

**NOCLAR Roundtables—Summary of Significant Feedback****I. Background**

1. The three global roundtables on the project on responding to non-compliance with laws and regulations (NOCLAR) were held in Hong Kong (May 20), Brussels (June 13) and Washington DC (July 10). In total, over 160 senior-level delegates participated in the events, which were by invitation only. They represented a wide range of stakeholder groups, including regulators and public authorities, preparers, those charged with governance, investors, national standard setters, regional and international organizations, and the profession (both in practice and in business), among others. Observers included PIOB members and staff, the IESBA CAG Chair, and IAASB members. The Appendix provides an analysis of the participation at the three roundtables together with a list of organizations that were represented.
2. Each of the roundtables consisted of two breakout sessions, with participants assigned to three separate groups for each session. The breakout groups were the same for both sessions. In the first session, participants were invited to share their reactions to two brief case studies, one financial and the other non-financial in nature, assuming they held different roles of professional accountant (PA). In the second session, with the discussions in the first session providing a frame of reference and context, participants were asked for feedback on the Board's indicative direction forward as set out in the proposals it tentatively agreed in December 2013, and in particular the following key questions:
  - Are the scope and type of reportable NOCLAR right?
  - Are proposed materiality thresholds for actions right?
  - Should there be any differentiation of responsibilities among auditors, other PAs in public practice, and PAs in business (PAIBs)?
  - Should the Code establish a requirement to report NOCLAR to an appropriate authority?
3. The input received was rich and diverse. And while there were many shared views on the key questions above, there were also some differences. Importantly, the discussions generated a number of fresh insights into the issues. At the same time, they made it even clearer how intertwined, complex and multi-dimensional the issues are. They also emphasized that the ultimate solution will need to balance the benefit to the public interest against considerations of practicality, costs, reasonableness and proportionality.
4. A briefing note was provided to the participants in advance of the roundtables providing background to the project and explaining the Board's deliberations in arriving at the tentative proposals. This is attached for reference as Agenda Item E-2.
5. The following sections highlight, firstly, a number of overarching themes heard across the three roundtables. They then summarize the significant input received on the four pivotal issues noted above and the input received on a number of secondary issues. Finally, they highlight a number of broader considerations that were raised by the participants.

## **II. Overarching Themes**

6. Across the three roundtables, a number of common themes came through strongly:
- Doing nothing when facing a suspected NOCLAR is not an option. This was clear from the reactions to the two case studies.
  - The PA should be alert to possible NOCLAR but is not responsible for seeking it out.
  - It is important that the PA speaks with management first to flag the issue, gain a common understanding of it and why it occurred, and what its potential ramifications might be.
  - The responsibility to deal with suspected NOCLAR must start with management first.
  - In the majority of cases, management would want to do the right thing. Equally, for many entities, the existing internal systems and processes should cause the issue to be dealt with appropriately.
  - By raising the issue with management and if necessary those charged with governance (TCWG), the PA would already be taking a big step forward.
  - Applying laws and regulations must be the starting point. The Code should not override them and they may fully address the issue before the Code is required.
  - PAs are not the police. Responsibility for ensuring compliance with applicable laws and regulations rests with the entity and its management and TCWG.
  - Applying appropriate judgment throughout the process is essential and particularly so when weighing the potential costs and benefits of reporting externally.

## **III. Pivotal Issues**

### **A. SCOPE OF THE PROPOSALS**

7. A couple of the breakout groups in the Hong Kong and Brussels roundtables were generally supportive of the broad scope of the proposals in principle. It was noted in particular that this approach is appropriate if the overriding objective is not to turn a blind eye to the matter and to serve public interest.<sup>1</sup>
8. However, there were some clear concerns in the other breakout groups in Hong Kong and Brussels about going broad. In particular, it was noted that any law could be relevant and that the broad scope could be a barrier to making the proposals workable.<sup>2</sup> There were particular concerns about trying to take on too much and the need to ensure that the proposals would be practicable for all PAs.<sup>3</sup>
9. The concerns came through strongly across all the three breakout groups in Washington DC. Among the comments that were made:
- Perhaps too much is being captured. Consideration is being given to all possible aspects and expectations of PAs when faced with NOCLAR.

