



**The Japanese Institute of
Certified Public Accountants**

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September 17, 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 Exposure Draft, *Responding to Non-Compliance with Laws and Regulations*

The Japanese Institute of Certified Public Accountants (JICPA) appreciates this opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) Exposure Draft, *Responding to Non-Compliance with Laws and Regulations*.

We understand that this exposure draft was issued after reviewing the comments received on the original Exposure Draft *Responding to a Suspected Illegal Act* issued in August 2012 and taking into accounts various issues and concerns raised in the comments thereon or expressed elsewhere. Specifically, we acknowledge improvements such as: 1) changes have been made to be consistent with International Standard on Auditing (ISA) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*; and 2) consideration has been given to the protection and the physical safety of whistleblowers.

However, we believe that, unlike independence requirements for professional accountants (PAs) performing audits of financial statements, provisions on PAs' response to non-compliance or suspected non-compliance with laws and regulations (NOCLAR) should be principle-based and established as norms for PAs to follow to act in the public interest and in compliance with fundamental principles, not as a set of rules designed to address threats. Accordingly, we believe that

the sections on *Responding to Non-Compliance with Laws and Regulations* should be the application guidance to follow to act in compliance with the fundamental principles of integrity and professional behavior in responding to NOCLAR and to ensure that PAs do not turn a blind eye to identified or suspected NOCLAR. In this regard, proposed paragraphs 225.1 and 360.1 explicitly state that the purpose of Sections 225 and 360 is to “guide” PAs in responding to NOCLAR. However, contradictory to this stated purpose, the term “shall” and other obligatory languages are used in the paragraphs setting out PAs’ responsibilities as requirements in responding to NOCLAR. Thus, we believe that the term “shall” and other obligatory languages should not be used in the provisions defining PAs’ responsibilities as requirements in responding to NOCLAR.

Furthermore, for the reasons provided below, we do not agree with the proposed provisions for PAs in public practice providing professional services other than audits of financial statements (PAPP providing non-audit services) and professional accountants in business (PAIBs) other than senior PAIBs (non-senior PAIBs).

Firstly, professional services performed by PAPP providing non-audit services are specific engagements requested by their clients and the scope is limited to the requests. Given that, we believe it is not practical for them to obtain information outside the scope of the professional services for which they are engaged. Therefore, even if these PAs become aware of certain information which may be an instance of non-compliance or suspected non-compliance with laws and regulations, it would be practically difficult for them to obtain a further understanding and make judgment on such matter.

Secondly, non-senior PAIBs are required to perform their duties within the scope of their designated role and the related authority assigned by their employing organization and, given that, it would be extremely difficult for them to obtain information outside the scope and the authority. Therefore, even if such PAIBs become aware of certain information which may be an instance of non-compliance or suspected non-compliance with laws and regulations, we believe it is practically difficult for them to obtain a further understanding on such matter and, as such, the provisions requiring non-senior PAIBs to respond to NOCLAR would not be operable in practice.

Accordingly, we believe that the responsibility of responding to NOCLAR should not be imposed on PAPP providing non-audit services and non-senior PAIBs.

In addition, for all categories of professional accountants, non-compliance of laws and regulations should be limited to those that have a material effect on the financial statements in consideration of PAs’ professional expertise and costs for acquiring information.

Our responses to the specific questions raised by the IESBA are as follows:

I. Request for Specific Comments

General Matters

1. Where law or regulation requires the reporting of identified or suspected NOCLAR to an appropriate authority, do respondents believe the guidance in the proposals would support the implementation and application of the legal or regulatory requirement?

(Comment)

We believe that the proposed guidance would support the implementation and application of the legal or regulatory requirement, except for the proposed provisions concerning PAPP providing non-audit services and non-senior PAIBs discussed above and points made in our other comments.

