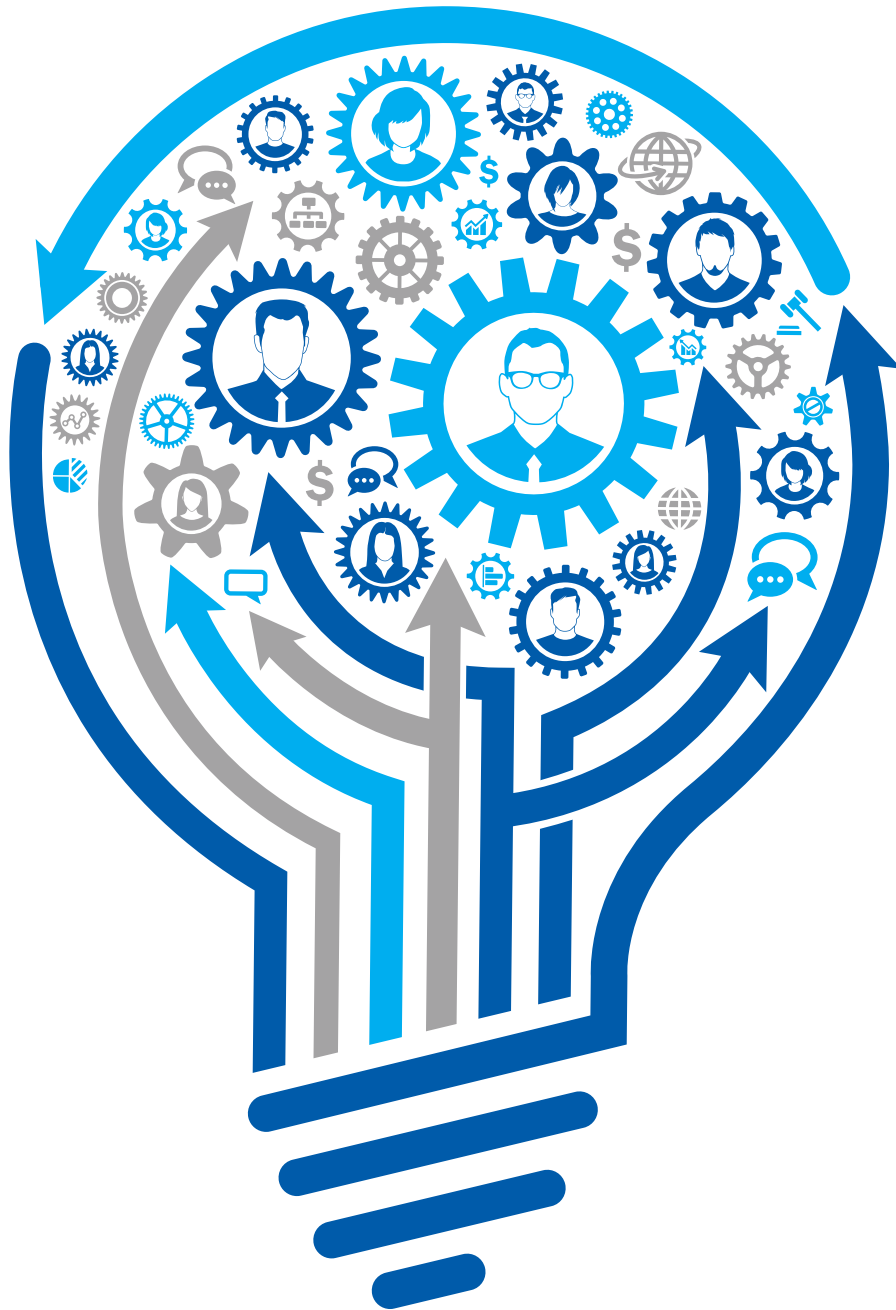


RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Fact Sheet
July 2016



IESBA

International
Ethics Standards
Board for Accountants®

WHAT IS IT?

Responding to Non-compliance with Laws and Regulations is an international ethics standard for auditors and other professional accountants (PAs). It sets out a first-of-its-kind framework to guide PAs in what actions to take in the public interest when they become aware of a potential illegal act, known as *non-compliance with laws and regulations*, or *NOCLAR*, committed by a client or employer.



The standard includes a clear pathway to disclosure of NOCLAR to appropriate public authorities in certain circumstances.

THE STANDARD WILL BE EFFECTIVE JULY 15, 2017. EARLY ADOPTION IS PERMITTED.

WHY IS IT IMPORTANT?

As a set of ethical standards with global reach, the IESBA Code of Ethics for Professional Accountants (the Code) plays a unique role in supporting the accountancy profession in acting in the public interest.



The standard will stimulate greater accountability among organizations, help protect stakeholders and the general public from substantial harm resulting from violation of laws and regulations, and strengthen the reputation of the profession (see Outcomes on next page).



This is the first time accountants have been permitted to set aside the duty of confidentiality under the Code in order to disclose NOCLAR to appropriate public authorities in certain circumstances.