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<sup>1</sup> IFAC member bodies (to the extent possible, specific comments are attributed to participants' stakeholder groups)

<sup>2</sup> Regulators/public authorities; firms

<sup>3</sup> Regulators/public authorities; firms; IFAC member bodies

- It becomes confusing when applying the broad scope of NOCLAR to all categories of PAs.
  - Companies do not expect PAs to solve all problems, just the accountancy-related ones.
  - It is a concern that greater responsibility is being placed on PAs than anyone else, especially on issues outside the accounting world.
  - It is unlikely that the public would expect the auditor to whistle-blow on all NOCLARs. Accordingly, some issues should only be raised to management.<sup>4</sup>
10. Many participants across all three roundtables emphasized that consideration of the PA's expertise would be especially important. Concerns were raised about whether it is reasonable to expect the PA to step outside his or her area of expertise to make a legal judgment.<sup>5</sup> Questions also were raised as to how far the PA should go if the matter is not related to the engagement or the PA's expertise,<sup>6</sup> with participants across different stakeholder groups agreeing that the challenges would become greater the further the suspected NOCLAR is outside the PA's expertise.<sup>7</sup>
11. It was felt that a broad scope could work with higher threshold.<sup>8</sup> In this regard, in all three roundtables, there were suggestions for the Board to consider a hard core of issues and those that might attract criminal sanctions.
12. There were also other suggestions, including:
- Bifurcating the scope into:
    - NOCLAR within the PA's field of expertise and that may materially impact the financial statements; and
    - Other NOCLAR.
  - Starting first with NOCLAR that does impact the financial statements materially and then considering how to expand to the broader category of other NOCLAR.
  - Differentiating between public interest entities (PIEs) and entities that are not PIEs on the grounds that the risks and sanctions and the level of public interest are very different. However, it was noted that even privately held entities may have public interest issues and therefore the same provisions should apply to all entities.
13. There were some requests for examples to help with consistent applications, although there were also some views that examples could be seen as limiting and might be best outside the Code. Some were of the view that insider trading should be reportable to an appropriate authority. However, there was also a caution that even regulators have great difficulty establishing insider trading and prosecuting it.

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<sup>4</sup> Preparers; TCWG; investors; firms; academia

<sup>5</sup> IFAC member bodies; firms; other organizations

<sup>6</sup> Firms; IFAC member bodies

<sup>7</sup> Preparers; TCWG; investors; firms; academia

<sup>8</sup> Firms

B. MATERIALITY THRESHOLDS

14. The majority of participants across all three roundtables felt that the initial threshold of “clearly inconsequential” for action in the proposals was too low. Several shared the view that the difficulty is compounded by the broad scope of the proposals, particularly when the NOCLAR is not within the PA’s expertise. There were concerns about the potential costs of investigating all matters above that initial threshold and who would pay for doing so, particularly in a smaller entity context.
15. Many participants in all three roundtables also felt that more guidance (including illustrations) would be needed on what “inconsequential” and “significant consequences” mean, highlighting the potential for inconsistent application. It was questioned in particular whether a NOCLAR can be inconsequential on the grounds that any non-compliance must be consequential.
16. There were also calls for more guidance to assist in evaluating the gravity of the matter<sup>9</sup> and in making clear what the frames of reference are for the different thresholds, whether in relation to specific groups of individuals or to the nature of the potential impacts. There were some concerns about PAs not having the skills to evaluate the gravity of the matter, although some observed that the thresholds would be easier for auditors to apply than for others. In this regard, it was suggested that the evaluation of the gravity of the matter could be made easier if it were linked to the financial statements, although it was acknowledged that not all PAs may have knowledge of the financial statements.
17. Some suggestions were made, including:
  - Considering a reasonable third party test.
  - Considering the definition of a PIE when evaluating significance and making judgments based on that definition.
  - Making the threshold consistent with the objective of the standard.
  - Introducing a filter along the public interest line.

C. NATURE AND EXTENT OF RESPONSIBILITIES FOR DIFFERENT CATEGORIES OF PAs

18. One of the key outcomes from the case studies in the first breakout session in all three roundtables was the crystallization of a broad consensus among participants that expectations with respect to the nature and extent of actions when PAs face suspected NOCLAR will vary depending on the roles of the PAs and their levels of seniority within their organizations. Specifically, across the three roundtables, there was agreement that:
  - The expectations for auditors are higher than for non-auditors given auditors’ public interest responsibilities, their freedom of access to information within the entity by law, their capacity to investigate, and the public’s greater expectations of them. However, it was noted that while the expectations of auditors should be higher, this should not imply lower ethical standards for other PAs; and
  - The expectations for senior PAs, especially those in business such as CFOs, are higher than for junior PAs, given the higher responsibilities attached to the more senior roles, the greater

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<sup>9</sup> Firms; academia

risks these roles carry (e.g., the risk of reputational damage to both the entity and the individual), and the greater moral standards expected of the positions.

