

**Responding to Suspected Non-Compliance with Laws and Regulations
(NOCLAR)—
Summary of Feedback from Roundtables and Task Force Proposals**

I. Background

1. The three global NOCLAR roundtables 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 invitation-only events. 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 those in practice and those 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 the 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 with considerations of operability, practicality, 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 6-F.
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 a number of secondary issues. Finally, they highlight a number of broader considerations that were raised by the participants.

II. Summary of Feedback from Roundtables

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 and those charged with governance (TCWG) 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 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.

Pivotal Issues

A. SCOPE OF THE PROPOSALS

7. The original Exposure Draft (ED) categorized the types of NOCLAR to be disclosed in the following three groups:
- For a PA in public practice providing services to an audit client:
 - NOCLARs that directly or indirectly affect the client's financial reporting; and
 - NOCLARs the subject matter of which falls within the PA's expertise.
 - For a PA in public practice providing services to a non-audit client:
 - NOCLARs that relate to the subject matter of the professional services being provided by the PA.
 - For a PAIB:
 - NOCLARs that directly or indirectly affect the employing organization's financial reporting; and
 - NOCLARs the subject matter of which falls within the PA's expertise.

8. At the December 2013 meeting, the Board tentatively agreed to remove these limitations mainly on the grounds that in the absence of a requirement in the Code to disclose, the PA should be free to disclose matters that are outside of the PA's expertise.
9. A couple of the breakout groups in the Hong Kong and Brussels roundtables were generally supportive of the broad scope of the new 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.¹
10. 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.² 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.³
11. 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.
 - 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.⁴
12. 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 know about all laws and regulations or to step outside his or her area of expertise to make a legal judgment.⁵ 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,⁶ with participants across different stakeholder groups agreeing that the challenges would become greater the further the suspected NOCLAR is outside the PA's expertise.⁷ A specific view was also expressed that TCWG should be expected to deal with matters that do not affect the financial statements.⁸

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

² Regulators/public authorities; firms

³ Regulators/public authorities; firms; IFAC member bodies

⁴ Preparers; TCWG; investors; firms; academia

⁵ Regulators/public authorities; TCWG; investors; IFAC member bodies; firms; other organizations

⁶ Firms; IFAC member bodies

⁷ Preparers; TCWG; investors; firms; academia

⁸ TCWG

13. It was felt that a broad scope could work with higher threshold.⁹ 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.
14. 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; and¹⁰
 - 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.
 - For auditors, focusing on matters that have an impact on the financial statements.¹¹
 - 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.
15. 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.

B. MATERIALITY THRESHOLDS

16. The December 2013 proposals specified the following:
- If the PA becomes aware of information concerning NOCLAR or suspected NOCLAR and the matter is *other than clearly inconsequential*, the PA should seek to obtain an understanding of the matter.
 - If the matter could have *significant consequences for the client or others*, the PA should understand what actions the client, its management or TCWG plan to take to address it and evaluate their response.
17. The majority of participants across all three roundtables felt that the initial threshold of “clearly inconsequential” 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. Specific concerns noted included:
- The potential costs of investigating all matters above that initial threshold and who would pay for doing so, particularly in a smaller entity context.¹²

⁹ Preparers, firms; IFAC member bodies; other organizations

¹⁰ Preparers, standard setters

¹¹ Regulators/public authorities

¹² Firms

- The need not to underestimate the number of suspected NOCLARs a PAIB may come across, for example, in an internal audit role.¹³
18. Many participants in all three roundtables also felt that more guidance (including illustrations) would be needed on what “inconsequential” and “significant consequences” mean. Some highlighted the potential for inconsistent application and for second guessing.¹⁴ It was questioned in particular whether a NOCLAR can be inconsequential on the grounds that any non-compliance must be consequential. A few participants were of the view that the PA should seek to understand the issue first before determining if it is clearly inconsequential.¹⁵
19. There were also calls for more guidance to assist in evaluating the gravity of the matter 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.¹⁶ 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. A regulatory participant was of the view that gravity is linked to the public interest, although this was not stated in the proposals.
20. 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

21. 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

¹³ Regulators/public authorities

¹⁴ Regulators/public authorities; other organizations

¹⁵ Regulators/public authorities; TCWG

¹⁶ Regulators/public authorities; Firms; academia

- 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 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.
22. 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, a few participants among regulators and public authorities noted that while the ethical principles should be the same, their implementation can be different and must be practical. 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.¹⁷ 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.¹⁸
23. A regulatory participant expressed a concern that seeking to tackle many dimensions in the same way is impractical. 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 PAIBs.
24. However, a participant from an IFAC member body was concerned about differentiation and the risk of the focus being entirely on auditors. The participant felt that the public interest could be better served if the expectations were the same for all PAs. 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.¹⁹
25. 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.²⁰
26. 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. Many, 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.”
27. 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.

