

Regulatory Briefing

Summary of key regulatory actions, initiatives and draft legislation affecting audit, capital markets, governance and tax

July 2017

Implications for companies and their auditors

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Welcome

Welcome to the July 2017 issue of the Regulatory Briefing. In it we outline key current developments affecting audit, capital markets, governance and tax. This includes information on recently adopted legislation and regulations and some new developments, as well as updates on on-going initiatives. For the latest news and additional information, please visit our website at: <https://www.pwc.com/regulation>

A Global View

Connecting the dots: Politics and policy in the past year

The last 12 months produced several major political shifts around the world – the Brexit referendum, the elections of Donald Trump and Emmanuel Macron and the fall of Park Geun-Hye. Looking at the big political stories of the past year, we identify some of the potential effects on regulatory and public policy:

- *Trump and Brexit: National interests, regulatory impact*
 - **US** - President Trump's campaign platform included a promise to roll back regulations on American businesses. Since his inauguration, the president has issued Executive Orders and presidential memoranda to begin the promised regulatory overhaul. He is taking particular aim at regulations stemming from the **Dodd-Frank Act**, passed after the 2007-2008 financial crisis, as well as reform of the **US Tax Code**. President Trump's regulatory agenda affects US-based businesses but also has potential global repercussions. Amidst the uncertainty surrounding the president's policies, the **Basel Committee** on Banking Supervision announced it will 'pause' new policy initiatives. The regulatory rollback supported by President Trump includes reforms backed by the Basel Committee.
 - **EU/UK** - The **Brexit** referendum's lasting effect on regulatory policy depends on the UK's exit negotiations with the EU. The 'Great Repeal Bill' makes any sudden changes unlikely, as existing EU law and associated regulations are adopted in entirety into British law. However, long-term changes are likely. This will impact access to talent for UK industries, such as healthcare and retail that rely on low-skilled workers from other EU Member States. We have also seen Prime Minister Theresa May advocate changes to the country's corporate governance structure, including a greater voice for workers and stakeholders on executive compensation.
- *The world stage*
 - As the **US** and **UK** look inward, other countries may fill the void on the global stage by promoting regulatory policies that attract foreign investment. Chinese President Xi Jinping has defended globalization, most notably at the World Economic Forum in January. **China's** stability under President Xi may influence global organisations to adopt less Western-centric regulatory frameworks and practices.
 - In **Argentina**, the election of President Mauricio Macri had an immediate regulatory impact as the country abandoned many Peronist policies. The lifting of mandatory audit firm rotation was just one of the regulatory initiatives by a Macri government committed to a pro-market approach. A similar regulatory approach may be seen in **France**, where new president Emmanuel Macron supports a move toward deregulation, although his focus is on labour and employment reform.
 - In **South Korea**, President Moon Jae-in was elected after the impeachment of Park Geun-Hye. Many voters demanded a crackdown on corruption and more transparency for dealings with the country's leading businesses known as the *chaebol*. Public demand led to a new anti-corruption framework in **Mexico** to coordinate anti-corruption efforts on the federal, state and local levels, and is driving new efforts by the World Bank, OECD, international agencies and governments.

These diverse results show that the regulatory environment is more uncertain and less predictable - with a mix of possible outcomes from increased to reduced regulation. Many of the future changes will be driven by local priorities rather than historic political persuasions or allegiances.

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Audit

United States

New: Public Company Accounting Oversight Board (PCAOB) – New standard enhancing auditor reporting (AS 3101)

On 1 June the PCAOB adopted a new auditor reporting standard [“The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion”](#). The standard will enhance the auditor’s report, including communication of critical audit matters (CAM) and disclosure of auditor tenure.

The CAM are matters arising from the audit of the financial statements communicated to the audit committee that both related to accounts or disclosures that are material to the financial statements and involved especially challenging, subjective or complex auditor judgement. The auditor’s report will be required to:

- Identify the CAM
- Describe the principal considerations that led the auditor to determine the matter is a CAM
- Describe how it was addressed in the audit

If the auditor determines there are CAM, the auditor must state this in the auditor’s report.

In addition to the communication of CAM, the auditor’s report will be required to include a statement disclosing the year the auditor began serving consecutively as the company’s auditor. Other changes are intended to clarify the auditor’s role and responsibilities and make the audit report easier to read.

Next steps

The standards must first be approved by the U.S. Securities and Exchange Commission (SEC). After SEC approval, provisions related to CAM will take effect for audits for fiscal years ending on or after 30 June, 2019 for large accelerated filers; and for audits for fiscal years ending on or after 20 December, 2020 for all other companies to which the requirements apply. The other changes to the auditor’s report will take effect for the audits for fiscal years ending on or after 15 December, 2017.