19. Within some of the breakout groups in each location, there was general consensus that the same ethical principles should apply to all PAs but that their different spheres of influence and the different contexts in which they operate should be recognized. In particular, it was noted that while the ethical principles should be the same, their implementation can be different. For example, the ethical principle to report should be the same but who the PA should report to can be different depending on the circumstances – different levels of knowledge, the PA's place in the entity's hierarchy, access to reporting lines, access to resources, etc.<sup>10</sup> In this regard, it was acknowledged that it is difficult to create a level playing field without all PAs having access to the same information and resources.<sup>11</sup>
20. A concern was expressed that seeking to tackle many dimensions in the same way is impractical.<sup>12</sup> It was suggested that the Board consider delineating the different dimensions and dealing with those separately, for example, what the minimum effort should be for auditors vs non-auditors, and CFOs vs junior PAs.
21. However, a minority was concerned about differentiation and the risk of the focus being entirely on auditors. It was felt that the public interest could be better served if the expectations were the same for all PAs.<sup>13</sup> A view was also expressed that the PA badge implies beliefs about ethics and that carving out areas where PAs would not be expected to act in public interest could create challenges.<sup>14</sup>
22. It was acknowledged that the situation for PAs in public practice differs from that for PAIBs in that if an auditor, for example, whistle-blows, he or she might lose a client. However, a PAIB would risk losing his or her livelihood entirely. It was felt that this should be an important consideration.<sup>15</sup>
23. Across the three roundtables, there was no real support for the junior PAIB to report externally, be it to the external auditor or an appropriate authority. The majority, including some regulatory participants, felt that for the junior PAIB the expected duty would be to either escalate the matter to the next level up (i.e., a supervisor) or report it through an established internal whistle-blowing channel. Accordingly, it was suggested that it would be sufficient to provide some guidance for an "internal escalation process." A few<sup>16</sup> felt that there should be consideration of the option of external reporting, including to the external auditor, although it was recognized that there would be no whistle-blowing protection if reporting to the external auditor. It was also observed that lower level PAIBs tend to leave rather than whistle-blow, and that it is easier for them to find comparable employment if they leave compared with more senior PAIBs.<sup>17</sup>

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<sup>10</sup> Regulators/public authorities; other organizations

<sup>11</sup> IFAC member bodies; firms; observers; other organizations

<sup>12</sup> Regulators/public authorities

<sup>13</sup> IFAC member bodies

<sup>14</sup> Firms

<sup>15</sup> Regulators/public authorities

<sup>16</sup> Preparers; investors; TCWG

<sup>17</sup> Preparers; Academia

24. There were some varying views in a number of the breakout groups across the three roundtables regarding the extent of effort for senior PAIBs such as CFOs and for PAs providing non-audit services (NAS), particularly in the context of the case studies. For example:
- There were split views as to whether CFOs and PAs providing NAS should go only as far as internal escalation to management/TCWG, or whether they should report to an appropriate authority or the external auditor.
  - There was a view that CFOs have greater responsibilities than PAs in public practice, for example, to consult with legal counsel.<sup>18</sup>
  - There were some expectations that CFOs should report to an appropriate authority.<sup>19</sup> In this regard, a view was expressed that while escalating the issue to a supervisor would be sufficient for a junior PAIB, it would not be for a CFO.<sup>20</sup> However, it was noted that a CFO who is not a PA might not be obliged to report as he or she would not be bound by the Code.<sup>21</sup>
  - For PAs providing NAS, fewer of the participants in some groups were in favor of reporting to TCWG. In other groups, the majority believed that it should be sufficient to investigate the matter and raise it to TCWG (if the PA knows who they are).
25. A number of other points were made for further consideration, including:
- In general, the escalation process should stop at TCWG, although the possibility of reaching out to the external auditor should not be precluded.
  - For a PA providing NAS, it is easier to have a discussion with the external auditor on the matter if both parties are from the same firm. It would be harder for this discussion to take place and to establish what is expected of the NAS PA if not.<sup>22</sup>
  - The proposals have the potential to create a non-level playing field in the following respects:
    - Professional accountants (i.e. members of IFAC member bodies) vs. other accountants.
    - CFOs who are PAs vs. CFOs who are not.
  - There is a need to clarify the meaning of the term “greater duty.”<sup>23</sup>

D. REQUIREMENT OR PERMISSION TO REPORT NOCLAR TO AN APPROPRIATE AUTHORITY

26. Overall, across the three roundtables the majority of participants felt that the proposed approach to reporting to an appropriate authority, i.e., a permission rather than a requirement in the Code, struck about the right balance, considering the other elements of the proposals. Many felt that a requirement would not be workable without the appropriate legal framework in place. Indeed, there was a general consensus that the starting point must be the legal framework – what the confidentiality requirements

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<sup>18</sup> Regulators/public authorities

<sup>19</sup> Investors

<sup>20</sup> Regulators/public authorities

<sup>21</sup> Academia

<sup>22</sup> Firms

<sup>23</sup> Firms

are, what the available protections are, etc, and that it would be unrealistic to establish a requirement on the premise that the ideal conditions supporting disclosure exist everywhere around the world.<sup>24</sup>

