

September 4, 2015

Ken Siong

Technical Director

International Ethics Standards Board for Accountants

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, NY 10017

Dear Ken Siong,

The Korean Institute of Certified Public Accountants (KICPA) is pleased to comment on the Exposure Draft (ED) issued by the International Standards Board for Accountants (IESBA), regarding “Responding to Non-Compliance with Laws and Regulations.” KICPA is a strong advocate of IESBA for your relentless efforts to increase the level of ethical standards that professional accountants are expected to perform and to serve the public interest by developing high-quality professional ethical standards.

< General Comments >

1. Given that one of the most important responsibilities of professional accountants lies to serving the public interest, we support the objective of IESBA’s proposed revision that is designed to elevate the level of ethical conduct by the profession and strengthen expected requirements on them. We would like to suggest that the following described as below re-discuss and be re-considered during the process of final revision with regard to the requirements on professional accountants disclosing to outside the client non-compliance with laws and regulations of the client (hereinafter including the employing organization).
2. First, it would be considered reasonable for the disclosure of the client’s non-compliance with laws and regulations outside the client to be stipulated by legislation or regulation along

with legal safeguards for whistle-blowers at the respective jurisdictional level, instead by the Code of Ethics for Professional Accountants (the Code), just as frequently commented in the initial ED. Requiring professional accountants providing non-audit services and professional accountants in business (PAIBs) as well as auditors to determine whether to disclose outside the client, taking into account external threats on their own, could be seen as too much, when the Code does not provide legal safeguards on whistle-blowers.

3. Secondly, the client is the one who should be responsible for all the consequences of detected non-compliance with laws and regulations, ranging from disclosure of the matter to an appropriate authority to rectification, with putting in place control procedures to prevent the non-compliance. Given this, professional accountants reporting suspected non-compliance with laws and regulations to those charged with governance (TCWG) of the client and requiring the TCWG to investigate, disclose and rectify the non-compliance is in line with the public interest, which sounds very reasonable, coupled with the fundamental principle of confidentiality.

However, having professional accountants providing audit or non-audit services and PAIBs themselves consider substantial harm to stakeholders stemming from the non-compliance and disclose it could be excessively burdensome to professional accountants. Moreover, this could create an expectation gap on the services and roles of all of the professional accountants in public practice or business the public expects.

4. Thirdly, unlike the previous ED, the proposed one offers the scope of laws and regulations, whose examples are quite comprehensive to include environmental protection and public health and safety. However, the judgment on whether the relevant laws and regulations are violated and how much actual or potential substantial harm occurred could be beyond the expertise of professional accountants.

The uncertainty could create a circumstance where professional accountants discloses the suspected non-compliance with laws and regulations when the compliance is not proved, later turning out that it is not a breach of laws and regulations, which would have a negative impact on the public interest, triggering only a confusion to market participants. On the contrary, the non-compliance that was not disclosed but later found out could also raise an issue over professional accountants' judgment and due-care.

5. Fourthly, we support the proposed ED revision describing disclosure is not required when national laws and regulations prohibit it, which makes sure that the Code does not override laws and regulations, unlike described in the initial ED.

As mentioned by various stakeholders, it would be difficult to apply the Code's requirements

in conjunction with laws and regulations in practice when a jurisdiction has the duty of confidentiality under its own laws and regulations. Besides, selecting the stricter ones between local laws and regulations and the Code is also considered difficult.

6. Lastly, trust between a professional accountant and the client is an essential part of the quality of professional services, as he/she provides the client with services. Sure, it would be necessary for a professional accountant to shoulder a reasonable share of responsibility in respond to the client's non-compliance. However, disclosing outside the client at the expense of fundamental principles of confidentiality would undermine trust in practice. The lack of trust could limit professional accountants' access to important information, ending up with decreasing the quality of professional services, and going further relatively weakening the competitiveness of professional accountants as compared with those of other professionals.