PwC commentary

The new auditing standard is similar to those introduced in the UK and other countries over the last several years. PwC supports the PCAOB’s efforts to respond to investors’ desires for enhanced transparency and relevancy in auditor reporting. For further details from PwC, click [here](#).

South Africa

New: Independent Regulatory Board for Auditors (IRBA) – Mandatory audit firm rotation (MAFR) rule issued

On 2 June IRBA issued its [rule prescribing MAFR](#) effective 1 April, 2023. The rule requires that an appointed auditor of a public interest entity serve no more than 10 consecutive financial years. The auditor will be eligible for reappointment after a ‘cooling off’ period of five financial years.

Global

New: International Ethics Standards Board for Accountants (IESBA) – Update on Responding to Non-compliance Laws and Regulations (NOCLAR)

IESBA’s new professional standard on [NOCLAR](#) comes into effect on 15 July, 2017. IESBA is an independent standard-setting body that sets ethics standards for auditors and professional accountants. The NOCLAR framework will guide professional accountants if and when they become aware of a potential non-compliance situation. IESBA published a [set of videos](#) to provide guidance on NOCLAR and provided additional guidance through [Staff Questions and Answers](#).

New: IESBA – Input requested from stakeholders for Strategic Review

IESBA released an [online survey](#) seeking comments, views and insights from all stakeholders to help shape its strategy and work plan beyond 2018. The survey seeks input on the key issues IESBA should address that might impact its Code of Ethics for Professional Accountants.

Next steps

The survey closes on 18 July, 2017. IESBA will use the responses to develop a formal consultation paper on its Strategy and Work Plan, which it expects to issue in 2018.

PwC commentary

Although the IESBA Code applies to professional accountants, the survey is an opportunity for all stakeholders to help shape future priorities in the accounting profession.

Canada***Adopted: Auditing and Assurance Standards Board (AASB) – New Auditor Reporting Standards issued***

In April the AASB approved a series of [new and revised Canadian auditor reporting standards](#). Key differences from the previous standards include:

- A new reporting format. For example, the opinion paragraph will be at the beginning of the report.
- Enhanced requirements relating to going concern, including statements about management's use of the going concern basis of accounting and whether there are material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern
- A new statement describing the auditor's responsibilities
- Disclosure of the engagement partner name for audits of listed entities' financial statements
- Enhanced descriptions for responsibilities of management, the auditor and those charged with governance

Next steps

The standards will be effective for financial years ending on or after 15 December, 2018 with earlier application permitted.

The AASB will monitor developments in the US, as well as post-implementation reviews of key audit matter (KAM) reporting in other countries, before making a decision to expand KAM reporting in Canada. Insights gained from reviews of Australian and Canadian implementation experience will guide the AASB in future deliberations on communications of KAM being made mandatory for any particular entities.

PwC commentary

The Canadian Auditing Standards (CAS) are substantially the same as the ISAs, except that KAM reporting will be applicable only when

required by law or by auditor choice. The AASB's decision not to mandate KAM reporting was based on a desire to support compatibility between the CAS and the U.S. Public Company Accounting Oversight Board's (PCAOB) auditor reporting standards. The release of the PCAOB's proposed new auditor standards, which include KAM, will help the AASB to align KAM-reporting requirements between the two markets.

New: Canadian Securities Administrators (CSA) – Consultation on reducing regulatory burden for companies

The CSA published a [consultation paper](#) seeking comments on ways to reduce the regulatory burden on companies without compromising investor protection or market efficiency. Specifically the paper looks to reduce burdens associated with capital raising and the costs of being a reporting issuer. Options being explored include changes to:

- Streamline prospectus requirements
- Permit semi-annual reporting rather than quarterly reporting
- Reduce annual and interim disclosure requirements
- Extend deadlines and exemptions to smaller reporting issuers
- Eliminate duplicative requirements

The review covers all reporting issuers other than investment funds.

Next steps

Comments are due 7 July. At this point, no decision has been made to move forward on any particular initiative.

PwC commentary

In the US and the EU, more emphasis is being placed on balancing regulatory costs and the value provided to investors. Look for similar concerns to be raised in other countries.

European Union***Update: Implementation of the EU audit legislation by Member States***

Since the last Regulatory Briefing, Cyprus adopted its implementing legislation.

In Poland the legislature introduced far reaching non-audit services restrictions in addition to the

previously proposed mandatory audit firm rotation of five years.

For additional information and updates on implementation, please visit the [PwC EU Audit Reform webpage](#).

The European Contact Group published an updated set of FAQs regarding the interpretation of the EU audit legislation, which is available [here](#).

New: European Commission – Market monitoring report published

The EC is expected to publish the first of its reports on concentration in the EU audit market. The report will be a summary of data the EC received from Member States on the concentration levels in the audit market for public interest entities, the risks arising from quality deficiencies of an audit and the need to adopt measures to mitigate such risks. This report is expected to be a baseline for future reports.