27. Many felt that there would be a significant challenge to enforcing a requirement on various grounds, including:
- The existence of robust and credible legal protection.
  - The PA's competence to follow through on a matter of law or regulation.
  - The complexity of the issue and the extent of available information.
  - Varying interpretations of what the public interest means within and across jurisdictions.
  - The challenge of identifying who the appropriate authority would be, the accessibility of that authority and its effectiveness in following up on the report.
28. There was a general sense in some of the roundtables that it might be better to have a permission as a base and allowing the PA to work up to disclosure if necessary, and that it would be more appropriate to leave it to local legislators to set a reporting requirement. Further, in a couple of the roundtables, there were views that even a permission in the Code could act as a deterrent to those committing NOCLAR and those turning a blind eye, or encourage management to do the right thing.<sup>25</sup>
29. In some of the roundtables, there were a few concerns over the enforceability of a permission,<sup>26</sup> and the fact that in the final analysis nothing may get reported externally.<sup>27</sup> It was suggested that a permission could be strengthened if documentation of the PA's thought process and actions became a requirement, to compel the PA to carefully consider decisions being taken at the time.<sup>28</sup> There was also a view that a permission might even increase reporting by PAs as a safer option to report now rather than face questions if the issue is raised later.
30. In all the roundtables, there was a general sense that external reporting is a nuclear option and should be seen as a rare situation, and that this needs to come through in the wording of the proposals. Some were concerned in particular that the current proposals seemed to suggest that disclosure could happen regularly when in fact this is unlikely.<sup>29</sup> It was felt that the key should be a high and well-defined threshold.
31. However, in the Brussels and Washington DC roundtables, there was a strong minority view<sup>30</sup> supporting consideration of a reporting requirement, subject to the appropriate conditions. There were views that trying to detail all situations when there would be a need to report would not be workable.<sup>31</sup> Instead, it was suggested that the Board could consider a requirement for very specific cases when there is near certainty that a NOCLAR has occurred and it is clear that management and

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<sup>24</sup> Regulators/public authorities

<sup>25</sup> Brussels and Washington DC

<sup>26</sup> Regulators/public authorities; standard setters; firms

<sup>27</sup> IFAC member bodies

<sup>28</sup> Standard setters; firms

<sup>29</sup> IFAC member bodies; firms

<sup>30</sup> Regulators/public authorities; standard setters

<sup>31</sup> Regulators/public authorities

TCWG have not taken the appropriate action, along with other appropriate conditions.<sup>32</sup> There was a regulatory view that any consideration of a requirement should be linked to expectations of different categories of PAs, and that the focus would be more on auditors as they have an operating framework in the statutory audit compared with PAs who are not auditors. The concern was to demonstrate that auditors have done more than nothing, within the appropriate boundaries. In this regard, there was little support in all three roundtables for a reporting requirement for non-auditors, although there were some views that senior PAIBs such as CFOs should have a greater expectation to report given their roles and positions.

32. A few of the regulatory participants highlighted their concerns about protecting investors. However, they also acknowledged the practical difficulties in reporting, including:
- The need to address basic questions such as what protection means.
  - The risk of breaching laws against tipping-off.
  - The need to consider personal safety.
33. In this regard, it was suggested that consideration could be given to providing guidance on what might be the hallmarks of a robust whistle-blowing legal framework, including:<sup>33</sup>
- Entitlement to protect the whistle-blower's identity.
  - A trusted legal system or regulator.
  - Protection for the accused and proper legal due process.
  - A premise of reporting in good faith and honestly.
34. Across the three roundtables, several of the participants felt that reporting would be subject of legal advice. Indeed, there was a strong view that legal advice is the middle ground that determines whether to report externally, particularly as there could be legal defenses around the matter.<sup>34</sup>
35. A few at the Brussels and Washington DC roundtables highlighted that Order 10A under U.S. securities regulations operates as a powerful deterrent, encouraging management to self-report under the predefined circumstances. They wondered whether this could be used as an argument for a requirement in the Code.<sup>35</sup>
36. In one of the breakout groups in Washington DC, there were divided views as to how the objective could be achieved:
- A requirement and a way out if certain conditions are *not* met, e.g., no legal protection or no appropriate authority to receive the disclosure.
  - A consideration of disclosure if certain conditions are met, e.g., legal environment that is conducive to disclosure.