¹⁷ Regulators/public authorities; TCWG; other organizations

¹⁸ IFAC member bodies; firms; observers; other organizations

¹⁹ Firms

²⁰ Regulators/public authorities

- There was a view that CFOs have greater responsibilities than PAs in public practice, for example, to consult with legal counsel.²¹
- There were some expectations that CFOs should report to an appropriate authority, ahead of the auditor.²² 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.²³ 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.²⁴
- For PAs providing NAS, fewer of the participants in some groups were in favor of reporting to TCWG. In other groups, most believed that it should be sufficient to investigate the matter and raise it to TCWG (if the PA knows who they are).

28. A number of other points were made for further consideration, including the following:

- In general, the escalation process should stop at TCWG, although the possibility of reaching out to the external auditor should not be precluded.
- It may not be appropriate to compel a senior PAIB such as a CFO to escalate the matter within the entity because of the potential for retaliation and the risk in terms of loss of livelihood. Instead, he or she should be allowed to go directly to an appropriate authority.²⁵
- 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.²⁶
- 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.”²⁷

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

29. At the Brussels and Washington DC roundtables, some regulatory participants expressed support for a reporting requirement, subject to the appropriate conditions. Views expressed by those participants included the following:

- For the public at large, there is an expectation that the PA will report. This would be consistent with the distinguishing mark of the profession to act in the public interest. Accordingly, if the occurrence of a suspected NOCLAR has been established beyond

²¹ Regulators/public authorities

²² Investors

²³ Regulators/public authorities

²⁴ Academia

²⁵ Regulators/public authorities

²⁶ Firms

²⁷ Firms

reasonable doubt and it is clear that management and TCWG have not taken the appropriate action, it would be difficult to understand why the Code should not require PAs to report the matter to an appropriate authority if other appropriate conditions are in place. Such circumstances, however, would be rare.

- Order 10A under U.S. securities regulations operates as a powerful deterrent, encouraging management to self-report under the predefined circumstances. Regardless of how often it is used in practice, the fact that it exists influences management's behavior in a positive way. This would be a reason to have a requirement in the Code.
 - The Code should set an expectation of what a PA needs to do. If it were to merely suggest to the PA to do what the PA thinks is best in the circumstances, it would have little value.
 - A requirement to report must take into consideration whether the suspected NOCLAR is a public interest issue, whether there is an appropriate authority to whom to report, and whether it can do something about it. An exception can be made where there is a reasonable probability of harm to the PA.
 - Any consideration of a reporting requirement should be linked to expectations of different categories of PAs, with the focus being more on auditors as they have an operating framework in the statutory audit compared with PAs who are not auditors. The concern is to demonstrate that auditors have done more than nothing, within the appropriate boundaries.
30. A few participants from the investor community were of the view that if management and TCWG do not take appropriate action, the auditor should report the matter to an appropriate authority. It was also felt that a reporting requirement would set a clearer expectation than a permission.
31. A few 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.
32. 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:²⁸
- 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.
33. A regulatory participant noted the need to be clear as to what the Code is intending to achieve. This could be to aim for the Code to provide a deterrent for management to do the wrong thing, similar to Order 10A in the U.S. Alternatively, the Board could specify that it is not within its remit to establish a legal framework and that this would be the responsibility of national governments. The

²⁸ Standard setters

participant noted that the original ED seemed to present the Code more as a deterrent whereas the current proposals appear to be intended to be more guidance.

34. Across the three roundtables most other 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, including some from the regulatory community, felt that a requirement would not be workable without the appropriate legal framework in place. Indeed, many shared the view that the starting point must be the legal framework – what the confidentiality requirements 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.²⁹
35. 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.³⁰
 - The complexity of many suspected NOCLARs in practice and their lack of clarity.³¹
 - The potential for increased liability for auditors which could harm the profession and clients without necessarily resulting in good ethics.³²
 - Varying interpretations of what the public interest means within and across jurisdictions.³³
 - The challenge of identifying who the appropriate authority would be, the accessibility of that authority and its effectiveness in following up on the report.
 - The feasibility of developing provisions that would cover all situations globally. In this regard, it was noted that the more complex the provisions, the less likely they will be workable.³⁴
36. A participant representing TCWG expressed a strong view that TCWG would expect auditors to raise the issue with them but not resolve it. The participant felt that following a path requiring auditors to follow through all suspected NOCLARs would seriously call into question the role of TCWG.
37. In some of the roundtables, many participants agreed 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 or regulators to set a reporting requirement. Further, in the Brussels and Washington DC 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.