Next steps

The next report is due in 2019, the same year the EC will undertake a review on the operation and effectiveness of the system of cooperation between audit oversight bodies within the framework of the Committee of European Auditing Oversight Bodies (CEAOB).

PwC commentary

It is very helpful for entities overseeing the EU audit market to quantify the impact of the EU audit legislation by disclosing key figures and developments over time. By 2019 the legislation will have largely settled in and the figures to report will start to represent the outcome of the new requirements. Accordingly it is important to consider the right set of data today and to report consistently over time to support comparability. Ensuring the accuracy of results is key, as the development of future regulation and oversight of the audit market may be tied to the report's findings.

India

New: Ministry of Corporate Affairs (MCA), Insurance Regulatory and Development Authority of India (IRDAI) – Exposure draft of Preparation of Financial Statements of Insurers Regulation, 2017

In March 2016 MCA issued its roadmap for implementing the [Indian Reporting Standards](#)

(Ind-AS), primarily based on the International Financial Reporting Standards. According to the plan, insurers and insurance companies will be required to prepare Ind-AS compliant financial statements for accounting periods beginning from 1 April, 2018.

The exposure draft of the new regulation supporting implementation of Ind-AS ([Preparation of Financial Statements of Insurers, 2017](#)) for insurance companies was released and the new regulation is expected to be effective from 1 April, 2018.

Russia

New: Central Bank (CB), Ministry of Finance (MoF) – Audit oversight transferring to CB

In April 2017 the Russian Federation Government announced that it will [transfer audit oversight and regulation](#) to the CB from the MoF, effective from 1 January, 2018. The plan will require significant changes to current legislation, including the Audit Law, and is aimed at tightening audit oversight and improving audit quality, especially for audits of public interest entities (PIE). As the new audit regulator, the CB may consider several measures to achieve its goals, including:

- Limiting the number of audit firms allowed to audit PIEs, via an accreditation system
- Increasing auditor responsibility through stricter sanctions

United Kingdom

New: Financial Reporting Council (FRC) – Discussion paper on auditors and preliminary announcements

In April the FRC issued a [discussion paper](#) on companies' preliminary announcements of their annual results, and the role of auditors in those announcements. The paper results from FRC research revealing that the role of the auditor in preliminary announcements is widely misunderstood. The paper offers ten options for discussion about how to provide greater clarity. Publication of preliminary results has been voluntary in the UK since 2007, but remains a key part of corporate reporting.

Next steps

The comment period closed on 23 June, 2017.

Capital Markets

European Union

Brexit update – EU/UK Negotiations, general election and Great Repeal White Paper

Negotiations begin

Despite the upheaval from the recent UK General Election, the EU and the UK commenced Brexit negotiations on 19 June.

The 27 remaining EU nations pledged unity and to negotiate constructively. The UK had suggested parallel discussions on leaving and the new relationship between the EU and UK after Brexit. The EU 27 were strongly opposed to this, and it was agreed on the first day of negotiations that the terms for the UK's departure would be negotiated first. The EU 27 are focussing on three topics:

- Rights of EU citizens living and working in the UK, and vice versa
- The budget question, settlements between UK and EU upon exit
- How the UK will handle its borders with the EU (Northern Ireland with the Republic of Ireland, Gibraltar with Spain)

Please find more on how the Brexit negotiations are expected to work in practice on our [blog](#).

UK General Election

In the 9 June General Election the Conservative Government lost its majority resulting in a 'hung Parliament'. On 26 June the Conservative Party reached an agreement with Northern Ireland's socially conservative and pro-Brexit Democratic Unionist Party (DUP) which will provide Prime Minister Theresa May with a working majority in Parliament. The Labour Party gained thirty seats and has emerged as a stronger and more credible opposition. Even with the agreement with the DUP, questions remain regarding Theresa May's future as leader of the Conservative Party and as Prime Minister, and over whether another election may be needed in the autumn to provide certainty in the negotiations over Brexit.

Great Repeal Bill

On 29 March the UK [triggered Article 50](#) to start the process of leaving the EU. To provide

continuity and certainty for individuals and businesses throughout this process, the UK Government published a [White Paper on the 'Great Repeal Bill'](#). The White Paper makes clear that the purpose of the Bill is not to change policy, but to make sure that the same rules and laws apply on the UK's departure from the EU as they do now. The Bill forms the cornerstone of the Government's legislative agenda set out in the Queen's Speech to Parliament on 21 June.

The Bill will:

- Repeal the European Communities Act which established the UK's membership in the European Economic Community (predecessor of the EU) and the supremacy of EU law over UK domestic law
- Convert existing EU laws into domestic UK legislation to prevent any gaps or contradictions in the UK's statutory framework
- Create Government powers to make changes to laws through secondary legislation to ensure the proper functioning of law once the UK has left the EU (e.g. by removing references to EU institutions or removing reporting requirements to EU bodies)

The UK Government emphasised that the Bill will protect employment, environmental and consumer rights.