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<sup>32</sup> Regulators/public authorities

<sup>33</sup> Standard setters

<sup>34</sup> Investors; IFAC member bodies; firms; other organizations

<sup>35</sup> Regulators/public authorities; firms



37. A few noted that reporting to an appropriate authority would not guarantee that the situation would be resolved. Accordingly, they wondered whether the PA should have a duty to follow up on the issue once it has been reported.<sup>36</sup>
38. Finally, a few noted that some jurisdictions have local frameworks that may help, for example, enhanced auditor reporting in certain jurisdictions where the auditor is required to provide additional information on key judgments made. There was also consideration of resignation as an important part of the auditor's toolkit, both as a signal to stakeholders and as a means to persuade management and TCWG to do the right thing. In this regard, it was suggested that a "noisy" withdrawal (such as through the issuance of a press release) could strengthen the resignation procedure. However, it was acknowledged that resignation is a last-resort option.<sup>37</sup>

#### **IV. Other Issues**

##### **E. REPORTING TO EXTERNAL AUDITOR**

39. Views were mixed on the issue of reporting to the external auditor. Within some of the breakout groups in Hong Kong and Brussels, there were views that for a PA providing NAS to a client, reporting the matter to the external auditor should be the furthest the PA should go. Others felt that whether it is reasonable to report the matter to the auditor depends on whether it is relevant to the auditor's work.<sup>38</sup> There were, however, concerns in some of the roundtables about the external auditor becoming a conduit and gatekeeper for all possible NOCLAR. It was also noted that reporting to the external auditor could be a breach of confidentiality and therefore, prior client consent would be needed.
40. Others felt that for PAs providing NAS, there should be communication within the firm on any suspected NOCLAR if the firm also is the client's external auditor but that there should be no expectation of communication to another firm if that firm is the entity's external auditor. In this situation, it was felt that the escalation should be limited to management and TCWG.

##### **F. EVALUATING MANAGEMENT'S RESPONSE**

41. Participants in some of the roundtables highlighted the challenge for a PA to evaluate the adequacy of the response of management or TCWG to the suspected NOCLAR.<sup>39</sup> Some wondered whether the PA would be able to judge how management has dealt with the information, noting a concern about placing excessive onus on the PA in this regard. It was felt that in most situations, the PA should accept management's response to the issue as management has or is able to call upon the relevant expertise.
42. It was also noted that a difficulty would arise when the facts continue to be challenged by management as this would call into question whether the PA should be compelled to do more or drop the matter. It was suggested that if the PA is not challenged by management on the facts and

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<sup>36</sup> Regulators/public authorities; firms

<sup>37</sup> Regulators/public authorities; firms; academia

<sup>38</sup> IFAC member bodies; firms; other organizations

<sup>39</sup> IFAC member bodies; firms; other organizations

management is not responding appropriately, there should be a greater expectation for the PA to report and that this should come through more clearly in the proposals.<sup>40</sup>

43. There was some consensus in some of the breakout groups that PAs other than auditors should not be expected to follow through after having reported the matter to TCWG or as per the internal systems and processes. It was argued in particular that the PA may not have all the information that TCWG may have to enable the PA to ascertain whether the entity's decision to self-report or not is appropriate.
44. It was also noted that the decision to self-report is a serious one. Numerous factors come into the considerations, and the entity will likely incur time and expense in internal reviews and legal consultation if the issue is serious before deciding whether there is a need to self-report. Accordingly, it was felt that it would be unreasonable to compel the PA to second-guess the entity's decision if it has decided not to self-report, as doing so would likely lead to termination of the client or employment relationship.

G. DEGREE OF SUBSTANTIATION

45. Paragraph 225.21 in the proposals requires the PA to take into account the degree to which the relevant information is known and substantiated in considering whether to disclose the suspected NOCLAR to an appropriate authority. A concern was expressed that this provision comes too late in the process and that the need for substantiation should be addressed earlier.<sup>41</sup> There was indeed general consensus across all three roundtables that the nature and extent of the PA's actions will depend on the level of certainty concerning the matter. Some of the participants highlighted the legal risks of reporting the matter externally when the facts are insufficiently substantiated. It was also argued that disclosure could be against the public interest without adequate substantiation.
46. Many participants in all three roundtables highlighted the PA's seniority in the entity as an important consideration as this influences the PA's access to information.

H. FORENSIC ACCOUNTANTS/MULTI-DISCIPLINARY FIRMS

47. Several participants in the Brussels and Washington DC roundtables flagged the issue of scoping in PAs who provide forensic services, and the question as to what would then be expected of them.<sup>42</sup> It was noted that forensic accountants are hired to investigate wrong doing and the proposals would present a clear obstacle to their being hired for that purpose. It was argued that for these PAs, there should be a stronger case for maintaining confidentiality and they should be scoped out of the proposals.
48. However, it was acknowledged that there will be questions as to which specific engagements should be excluded and that it will be impractical to have a list of exceptions. It was suggested that consideration could be given to having an exclusion for engagements performed under confidentiality agreement.<sup>43</sup>

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<sup>40</sup> Firms

<sup>41</sup> Firms

<sup>42</sup> Firms

<sup>43</sup> Regulators/public authorities

49. A further concern raised in the Hong Kong and Brussels roundtables was that the proposals do not address the situations of multi-disciplinary firms or PAs belonging to a further profession such as the law profession. It was noted that in those cases, the proposals would place PAs in a difficult situation of having to confront potentially conflicting ethical requirements when facing a suspected NOCLAR.

