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Australia

19 May 2023

Re: Notice of Proposed Actions under the PwC IL Regulations

To: PricewaterhouseCoopers

I write as the Global General Counsel and Secretary of PricewaterhouseCoopers International Limited ("PwC IL"), on behalf of the Network Leadership Team (the "NLT"), to provide formal notice under the PwC IL Regulations of the following determinations relating to PwC Australia (the "Firm") and resulting required actions.

The Firm's actions and omissions in relation to matters currently under review by the Australian Senate Finance and Public Administration References Committee (the "Senate Inquiry"), particularly in light of the history of related matters and the handling of those matters, have caused a breakdown of trust and confidence in the Firm and significant damage to PwC's reputation. As such, the NLT has determined that the Firm is a Defaulting Firm under PwC IL Regulation 21.1(A) and that, as a consequence, remedial actions need to be taken. This letter summarizes the reasons for the NLT's determination along with the immediate next steps that the NLT believes are necessary to seek to address the matters giving rise to the determination.

The NLT's determination is based on the following:

- Historical behavior across a number of matters has caused an erosion of trust and confidence in the Firm and damage to PwC's reputation:
 - Over the course of the past several years, the Firm has been responding to various inquiries and claims relating to certain of the activities and practices of its TLS business, including inquiries from the Australian Tax Office (ATO), promoter penalty proceedings, claims of false statements relating to

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- assertions of attorney-client privilege, findings of confidentiality breaches and inadequate identification of conflicts of interest by the Tax Practitioners Board (the “TPB”) and other matters (collectively, the “Tax Matters”);
- In addition, a series of public hearings and disclosures have shed light on the Firm’s involvement in consulting engagements that have been beset by poor risk management practices, evidenced gaps in professional judgment and exposed the Firm to further public scrutiny and criticism (collectively, the “Consulting Matters”). These include, among others, a matter in which the Firm was engaged by a government agency to evaluate a tax recovery practice, determined that the agency had overstated the benefits of the practice and then allegedly acceded to the agency’s request not to produce a critical report (while still collecting its engagement fees);
 - The Consulting Matters and Tax Matters, in particular the TPB matter, have now become the focus of the Senate Inquiry and intense public criticism of the Firm;
 - The Firm made public statements that improperly downplayed the severity of the TPB matter and minimized the significance of the underlying behaviors, which have given rise to significant adverse media, both domestically and globally;
 - Evidence produced to the TPB and publicly released in the Senate Inquiry indicates that members of the Firm’s leadership had information that should have caused them to question the conduct of the partners involved but that they did not do so. The publication of this evidence and the Firm’s public response have further eroded trust and confidence in the Firm;
 - The Firm’s public response to recent disclosures also must be considered against the back-drop of earlier representations made by the Firm in response to notice of behavior and culture issues. In 2020, after a series of contentious reviews and a promoter penalty proceeding by the ATO, the Firm received findings from the ATO that the behaviors of its tax practice were concerning and that those behaviors indicated that “PwC was primarily concerned with expanding its market share and winning new work,” with “no contemplation to engaging with our office around contentious structures being proposed in response to the introduction of the MAAL provisions”. In response to these findings, the Firm commissioned a review and put in place a series of process changes. In connection with that review, (See March 2021 Quigley Report at 21), it was noted that the Firm would need to *demonstrate that positive behavioral and cultural changes have been made*. The Firm’s public statements about the TPB matter, which relates to the same underlying period and conduct, reflect a failure to demonstrate the cultural change that it committed to two years ago; and
 - In addition, in responding to media and other inquiries relating to these matters, the Firm failed to work collaboratively with and keep Network



leadership apprised of relevant facts and circumstances, thereby hampering the Network's ability to respond.