²⁹ Regulators/public authorities

³⁰ Regulators/public authorities; TCWG; investors; IFAC member bodies; firms; other organizations

³¹ Regulators/public authorities

³² Preparers

³³ Preparers

³⁴ TCWG

38. In some of the roundtables, however, there were a few concerns over the enforceability of a permission,³⁵ and the fact that in the final analysis nothing may get reported externally.³⁶ 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.³⁷ 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.
39. There was generally 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.
40. 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.³⁸
41. 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.³⁹
42. A regulatory participant noted the need for a "pressure release valve" if at the end of an audit engagement the auditor has still not had satisfactory closure on the issue. It was suggested that the Code should provide guidance on what the auditor should do in these circumstances. A few other participants also suggested consideration of a pressure release valve for PAIBs other than senior PAIBs in terms of an option to report externally, including to the external auditor. This would be the case if management is a dead end or if reporting through internal lines is ineffective.⁴⁰ However, 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 senior PAIBs.⁴¹
43. A few regulatory participants highlighted the OECD Anti-Bribery Convention, which does not require that the 40 signatory countries to the Convention mandate that auditors report suspected bribery to an appropriate authority. Instead, the Convention requires those countries to agree to establish a criminal offence of bribing a foreign public official in their national laws, and to implement effective policies to prevent, detect, investigate and sanction foreign bribery.⁴² The implementation and

³⁵ Regulators/public authorities; standard setters; firms

³⁶ IFAC member bodies

³⁷ Standard setters; firms

³⁸ Investors; TCWG, IFAC member bodies; firms; other organizations

³⁹ Regulators/public authorities; firms

⁴⁰ Regulators/public authorities; other organizations

⁴¹ Preparers; Academia

⁴² The OECD's *2009 Recommendation for Further Combating Bribery of Foreign Public Officials in International Business* strengthens its framework for fighting foreign bribery by calling on the 40 signatory countries to its Anti-Bribery Convention to, *inter alia*:

- Provide effective channels for public officials to report suspected foreign bribery internally within the public service and externally to the law enforcement authorities, and for protecting whistleblowers from retaliation; and
- Work with the private sector to adopt more stringent internal controls, ethics and compliance programs and measures to prevent and detect bribery.

enforcement of the OECD Anti-Bribery Convention are strictly monitored by the OECD Working Group on Bribery. It was suggested that the Code guide the profession in assisting to work towards fulfilling the objectives of the Convention.

44. 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.⁴³

Other Issues

E. REPORTING TO EXTERNAL AUDITOR

45. 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.⁴⁴ 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.
46. 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.
47. A regulatory participant noted the need to take into account Chinese walls within a firm that may preclude a PA providing NAS to communicate with the audit engagement partner if the client is also an audit client of the firm.

F. EVALUATING MANAGEMENT'S RESPONSE

48. 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.⁴⁵ 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.
49. 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 stop pursuing the matter. It was suggested that if the PA is not challenged by management on the

⁴³ Regulators/public authorities; firms; academia

⁴⁴ Regulators/public authorities; IFAC member bodies; firms; other organizations

⁴⁵ IFAC member bodies; firms; other organizations

facts and 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.⁴⁶

50. 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.
51. 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.⁴⁷ 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

52. 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.⁴⁸ 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 without adequate substantiation may cause more harm than good.⁴⁹
53. 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

54. 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.⁵⁰ 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.
55. 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

⁴⁶ Firms

⁴⁷ TCWG

⁴⁸ Firms

⁴⁹ TCWG

⁵⁰ Preparers; TCWG; Firms

consideration could be given to having an exclusion for engagements performed under confidentiality agreement.⁵¹

56. A further concern raised in all three 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

57. 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.⁵²

58. 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

59. 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.⁵³
- 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.⁵⁴
- Narrowing considerations of public interest to investor interest, which auditors would be better placed to evaluate.⁵⁵
- If the PA has decided to report to an appropriate authority, requiring the PA to do so as soon as practically possible.
- Considering the PA's association with the client under Section 150 of the Code.⁵⁶
- Considering provisions established by the CFA Institute with respect to illegal acts.⁵⁷

⁵¹ Regulators/public authorities

⁵² Standard setters; firms

⁵³ TCWG; Firms; IFAC member bodies

⁵⁴ Academia; other organizations

⁵⁵ Observers

⁵⁶ Regulators/public authorities

- 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 under U.S. securities regulation). If backward-looking, then the PA should not override the actions of the management or TCWG.⁵⁸

Broader Considerations

60. 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.⁵⁹
- Emphasizing the tone at the top and risk management within entities.⁶⁰
- 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.⁶¹
- Doing nothing to jeopardize the profession as its well-being is also in the public interest.⁶²
- Avoiding making the standard overly prescriptive given the importance of professional judgment throughout the process.⁶³
- 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.⁶⁴
- The need for caution in not widening the gap between investor expectations about what auditors do and what they can actually deliver in practice.⁶⁵