Adopted: New EU regulation on prospectuses

The EU adopted a [new regulation](#) on prospectuses for the issuing and offering of securities. The regulation simplifies rules and streamlines administrative procedures, and makes it cheaper and simpler for small businesses to access capital markets. Main provisions include:

- Issuers of securities with a value below €1 million (the previous rules set that limit at €100,000) no longer needing to produce a prospectus. In addition, Member States can now exempt issuers they consider to be 'small' from the obligation to publish a prospectus by setting a higher threshold – up to €8 million – for their domestic markets
- Less complex requirements for smaller companies issuing a prospectus

- SMEs, companies with less than 500 employees listed on an SME growth market and unlisted companies undertaking small scale issues can use the new simplified 'EU Growth Prospectus'
- A simplified prospectus that can be used by companies already listed on a public market wishing to issue additional shares or raise debt
- Companies that frequently issue securities are also able to use the 'Universal Registration Document' (URD). This is a form of 'shelf registration' containing all the necessary information about the company. Regularly maintaining an updated URD with supervisors enables five day fast-track approval for raising capital on the markets
- Free searching of the European Securities and Market Authority database of prospectuses approved in the European Economic Area (Note: Paper prospectuses are no longer required unless a potential investor requests them)

New: European Commission (EC) – Consultation on the operations of the European Supervisory Authorities (ESA)

The EC held a [public consultation](#) to gather input on ways to improve the effectiveness and efficiency of the agencies that supervise European financial services and capital markets. Key themes within the consultation included:

- Providing the ESAs with more powers to improve supervisory consistency
- Consolidating the European Banking Authority and the European Insurance and Occupational Pensions Authority to increase regulatory efficiency and effectiveness
- Eliminating overlaps and inconsistencies in reporting to multiple regulators and streamlining disclosure requirements for firms
- Strengthening the ESAs' role in ongoing monitoring of third country equivalence
- Increasing the ESA's power, scope and involvement in consumer and investor protection
- Creating a stable, transparent, efficient and simple funding model for the ESAs. This may

be achieved through an industry funded model

- Increasing ESA's authority for market supervision, including a more centralised supervisory model to overcome market fragmentation

New: European Commission (EC) – Consultation on whistleblower protection

The EC held a [public consultation](#) to gather input on the benefits and drawbacks of enhanced whistleblower protection. This includes individuals who may come across information about acts or omissions which represent a threat or harm to the public interest, such as fraud, corruption, tax evasion, misuse of personal data, unlawful use of private or inside information or money laundering.

The EC defines a whistleblower as 'any person who reports or discloses information on a threat or harm to the public interest in the context of their work-based relationship, whether in the public or private sector'. The EC will assess how it may strengthen whistleblower protections at the EU level, while not undermining local efforts as well as ways to eliminate weaknesses and gaps in current protections.

European Commission (EC) – Consultation on how to modernise EU company law

The European Commission (EC) published a [consultation](#) to assess whether new measures are needed to facilitate the use of digital technologies throughout a company's lifecycle and cross-border mergers and divisions. A company lifecycle is a company's course of events from start to end, specifically the stages of incorporation, expansion, maturity and decline.

Only a limited EU legal framework on digital interaction between companies and Member States currently exists. For example, at the national level, several Member States already allow full online registration of companies but there is no EU legal framework allowing online registration cross-border.

Digital tools (such as digital information exchange platforms and blockchain voting facilities) may make the interaction between companies and their shareholders significantly easier but are not always allowed. In addition, Member States' different rules and lack of standardisation may create barriers to the effective use of digital tools in company law.

At the same time, the EC is consulting on ways to harmonise existing legislation on cross-border mergers, divisions and conversions. The current EU framework for cross-border mergers remains costly and complex and a specific EU legal framework for cross-border divisions and conversions doesn't exist.

Next steps

The deadline to provide comments is 6 August 2017.

Adopted: EU – Shareholder Rights Directive

The EU adopted the revised [Shareholder Rights Directive](#). Member States will have 24 months to transpose the Directive into law.

Shareholders will have the right to vote on the compensation policy for company directors (“say on pay”) and the pay actually awarded must be transparent. The policy should also explain how employees’ pay and employment conditions are taken into account and how the policy contributes to the company’s long-term interests.

The rules require ownership intermediaries (such as a broker or bank) to identify any beneficial shareholders with holdings over 0.5% in response to company requests. The rule’s purpose is to simplify the exercise of shareholder rights.