- Based on a review of the information available relating to these matters and the Firm's response to them, it is apparent that:
 - The Firm failed to undertake an appropriate root cause analysis to understand the reasons for the behaviors in these matters and identify meaningful remediation steps;
 - The Firm did not conduct adequate investigation of the underlying behaviors in order to assess accountability, nor did its Ethics leader or others in leadership or governance of the Firm identify the need to address behaviors that did not live up to our Code of Conduct or values where those behaviors arose in connection with practice matters
 - As a result, there has been little to no accountability for the actions and inactions of those responsible for these matters, and the actions that have been taken were unduly delayed;
 - There has been inadequate focus on identifying and addressing actual or apparent conflicts of interest and sensitive situations and inadequate attention to building and maintaining an ethical culture; and
 - There has been inadequate disclosure to and consultation with the Network.

We believe that these matters also have materially prejudiced or are likely to materially prejudice the objectives of the PwC Network in Australia. In addition, the Firm's acts and omissions have exposed multiple member firms and clients across the network to potential risk and reputational harm.

The Firm has taken certain steps to respond to the above failures, including requesting that Tom Seymour step down as Senior Partner, appointing a new Acting Senior Partner, removing two other senior leaders from the Executive Board and appointing Tony O'Malley to serve as Chief Risk and Ethics leader. The Firm also has taken or committed to take various other steps in responding to legal and regulatory proceedings relating to the Tax Matters and in response to the TPB matter and Senate Inquiry, and it recently appointed Ziggy Switkowski AO to lead an independent review of the Firm's governance, accountability and culture and make recommendations. Given the ongoing reputational damage and the severity of the breakdown of trust and confidence in the Firm, as well as the acknowledged need for improvements in governance, accountability and culture, Network investigation, monitoring and supervision is deemed necessary.

Remedial Actions

Pursuant to Regulation 21.1, the NLT may impose "whatever Remedial Action it deems fit upon a Defaulting Firm." The NLT has delegated authority to the Network Chairman and members of the Global Leadership Team ("GLT") to design remedial actions to address the



matters identified above, prevent their recurrence and resolve the breakdown in trust and confidence arising from the Firm's actions and omissions (including the failures described above). As of this time, the remedial actions below are required.

1. **Cooperation with Network Investigation:** The Network has retained counsel and commenced an investigation relating to the above matters. Pursuant to Regulation 20.2 (E) the Firm shall promptly make available all documents, information and assistance reasonably required in the investigation. As has been discussed, we will coordinate this investigation with Tony O'Malley and Meredith Beattie.
2. **Network Representative :** A Network Representative is necessary to work with the Firm and monitor certain areas in order to ensure that the Firm is responding appropriately to the matters addressed in this letter and to the broader loss of trust and confidence and reputational damage that is ongoing in the market and in the Network. The Network Representative will be an advisor to the Acting Senior Partner and serve as Network monitor with respect to the Remedial Actions required by this letter. The Firm is required to cooperate with the Network Representative, which includes, among other things, cooperation in responding to all information requests made by the Network Representative or by other members of the GLT on behalf of the NLT. Among the matters to be monitored and reviewed by the Network Representative are the various commitments to remedial action made by the Firm in connection with the Tax Matters, the Consulting Matters, the Senate Inquiry and the actions taken with respect to those commitments; decisions relating to the Firm's ongoing response to the Senate Inquiry and other related matters; the independent review of governance, accountability and culture and resulting recommendations; and significant decisions relating to the leadership and governance of the Firm as described below. The Network intends to identify a single individual, who will be responsible to the NLT and for coordinating with the GLT, to serve in this role. In the interim, we will identify the person(s) who will serve as the Network Representative and update the designation as needed.
3. **Network Participation:** The Firm shall include the Network Representative in all meetings of the Firm's Executive Board. In addition, the Firm shall include the Network Representative on the steering or other oversight committee for any projects, programs, or other reviews or initiatives that the Firm has commenced or may commence that arise out of or are related to the Tax Matters, the Consulting Matters, the Senate Inquiry, other related matters and associated events, and related reviews of governance, accountability and culture (e.g., Project North). The Network Representative shall be a full member of any such committee and given full participatory rights as all other members. In addition, the Network Representative



will be consulted with respect to decisions relating to the matters at issue in the Senate Inquiry or the response to the inquiry.

