. Increasing European and global harmonisation of regulations also allows services to be provided across borders. The skills of the UK profession also mean that for the most complex areas, even when they do not affect UK businesses, UK based accountants are often involved. For example, London-based accountants were involved in advising on the European Central Bank's Asset Quality Review which applied to Eurozone banks. It is vital to the UK accountancy profession to avoid creating barriers to the provision of these services across Europe.

Do other aspects of EU membership help or impede the ability of your business to operate (eg, access to justice, horizontal legal regimes, free movement of persons, mutual recognition of professional qualifications, regulation and standards)?

Mutual recognition of professional qualifications

16. Recognition of professional qualifications both for audit and accountancy obtained in another EU Member State is essential to establish an internal market for professional services. The regime governing the recognition of professional qualifications is long-standing and has recently been modernised. As noted, this legislation is a critical foundation for the capacity of ICAEW to reach country-specific agreements for market entry and cooperation with local bodies.
17. In addition, ICAEW is part of the Common Content Project which is a collaboration between premier accountancy bodies with an aim to further develop, maintain and unify high quality professional accountancy education benchmarks reflected in the distinct qualifications of participating bodies. This will hopefully remain unaffected by the UK's departure of the EU. A key goal of the project is the formation of a 'common training framework' under the RPQ Directive across ten EU member states

Regulatory coherence

18. The Audit Regulation and Directive has come into force and establishes a competent authority for the regulation of auditors in each EU28. In the UK the competent authority is the FRC.
19. The amended Directive encourages the development of a level playing field for audit firms at EU level in order to foster more dynamic and open audit markets. Considering that many audit firms are part of international networks and that audited entities are also often part of an international group, establishing a minimum level playing field with regard to sanctions is an important step to ensuring the necessary convergence between different regulatory frameworks.
20. Cooperation and coordination is to be carried out at European level by a new Committee of European Auditing Oversight Bodies (CEAOB). The members of the CEOB will include national audit supervisors and the European Securities and Markets Authority (ESMA). This has a positive effect on regulatory coherence.

Free movement of people

21. Access to skilled labour from the EU and non-EU is a key issue for the accountancy profession and access to both skilled and unskilled labour from the EU and beyond is vital for the UK's economy as a whole. At present, the free movement of people of EU nationals has had a positive impact on the sector and allowed to place the right people in the right positions in order to provide clients with a quality service.
22. ICAEW has approximately 5,500 of its members working in the EU outside of the UK and some 1500 students, the overwhelming majority of whom are non-UK nationals. 22,000 members work internationally in non-EEA countries, leaving approximately 118,500 living and working in the UK.
23. As a business, ICAEW itself has benefited from the free movement people, both in terms of employing EEA nationals in its UK offices and being able to hire EEA-wide staff in our Europe Region, in our Region Headquarters in Brussels as well as in Cyprus and Poland. office

Free data flows and localisation

24. The free flow of data across national boundaries is vitally important for services businesses, particularly larger firms of accountants who have clients located in the EU and beyond. The current legal and technical barriers constraining certain data to stay inside individual borders, particularly company data, tax data and book-keeping data, restrict trade and stilt growth.
25. The UK needs to join the debate to tackle unnecessary restrictions on where data is located to establish a consistent framework for data to flow safely and efficiently across borders.
26. In addition, with the new General Data Protection Regulation likely to become law before the UK leaves the EU, it is important that UK accountants are not disadvantaged by having to deal with individual national data regulators once it leaves, but the concept of equivalency will allow UK firms to continue to deal with EU27 as one block.
27. Similarly the UK will need to establish a position with regard to the current EU US Privacy Shield arrangement so as to not disadvantage UK services businesses.

EXITING THE EUROPEAN UNION

What specific issues does the UK exiting the EU raise for your business/sector? Please be as specific as possible.

28. There is a risk that UK auditors and chartered accountants will no longer be able to practise in other member states, or at least not as easily as at present. Mirroring this, EU auditors and accountants qualified in other member states may no longer find it possible to work in the UK or may encounter new hurdles.
29. Those considering studying for UK accountancy qualifications (and indeed UK qualifications more generally) may hesitate to proceed if it is uncertain whether holding the qualification will in future deliver the same recognition within the EU. Furthermore, the validity of existing in-country agreements enabling ICAEW to offer access to its qualification and training in European markets may be undermined.
30. The role and influence of the FRC within the CEAOB is likely to be diminished. This may result in a situation where the UK is a 'rule taker' as opposed to a 'rule maker' in the scope of possible future reforms of the audit market.

FUTURE UK-EU TRADE RELATIONSHIPS

What would the impact be for your business/sector of leaving the EU and operating on WTO (GATS) terms? To what extent would businesses be able to continue to trade in services as at present? How would your business adapt to this specific scenario? Are WTO terms an attractive option?

31. Each WTO member has a “schedule” of commitments for each of the agreements — including agriculture, industrial goods and services — setting out the terms on which it trades. Member states of the EU are bound by EU-wide schedules, negotiated by the bloc on their behalf. The UK could simply copy the EU commitments and slide seamlessly into membership exclusively in its own right, as long as no other WTO member objects.
32. The WTO’s General Agreement on Trade in Services sets out a framework for market access between WTO members. However, this offers limited liberalization and the accountancy profession would not benefit from trading under this framework as it currently stands.
33. The Trade in Services Agreement (TiSA) is a trade agreement currently being negotiated by 23 members of the WTO, including the EU. Together, the participating countries account for 70% of world trade in services. TiSA aims at opening up markets and improving rules in areas such as licensing, financial services, telecoms, e-commerce, maritime transport, and professionals moving abroad temporarily to provide services. Such an agreement would be beneficial for the accountancy profession and would be a more attractive option than operating under GATS.