⁵⁷ Firms

⁵⁸ Regulators/public authorities; other organizations

⁵⁹ Regulators/public authorities; preparers; IFAC member bodies

⁶⁰ Preparers

⁶¹ Preparers

⁶² Preparers

⁶³ Firms

⁶⁴ Preparers

⁶⁵ Investors

III. Task Force Proposals

Responding to Suspected NOCLAR – A Proposed Revised Framework

61. The following sections outline a proposed revised framework to help guide PAs in responding to suspected NOCLAR when they come across such a matter while rendering a professional service to a client or carrying out their employment duties. In developing this revised approach, the Task Force has kept in mind that the key objective of the project is to create a framework to help guide PAs when they come across suspected NOCLAR in deciding how best to serve the public interest in the circumstances.
- A. OBJECTIVES OF THE PROPOSED SECTIONS 225 AND 360
62. In exploring a way forward in the light of the roundtable input, the Task Force has reflected on what, at the level of basic principles, the two proposed Sections should set out to achieve. First, it is to ensure that PAs do not turn a blind eye to suspected NOCLAR and that they do not, through their actions or lack thereof, bring the profession into disrepute. Phrased in terms of the fundamental principles, this objective therefore is:
- To enable PAs to comply with the fundamental principles of integrity and professional behavior:
 - Integrity – to be straightforward and honest in all professional and business relationships.
 - Professional behavior – to comply with relevant laws and regulations and avoid any action that discredits the profession.
63. Secondly, it is, through alerting management or, where appropriate, TCWG, to seek to:
- (a) Have the consequences of suspected NOCLARs rectified, remediated or mitigated where they have occurred; or
 - (b) Deter suspected NOCLARs from being committed where they may be about to occur.
64. And thirdly, to take further action that may be appropriate to serve the public interest. (See paragraphs 225.2 and 360.2.)
65. The Task Force believes that fulfilling those objectives will enable PAs to meet their overriding responsibility to act in the public interest. It also believes that setting out those objectives clearly at the beginning of the two Sections will set the appropriate tone and context for what then follows in the rest of the Sections. In contrast, the December 2013 proposals do not establish any clear objectives upfront but merely specify what the proposed Sections address.
66. Identifying such objectives would be consistent with advice the Board received at the May 2014 IESBA-NSS meeting about making clear upfront what is expected of PAs when they encounter suspected NOCLARs, i.e.:
- Fundamentally, PAs should not bring the profession into disrepute.
 - Fundamentally also, the aim should be to bring about a change in behavior, not only with respect to PAs but also with respect to those with whom they interact, i.e. management and TCWG.

Matter for Consideration

1. Do IESBA members agree with the Task Force’s proposal above?

B. SCOPE OF THE PROPOSALS

67. As noted above, significant concerns were expressed at the roundtables regarding the wide scope of the December 2013 proposals, notwithstanding that this was only in the context of a permission – and not a requirement – to override confidentiality under the Code to report suspected NOCLAR to an appropriate authority. The Task Force has therefore reconsidered what should reasonably be expected of PAs regarding the types of NOCLAR they should be concerned with, having regard to what should be within the scope of their professional training and expertise, consistent with the views of many at the roundtables.
68. For auditors, ISA 250 already establishes the scope of those laws and regulations that they should consider in their audit of the financial statements, i.e.:
- (a) The provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements (e.g., tax and pension laws and regulations); and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity’s ability to continue its business, or to avoid material penalties (e.g., compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations).
69. As auditors are already expected to have a working knowledge of those two categories of laws and regulations under the ISAs, the Task Force believes that these should also establish appropriate boundaries for the scope of their responsibilities under the Code. The Task Force further believes that those same categories of laws and regulations should also establish an appropriate scope for all other categories of PA. This is because regardless of these other PAs’ roles and levels of seniority, it would be reasonable to expect them, by virtue of their professional training and expertise, and their knowledge of and experience with the entity (either through the provision of non-audit services to the entity or through an employment relationship), to recognize possible NOCLAR in those two categories if they came across it. (See paragraphs 225.3 and 360.3.)
70. The Task Force believes that for all other laws and regulations, PAs would be subject to the same ethical expectations as ordinary good citizens in responding to suspected NOCLAR. Those other laws and regulations would therefore be outside the scope of the proposed Sections.
71. The Task Force contrasted this approach to that taken under the original ED (see paragraph 7 above). The ED’s attempt at establishing a practicable scope for the original proposals was met with mixed views from respondents. While many were supportive of the original approach to scoping, others disagreed on the grounds that any restriction to the scope would be inconsistent with the public interest argument used to justify a requirement or right to disclose, or would be inappropriate in a code dealing with “ethics.” Many others recorded their disagreement on the grounds that they did not support a disclosure requirement for these PAs except if it were in law or regulation.

72. Having heard the feedback from the roundtables, and particularly concerns about making sure that the provisions are practicable and operable on a global basis, the Task Force believes that aligning the scope of the revised proposals with that of ISA 250 would be a sensible way forward for the reasons set out above.
73. The Task Force also considered whether there should be a carve-out of the revised proposals depending on whether or not the entity is a PIE. The Task Force believes that issues of NOCLAR can arise just as well in entities that are not PIEs as in those that are. Accordingly, the Task Force does not believe that non-PIEs should be scoped out.

Matter for Consideration

2. Do IESBA members agree with the Task Force's proposals regarding the scope of the provisions? If not, what should the scope be and why?

