



**The Japanese Institute of
Certified Public Accountants**

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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 Exposure Draft, *Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles*

The Japanese Institute of Certified Public Accountants (“JICPA”, “we” and “our”) is grateful for the opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) Exposure Draft, the Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles (ED), issued to provide enhanced guidance for professional accountants in business (PAIBs).

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

I . Request for Specific Comments

(i) *Proposed Revised Section 320*

Question 1

Is the enhanced guidance on applying the “fair and honest” principle in Section 320 helpful?

We do not agree with the proposed changes. We fully understand that the proposed

changes to Section 320 are intended to assist PAIBs and provide enhanced guidance with respect to the presentation of information, thereby serving the public interest. In private companies and even other entities, each PAIB has different responsibilities and authorities depending on his/her job class and seniority in reality, and the segregation of duties is ensured for the purposes of internal controls. Yet it is proposed that the same requirements be applied broadly and comprehensively to all PAIBs with different job classes and every level of seniority. We therefore do not agree with the proposed changes.

We propose the following in consideration of the responsibilities and authorities within an organization and the segregation of duties:

- i. We believe it is more realistic to apply different requirements and guidance based on the positions of PAIBs within their organizations, given that PAIBs in different positions have different responsibilities and authorities. In particular, we propose the treatment for PAIBs who hold senior positions (e.g., members of board of directors and senior management) be different from the treatment for other PAIBs, more stringent for senior PAIBs and less stringent for other PAIBs.
- ii. On that basis, we propose that the materiality be considered both quantitatively and qualitatively. If a matter is “clearly inconsequential,” we propose that it be exempted from the requirements.
- iii. Paragraph 320.5 provides a requirement in cases where the professional accountant relies on the work of others. We think this situation is totally different from a situation where an accountant prepares and presents misleading information by himself/herself. PAIBs who work within organizations frequently use information that is prepared by other sections or persons in their organizations. In addition, given the significant amounts of information they use, we can assume that they regularly use information that is prepared by others in their day to day operations. It also seems difficult, in many situations, for a PAIB to know whether the information prepared by others is misleading, since the flow of information within organizations is often subject to constraints related to internal controls, especially the segregation of duties, authorities and responsibilities among different personnel, and job descriptions at each personnel level. In view of this, there is a need to significantly amend and improve the requirements and guidance in cases where the professional accountant relies on the work of others.

Specifically, we propose the following:

- a. When the professional accountant becomes aware of information concerning an instance of suspected intentional misleading information prepared by

others in the cases where the professional accountant relies on the work of others when he/ she carries his/ her duties, the professional accountant shall obtain an understanding of the nature, content, and context of the information.

- b. If the professional accountant then decides that the information is likely to be misleading, the professional accountant shall take steps to resolve the matter.
- c. Regarding the guidance of (a) and (b), the treatment for PAIBs who hold senior positions (e.g., members of board of directors and senior management) needs to be different from the treatment for other PAIBs, more stringent for senior PAIBs and less stringent for other PAIBs, as described in (i) above.

Question 2

In particular, do respondents support the guidance in paragraph 320.3 addressing the issue of misuse of discretion in a manner that is intended to mislead? If not, please explain why. Are there any other considerations relating to this issue that should be addressed in Section 320?

The guidance in paragraph 320.3 appropriately describes the issue of misuse of discretion in a manner that is intended to mislead. We therefore support the guidance. We have no other comments on this.

Question 3

Paragraph 320.4 provides guidance as to what PAIBs are expected to do ethically in order to prepare or present fairly and honestly information that does not have to comply with a relevant reporting framework. Is this guidance sufficient? If not, what further guidance could Section 320 usefully provide?

The guidance in Paragraph 320.4 provides that a professional accountant is expected to consider the purpose, the context, and the audience in order to prepare or present fairly and honestly information that does not have to comply with a relevant reporting framework. We think this guidance is sufficient.

Question 4

Do respondents agree that where a PAIB relies on the work of others, the PAIB should be required to take reasonable steps to be satisfied that such work enables the PAIB to comply with the overarching principle in paragraph 320.2?

We do not agree with this. We believe that the guidance is insufficient in cases where the professional accountant relies on the work of others. Please see our response to Question 1 for more details.

Question 5

Do respondents agree with the guidance proposed in paragraphs 320.6 and 320.7 regarding disassociation with misleading information? Are there other actions that could be specified?

We do not agree with this. In our view, the guidance regarding disassociation with misleading information is insufficient. Please see our response to Question 1 for more details.

(ii) *Proposed Section 370*

Question 1

Do respondents agree with the overarching requirements in paragraphs 370.1 and 370.2?

We agree with this.

Question 2

Are the illustrative examples of types of pressure that could result in a breach of the fundamental principles in paragraph 370.4 helpful?

We think the illustrative examples in paragraph 370.4 are helpful.