Institutional investors and asset managers must develop and publicly disclose their policy on engaging shareholders, or explain why they have chosen not to do so. Proxy advisers will be subject to transparency requirements and a code of conduct.

PwC commentary

Companies operating across borders risk being governed by different or contradictory laws depending on where they are formed or active. The uncertainty about which law applies causes practical difficulties and adds costs -- this needs to be addressed.

United States

Update on Trump Administration’s policy goals

The first 100 days of the Trump Administration provided the opportunity to review the president’s progress on regulatory and policy objectives while also taking a look at how President Trump is already impacting global regulations.

Lower business tax rates while broadening the base

Congressional Republicans and the administration are in agreement that the budget reconciliation process will likely be needed to pass tax reform, but the recent efforts to agree on a common tax reform proposal have highlighted a number of issues where Republicans have not reached consensus. These issues include whether tax reform should be revenue neutral and the border adjustment tax (BAT), which is central to the House Republican Blueprint. Meanwhile, Democrats have indicated that they want tax reform to focus more on the middle-class and be moved through regular order, not under budget reconciliation. Ultimately, Congress may pass more narrowly-tailored tax cut legislation rather than comprehensive tax reforms, and tax rate reductions included in the Trump administration’s tax reform proposal or the House Republican Blueprint are more likely to be temporary than permanent.

Rollback certain regulations

President Trump has taken aim at regulations broadly and those based in specific legislation, such as the Dodd-Frank Act. The president issued [memorandum](#) directing Treasury Secretary Mnuchin to assess the Financial Stability Oversight Council’s (FSOC) process of designating banks and financial firms as ‘too big to fail.’ Many Republicans believe the FSOC has applied the term inconsistently.

In response to another [memorandum](#), the Department of the Treasury published a [report](#) on whether the federal government’s orderly liquidation authority is useful or hurtful to the US economy and supportive of the administration’s regulatory policy. The report is a mixture of support for some provisions of the Dodd-Frank Act while also backing a lighter regulatory burden on banks. The Trump administration has indicated it is planning to overhaul the bulk of its bank

deregulation agenda through Executive Orders and regulations, but the administration is still months away from installing key top officials at important regulatory posts in order to carry out that agenda.

Re-set trade and immigration policies

President Trump made trade a key issue during his campaign, and has taken steps to implement his vision since taking office. Last month, his administration gave Congress official notice of his intent to renegotiate the North American Free Trade Agreement after previously threatening to withdraw completely. Also, the president has initially backed off his threat to label China as a 'currency manipulator' as part of negotiations over North Korea. The president signed two Executive Orders on trade, the [first](#) called for a report on the causes of the current trade deficit and the [second](#) addressed minor issues regarding tariff collections. On immigration, after the president's self-proclaimed travel ban has been blocked by the courts, his policy may pivot to significant reforms to the H-1 visa program, which would trigger changes to numerous regulations.

The president did sign the ['Buy American, Hire American' Executive Order](#), which encourages federal purchases of US-made products and calls for a review of any abuses in the visa system.

Invest in upgrading digital and physical infrastructure

An infrastructure package may be unveiled earlier than the original autumn target and include over \$1 trillion in investment (over 10 years) and streamlining regulations.

Recent political turmoil in Washington has continued to overshadow the president's long-term agenda. However the situation is resolved, the president will continue to work to shape his domestic policy, with the effects being felt worldwide.

Global

New: Basel Committee on Banking Supervision – Pause in major new projects

The Basel Committee on Banking Supervision, a cooperative forum for bank supervisory matters, released its 2017-2018 [Work Programme](#). The programme indicates that the Committee will not pursue any major new projects until 2019. The organisation will instead focus on measuring the effectiveness of reforms issued in response to the 2007-2008 financial crisis.

Governance

Global

New: Financial Stability Board (FSB) – ‘Thematic Review on Corporate Governance’ issued

The FSB, an international body that makes recommendations about the global financial system, published its [‘Thematic Review on Corporate Governance’](#). The review, based on input from FSB member countries, focused on the implementation and effectiveness of the G20/OECD Principles of Corporate Governance applied to listed financial institutions.

The review found that while all of the 24 member countries have corporate governance frameworks, lack of clarity in authority and enforcement can undermine effectiveness. In addition, the review found that additional factors should be considered when prescribing a company’s risk management system, including ownership and control structure, geographical presence and stage of development.