C. FRAMEWORK FOR RESPONDING TO SUSPECTED NOCLAR

74. As noted above, one of the key insights from the roundtables is that the basic ethical principles should be the same for all PAs, i.e., they should respond to the issue and not turn a blind eye. However, their implementation of those principles will differ and must be practical depending on their varying roles and spheres of influence. The following subsections set out the Task Force's analysis and proposals for the following categories of PA:
 - Auditors
 - Senior PAIBs
 - PAs in public practice other than auditors
 - Other PAIBs

Auditors

75. Taking into account the feedback from the roundtables, the Task Force believes that auditors should have a greater responsibility to take action to respond to suspected NOCLAR than other PAs in public practice, given the nature of the auditor's remit and the higher public expectations of them. Accordingly, the Task Force proposes that auditors be required to take the actions set out below, recognizing that more will be expected of them from an ethical perspective than under the ISAs.
76. First, auditors must seek an understanding of the matter if they become aware of information that suggests a possible NOCLAR and the matter is other than clearly inconsequential. Many at the roundtables were of the view that this initial threshold is too low and could place an undue burden on auditors to pursue many matters likely to be of low significance. The Task Force, however, believes that at the point of coming across the information, the auditor will not have gathered a sufficient understanding of the issue to be able to make an assessment of significance. Accordingly, the proposed threshold is intended to weed out matters that are clearly trivial or of little to no consequence, whether judged by nature of the matter or its impact on the client or stakeholders, and which the auditor should rightly not be compelled to pursue under the Code. Such matters may include petty pilferages or minor traffic contraventions. Beyond these, the Task Force believes that it is appropriate to call on auditors to seek to obtain an understanding of the

matter in order to be able to assess its potential consequences to the client or stakeholders (see paragraph 225.7).

77. The Task Force notes that ISA 250 requires the auditor to communicate with TCWG matters involving NOCLAR that come to the auditor's attention during the course of the audit, other than when these are clearly inconsequential.⁶⁶ Therefore, there would be no incremental effort required in this regard under the Code.
78. Consistent with ISA 250, the Task Force believes that auditors should raise the matter with management or TCWG if, based on the auditors' understanding of the matter, they suspect that NOCLAR has occurred or may be about to occur. This discussion would enable auditors to clarify their understanding of the matter with management or TCWG, and substantiate or dispel the auditors' concerns (see paragraphs 225.9-10). However, where it would be important to go beyond ISA 250 in the context of this dialogue would be for auditors to prompt management and TCWG to do the right thing if they agree (having, if necessary, undertaken their own investigations) that there is credible evidence that the suspected NOCLAR has occurred or may be about to occur and it has caused or would likely cause substantial harm to the interests of the client or stakeholders (see further discussion of the "substantial harm" threshold below). Appropriate actions that management or TCWG could take in this regard would include:
- On a best efforts basis, rectifying, remediating or mitigating the consequences of the suspected NOCLAR for stakeholders if it has already happened.
 - On a best efforts basis, deter the NOCLAR from being committed if it is about to occur.
 - Reporting the matter to an appropriate authority if required by law or regulation, or if considered appropriate. (See paragraph 225.14.)
79. The Task Force believes this approach would be an improvement over the December 2013 proposals in two important respects:
- Making clear that substantiation of the facts must take place early in the process (the focus in the December 2013 proposals was more on evaluating whether the matter has been adequately investigated by management and, at the point of considering whether to disclose the matter to an appropriate authority, making an assessment of the degree to which the relevant information is known and substantiated).
 - Placing the emphasis on management stepping up to their responsibility to do the right thing rather than, under the December 2013 proposals, understanding what actions management or TCWG plan to take to address the matter.
80. At the same time, auditors must fulfill their professional responsibilities. These will include:
- Complying with any applicable laws and regulations, which may include reporting the matter to an appropriate authority.
 - Complying with professional standards, including communicating the matter with TCWG, as already required under ISA 250, and considering the implications for the auditor's report.

⁶⁶ ISA 250, paragraph 22

81. In the vast majority of cases in practice, as was acknowledged by many at the roundtables, management and TCWG will indeed do the right thing upon being informed of suspected NOCLARs by auditors.
82. In a minority of cases, however, raising the matter with management or TCWG may not be sufficient if they do not appropriately address the issue. In those cases, auditors must determine if further action would be required to enable them to achieve their objectives under the proposed Section and to serve the public interest (see paragraph 225.17). The nature and extent of such further action will depend on a variety of factors, including:
- The appropriateness of the response of management and TCWG to the matter.
 - Whether the appropriateness of such response can be assessed.
 - Whether TCWG are involved in the suspected NOCLAR.
 - Whether those charged with governance are independent of management.
 - The nature of the entity, for example, whether it is a PIE.
 - The likelihood of substantial harm to the client, investors, creditors, employees or the wider public in both financial and non-financial terms.
 - The urgency of the matter.
 - The pervasiveness of the matter throughout the entity and the likelihood of continuing consequences. (See paragraph 225.18.)
83. Picking up one of the suggestions raised at the roundtables, the Task Force believes that the proposed Section should allow for a number of possible “pressure release valves” in these circumstances. These include:
- Informing the parent entity in the case of a component within a group.
 - Reporting the matter to an appropriate authority.
 - Withdrawing from the engagement and the client relationship (where permitted by law or regulation). (See paragraph 225.20.)
84. The Task Force believes that disclosure to an appropriate authority is one but not the only possible response for auditors in these circumstances. This is because whether disclosure will be practicable will depend on there being the right legal and regulatory framework to support it. In this regard, the Task Force was mindful of the independent legal advice the Board obtained in January 2014 regarding the understandable concerns expressed by respondents with respect to the requirement to disclose suspected NOCLAR to an appropriate authority in the original ED.⁶⁷ The Task Force does not believe that it is feasible for the Code to specify all the conditions that must be in place for it to require auditors to report suspected NOCLAR to an appropriate authority. This is because it would be necessary to first answer fundamental questions such as what legal protection means and what it would cover, what the hallmarks of a robust and trusted legal due process would be, what the characteristics of an appropriate authority should be and whether it would be able to take action pursuant to the report, and whether there should be protection for the accused. The