I. DOCUMENTATION

50. There was general acknowledgement in the Washington DC roundtable that documenting the PA's thought process in responding to a suspected NOCLAR could be beneficial but that risks of self-incrimination exist. A few participants highlighted the need to carefully consider the wording in the Code to avoid the PA breaching ethical requirements by simply not documenting something.<sup>44</sup>
51. Overall, there was agreement that for auditors, documentation is a necessity but for PAs other than auditors, it is not general practice to document.

J. OTHER MATTERS OR SUGGESTIONS RAISED

52. Participants raised a number of other matters or suggestions for the Board's further consideration, including:
- Making clear in the proposals that what the PA is dealing with is *suspected* NOCLAR.
  - Considering placing greater emphasis on management doing the right thing when confronted with a suspected NOCLAR, including when the PA is part of management.
  - Allowing management or TCWG the opportunity to resolve the issue and hence the importance of taking into account the time they may need to do so before determining next steps.<sup>45</sup>
  - Making it clearer that the Code does not override confidentiality provisions in the law.
  - Considering potential fines and other sanctions on the entity when evaluating the gravity of the matter.<sup>46</sup>
  - Narrowing considerations of public interest to investor interest, which auditors would be better placed to evaluate.<sup>47</sup>
  - If the PA has decided to report to an appropriate authority, requiring the PA to do so as soon as practically possible.
  - Considering the need for a "pressure release valve" if the PA in public practice has completed the engagement and the suspected NOCLAR has not been dealt with appropriately.<sup>48</sup>
  - Considering provisions established by the CFA Institute with respect to illegal acts.<sup>49</sup>
  - Considering forward-looking misconduct for which reporting to an appropriate authority would be justified to prevent material damage to the public interest (similar to requirements for lawyers

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<sup>44</sup> Standard setters; firms

<sup>45</sup> TCWG; Firms; IFAC member bodies

<sup>46</sup> Academia; other organizations

<sup>47</sup> Observers

<sup>48</sup> Regulators/public authorities

<sup>49</sup> Firms

under U.S. securities regulation). If backward-looking, then the PA should not override the actions of the management or TCWG.<sup>50</sup>

## **V. Broader Considerations**

53. Participants across the three roundtables also raised a number of broader considerations, including the following:

- Encouraging other players in the corporate and regulatory system such as management, TCWG and regulators to step up to their own responsibilities and collaborate with the accountancy profession in achieving the shared objectives.<sup>51</sup>
- Emphasizing the tone at the top and risk management within entities.<sup>52</sup>
- Equipping PAIBs with the right tools and vehicles (e.g., risk management systems, reporting lines) and making sure that they know how to use them when facing suspected NOCLAR.<sup>53</sup>
- Doing nothing to jeopardize the profession as its well-being is also in the public interest.<sup>54</sup>
- Avoiding making the standard overly prescriptive given the importance of professional judgment throughout the process.<sup>55</sup>
- Taking sufficient account of the entity's context. In particular, many PIEs will already have appropriate whistle-blowing policies and procedures in place to deal with the issues appropriately. In addition, in most owner-managed entities, the owner will be most concerned about any suspected NOCLAR, and this is inherently a stronger control than in PIEs.<sup>56</sup>
- The need for caution in not widening the gap between investor expectations about what auditors do and what they can actually deliver in practice.<sup>57</sup>
- Enhancing the IESBA's collaboration with regulators in this area, similar to the way the OECD has done so in its work on anti-bribery – raising the bar must be done in conjunction with regulators and national legislators.

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<sup>50</sup> Regulators/public authorities; other organizations

<sup>51</sup> Regulators/public authorities; preparers; IFAC member bodies

<sup>52</sup> Preparers

<sup>53</sup> Preparers

<sup>54</sup> Preparers

<sup>55</sup> Firms

<sup>56</sup> Preparers

<sup>57</sup> Investors

## APPENDIX

### NOCLAR – Analysis of Roundtable Participation

#### 1. Categories of Stakeholders

Stakeholder Group	Hong Kong	Brussels	Washington DC	Total	%
Regulators/Public Authorities	9	10	7	26	15.8
Preparers/PAIBs	6	2	6	14	8.5
Standard Setters	8	–	4	12	7.3
Those Charged with Governance	1	3	1	5	3.1
Investors	–	1	3	4	2.4
Firms	10	12	15	37	22.6
IFAC Member Bodies	10	17	5	32	19.5
Academia	1	–	5	6	3.7
Other Organizations	1	9	8	18	11.0
Observers	2	5	3	10	6.1
<b>Total number of participants</b>	<b>48</b>	<b>59</b>	<b>57</b>	<b>164</b>	<b>100.0</b>

## 2. Jurisdictions Represented (Excluding Observers)

Note: G-20 countries in bold.