2. Where there is no legal or regulatory requirement to report identified or suspected NOCLAR to an appropriate authority, do respondents believe the proposals would be helpful in guiding PAs in fulfilling their responsibility to act in the public interest in the circumstances?

(Comment)

We believe that the proposals would be helpful in guiding PAs in fulfilling their responsibility to act in the public interest, except for the proposed provisions for PAPP providing non-audit services and non-senior PAIBs discussed above and points made in our other comments.

3. The Board invites comments from preparers (including TCWG), users of financial statements (including regulators and investors) and other respondents on the practical aspects of the proposals, particularly their impact on the relationships between:

- (a) Auditors and audited entities;
- (b) Other PAs in public practice and their clients; and
- (c) PAIBs and their employing organizations.

(Comment)

As stated earlier, we believe that, unlike independence requirements for professional accountants (PAs) performing audits of financial statements, provisions on PAs' response to non-compliance or suspected non-compliance with laws and regulations (NOCLAR) should be principle-based and established as norms for PAs to follow to act in the public interest and in

compliance with fundamental principles, not as a set of rules designed to address threats. Accordingly, we believe that the sections on *Responding to Non-Compliance with Laws and Regulations* should be the application guidance to follow to act in compliance with the fundamental principles of integrity and professional behavior in responding to NOCLAR and to ensure that PAs do not turn a blind eye to identified or suspected NOCLAR. In this regard, proposed paragraphs 225.1 and 360.1 explicitly state that the purpose of Sections 225 and 360 is to “guide” PAs in responding to NOCLAR. However, contradictory to this stated purpose, the term “shall” and other obligatory languages are used in the paragraphs setting out PAs’ responsibilities as requirements in responding to NOCLAR. Thus, we believe that the term “shall” and other obligatory languages should not be used in the provisions defining PAs’ responsibilities as requirements in responding to NOCLAR.

Furthermore, for the reasons provided below, we do not agree with the proposed provisions for PAPP providing non-audit services and non-senior PAIBs.

Firstly, professional services performed by PAPP providing non-audit services are specific engagements requested by their clients and the scope is limited to the requests. Given that, we believe it is not practical for them to obtain information outside the scope of the professional services for which they are engaged. Therefore, even if these PAs become aware of certain information which may be an instance of non-compliance or suspected non-compliance with laws and regulations, it would be practically difficult for them to obtain a further understanding and make judgment on such matter. Also, there is a concern that PAs could lose the trust of clients in a case where a PA has responded to an instance of mere suspected non-compliance with laws and regulations as required by the proposed provisions and if the case turns out not to be NOCLAR afterwards.

Furthermore, there is also a concern associated with a firm’s system for responding to NOCLAR. Specifically, each firm differently operates its professional services other than audits of financial statements and especially in Japan there are many cases where separate legal entities run the business of such services within a firm. In this case, a firm’s system to respond to NOCLAR should be the basis for the communication within the firm required by 225.39 and such a firm’s system should be established throughout the firm. Such a firm’s system should include a system for gathering information from PAPP providing non-audit services in the firm to respond to an instance of non-compliance or suspected non-compliance with laws and regulations when they become aware of and a robust information control and protection system to appropriately manage, control and protect such information. However, the provision to require the PA to communicate the matter within the firm is not workable in practice unless such a system is in place in the firm even though the code requires a PAPP providing non-audit

services to communicate within the firm because there is no provision to require the firm to establish such a system. Therefore, we believe that it is overburdened for a PAPP providing non-audit services to require such a PA to communicate the matter within the firm or the network firm and to disclose the matter to the external auditor.

Secondly, non-senior PAIBs are required to perform their duties within the scope of their designated role and the related authority assigned by their employing organization and, given that, it would be extremely difficult for them to obtain information outside that scope and the authority. Therefore, even if such PAIBs become aware of certain information which may be an instance of non-compliance or suspected non-compliance with laws and regulations, we believe it is practically difficult for them to obtain a further understanding on such matter and, as such, the provisions requiring non-senior PAIBs to respond to NOCLAR would not be operable in practice. Also, there is a concern that PAs could have a serious adverse impact on their promotion and other human resources related matters in a case where a PA has responded to an instance of mere suspected non-compliance with laws and regulations as required by the proposed provisions and if the case turns out not to be NOCLAR afterwards.