⁶⁷ See Roundtable Briefing Note, Agenda Item 6-F, paragraphs 18-22

Task Force believes that these are ultimately matters that only legislators and regulators can establish in their particular national circumstances.

85. Accordingly, the Task Force believes that the options available for further action must depend on, and start with, consideration of the legal and regulatory framework (see paragraph 225.20).
86. If auditors were to determine that disclosure to an appropriate authority is the right course of action in the circumstances, assuming they were not otherwise required to do so by law or regulation, it will be necessary for the Code to provide a permission for them to override confidentiality. In this regard, the Task Force proposes that this permission be specifically provided for in Section 140⁶⁸ of the Code (see paragraph 140.10(d)).

Threshold for Disclosure to an Appropriate Authority

87. The Task Force has taken note of concerns expressed at the roundtables regarding the lack of clarity in the December 2013 proposals concerning the term “gravity of the matter” as the primary factor influencing whether or not to disclose the matter to an appropriate authority. In this regard, the Task Force has taken up a suggestion made at the roundtables to consider U.S. Securities and Exchange Commission (SEC) regulation governing the obligations of attorneys who learn of client misconduct. Specifically, one provision of the regulation permits (but does not require) attorneys representing an issuer to breach their attorney-client confidentiality obligations as follows:

An attorney appearing and practicing before the Commission in the representation of an issuer may reveal to the Commission, without the issuer's consent, confidential information related to the representation to the extent the attorney reasonably believes necessary:

- (i) To prevent the issuer from committing a material violation that is likely to cause substantial injury to the financial interest or property of the issuer or investors;
 - (ii) To prevent the issuer, in a Commission investigation or administrative proceeding from committing perjury, proscribed in 18 U.S.C. 1621; suborning perjury, proscribed in 18 U.S.C. 1622; or committing any act proscribed in 18 U.S.C. 1001 that is likely to perpetrate a fraud upon the Commission; or
 - (iii) To rectify the consequences of a material violation by the issuer that caused, or may cause, substantial injury to the financial interest or property of the issuer or investors in the furtherance of which the attorney's services were used.⁶⁹
88. The Task Force believes that the term “substantial injury” in the SEC regulation carries much more specificity than “gravity” and sets an appropriately high hurdle for auditors to clear in determining whether to override confidentiality to report suspected NOCLAR to an appropriate authority. However, given that the term “injury” is closely associated with physical injury in many languages other than English, the Task Force believes that the term “substantial harm” would be more appropriate for this Section from a translation point of view.
 89. Accordingly, the Task Force proposes that the permission to override confidentiality be premised on the disclosure of the information being, in the PA's professional judgment, an appropriate course of

⁶⁸ Section 140, *Confidentiality*

⁶⁹ U.S. SEC rule 17.C.F.R. Part 205—Standards of Professional Conduct for Attorneys Appearing and Practicing before the Commission in the Representation of an Issuer

action to seek to avert or to rectify, remediate or mitigate *substantial harm* to the client of other stakeholders, for example, in circumstances of suspected NOCLAR (see paragraph 225.22).

Obtaining Legal Advice and Third Party Test

90. The Task Force believes that two further elements are necessary in the framework for auditors when considering the further action required and whether it will be sufficient in the circumstances:
- Obtaining legal advice. In this regard, the Task Force has noted the strong views expressed at the three roundtables that in many cases, the decision whether or not to report the matter to an appropriate authority would be subject of legal advice. As a secondary consideration, the Task Force believes that it would be useful to suggest that auditors may seek advice from their professional bodies (see paragraph 225.25).
 - Applying a reasonable and informed third party test to objectively determine whether a third party, weighing all the specific facts and circumstances, including all the factors relevant to the determination of the nature and extent of the further action, would likely conclude that the PA has acted appropriately in serving the public interest (see paragraph 225.24). The Task Force believes that this test, which has been supported by several CAG Representatives, adds important rigor to the PA's consideration of the nature and extent of further action required in the circumstances.