The review includes twelve recommendations to FSB member jurisdictions, international standard-setting bodies and financial institutions on ways to improve corporate governance. The recommendations support key objectives, including:

- Ensuring the basis for an effective corporate governance framework by identifying and addressing gaps or inconsistencies in regulations and maintaining a clear regulatory and enforcement structure
- Improving disclosures and transparency, including executive compensation information
- Encouraging boards to enhance transparency of their nomination process, including succession planning. Boards are also encouraged to undertake regular assessments and consider adopting and disclosing codes of ethics or conduct
- Establishing the rights and equitable treatment of shareholders, including the ability to vote on board and senior management compensation
- Enhancing the effectiveness of whistleblower protection programs

- Reviewing current practices against those prescribed in the G20/OECD Principles of Corporate Governance

Japan

New: Financial Services Agency – Publication of draft Principles for Responsible Institutional Investors’

In April the Council of Experts on the Stewardship Code published its draft [‘Principles for Responsible Institutional Investors’](#), a revised version of Japan’s Stewardship Code (2014). The draft Principles is the latest development from the [Council](#), which was formed as part of the Japan Revitalization Strategy launched in 2016.

The draft includes new language to promote sustainable growth of companies through investment and dialogue. This includes provisions designed to:

- Promote engagement by asset owners in stewardship activities
- Encourage asset owners to clearly specify to asset managers the issues and principles to be required in conducting stewardship activities
- Enhance asset manager governance structures
- Encourage proxy advisors to disclose their approach to managing conflicts of interest and developing voting recommendations

India

New: Securities and Exchange Board of India (SEBI) – Guidance Note on Board Evaluation released

The Companies Act, 2013 and SEBI Listing Obligations and Disclosure Requirements Regulations, 2015 contain broad provisions on the evaluation of the board performance. To provide greater clarity, SEBI released the [Guidance Note on Board Evaluation](#), aimed at supporting listed entities and their boards. The Guidance note covers all major aspects of board evaluation, including personnel, objectives and criteria to be adopted for evaluation, frequency of the evaluation, disclosures to stakeholders and periodic review of the evaluation process.

Next steps

Listed entities may adopt the Guidance, as considered appropriate, with the goal to improve overall performance and raise corporate governance standards to benefit all stakeholders.

Kenya

Adopted: Capital Markets Authority (CMA) – New Corporate Governance Code takes effect

In March the new [‘Code of Corporate Governance Practices for Issuers of Securities to the Public’](#) went into effect. Listed companies must now align their governance structures and reporting arrangements with the Code. The Code was approved in 2016 as part of the CMA’s Capital Market Master Plan, a ten-year initiative to strengthen corporate governance, financial reporting and anti-money laundering regulations in Kenya.

The new Code introduces an ‘apply or explain’ approach, which requires application of the Code or an explanation and commitment by the company to apply the Code within a definite time or to explain what arrangements it has put in place to ensure compliance with the principles in the Code. The Code requires rotation of the audit firm every six to nine years.

Malaysia

Adopted: Securities Commission (SC) – New Corporate Governance Code issued

In April the SC issued the new [Malaysian Code on Corporate Governance \(MCCG\)](#). While targeted at listed companies, others are encouraged to also adopt it.

A major change in the new MCCG is the shift from a “comply or explain” approach to “apply or explain an alternative” approach. The change means a company may no longer just explain why it did not comply with a requirement but must now explain an alternative approach it has implemented which achieves the desired outcome. The Code also introduces the Comprehend, Apply and Report (CARE) approach, to ensure a better understanding of the spirit and intent of disclosure requirements to help companies to apply them with the objective of improving its governance culture.

In addition to the launch of the MCCG, the SC announced a three-year corporate governance strategic plan. The strategic plan supports three key initiatives:

- Strengthening the governance culture, notably through the creation of the Institute of Corporate Directors Malaysia and enhanced collaboration with small and medium enterprises
- Leveraging enforcement technology for corporate surveillance measures
- Promoting gender diversity on boards, with a goal of 30% female representation by 2020

Next steps

The MCCG is effective immediately. Reporting on the applications of practices in the MCCG will be required for financial years ending 31 December, 2017.

PwC Commentary

The MCCG will likely increase transparency and accountability by making information more accessible. Key new features of the MCCG and the SC three-year corporate governance plan should promote a more meaningful application of practices and deepen understanding of the importance of corporate governance to the stability and effective operation of the financial markets.

Adopted: Companies Commission of Malaysia (SSM) – 2016 Companies Act

The first phase of a new [Companies Act](#) by the SSM was effective from 31 January, 2017. The Act aims to enhance corporate governance and responsibilities. Key changes include:

- Removal of the requirement for private companies to hold annual general meetings
- No-par value of share capital comes into effect
- Stricter rules relating to directors’ remuneration
- A solvency requirement regarding payment of dividends

The Act also provides the Registrar of Companies with the power to exempt certain categories of companies from mandatory audit requirements.

Saudi Arabia

Adopted: Capital Market Authority of Saudi Arabia (CMA) – New corporate governance regulations

In March the CMA adopted new [Corporate Governance Regulations](#) for listed joint stock companies. The regulations are the result of coordinated efforts by the CMA and the Ministry of Commerce and Investment to harmonise regulations and strengthen the capital market.