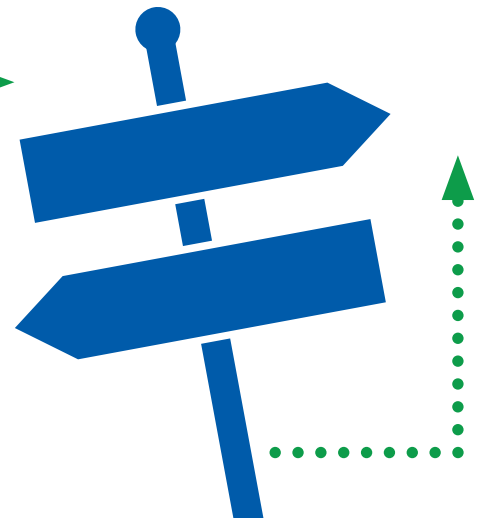
The standard positions the accountancy profession to play a greater role in the global fight against NOCLAR, such as financial fraud, money laundering, and corruption.

The standard is the result of over six years of extensive consultation, based on a multi-stakeholder approach and stringent due process.

WHY WAS THE STANDARD DEVELOPED?

The standard responds to the following key public interest concerns:

- The duty of confidentiality in the Code acting as a barrier to the disclosure by PAs of potential NOCLAR to public authorities in the appropriate circumstances
- Auditors simply resigning from client relationships without NOCLAR issues being appropriately addressed
- A lack of guidance to help PAs in working out how best to respond to potential NOCLAR, a situation that may often be difficult and stressful



WHAT OUTCOMES IS THE STANDARD SEEKING TO ACHIEVE?

ENHANCED ETHICAL CONDUCT

- Clarifies that turning a blind eye to potential NOCLAR is not an appropriate response from professional accountants, while placing renewed emphasis on the roles of management and those charged with governance in addressing the matter
- Increases awareness and understanding among PAs of their legal and regulatory responsibilities when they face NOCLAR, thereby helping to stimulate increased reporting of NOCLAR to public authorities pursuant to reporting requirements in law or regulation

PROTECTION FOR STAKEHOLDERS AND GENERAL PUBLIC

- Stimulates PAs to take a proactive role in responding to NOCLAR, which can lead to:
 - an earlier response by management or those charged with governance, thereby mitigating adverse consequences for stakeholders and the general public
 - deterring potential NOCLAR, thereby helping to lower rates of NOCLAR for the greater benefit of business and society
 - timelier intervention from public authorities on reports of potential NOCLAR from PAs in appropriate circumstances, thereby mitigating any adverse consequences for stakeholders and the general public

ENHANCED ROLE AND VALUE OF THE ACCOUNTANCY PROFESSION

- Enables the profession to play a greater role in the fight against significant NOCLAR, such as financial fraud, money laundering, and corruption
- Enhances the profession's reputation as a guardrail for trustworthy organizations and a healthy global financial system



WHEN DOES IT APPLY?

NOCLAR is defined as any act of omission or commission, intentional or unintentional, committed by a client or employer, including by management or by others working for or under the direction of the client or employer, which is contrary to prevailing laws or regulations.

The laws and regulations covered, violations of which are acts of NOCLAR, are those that directly affect the client's or the employing organization's financial statements or its business in a material or fundamental way.

Examples of the range of laws and regulations covered include those that address:

MONEY LAUNDERING PUBLIC HEALTH AND SAFETY
SECURITIES MARKETS **BRIBERY** DATA PROTECTION
FRAUD **CORRUPTION** FINANCIAL PRODUCTS
FINANCIAL SERVICES **BANKING** **PROCEEDS OF CRIME**
SECURITIES TRADING **ENVIRONMENTAL PROTECTION**
TAX AND PENSION LIABILITIES **TERRORIST FINANCING**



WHO WILL BE AFFECTED BY THE STANDARD?



The standard applies to all PAs. However, it stipulates a different but proportionate approach for the following four categories of PAs:

- Auditors
- Other PAs in public practice
- PAs in business who are in senior-level roles—directors, officers, or senior employees in their employing organizations
- Other PAs in business

Those with whom PAs may raise NOCLAR matters will also be directly affected—including those in management positions or on boards of directors, and regulators or other public authorities.

CALL FOR SUPPORT

- The IESBA alone cannot make a difference. **All links in the financial reporting supply chain, especially management and those charged with governance, have an important role to play** in preventing and bringing to light potential acts of NOCLAR.
- **Governments, legislators, and regulators** are uniquely placed to introduce or strengthen legislation or regulation governing the reporting of NOCLAR, appropriately tailored to their national circumstances, including establishing appropriate protections for whistle-blowers.
- **National standard setters and professional accountancy organizations** should review their national ethics standards or codes of ethics and consider actions to adopt or promulgate provisions that are at least as robust as the IESBA's NOCLAR standard.
- **Legislators, regulators, accounting firms, professional accountancy organizations, academic institutions, and other stakeholders** should work toward helping PAs become more aware of and better understand their legal, regulatory, and ethical responsibilities regarding responding to NOCLAR.
- **Regional and international organizations** with an interest or a role in ensuring that NOCLAR is addressed effectively can stimulate dialogue, coordination, and progress on the topic.
- The **IESBA encourages other professions** to reflect on this new standard of ethical conduct for the accountancy profession and consider working toward a similarly global standard of ethics for their members in the public interest.



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Find contacts, additional resources, and more about the standard and IESBA at www.ethicsboard.org.