Matter for Consideration

3. Do IESBA members agree with the Task Force's proposals regarding auditors?

Senior PAIBs

Overarching Expectations for Senior PAIBs

91. A key message from the roundtables is the need to emphasize the responsibilities of senior PAIBs in setting the right tone at the top and in establishing, to the best of their ability, the appropriate framework to prevent or deter the commission of NOCLAR within their organizations. The Task Force believes that this emphasis should be made in the Code, recognizing that the primary responsibility for ensuring that an entity conducts its business in full compliance with all applicable laws and regulations rests with management.
92. In this regard, the Task Force has taken note of the recent work of the Part C Task Force to seek to enhance the provisions of the Code applicable to PAIBs, and specifically that Task Force's proposal to amend paragraph 300.5⁷⁰ of the Code to read as follows – the intention being to provide expanded guidance regarding a senior PAIB's role in the creation of an ethics-based culture within an organization (see Agenda Item 4):

A professional accountant in business may hold a senior position within an organization. The more senior the position of the professional accountant, the greater will be the ability and opportunity to influence policies and decision-making. A professional accountant is expected to encourage an ethics-based culture in an employing organization. To the extent that the professional accountant is in

⁷⁰ Section 300, *Introduction*

a position to do so, the professional accountant shall take reasonable steps to identify, implement and oversee safeguards in the work environment to encourage or promote an ethics-based culture.

93. The Task Force believes that there is an opportunity to add a specific emphasis in such a provision with respect to NOCLAR and the prevention of NOCLAR, thereby helping to influence a behavioral change among a group of PAs who are in a position to set the appropriate tone at the top and are able to ensure that the right things are done. The Task Force considers that this top-down approach would be an improvement over the December 2013 proposals which focus almost entirely on looking up the chain of command to ensure that the issue is appropriately addressed.
94. The Task Force has liaised with the Part C Task Force in this regard and recommends that the changes it is proposing to Section 300 from the NOCLAR project (see Agenda Item 6-C) be combined with the changes to that Section arising from the Part C project for purposes of inclusion in the Part C ED to be considered for approval at the October 2014 Board meeting. Doing so will minimize the possibility of stakeholder confusion through the Board issuing two separate sets of changes to Section 300 in relatively close proximity.
95. What would then remain would be to define this group of senior PAIBs. In this regard, the Task Force has considered the guidance in paragraph 290.134⁷¹ of the Code (addressing threats to independence created by employment with an audit client) in tentatively defining a *senior* PAIB as follows:

A director, officer or employee able to exert significant influence over the preparation of accounting records or financial statements or compliance with laws and regulations.

Matters for Consideration

4. Do IESBA members agree with the Task Force's proposals above? In particular, do IESBA members support the proposed definition of a senior PAIB?

Required Responses for Senior PAIBs

96. Consistent with the feedback from the roundtables, the Task Force believes that senior PAIBs have a greater responsibility to take action in response to suspected NOCLAR than other PAIBs. The Task Force also believes that the response framework should be broadly comparable to that for auditors (see paragraphs 78-90 above) but with the following notable exceptions:
- Senior PAIBs should be required to take appropriate steps to have the consequences of suspected NOCLAR rectified, remediated or mitigated if there is credible evidence that it has caused substantial harm to the employing organization or other stakeholders, and reduce the risk of re-occurrence.
 - They should take appropriate steps also to deter the NOCLAR if there is credible evidence that it is about to occur.
 - They should also alert the external auditor in the spirit of transparency and because it is within their responsibility to inform the auditor of such matters. (See paragraph 360.11.)

⁷¹ Section 290, *Independence – Audit and Review Engagements*

97. The Task Force believes that the initial threshold for action should be similar to that for auditors under ISA 250, i.e., when the matter is other than clearly inconsequential. This threshold is framed by the description of the two categories of laws and regulation that circumscribe the scope of the proposals (see paragraph 360.3). Accordingly, these would be matters of significance, particularly so given that they would concern potential breaches of laws and regulations.
98. Agenda Item 6-B summarizes the proposed response framework for senior PAIBs.

Matter for Consideration

5. Do IESBA members agree with the Task Force’s proposals regarding senior PAIBs?

PAAs in Public Practice Other than Auditors, and Other PAIBs

99. For PAs in public practice other than auditors and for other PAIBs, the Task Force believes that the extent of the required response should be less, consistent with their more limited spheres of influence. Accordingly, the Task Force proposes that:
- For PAs in public practice other than auditors, they should only be required to:
 - Discuss the matter with the appropriate level of management or, if they have access to them, TCWG. (See paragraph 225.26.)
 - If the client is also an audit client, consider informing the engagement partner for the audit. (See paragraph 225.29.)
 - Stand back and consider if they can remain associated with the client in order to comply with the fundamental principles. This will depend on factors such as the response of management and TCWG, the likelihood of substantial harm to the client or other stakeholders, and the likelihood of continuing consequences. (See paragraph 225.30.)
 - Also stand back and consider whether further action is required. Such further action may include disclosing the matter to the external auditor or to an appropriate authority in accordance with the provisions of Section 140. (See paragraph 225.31-32.)
 - For other PAIBs, they should only be required to:
 - Escalate the matter to an immediate superior if it is other than clearly inconsequential (see paragraph 360.24); or
 - Use the established internal whistle-blowing procedure if available (see paragraph 360.25).
100. The Task Force believes that the above approach for PAs in public practice other than auditors will address the concerns that a number of roundtable participants expressed regarding forensic accountants being scoped in under the current proposals.
101. Overall, the Task Force believes that this revised framework is responsive to the feedback received from the roundtables, balances the need to serve the public interest with considerations of global operability in a robust way, and is proportionate having regard to the different roles and positions of PAs. This revised approach would also respond to the many concerns that were expressed by