4. **Financial Matters:** The Firm will consult with the Network Representative relating to material financial matters outside the ordinary course of business, provide the Network Representative with information on its quarterly financial results and consult with the Network Representative on decisions on reserves or provisions relating to the Tax or Consulting Matters or related potential liabilities.
5. **Accountability Decisions:** All decisions relating to the accountability of individuals for the matters under review in the Senate Inquiry and related matters, the Network investigation or the governance, accountability and culture review, and the related consequences to be imposed, must be reviewed by and agreed with me and the Network Representative.
6. **Substantive Decisions Affecting Firm Leadership, Partners or Governance:** The Firm shall consult with the Network Representative regarding any substantive decisions that affect firm leadership, personnel or governance, including but not limited to the appointment or removal of leaders or governance representatives and the hiring of external parties to partner-level roles relating to the TLS or public sector businesses. The Firm shall not implement any such decisions until agreed by the Network Representative.
7. **Communications and Media Inquiries:** The Firm shall cooperate with PwC's Global Corporate Affairs and Communications group in preparing communications or talking points or conducting webcasts that relate or refer to the Tax Matters, the Consulting Matters, the Senate Inquiry and other related matters; the results of the independent review of governance, accountability and culture and resulting recommendations; and significant decisions relating to the leadership and governance of the Firm (the "Topics"). The Firm shall not issue or distribute any such communications until the Network Communications Leader and the Network Representative have reviewed and approved.
8. **Regulatory Submissions:** The Firm shall not provide to any regulator or other governmental or legal authority any formal, significant or substantive submissions or responses (whether oral or written) regarding any of the Topics until the Network Representative and I have reviewed and approved the materials.
9. **Updates to the Network:** The Firm and the NLT, or its designated persons, shall meet on a monthly basis (or any other period that the Firm and the NLT agree on) by video conference. The Firm and Network Representative shall provide monthly updates regarding the status of the matters described herein and on any other topics identified by the Firm or the NLT.



10. **Interim Measures:** In order to protect the reputation of the PwC Network and avoid further prejudice to the objectives of the PwC Network in Australia during the pendency of the Supervised Remediation, certain interim measures are necessary:
- a. The Network will appoint a Governance Advisor to assist the Board of Partners in its oversight role. Once appointed, the Governance Advisor will work with the Board of Partners to agree the best approach to the Advisor's participation.
 - b. As a matter of best practice, the General Counsel should be a member of the Executive Board, reporting to the Senior Partner, and the General Counsel or her designee should attend all meetings of the Board of Partners. It is our understanding that the Firm has not followed this practice. Recognizing that the independent review of governance, accountability and culture will produce recommendations on the Firm's overall governance approach, as an interim measure the Firm should implement this practice.
 - c. The Network Representative may also identify additional necessary interim measures including, but not limited to, those relating to leadership, management positions and scenario planning, and, if so, shall notify the Firm of such measures and agree an implementation timeline.

The expectation is that the Firm and the Network will work expeditiously and in good faith to agree on a remediation plan addressing the above matters

Pursuant to Regulation 21.1(B), all costs and expenses including costs for the time incurred by representatives of the Network, including the Network Representative, the Governance Advisor and other PwC member firms in completing the remediation are to be borne by the Firm.

The NLT will assess the need for additional remedial measures based on reports from the Network Representative of the Firm's progress and compliance with the requirements of this letter.



If the Firm is unwilling to accept a Network Representative, a Governance Advisor and the terms of this letter, it must inform me, as the NLT's designee, in writing by no later than Tuesday, May 23, 2023. In that event, the NLT will recommend to the Global Board appropriate actions to protect the PwC Network including potentially the suspension or removal of Territory Senior Management in accordance with Regulation 22 and/or cessation of the Firm's membership in the PwC Network pursuant to Regulation 23.

Yours sincerely,

Diana Weiss
Global General Counsel

cc: Bob Moritz
Carol Stubbings
Kevin Burrowes
Lisa Sawicki