The new regulations extend the rights of shareholders, boards and stakeholders and require greater corporate transparency. Companies are now required to:

- Enhance the role of shareholders and improve shareholder rights
- Set out the competencies and responsibilities of the board and executive management
- Enhance the role of the board and committees and strengthen the company's decision making mechanisms
- Achieve greater transparency, impartiality and equity
- Provide effective and balanced tools to address conflicts of interest
- Create policies on treatment of employees, including pay incentives
- Establish a framework to engage stakeholders and protect their rights
- Support effective company oversight
- Raise the standards of professional conduct

The regulations entered into effect on 22 April except for [certain provisions](#) which are effective from 31 December, 2017.

Singapore

New: Monetary Authority of Singapore (MAS) – Review of Code of Corporate Governance

The MAS established a Corporate Governance Council to review its Code of Corporate Governance for listed companies. The Council is investigating ways the Code, last updated in 2012, and may be amended to make the 'comply or explain' approach more effective. Specifically, the MAS wants to curb the use of boilerplate language

and compliance 'box ticking', indications of regulatory compliance but a lack of substantive assessment.

The Council is made up of [representatives](#) from a variety of areas of expertise.

Next steps

The Council will construct recommendations for the Code. The public will be consulted before any final changes are made.

Adopted: Ministry of Finance (MoF), Accounting and Corporate Regulatory Authority (ACRA) – Companies Act of 2017 and Limited Liability Partnerships Act 2017 amendments

On 10 March Parliament passed the [Companies \(Amendment\) Bill 2017 and Limited Liability Partnerships \(Amendment\) Bill](#). The new bills were the result of the MoF and ACRA's review of the Companies Act last year. The review was driven in part by ACRA's desire to reduce compliance costs and administrative burdens on companies and boost Singapore's competitiveness. The new bills include some major changes:

- Compliance costs will be reduced for private companies which will now be exempt from holding annual general meetings (AGM), subject to specific safeguards
- The timeline for public companies to hold AGMs and file annual returns will also be simplified
- The bills encourage foreign corporate entities to transfer their registration to Singapore
- Ownership and control of business entities will be made more transparent to investors as all companies and partnerships will be required to obtain and maintain beneficial ownership information

PwC commentary

Singapore is one of several countries exploring how to simplify requirements to reduce regulatory burdens on business and improve the investment climate. Other examples of regulatory initiatives aimed at reducing costs for business include the 'one-in, two-out' rule in the UK, the 'two-for-one' Executive Order in the US and the regulatory initiatives of the Indian government to improve the country's 'Ease of Doing Business Index' ranking.

Tax

Global

New: G20 – G20 public trust in tax study

The Association of Chartered Certified Accountants, the International Federation of Accountants and the Chartered Accountants Australia and New Zealand conducted a [study](#) of individual views and levels of trust on international taxation. The study was based on responses from over 7,600 persons in G20 countries.

The results show that people want their governments to cooperate for a more coherent international tax system. In addition, participant responses revealed a deep distrust of politicians when it comes to tax, with 67% either distrusting or highly distrusting politicians.

The study showed that people do trust professionals, with 57% of people trusting or highly trusting professional accountants when it comes to the tax system, as compared to professional tax lawyers (49%), and non-government organizations (35%).

Individuals also shared the view that paying taxes is a matter of laws and regulations rather than morals and fairness.

PwC commentary

The study highlights the general trend of decreasing trust in institutions and a shift to a more distributed trust model. Collaboration between policymakers and institutions is an important way to rebuild trust.

New: Organization for Economic Cooperation and Development (OECD) – International Value-added Tax (VAT)/Goods and Services Tax (GST) guidelines

During its Global Forum on VAT in April, the OECD released its VAT/GST recommendations on international trade in services and intangibles. The recommendations incorporate the destination or place of consumption approach in the [International VAT/GST Guidelines](#).

The recommendations mark the first OECD Act in the area of VAT. Non-OECD members can also adopt the recommendations. The OECD guidelines were developed with involvement from a wide range of countries outside the OECD. The package

presents good practice approaches for the effective operation of the solutions outlined above and for their consistent application across jurisdictions.

European Union

Update: European Parliament (EP) – PANA Committee

During the recent discussions of the ongoing PANA committee hearings, [two studies were published](#):

- The first study is on the role of advisors and intermediaries in the schemes revealed in the Panama Papers.
- The second study looks at rules on independence and responsibility regarding auditing, tax advice, accountancy, account certification services and legal services. In addition, the study maps out the rules on independence and responsibility that are applicable in the EU and in seven other territories. The study makes recommendations to improve independence of tax professionals such as the development of an EU framework for compulsory common ethical standards for tax advisors in each country. One possible approach is that of the Circular 230 in the US which applies to all those advising taxpayers regardless of their other professional affiliations.