respondents regarding the likely practical implementation difficulties and the potential for unintended consequences in the original ED.

Matter for Consideration

6. Do IESBA members agree with the Task Force's proposals above?

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
Total number of participants	48	59	57	164	100.0

2. Jurisdictions Represented (Excluding Observers)

Note: G-20 countries in bold.

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

3. Organizations Represented

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

Hong Kong Roundtable

- Auditing and Assurance Standards Board, New Zealand
- Ethics Standards Board, Malaysian Institute of Accountants
- Ethics Standards Committee, CICPA
- Ethics Standards Committee, JICPA
- External Reporting Board, New Zealand

Those Charged with Governance

- Hong Kong Institute of Directors

Firms

- BDO Limited
- Deloitte
- EY
- GC & Co., Certified Public Accountants, Hong Kong
- Grant Thornton
- HLB Hodgson Impey Cheng Limited
- KPMG
- PwC

IFAC Member Bodies

- Federation of the CPA Association of Chinese Taiwan
- Institute of Chartered Accountants in England and Wales, Greater China
- Institute of Singapore Chartered Accountants

Hong Kong Roundtable

- Hong Kong Institute of Certified Public Accountants
- Malaysian Institute of Accountants
- Malaysian Institute of Certified Public Accountants

Academia

- University of Hong Kong

Other Organizations

- Asian Development Bank

Brussels Roundtable

Regulators/Public Authorities

- Auditor Oversight Commission, Germany
- Authority for Financial Markets, Netherlands
- Basel Committee on Banking Supervision
- Federal Financial Supervisory Authority, Germany
- Federal Ministry of Justice, Germany
- Haut Conseil du Commissariat aux Comptes, France
- Organization for Economic Cooperation and Development
- Office of the Auditor General of Norway
- UK Financial Reporting Council

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

Brussels Roundtable

- Association of Chartered Certified Accountants
- Chartered Institute of Public Finance & Accountancy
- Compagnie Nationale des Commissaires aux Comptes
- FAR, Sweden
- Institute of Chartered Accountants in England and Wales
- Instituto de Censores Jurados de Cuentas de España
- Institut der Wirtschaftsprüfer
- Institut des Reviseurs d'Entreprises, Belgium
- Institute of Accountants and Tax Advisers, Belgium
- Institute of Chartered Accountants of Scotland
- Nederlandse Beroepsorganisatie van Accountants
- Ordre des Experts Comptables du Sénégal
- Russian Collegium of Auditors
- Wirtschaftsprüferkammer

Other Organizations

- European Federation of Accountants and Auditors for SMEs
- Fédération des Experts Comptables Européens
- German Chamber of Auditors
- IFAC SMP Committee
- International Bar Association
- International Federation of Francophone Accountants

Brussels Roundtable

- UNCTAD

Washington DC Roundtable

Regulators/Public Authorities

- Associação Brasileira de Instituições Financeiras de Desenvolvimento
- Canadian Public Accountability Board
- International Organization of Securities Commissions
- U.S Government Accountability Office
- U.S. Public Company Accounting Oversight Board

Preparers/PAIBs

- Asia Petroleum
- AT&T
- Conference Board
- INTTRA, Inc.
- North American Financial Executives Institutes
- U.S. Chamber of Commerce

Standard Setters

- Institute of Chartered Accountants of Manitoba, Canada
- National Association of State Boards of Accountancy

Washington DC Roundtable

Those Charged with Governance

- The Directors' Council

Investors

- CFA Institute
- Council of Institutional Investors
- PwC Investor Resource Institute

Firms

- BDO
- Deloitte
- EY
- Grant Thornton
- KPMG
- Kreischer Miller
- McGladrey LLP
- PwC
- UHY LLP

IFAC Member Bodies

- American Institute of Certified Public Accountants
- Institute of Management Accountants, U.S.
- Instituto Mexicano de Contadores Públicos

Washington DC Roundtable

Academia

- American Accounting Association
- North Carolina State University
- University of Delaware
- University of Texas
- West Virginia University

Other Organizations

- Anders Minkler Huber & Helm LLP
- Center for Audit Quality
- Cleary Gottlieb
- Cravath Swain
- Vedder Price PC
- Young Law Group, P.C
- WilmerHale