Accordingly, we believe that the responsibility of responding to NOCLAR should not be imposed on PAPP providing non-audit services and non-senior PAIBs.

Specific Matters

4. Do respondents agree with the proposed objectives for all categories of PAs?

(Comment)

As stated earlier, we are opposed to the application of the proposed provisions to PAPP providing non-audit services and non-senior PAIBs. However, we agree that PAs performing audits of financial statements and senior PAIBs should fulfill the proposed responsibilities in responding to NOCLAR.

5. Do respondents agree with the scope of laws and regulations covered by the proposed Sections 225 and 360?

(Comment)

We do not agree with the scope of laws and regulations covered by the proposed Sections 225 and 360.

1. The scope of laws and regulations is too broad and it is difficult for public accountants to have a clear understanding of the scope of laws and regulations. Thus, the followings should be clarified:
 - Specifically, regarding “terrorist financing” listed in paragraphs 225.6 and 360.6, in a case where a PA comes across information related to terrorism, it would be extremely difficult to obtain information to determine whether the client is actually involved or it is a case of “personal misconduct” listed in paragraphs 225.8 and 360.8 and thus outside the scope of the proposed provisions. Even if the PA becomes aware of such an instance, it may be impossible to obtain a sufficient understanding and make judgment on the matter. Usually, a terrorism-related incident is reported by the media as a case of personal misconduct. Based on this fact, we assume that in the absence of information indicating organizational involvement, terrorist financing and other terrorism-related matters are presumed to be an act of personal misconduct and thus falls outside the scope of the proposed provisions. Is our understanding correct?
 - Understanding cyberterrorism requires a great deal of expertise on the specific area of information technology that is outside the expertise generally expected of PAs. Based on this fact, we assume that cyberterrorism falls outside the scope of the proposed provisions. Is our understanding correct?
 - Are we correct in our understanding that workplace rumors and unfounded claims and accusations circulated on the Internet fall outside the scope of the proposed provisions? For instance, how should we handle environmental unfounded accusations posted on the Internet pointing to the possibility of pollutants being discharged into waters, or rumors regarding public health and safety issues that are spread just for fun, such as those alleging the use of poke instead of beef? Do such comments and rumors fall within the scope of the proposed provisions?

In particular, with regard to PAPP providing non-audit services and non-senior PAIBs, there is a concern that PAs could lose the trust of clients and their employing organization in a case where such a PA has responded to an instance of mere suspected non-compliance with laws and regulations as required by the proposed provisions and if the case turns out not to be NOCLAR afterwards.

Given such concerns and risks, these provisions should address only the suspected non-compliance with laws and regulations of which likelihood of its being true is very high. In any situations, considering the cost and difficulties involved to obtain information, it is impracticable for those PAs to obtain information beyond the scope of the professional services for which they are engaged or that of their designated role and the related authority assigned by their employing organization. Or we should rather say that obtaining information relevant to the matter in question itself is extremely difficult for those PAs. Accordingly, with respect to PAs in public practice providing professional services other than audits of financial statements and non-senior PAIBs, we believe that laws and regulations covered by the provisions should be limited to those relevant to the professional services for which they are engaged or their designated role and the related authority assigned by their employing organization.

Regarding this point, paragraphs 225.14, 225.37, 360.15, and 360.32 state that the PA is not expected to have detailed knowledge of laws and regulations beyond that which is required for the audit, the professional service for which the PA is engaged, or the PA's role within the employing organization. However, these provisions only concern knowledge.