New: European Commission (EC) – Proposed new transparency rules for tax planning intermediaries

In June the EC proposed [new transparency rules](#) for intermediaries that design or sell potentially harmful tax schemes. The proposed rules stem from investigations into the Panama Papers.

Intermediaries will have to report any cross-border arrangement that contains one or more of the following characteristics, which might indicate that the arrangement is set up to avoid paying taxes:

- Involve a cross-border payment which is deductible at source to a recipient resident in a no-or low-tax country
- Involve a jurisdiction with inadequate or weakly enforced anti-money laundering legislation

- Are set up to avoid reporting income as required under EU transparency rules
- Circumvent EU information exchange requirements for tax rulings
- Have a link between the intermediary's fee and the amount of the tax advantage from the arrangement, provided that the main benefit of the arrangements is to obtain a tax advantage
- Ensure that the same asset benefits from depreciation rules in more than one country
- Enable the same income to benefit from tax relief in more than one jurisdictions
- Do not respect EU or international transfer pricing guidelines

The member state where the arrangements are reported must automatically share this information with all other member states, in a standard format, through a centralised database and each quarter.

Next steps

The proposal will be submitted to the European Parliament for consultation and to the Council for adoption. The new reporting requirements would enter into force on 1 January 2019, with EU Member States obliged to exchange information every 3 months after that.

European Commission – Proposal for public country-by-country reporting (CBCR)

The European Parliament (EP) committees adopted their report on the [EC proposal](#) for public country-by-country reporting. Last year's proposal amends the Accounting Directive and includes a requirement for companies with a consolidated turnover of at least EUR 750 million to publicly disclose tax information of EU operations (including of countries considered tax-havens) country-by-country.

The EP is preparing its resolution and its Committees on Economic and Monetary Affairs and Legal Affairs adopted their report. The proposed annual turnover threshold for companies stays at EUR 750 million. The committee members extended the reporting to non-EU countries and introduced a safeguard clause which would allow companies not to report activities if deemed "commercially sensitive". If approved by the authority, such an exemption would last one year, and can be renewed an unlimited number of times.

The report will be voted on in the plenary. In the Council (Member States), no major progress is expected before the German elections this autumn. There is still major opposition to the proposal from a number of key member states.

United States

New: Administration officials announce tax reform principles

The White House National Economic Council and the US Treasury Secretary unveiled the Administration's principles (Principles) for tax reform.

The Principles call for lowering business tax rates to 15 percent for corporations, with "small business owner/operators" also eligible for the business rate. The Principles also call for moving to a territorial tax system from the current worldwide US tax system, and for a one-time repatriation tax on the foreign earnings of US companies.

For PwC's in-depth analysis of the Principles visit [Tax Insights](#).

Hungary

Update: National Tax and Customs Administration (NAV) – Real time VAT reporting

In 2016 the NAV announced its plan to implement a 'real time VAT reporting' regime. Under the regime, taxpayers will be required to have a data connection to the NAV to report invoices for domestic transactions where the VAT amount exceeds HUF 100,000 (approx. € 330). The introduction has been postponed from 1 July, 2017 to 1 July, 2018 to give taxpayers sufficient time to comply with the new rules.

Sweden

New: Proposals for disclosure regime for 'tax arrangements'

In April the Swedish Government named a special investigator to explore the possibility of [introducing a law](#) requiring tax advisers to share information about advice on tax mitigation with the Swedish Tax Agency – as part of the Agency's program to decrease tax evasion and avoidance.

Next steps

The special investigator's report is due by 31 October 2018 followed by a public comment period.

Additional Information

PwC EU audit legislation Fact Sheets

PwC has produced guidance on selected topics from the EU audit legislation, which are available on our website and include:

 **Mandatory audit firm rotation** for PIEs

 **Scope of the legislation**

 Additional **restrictions** on the provision of **non-audit services** by the statutory auditor to their PIE audit clients

 New requirements regarding **reporting by the statutory auditor**

 The definition of **Public Interest Entities** (PIEs)

EU audit legislation Briefings

PwC has also produced a Briefing Note on potential, unintended, extra-territorial impacts of the EU audit legislation:

 Consideration of potential unintended **extraterritorial impacts**

You may also find the material produced by [Accountancy Europe](#) (formerly the European Federation of Accountants (FEE)) on the implementation of the EU audit legislation of value.

Corporate governance guidance

PwC and ecoDa together produced guidance for [audit committees](#) regarding new or updated corporate governance requirements resulting from the EU Audit Legislation.

PwC International Tax News

PwC has produced a series of international tax newsletters available at: <https://www.pwc.com/gx/en/services/tax/newsletters/international-tax-services.html>

Contacts

If you would like more information on any of the initiatives described in this briefing, please contact your PwC relationship partner.

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