



**The Japanese Institute of
Certified Public Accountants**

4-4-1 Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan
Phone: 81-3-3515-1130 Fax: 81-3-5226-3355
Email: international@sec.jicpa.or.jp

February 4, 2015

Mr. Ken Siong
Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor,
New York, NY 10017
USA

Dear Mr. Siong:

Re: JICPA comments on the IESBA Consultation Paper *Improving the Structure of the Code of Ethics for Professional Accountants*

The Japanese Institute of Certified Public Accountants (“we”, “our,” and “JICPA”) is grateful for the opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) Consultation Paper *Improving the Structure of the Code of Ethics for Professional Accountants* (the Consultation Paper).

We support the proposed improvements to the structure and expect that they would facilitate both the usability and understandability of the IESBA *Code of Ethics for Professional Accountants* (the Code).

Our suggestions and comments in response to the questions from the IESBA are provided below for your consideration.

Questions for Respondents

Question 1

Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples, would be likely to achieve IESBA’s objective of making the Code more understandable? If not, why not and what other approaches might be taken?

We believe that the approach outlined in the Consultation Paper would generally make

the Code more understandable.

Please also refer to the comments in our response to Question 3 below.

Question 2

Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples would be likely to make the Code more capable of being adopted into laws and regulations, effectively implemented and consistently applied? If not, why not and what other approaches might be taken?

We believe that the approach outlined in the Consultation Paper would generally make the Code more capable of being adopted into laws and regulations, effectively implemented and consistently applied.

Please also refer to the comments in our response to Question 3 below.

Question 3

Do you have any comments on the suggestions as to the numbering and ordering of the content of the Code (including reversing the order of extant Part B and Part C), as set out in paragraph 20 of the Consultation Paper?

(1) Reversal of the ordering of extant Part B and Part C

Audits of financial statements are fundamental practices exclusive to professional accountants and certainly contribute to the public interest. They are therefore areas of special interest to stakeholders, including regulators. Accordingly, we believe that Part B which stipulates the requirements of professional accountants in public practice should be prescribed before Part C stating the requirements for professional accountants in business in terms of the proposed reversal of the ordering of extant Part B and Part C.

Please see the latter half of our response to Question 4. (1).

(2) Numbering

We believe that the IESBA should consider both its usability of and consistency with the numbering applied to the International Standards on Auditing (“ISA”). Under the proposed numbering conventions in the illustration, the Parts of the Code are divided into overall sections (100, 200, 300, 400 and 500), with further subdivisions into topics (e.g., 310, 320, 330) and subtopics (for example, 310.000, 310.100, 310.200, etc.).

The ISA, on the other hand, numbers its figures 1, 2, 3..... in the order of

“Introduction,” “Objective,” “Definition” and “Requirements,” followed by “Application and Other Explanatory Materials” with numbering starting with A1.

Looking at the numbering adopted by the ISA, “Application and Other Explanatory Materials” adopts the numbering starting with A1, which helps users easily identify and distinguish whether a paragraph relates to “Requirement” or “Application and Other Explanatory Material.”

This numbering system is very useful for users. Therefore, we believe the IESBA should consider adopting it.

Question 4

Do you believe that issuing the provisions in the Code as separate standards or rebranding the Code, for example as International Standards on Ethics, would achieve benefits such as improving the visibility or enforceability of the Code?

(1) Independence provisions of the Code

The independence provisions of the Code make up a much larger section relative to the other sections. If the provisions are renamed (rebranded) to “Independence Standards” and issued as separate standards, we believe that the arrangement would be certain to improve the usability of the independence provisions. As independence provisions relate to audit and assurance engagements, usability of independence provisions would be improved for interested parties and users involved in auditing and assurance engagements if they are issued as separate standards. We therefore believe that the issuance of independence provisions as separate standards would be very useful.

In October 2006, Japan issued “Guidance on Independence” as provisions separate from the other provisions of the JICPA Code of Ethics. As a result, regulators concerned with independence, auditors required to comply with independence requirements, and other stakeholders, have more easily referred to them, thereby enhancing the usability and convenience of the application and understanding of independence provisions since “Guidance on Independence” was issued.

The Consultation Paper proposes that “Current Part C has been moved before current Part B, so that material related to professional accountants in business would become the 200 series and the material related to professional accountants in public practice would become the 300-500 series. This would allow all of the material related to professional accountants in public practice to be grouped together and independence to be presented at the end.” If the independence provisions are issued as separate

standards, this reversal, which allows all of the material related to professional accountants in public practice to be grouped together and independence to be presented at the end, would be unnecessary and the current numbering could remain unchanged.

With regard to the rebranding of the Code, we believe that it would be appropriate to keep the current name as the IESBA *Code of Ethics for Professional Accountants* since it has been developed under fundamental principles and conceptual framework approach that governs not only professional accountants in public practice but also professional accountants in business, while independence provisions are provided for detailed and specific requirements to be followed by professional accountants in public practice who conduct audit engagements or assurance engagements.

(2) Additional guidance to paragraph 100.3 of the extant Code

The extant Code includes paragraph 100.3 as below. In terms of the reference to “Professional accountants in public practice may also find Part C relevant to their particular circumstances,” we believe that understandability thereof would be improved further if the additional guidance, for example, an explanatory material, was added to describe what requirements would be relevant to what circumstances.