#	Hong Kong	Brussels	Washington DC
1.	<b>Australia</b>	Belgium	<b>Brazil</b>
2.	<b>China (mainland)</b>	Denmark	<b>Canada</b>
3.	Hong Kong SAR	<b>France</b>	<b>Mexico</b>
4.	<b>Indonesia</b>	<b>Germany</b>	Pakistan
5.	<b>Japan</b>	<b>Italy</b>	<b>USA</b>
6.	Malaysia	Netherlands	
7.	New Zealand	Norway	
8.	Philippines	<b>Russian Federation</b>	
9.	Singapore	Senegal	
10.	Taiwan	Spain	
11.		Sweden	
12.		<b>UK</b>	

### 3. Organizations Represented

Hong Kong Roundtable
<p><b>Regulators/Public Authorities</b></p> <ul style="list-style-type: none"> <li>• Accountant and Appraiser Supervisory Centre, Indonesia</li> <li>• Accounting and Corporate Regulatory Authority, Singapore</li> <li>• China Securities Regulatory Commission</li> <li>• Financial Reporting Council, Hong Kong</li> <li>• Hong Kong Exchanges and Clearing Limited</li> <li>• Hong Kong Police Force, Crime Wing Headquarters, Narcotics Bureau</li> <li>• Joint Financial Intelligence Unit, Hong Kong</li> <li>• Securities and Futures Commission, Hong Kong</li> </ul>
<p><b>Preparers/PAIBs</b></p> <ul style="list-style-type: none"> <li>• Asian Financial Executives Institutes</li> <li>• Hong Kong Electric Investments Limited</li> <li>• Hong Kong General Chamber of Commerce</li> <li>• Kong Tai Sundry Goods Co. Ltd</li> <li>• MTR Corporation Limited</li> <li>• PAIB Leadership Panel, HKICPA</li> </ul>
<p><b>Standard Setters</b></p> <ul style="list-style-type: none"> <li>• Accounting Professional &amp; Ethical Standards Board, Australia</li> </ul>

Hong Kong Roundtable
<ul style="list-style-type: none"> <li>• Auditing and Assurance Standards Board, New Zealand</li> <li>• Ethics Standards Board, Malaysian Institute of Accountants</li> <li>• Ethics Standards Committee, CICPA</li> <li>• Ethics Standards Committee, JICPA</li> <li>• External Reporting Board, New Zealand</li> </ul>
<p><b>Those Charged with Governance</b></p> <ul style="list-style-type: none"> <li>• Hong Kong Institute of Directors</li> </ul>
<p><b>Firms</b></p> <ul style="list-style-type: none"> <li>• BDO Limited</li> <li>• Deloitte</li> <li>• EY</li> <li>• GC &amp; Co., Certified Public Accountants, Hong Kong</li> <li>• Grant Thornton</li> <li>• HLB Hodgson Impey Cheng Limited</li> <li>• KPMG</li> <li>• PwC</li> </ul>
<p><b>IFAC Member Bodies</b></p> <ul style="list-style-type: none"> <li>• Federation of the CPA Association of Chinese Taiwan</li> <li>• Institute of Chartered Accountants in England and Wales, Greater China</li> <li>• Institute of Singapore Chartered Accountants</li> </ul>



Hong Kong Roundtable	
<ul style="list-style-type: none"> <li>Hong Kong Institute of Certified Public Accountants</li> <li>Malaysian Institute of Accountants</li> <li>Malaysian Institute of Certified Public Accountants</li> </ul>	
<b>Academia</b>	
<ul style="list-style-type: none"> <li>University of Hong Kong</li> </ul>	
<b>Other Organizations</b>	
<ul style="list-style-type: none"> <li>Asian Development Bank</li> </ul>	

Brussels Roundtable	
<b>Regulators/Public Authorities</b>	
<ul style="list-style-type: none"> <li>Auditor Oversight Commission, Germany</li> <li>Authority for Financial Markets, Netherlands</li> <li>Basel Committee on Banking Supervision</li> <li>Federal Financial Supervisory Authority, Germany</li> <li>Federal Ministry of Justice, Germany</li> <li>Haut Conseil du Commissariat aux Comptes, France</li> <li>Organization for Economic Cooperation and Development</li> <li>Office of the Auditor General of Norway</li> <li>UK Financial Reporting Council</li> </ul>	
<b>Preparers/PAIBs</b>	