Would leaving the EU but remaining a member of the European Economic Area (EEA) retain present levels of market access for your business or not? Is this an attractive option?

34. Remaining a member of the EEA would retain the free movement of people which is a key concern for the profession. EEA membership would also involve the UK continuing to abide by the EU Directives, such as SAD and RPQ, which in turn would promote recognition rights both ways.
35. While we noted that market access in services was not as integrated as single market in goods, there would be advantages to remaining a member of the EEA for trade in services.
36. As noted in the introduction, the strength of the accountancy profession in the UK is directly related to the overall performance of the wider UK economy. Simply put, chartered accountants benefit when the UK is growing and in return chartered accountants help the further growth.
37. Uncertainty is the biggest threat to any type of business. Avoiding a legal vacuum following the UK’s formal departure of the – whether through membership of the EEA or via other means – is therefore of critical importance to the profession.

Is a negotiated UK-EU Free Trade Agreement (FTA) an attractive option? How confident are you that the needs of your business/sector, including but not limited to market access, would be accommodated in such an agreement?

38. An FTA may be an attractive option if it provides for an effective commercial framework and avoids a ‘cliff-edge’ scenario following the UK’s formal departure of the EU. However this would depend on timing and the ability to strike an extensive FTA within the two year period following Article 50 having been triggered.
39. FTAs covering services are notoriously more complicated to secure than FTAs covering goods. Considering the UK’s competitive advantage in the services section, a UK-EU FTA would need to take consideration of the priorities of that sector, including from the accountancy profession.

What should the Government’s key objectives be for your sector in its negotiations with the EU?

40. As set out above there are a number of objectives for the accountancy profession:

- An immigration system that allows our firms to access the best and brightest talent.
- A coherent regulatory framework which minimises uncertainty and works to enhance, the UK's capital markets, financial and professional services and facilitates access across the EU and globally for trade in both goods and services.
- The UK has often taken a lead in European and international regulatory oversight bodies and organisations. As we leave the EU, a renewed emphasis should be placed on the UK's ability to shape professional and business services related regulations at an international level as well as establishing new channels with EU oversight bodies.
- Maintain and enhance mutual recognition of professional qualifications and thereby secure continuing mobility of ICAEW members and capacity of ICAEW to develop markets for its qualification and training across Europe.
- A framework – whether through EEA membership or an FTA – that minimises economic uncertainty.
- We also note that historically there has been a tendency for trade negotiations to focus on trade-in-goods. We urge the Government to take note of the importance of the accountancy profession to the UK economy, not least its trade surplus and role in the UK's exports drive, and ensure that trade-in-services has appropriate prominence in its negotiations.

OPPORTUNITIES

Does leaving the EU raise significant benefits or growth opportunities for your business/sector? What are these and how can they best be exploited? To what extent do they offset/outweigh concerns about reduced access to EU markets?

41. As noted above, opportunities are created for the accountancy profession and the wider professional and business services sector, when the UK economy performs well. As the UK reshapes its role within international trade, government and business policy should be focussed on building a more agile economy that is well placed to respond to the challenges and opportunities that lie ahead.
42. The body of ICAEW students is increasingly international in make-up. As the UK Government begins to look internationally with increased intensity it should also promote new models of education and champion UK qualifications globally.
43. Working in partnership with the private sector, Government must create a more positive growth environment, to spur business investment, enable businesses to get online, and incentivise them to export.
44. To respond to the needs of companies – and especially to the needs of SMEs which are the lifeblood of the UK economy – we recommend the Government focuses on:
- Finance for growth: Business finance for investment, innovation and acquisition is essential to maintaining growth. As advisers and finance directors in 2 million UK businesses we are providing the most up to date finance advice, supported by the ICAEW Business Finance Guide. Government must use all policy options available to stimulate investment, from the availability of credit to growth vouchers for advisory services. Private sector engagement with LEPs and Growth Hubs will be particularly important to ensuring growth throughout the UK and these should not become bogged down in bureaucracy.
 - Connecting to the digital economy: Government needs to give a long-term digital commitment to business. To maintain the UK's position as a world leader when it comes to e-commerce, the Government should signal it is serious about the UK's place in the global online economy. We should be asking to keep our seat at the table for the creation of a digital single market. Implementing an ambitious universal service obligation for

broadband and extending the successful Broadband Connection Voucher scheme will also keep Britain's businesses at the front of the pack in the 'digital race'.

- Encourage new businesses to start exporting: ICAEW research suggests that there are a significant number of businesses which have previously exported who plan to start exporting again. Now is the time to support and encourage Britain's exporters. Early stage exporting advice must go hand in hand with early stage finance advice, preparing the way for a nation of exporters. With new possibilities following negotiations with the EU and with other international partners, getting businesses to export must become an essential mission of the Government. To overcome uncertainty, an export voucher should be offered to cover the upfront costs and help British businesses be a success abroad.