100.3 Parts B and C describe how the conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. They also describe situations where safeguards are not available to address the threats, and consequently, the circumstance or relationship creating the threats shall be avoided. Part B applies to professional accountants in public practice. Part C applies to professional accountants in business. Professional accountants in public practice may also find Part C relevant to their particular circumstances.

(3) Requirements related to Conflicts of Interest

Section 220 and 310 are provided for requirements related to conflicts of interest. Given the difficulty of identifying situations that give rise to conflicts of interest, we recommend that additional guidance or illustrative examples be provided.

As one of our arguments in favor the issuance of independence provisions as separate standards, we state in 4 (1) that the requirements are voluminous to easily understand. This would be applicable to the requirements for the conflicts of interest if additional guidance or illustrative examples are provided to help users better understand conflict-of-interest situations. We therefore believe that it would be useful to develop provisions related to conflicts of interest as a separate code.

Japan issued “Guidance on the Conflicts of Interest” as a separate code as a part of the revisions made on the JICPA Code of Ethics in June 2014 to provide additional guidance and illustrative examples.

Question 5

Do you believe that the suggestions as to use of language, as reflected in the Illustrative Examples, are helpful? If not, why not?

(1) Including “review engagement” in “audit”

The IESBA proposes an alternative solution to continuing to use “audit” which includes “review engagement,” would be to create a new section only for review engagements. However the creation of new section would duplicate many of the requirements for audits, which would make the requirements cumbersome. Therefore, we do not agree with this alternative solution.

(2) Initiatives to enhance readability and clarity

Translation into Japanese is essential for us, as English is not the first language. We strongly support your initiatives which include simpler and shorter sentences, simplifying complex grammatical structure and avoiding legalistic and archaic terms, nuances, and superfluous adjectives.

We are much concerned with whether the provisions are readily translatable or whether appropriate translations can be provided. We, therefore, encourage the IESBA to use easy-to-understand terms and avoid redundant sentences.

We submitted our comments in response to the IESBA Exposure Draft *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client* (ED), which also included our proposals concerning translation.

We commented in our responses to Question 5 of the ED that it should be clarified that the engagement partners (EP) should be an individual who has most influence. In our responses to Question 7, we provided our comments to the question concerning the definition of the engagement quality control review (EQCR). These issues may give rise to problems in translation. In particular with respect to our responses to Question 5, we requested that “In Japan, in particular, we define a lead audit engagement partner (i.e., Hitto-Gyomu-Shikko-Shain) as an individual who has most influence on the outcome of the audit and define engagement partners as key audit partners other

than an individual who has most influence on the outcome of the audit (i.e., Gyomu-Shikko-Shain) respectively in Japanese. Accordingly, translation issues and misinterpretations will arise if only an engagement partner is stated in English.”

This might also relate to our comments in the third paragraph of our responses to Question 7 starting with “We request that you clarify the definition of EQCR, including his/her responsibility and - - - .” Different descriptions, words or wordings intended to express the same meaning could also give rise to problems in the translation. We proposed that the same terms be used consistently to express a given meaning.

Question 6

Do you consider it is necessary to clarify responsibility in the Code? If so, do you consider that the illustrative approach to responsibility is an appropriate means to enhance the usability and enforceability of the Code? If not, what other approach would you recommend?

For the purpose of clarity, we believe that the additional requirements would be useful. However, responsibility may differ depending on the size, structure and organization of a firm and the culture in which it operates, and, therefore, we support the illustrative example which is included in paragraph 30 for the identification of individuals.

Question 7

Do you find the examples of responsible individuals illustrated in paragraph 33 useful?

Responsibility may differ depending on the size, structure and organization of a firm and the culture in which it operates, and, therefore, we do not support the illustrative example which is included in paragraph 33 for the examples of individuals.

As noted in our responses to Question 6, we support the illustrative examples in paragraph 30.

Question 8

Do you have any comments on the suggestions for an electronic version of the Code, including which aspects might be particularly helpful in practice?

We develop and amend the JICPA Code of Ethics based on the official version of the Code. Our official language is not English, so we are essentially required to translate

the Code in English into Japanese. Accordingly, we strongly request the IESBA to continue providing hard copy versions as well as the PDFs if the IESBA adopts the electronic version of the Code as an official version.

The International Auditing and Assurance Standards Board (IAASB) issued the final standards to improve auditors report on January 15, 2015. This includes the revision that “The auditor’s report shall include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and - - - . The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (IESBA Code) .”

This would increase awareness of the Code in Japan. Some explanation on this issue would be required for the better understanding of regulators and those charged with governance. Whenever this type of situation arises, the Code available at that time would inevitably need to be translated into Japanese. To clarify the Code for this purpose, we continue to require a hard copy version and a PDF version of the Code.

In addition to the above, we believe that a hard copy version and PDF version together would be necessary in consideration of due process of changing links, clarifying the scope of the Code (including linked documents and etc.), addressing system troubles (including access troubles), maintaining the history of past revisions, clarifying the Code available at certain point in time, and restricting printouts due to system requirements.

Question 9

Do you have any comments on the indicative timeline described in Section VIII of this Paper?

We do not have any specific comments.

Question 10

Do you have any other comments on the matters set out in the Consultation Paper?

We do not have any comments other than the above.

We hope the comments provided above will contribute to the robust discussions at the IESBA.

Sincerely yours,

Mineo Kanbayashi
Executive Board Member - Ethics Standards
The Japanese Institute of Certified Public Accountants