Accordingly, as stated earlier, we are opposed to the application of the proposed provisions to PAPP providing non-audit services and non-senior PAIBs. Nevertheless, if they are to be applied at all, it should be explicitly stated that the scope of laws and regulations, and PAs responsibilities covered by the proposed provisions—and not just knowledge thereof—are limited to those relevant to or within the scope of the professional services for which they are engaged or their designated role and related authority assigned by their employing organization.

2. As stated earlier, we are opposed to the application of the proposed provisions to PAPP providing non-audit services and non-senior PAIBs. If they are to be applied at all, the changes from the following perspectives should be made to paragraphs 225.5 and 360.5:
 - ✓ Laws and regulations that generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements are within the scope of the expertise expected of PAs. However, it is not workable to include other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements in the scope of proposed section 225 and 360 even if compliance is fundamental to the operating aspects of the client's business due to the limitation of expertise.
 - ✓ In addition, it is also unworkable to include other laws and regulations with which

compliance is fundamental to the operating aspects of the client's business but which are not material to the financial statements in the scope especially due to the costs (and difficulties) involved in obtaining relevant information.

For instance, paragraph 6 (b) of ISA 250 states that “- - - noncompliance with such laws and regulations may therefore have a material effect on the financial statements,” and, therefore, we propose that the same wording be included to make the provisions consistent with those of ISA 250.

3. As stated earlier, we are opposed to the application of the proposed provisions to PAPP providing non-audit services and non-senior PAIBs. Nevertheless, if they are to be applied at all, the changes from the following perspectives should be made to paragraphs 225.11, 225.34, 360.14, and 360.31:

Professional services performed by PAPP providing non-audit services are specific engagements requested by their clients and the scope is limited to the requests. Given that, we believe it is not practical for them to obtain information outside the scope of the professional services for which they are engaged. Therefore, even if such PAs becomes aware of certain information which may be an instance of non-compliance or suspected non-compliance with laws and regulations, it would be practically difficult for them to obtain a further understanding and make judgment on such matter.

Additionally, non-senior PAIBs are required to perform their duties within the scope of their designated role and the related authority assigned by their employing organization and, given that, it would be extremely difficult for them to obtain information outside that scope and the authority. Therefore, even if such PAIBs become aware of certain information which may be an instance of non-compliance or suspected non-compliance with laws and regulations, we believe it is practically difficult for them to obtain a further understanding on the matter and, as such, the provisions requiring non-senior PAIBs to respond to NOCLAR would not be operable in practice.

We believe that providing additional guidance on the scope of laws and regulations covered by the proposed provision is useful not only for the two categories of PAs discussed above but also for PAs performing audits of financial statements and senior PAIBs.

Accordingly, as additional guidance on when and in what circumstances it is considered that a PA “becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations,” we propose the insertion of the provision equivalent to paragraph A13 of extant ISA 250 (A12a, and A13 in the recent

exposure draft), thereby specifying what sort of cases would be considered as relevant to the expertise of PAs and what sort of situations would prompt the implementation of procedures. By so doing, not only auditors but also PAPP providing non-audit services and PAIBs would be provided with useful guidance.

(Extant ISA250)

A13. If the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations:

- Investigations by regulatory organizations and government departments or payment of fines or penalties.
 - Payments for unspecified services or loans to consultants, related parties, employees or government employees.
 - Sales commissions or agent’s fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.
 - Purchasing at prices significantly above or below market price.
 - Unusual payments in cash, purchases in the form of cashiers’ checks payable to bearer or transfers to numbered bank accounts.
 - Unusual transactions with companies registered in tax havens.
 - Payments for goods or services made other than to the country from which the goods or services originated.
 - Payments without proper exchange control documentation.
 - Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
 - Unauthorized transactions or improperly recorded transactions.
 - Adverse media comment.
4. In inserting the provision equivalent to paragraph A13 of ISA 250 above, we propose that the opening sentence, “If the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations:” be modified as follows:
- a. For PAs performing audits of financial statements, we propose the following text: “If the professional accountant performing audits of financial statements becomes aware of the existence of, or information about, the following matters in the ordinary course of an audit, it may be an indication of non-compliance with laws and regulations.”