Brussels Roundtable	
<ul style="list-style-type: none"><li>• Confederation of Danish Industries</li><li>• European Issuers</li></ul>	
<b>Those Charged with Governance</b> <ul style="list-style-type: none"><li>• Deutsche Annington SE, Deutsche Postbank AG, DMG Mori Seiki AG, TUI AG, Wincor Nixdorf AG, Paderborn, and Wincor Nixdorf International GmbH</li><li>• International Corporate Governance Network</li><li>• Oxford Instruments</li></ul>	
<b>Investors</b> <ul style="list-style-type: none"><li>• Standard Life Investments</li></ul>	
<b>Firms</b> <ul style="list-style-type: none"><li>• BDO</li><li>• Deloitte</li><li>• EY</li><li>• Grant Thornton</li><li>• Hines Harvey Woods Limited</li><li>• KPMG</li><li>• PwC</li></ul>	
<b>IFAC Member Bodies</b> <ul style="list-style-type: none"><li>• Association of Accounting Technicians</li><li>• Association of Chartered Certified Accountants</li></ul>	

Brussels Roundtable
<ul style="list-style-type: none"> <li>• Chartered Institute of Public Finance &amp; Accountancy</li> <li>• Compagnie Nationale des Commissaires aux Comptes</li> <li>• FAR, Sweden</li> <li>• Institute of Chartered Accountants in England and Wales</li> <li>• Instituto de Censores Jurados de Cuentas de España</li> <li>• Institut der Wirtschaftsprüfer</li> <li>• Institut des Reviseurs d'Entreprises, Belgium</li> <li>• Institute of Accountants and Tax Advisers, Belgium</li> <li>• Institute of Chartered Accountants of Scotland</li> <li>• Nederlandse Beroepsorganisatie van Accountants</li> <li>• Ordre des Experts Comptables du Sénégal</li> <li>• Russian Collegium of Auditors</li> <li>• Wirtschaftsprüferkammer</li> </ul>
<p><b>Other Organizations</b></p> <ul style="list-style-type: none"> <li>• European Federation of Accountants and Auditors for SMEs</li> <li>• Fédération des Experts Comptables Européens</li> <li>• German Chamber of Auditors</li> <li>• IFAC SMP Committee</li> <li>• International Bar Association</li> <li>• International Federation of Francophone Accountants</li> <li>• UNCTAD</li> </ul>



Washington DC Roundtable
<p><b>Regulators/Public Authorities</b></p> <ul style="list-style-type: none"> <li>• Associação Brasileira de Instituições Financeiras de Desenvolvimento</li> <li>• Canadian Public Accountability Board</li> <li>• International Organization of Securities Commissions</li> <li>• U.S Government Accountability Office</li> <li>• U.S. Public Company Accounting Oversight Board</li> </ul>
<p><b>Preparers/PAIBs</b></p> <ul style="list-style-type: none"> <li>• Asia Petroleum</li> <li>• AT&amp;T</li> <li>• Conference Board</li> <li>• INTTRA, Inc.</li> <li>• North American Financial Executives Institutes</li> <li>• U.S. Chamber of Commerce</li> </ul>
<p><b>Standard Setters</b></p> <ul style="list-style-type: none"> <li>• Institute of Chartered Accountants of Manitoba, Canada</li> <li>• National Association of State Boards of Accountancy</li> </ul>
<p><b>Those Charged with Governance</b></p> <ul style="list-style-type: none"> <li>• The Directors' Council</li> </ul>

Washington DC Roundtable	
<b>Investors</b>	
	<ul style="list-style-type: none"><li>• CFA Institute</li><li>• Council of Institutional Investors</li><li>• PwC Investor Resource Institute</li></ul>
<b>Firms</b>	
	<ul style="list-style-type: none"><li>• BDO</li><li>• Deloitte</li><li>• EY</li><li>• Grant Thornton</li><li>• KPMG</li><li>• Kreischer Miller</li><li>• McGladrey LLP</li><li>• PwC</li><li>• UHY LLP</li></ul>
<b>IFAC Member Bodies</b>	
	<ul style="list-style-type: none"><li>• American Institute of Certified Public Accountants</li><li>• Institute of Management Accountants, U.S.</li><li>• Instituto Mexicano de Contadores Públicos</li></ul>
<b>Academia</b>	
	<ul style="list-style-type: none"><li>• American Accounting Association</li></ul>

Washington DC Roundtable	
<ul style="list-style-type: none"><li>• North Carolina State University</li><li>• University of Delaware</li><li>• University of Texas</li><li>• West Virginia University</li></ul>	
<b>Other Organizations</b> <ul style="list-style-type: none"><li>• Anders Minkler Huber &amp; Helm LLP</li><li>• Center for Audit Quality</li><li>• Cleary Gottlieb</li><li>• Cravath Swain</li><li>• Vedder Price PC</li><li>• Young Law Group, P.C</li><li>• WilmerHale</li></ul>	