Question 3

Is it sufficiently clear that Section 370 addresses pressure that could result in a breach of fundamental principles, as opposed to the routine pressures that exist in the workplace? In particular, does paragraph 370.5 provide sufficient guidance to assist the PAIB in making that distinction? If not, what other considerations should the PAIB take into account?

We believe that Section 370 provides sufficient guidance overall, except with regard to the following points:

As we understand it, paragraph 370.5 was introduced to assist the PAIB in better distinguishing pressure that could lead to a breach of the fundamental principles from pressure that would not lead to a breach of fundamental principles and the routine pressures are out of scope. Specifically, the IESBA proposes guidance setting out a number of contextual considerations the PAIB may take into account, rather than focusing on an evaluation of the pressure itself. The paragraph prescribes the following points to consider when the PAIB is faced with pressure that could result in a breach of the fundamental principles:

1. The policies and procedures specified in the employing organization's ethics policy;
2. The corporate culture and leadership of the employing organization;
3. Discussion with the person who is exerting the pressure to clarify his or her intent.

These considerations seem insufficient as guidance to further support the PAIB in distinguishing pressures that could lead to a breach of the fundamental principles from those that would not. It may be difficult to clearly distinguish such pressures based on this guidance. We therefore believe that clearer and more detailed guidance is necessary.

Question 4

Do respondents find the guidance in paragraph 370.6 on responding to pressure that would result in a breach of the fundamental principles helpful? Are there other actions that should be considered?

We think the guidance is helpful.

Question 5

Are the references to other sections of Part C of the Code, in paragraph 370.9, helpful?

We think they are helpful.

II. Request for General Comments

Question (a)

Preparers (including Small and Medium Entities), and users (including regulators)—The IESBA invites comments on the proposed changes from preparers (particularly with respect to the practical impacts of the proposed changes), and users.

JICPA's committee on professional accountants in business provided the following comments:

The ED describes that over half of the world's professional accountants are PAIBs. Japan, however, has relatively few PAIBs, especially PAIBs holding senior positions compared to the other countries.

We believe that the proposed changes would enhance the value of the PAIB within the accounting profession by contributing to society and serving the public interest. Yet specific requirements and guidance seem operationally difficult without answers to certain questions. To what level, for example, should a PAIB within a company or an organization consider misleading information and pressure, how strictly or how precisely should a PAIB apply those requirements and guidance in day-to-day operations, and to what extent should a PAIB consider materiality?

Further, the relative scarcity of PAIBs in Japan makes it all the more common to rely on the work of others who are other than PAIBs. In addition, the internal control attestation is required for listed companies and, thus, they establish and maintain the effective design and operation of internal controls. This leads them to establish the segregate of duties and clearly define authorities and responsibilities. If the professional accountant obtains an understanding of information if he / she becomes aware of information concerning an instance of suspected misleading information prepared by others, the steps for understanding would be hampered by constraints due to job descriptions at each personnel level, the segregation of duties, and clearly defined authorities and responsibilities. We therefore believe that applicable steps in practice would depend on the responsibilities and authorities of the PAIB, or, more

specifically, on whether or not the PAIB holds a senior position.

If the requirements are applied broadly to all PAIBs, the heavy responsibilities borne by PAIBs could actually make the profession less attractive. This could prompt the deregistration of certified public accountants. We therefore see a need for better balance among the requirements, responsibilities, reality in practice and benefits.

In consideration of the above, we hope that the proposed changes will be amended.

Question (b)

PAIBs working in the public sector—Recognizing that many PAIBs work in the public sector, the IESBA invites respondents from this constituency to comment on the proposed changes, and in particular, on their applicability and usefulness in a public sector environment.

As mentioned above, not many PAIBs are practicing in Japan. PAIBs working in the public sector are even scarcer. Due to the lack of any direct feedback from PAIBs working in the public sector, we decline to comment on this question.

Question (c)

Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular, on any foreseeable difficulties in applying them in their environment.

Not applicable.

Question (d)

Translations—Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.

English is not the official language in Japan, thus, it is inevitable to translate the Code from English to Japanese in an understandable manner. For this reason, we pay close attention to the wording used in the Code in respect of whether it is translatable and comprehensible when translated. We therefore request the IESBA to avoid lengthy

sentences and to use concise and easily understandable wording.

For example, we propose the following regarding paragraph 300.5 of Section 300:

Paragraph 300.5 articulates the requirements and guidance regarding encouragement of an ethics-based culture in an employing organization. It can be interpreted that only a professional accountant in a senior position is required to encourage an ethics-based culture. Yet after the third sentence starting with “A professional accountant is expected to encourage an ethics-based culture...,” the text never states clearly that this is a requirement or guidance applicable only to PAIBs in a senior position. In consideration of the authorities, etc. of each job class within an organization, we believe that the text should explicitly state that this requirement or guidance is only applicable to PAIBs in a senior position.

In addition, the terms “shall”, “is expected to,” and “encourage” all appear in paragraph 300.5. We think these terms should be clearly distinguished, for example, by separating the requirement paragraph using “shall” from the guidance paragraph using the other terms.

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