- b. As stated earlier, we are opposed to the application of the proposed provisions to PAPP providing non-audit services. However, if they are to be applied at all, we propose the following text: “If the professional accountant in public practice providing professional services other than audits of financial statements becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations; provided, however, that the provision of this paragraph shall apply only in cases where such a professional accountant becomes aware of the existence of, or information about, such matters in the course of performing the professional service for which the professional accountant is engaged.”
- c. As stated earlier, we are opposed to the application of the proposed provisions to non-senior PAIBs. However, if they are to be applied at all, we propose the following text: “If the professional accountant in business becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations; provided, however, that the provision of this paragraph shall apply only in cases where such a professional accountant becomes aware of the existence of, or information about, such matters in the course of performing duties within the scope of the designated role and the related authority assigned by the employing organization.”
5. Are we correct in our understanding that “fraud” listed in paragraph 225.6 in presenting examples of laws and regulations covered is the same as “fraud” prescribed in ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*? The International Auditing and Assurance Standards Board (IAASB) has issued an exposure draft of proposed revision of ISA 250, which includes the same text as that of 225.6 to present examples of laws and regulations covered. In defining the term “fraud” in the auditing standards, it is assumed that the definition follows that prescribed in ISA 240. Therefore, “fraud” in paragraph 225.6 is taken as having the same meaning as that defined in ISA 240. If the term “fraud” in paragraph 225.6 means otherwise, a different term should be used.

6. Do respondents agree with the differential approach among the four categories of PAs regarding responding to identified or suspected NOCLAR?

(Comment)

We agree with taking a differential approach applied to the four categories of PAs. However, we

are opposed to the substance of the approach in the following points:

As stated at the beginning, we believe that the provisions on PAs' response to NOCLAR should be established as guidelines, not as requirements, except for the particular provisions for PAs performing audits of financial statements that should be brought into line with ISA 250, and accordingly, that the term "shall" and other obligatory languages should not be used. Also, as stated earlier, we do not agree with the proposed provisions for PAPP providing non-audit services and non-senior PAIBs.

In addition, we do not agree with the matters raised in Questions 3 and 5 above.

Furthermore, we request the following changes:

1. Proposed paragraph 225.39 provides that PAPP providing non-audit services "shall communicate the matter within the firm." In a case where PAs provide audit clients with permitted professional services other than audits of financial statements, we positively understand the necessity that such PAs communicate the matter within the firm from the enhanced audit quality perspective for the audit of financial statements. However, the provision should be carefully developed in consideration of the concerns as follows:
 - a. It is not clearly stated how this requirement relates to the paragraph of 225.35 which requires the PA to discuss the matter with the appropriate level of management and where appropriate, those charged with governance. The paragraph 225.39 prescribes that the communication within the firm is necessary in all cases with no consideration given to the client's response based on the communication made between the client and the PA, even though management takes appropriate and timely actions and/or management communicates with the engagement partner for the audit as the client's response. We believe that the communication within the firm is not necessary in a case where management takes appropriate and timely actions and/or management communicates with the engagement partner for the audit as the client's response based on the communication made between the client and the PA.
 - b. The communication within the firm is not clear and ways of the communication would vary such as i) to communicate with the engagement partner for audit, ii) to communicate with an appropriate personnel or channel (or division) within the firm, iii) when professional services other than audits of financial statements are conducted by the separate legal entity within the firm from the entity for audit services, to communicate with an appropriate personnel or channel (or division) within the separate legal entity for services other than audits, or communicate with an immediate superior.