<Answers to the respective questions>

Questions	Answers
General Matters	
1. Where law or regulation requires the reporting of identified or suspected NOCLAR to an appropriate authority, do respondents believe the guidance in the proposals would support the implementation and application of the legal or regulatory requirement?	As mentioned in the general comments, applying the Code's requirements in conjunction with local laws and regulations is difficult, in case the laws and regulations mandate a disclosure to an appropriate authority and the Code additionally requires the disclosure. Selecting the stricter ones between the laws and regulations and the Code would be difficult as well.
2. Where there is no legal or regulatory requirement to report identified or suspected NOCLAR to an appropriate authority, do respondents believe the proposals would be helpful in guiding PAs in fulfilling their	Requiring professional accountants to communicate with TCWG and investigate and rectify non-compliance, calling for corrective measures at the same time, contributes to safeguarding the public interest, as it believes.

<p>responsibility to act in the public interest in the circumstances?</p>	<p>However, as explained in the general comments, having professional accountants determine whether actual or potential harm occurred and disclose outside the client could result in wrong judgements, which could lead to market confusion, ending up with a negative impact on protecting the public interest.</p>
<p>3. The Board invites comments from preparers (including TCWG), users of financial statements (including regulators and investors) and other respondents on the practical aspects of the proposals, particularly their impact on the relationships between:</p> <p>(a) Auditors and audited entities;</p> <p>(b) Other PAs in public practice and their clients; and</p> <p>(c) PAIBs and their employing organizations.</p>	<p>I agree with that professional accountants have the responsibility of responding to the client's non-compliance with laws and regulations to fulfil their expected ethical duty, not just as professionals who provide service to the client but only as ones who make a greater contribution to the public.</p> <p>However, professional accountants who does not just remain to communicate with the client to appropriately deal with the non-compliance but goes further to disclose it could put themselves in adversarial relationship with the client, working beyond its nature of providing service. Given this, such requirements could make a negative impact on the general trust between professional accountants and the client, in addition to limiting professional accountants' access to necessary information, thereby resulting in decreasing the quality of professional services provided and</p>

	relatively undermining their competitiveness.
Specific Matters	
4. Do respondents agree with the proposed objectives for all categories of PAs?	We agree with the proposed objectives for the response to non-compliance with laws and regulations, including the compliance with the fundamental principles of integrity and professional behavior.
5. Do respondents agree with the scope of laws and regulations covered by the proposed Sections 225 and 360?	We are for consisting the scope of laws and regulations covered by the Code with those of ISAs for consistency of the both standards. However, including illustrative examples of environmental protection and public health and safety-related laws and regulations could invite a concern over the expectation gap, since they are beyond the existing expertise of professional accountants.
6. Do respondents agree with the differential approach among the four categories of PAs regarding responding to identified or suspected NOCLAR?	We support the differential approach among the four categories, but disclosure requirements on expected on all of the professional accountants could invite some problems, as expressed in the general comments.
7. With respect to auditors and senior PAIBs: (a) Do respondents agree with the factors to consider in determining the need for, and the nature and extent of, further action, including the	It is fair to say that the examples of further action are almost about disclosure, while the rest ones about exceptional cases, such as withdrawal from the engagement and the professional relationship

<p>threshold of credible evidence of substantial harm as one of those factors?</p> <p>(b) Do respondents agree with the imposition of the third party test relative to the determination of the need for, and nature and extent of, further action?</p> <p>(c) Do respondents agree with the examples of possible courses of further action? Are there other possible courses of further action respondents believe should be specified?</p> <p>(d) Do respondents support the list of factors to consider in determining whether to disclose the matter to an appropriate authority?</p>	<p>or resigning from the employing organization. As for our comments on what should be disclosed and what should be considered for the disclosure, please refer to general comments.</p>
<p>8. For PAs in public practice providing services other than audits, do respondents agree with the proposed level of obligation with respect to communicating the matter to a network firm where the client is also an audit client of the network firm?</p>	<p>We support the different level of obligation that requires communication within the firm to enable that the engagement partner for the audit to be appropriately informed about it in case the client is an audit client, while requiring to consider whether to communicate the matter to the engagement partner of the network firm as for the client who is an audit client of the network firm.</p>
<p>9. Do respondents agree with the approach to documentation with respect to the four categories of PAs?</p>	<p>We support the IESBA's suggestion.</p>

We hope our comments would be useful for the IESBA's project that aims to improve the provision as to responding to non-compliance with laws and regulations. Please feel free to contact me via global@kicpa.or.kr for further inquiries.

Thank you.