In any case, we believe it is necessary that the firm's system which include a system for gathering information and a robust information control and protection system is established as a basis for the communication within the firm. At this point in time, there is a concern whether or not all of the firms establish such a system in the situation where there would be various circumstances and system firm by firm, even by country and there is no provision to require the firm to establish such a system. Given the situation, it is not workable to communicate the matter within the firm unless such a system is in place in the firm even though the code requires a PAPP providing non-audit services to communicate within the firm.

Accordingly, as stated earlier, we are opposed to the application of the proposed provisions to PAPP providing non-audit services. However, if they are to be applied at all, the above-mentioned description should be changed to "shall consider to communicate the matter within the firm." since currently, there is no provision to require the firm to establish such a system.

2. As stated earlier, we are opposed to the application of the proposed provisions to PAPP providing non-audit services. However, if they are to be applied at all, paragraph 225.44, which provide for factors to take into account in determining whether to disclose outside the client, should include the text shown below as in paragraph 225.27 for PAs performing audits of financial statements, because we believe that PAPP providing non-audit services should also consider the factors listed therein.

"The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the mater to be investigated and action to be taken.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the professional accountant or other individuals."

3. In relation to 2 above, robust and credible protection and "whether the external auditor establishes a robust information control and protection system" should be added as factors to take into account in determining whether to disclose the matter to the client's external auditor especially in the case where the external auditor belongs to a different jurisdiction.

4. The point we made in our comment in 3 above also applies to PAIBs. Robust and credible protection and “whether the employing organization establishes a robust information control and protection system” should be added as factors to take into account in determining whom the PA should report to or whether to use established internal whistle-blowing mechanism.
 5. Paragraph 360.12 provides for the responsibilities of senior PAIBs. Whether a PAIB fits into the definition of a “senior PAIB” would differ depending on the applicable laws and regulations, organizational structure, corporate governance, and other factors in each jurisdiction, however, these factors are not described in the paragraph 360.12. Accordingly, we believe it is necessary to clearly state the applicable laws and regulations, organizational structure, corporate governance, and other factors in each jurisdiction as factors to be considered.
 6. Proposed paragraph 360.11 provides that PAIBs shall consider the “protocols and procedures (for example, an ethics policy)” established within their employing organization in determining how to respond to the matter. However, according to Appendix I which illustrates the response framework, the baseline for non-senior PAIBs is to “escalate to immediate superior or next higher level of authority” or “use established internal whistle-blowing mechanism”, and they are presented in parallel.
 - ✓ “and established internal whistle-blowing mechanism” should be added immediately after “for example, an ethics policy.”
 - ✓ Proposed paragraph 360.33 reads: “If the professional accountant suspects that non-compliance with laws and regulations has occurred or may occur, the professional accountant shall, subject to paragraph 360.11, inform an immediate superior to enable the superior to take appropriate action.” This cannot be read as allowing non-senior PAIBs to choose either one of the two courses of action. Accordingly, if the provisions of non-senior PAIBs is to be applied at all, we propose that the wording be changed as follows:

“If the professional accountant suspects that non-compliance with laws and regulations has occurred or may occur, the professional accountant shall inform an immediate superior to enable the superior to take appropriate action or, pursuant to paragraph 360.11, use the established internal whistle-blowing mechanism.”
- As we believe that there is no need to refer to paragraph 360.11, it would be desirable to delete “pursuant to paragraph 360.11.”
7. In relation to 6 above, the use of the established internal whistle-blowing mechanism should

be also allowed for senior PAIBs as an option, because even senior PAIB may have difficulties to obtain information and respond to the matter as prescribed in the proposed provisions depending on the corporate governance, organizational structure, corporate culture, etc. of their employing organization.

While Appendix I does not list the use of the established internal whistle-blowing mechanism as an option for senior PAIBs, paragraph 360.16 refers to paragraph 360.11 in the same way paragraph 360.33 does, and we are confused with the wording of this provision due to the inconsistency. If it is intended to allow senior PAIBs to use the established internal whistle-blowing mechanism, then, paragraphs 360.33 and 360.16 would become consistent.

7. With respect to auditors and senior PAIBs:

- (a) Do respondents agree with the factors to consider in determining the need for, and the nature and extent of, further action, including the threshold of credible evidence of substantial harm as one of those factors?
- (b) Do respondents agree with the imposition of the third party test relative to the determination of the need for, and nature and extent of, further action?
- (c) Do respondents agree with the examples of possible courses of further action? Are there other possible courses of further action respondents believe should be specified?
- (d) Do respondents support the list of factors to consider in determining whether to disclose the matter to an appropriate authority?

(Comment)

- (a) We agree.
- (b) We agree.
- (c) We agree. There is no other possible course of further action that we can think of.
- (d) We support.

8. For PAs in public practice providing services other than audits, do respondents agree with the proposed level of obligation with respect to communicating the matter to a network firm where the client is also an audit client of the network firm?

(Comment)

As stated earlier, we are opposed to the application of the proposed provisions to PAPP providing non-audit services.

9. Do respondents agree with the approach to documentation with respect to the four categories of PAs?

(Comment)

As stated earlier, we are opposed to the application of the proposed provisions to PAPP providing non-audit services and non-senior PAIBs. With respect to the other categories of PAs, we agree with the proposed approach to documentation.

However, with regard to the ISA provisions on documentation in paragraph 225.31, we see little necessity to include them in detail in the *Code of Ethics for Professional Accountants* (hereinafter “the Code”). We believe that it is enough to prescribe simply that PAs performing audits of financial statements need to comply with the ISA provisions on documentation. Accordingly, we propose that paragraph 225.31 be deleted and the wording of the first sentence in paragraph 225.32 be changed to: “The professional accountant shall comply with the documentation requirements under the ISAs. In addition, where the professional accountant concludes that an identified or suspected non-compliance with laws and regulations is a significant matter, the professional accountant shall document.”

Also, the following point needs to be considered:

The IAASB’s recent exposure draft of revision to ISA 250 provides the auditor’s responsibilities of complying with relevant ethical requirements in proposed 8a and includes the same text as that of paragraph 225.6 to present examples of laws and regulations covered in proposed A5a. In light of this, we believe that the IAASB needs to make a thorough assessment of the potential impact that the IESBA’s proposals described in the re-exposure draft would have on the documentation requirements under the auditing standards, which set forth requirements and application and other explanatory material for auditors to follow in performing an audit for the purpose of expressing an opinion on the financial statements.

II. Request for General Comments

(a) *PAIBs working in the public sector*— Recognizing that many PAIBs work in the public sector, the Board invites respondents from this constituency to comment on the revised proposals and,

in particular, on their applicability in a public sector environment.

(Comment)

There is a view that over half of the world's professional accountants are PAIBs. Compared to this view, Japan has relatively few PAIBs. 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.

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

(Comment)

Not applicable.

(c) *Translations*—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments, the Board welcomes comment on potential translation issues respondents may note in reviewing the revised proposals.

(Comment)

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 instance, the term “not expected” is used in paragraphs 225.14, 225.37, 360.15, and 360.32. It is difficult to understand the difference between “not expected” and “not required” in substance.

Also, paragraph 225.4 include the term “what constitutes the public interest,” which is difficult to translate into Japanese on a straight forward basis. We understand that this provision is meant to list factors to take into consideration in acting in the public interest when the PA responds to

NOCLAR. If so, in order to clarify the meaning, we propose to change the text to read as follows: “For the sake of the public interest, the following factors should be considered in responding to the non-compliance or suspected non-compliance with laws and regulations.”

Other comments

While in Section 360, paragraphs 360.13 and 360.30 specify which provisions apply to which categories of PAs, Section 225 does not include such paragraphs. For the sake of consistency, it would be desirable to use the same format for both Sections 225 and 360.

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