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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 Revisions Pertaining to Safeguards in the Code - Phase 2 and Related Conforming Amendments*

The Japanese Institute of Certified Public Accountants (JICPA) appreciates this opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) Exposure Draft, *Proposed Revisions Pertaining to Safeguards in the Code - Phase 2 and Related Conforming Amendments*.

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

I. Request for Specific Comments

Section 600, Provision of Non-Assurance Services to an Audit Client

1. Do respondents support the proposals in Section 600? If not, why not?

In particular, do respondents agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) above to all audit client entities? If not, please explain why.

(Comment)

We believe that you actually mean paragraph 26 (h) instead of paragraph 25 (h) as described in

the question above, we will respond as such.

We agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 26(h) of the exposure draft to all audit client entities.

We expect the rationale behind will be described in the basis for conclusion, and as such, we believe the following point should be clearly described as well in addition to the background information.

Although it is concluded in the exposure draft that safeguards are not capable of reducing the threat of self-interest or familiarity in this regard, we believe the illustrated example of the safeguard as provided in paragraph 609.4 A2 (use of professionals who are not audit team members to perform the service) can be still an applicable option. Therefore, we are of the view that it is essential to clearly articulate the rationale behind concluding that such option is not acceptable and thus any safeguards are not capable of reducing those threats.

Concerning Section 600 as a whole, we support your proposals except for the issues discussed below and we would like to make the following proposals for the drafting conventions specific to Section 600:

1) Subheadings

The requirements and application material discussed in Phase 2 are expected to be referred to and applied in practice more frequently compared to those in Phase 1. We believe it is desirable to provide additional subheadings because it would be more readable and usable to provide the subheadings of (Threat), (Scope of services), (Example of possible services), (Relevant factors in evaluating the level of threat), (Example of possible safeguards), and (Prohibitions) throughout subsections 601 to 610, while it is difficult to understand what the text of each paragraph in the current draft means without reading all the text. (Please refer to the following proposal as an example at the end of our response to the question 1. Proposed revisions are underlined.) In this manner, it will be quicker and easier to discern the content, thus enhancing the convenience of the user.

2) Repetitive paragraphs

We are doubtful of the merit of repeating the text of paragraph 600.3 in each subsection (paragraphs 601.2, 602.2, 603.2, 604.2, 605.2, 606.2, 607.2, 608.2, 609.2, and 610.2) even though this conforms to the drafting guidelines. We are concerned that the excessive formality of repetitive paragraphs will hinder the convenience of readers by increasing the number of paragraphs unnecessarily, considering that the section on non-assurance services already has numerous subsections and is frequently referred to in practice. Also from the viewpoint of readability, we believe it desirable to reduce the overall number of paragraphs as much as possible by deleting all the paragraphs mentioned above, and to make it simpler

to refer to.

(Example of proposal)

Subsection 606 - Information Technology Systems Services

Introduction

(Threat)

606.1

606.2

Requirements and Application Material

General

(Scope of services)

606.3A1

(Example of possible services)

606.3A2

(Relevant factors in evaluating the level of threat)

606.4A1

(Example of possible safeguards)

606.4A2

Audit Clients That Are Not Public Interest Entities

(Prohibitions)

R606.5

Audit Clients That Are Public Interest Entities

(Prohibitions)

R606.6

Section 950, Provision of Non-Assurance Services to an Assurance Client

2. Do respondents support the proposals in Section 950? If not, why not?
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(Comment)

We support your proposals except for the issue discussed below. We would like to make the following proposal for the drafting conventions:

As we mentioned in the section I.1 above, the requirements and application material discussed in Phase 2 are expected to be referred to and applied in practice more frequently compared to those in Phase 1. We believe it is desirable to provide additional subheadings because it would be more readable and usable to provide the subheadings of (Threat), (Scope of services), (Example of possible services), (Relevant factors in evaluating the level of threat), (Example of possible safeguards), and (Prohibitions) throughout Section 950, while it is difficult to understand what the text of each paragraph in the current draft means without reading all the text. (Please refer to the example proposed in the section I.1. above)

Examples of Safeguards

3. Do respondents have suggestions for other actions that might be safeguards in the NAS and other sections of the Code that would meet the revised description of a safeguard?

(Comment)

We do not have any suggestion.

Conforming Amendments Arising from the Safeguards Project

4. Do respondents agree with proposed conforming amendments set out in:

- (a) Chapter 2 of this document.
- (b) The gray text in Chapters 2–5 of Structure ED-2.

(Comment)

(a) We support your proposals except for the issue discussed below. We would like to make the following proposal for the drafting conventions:

As we mentioned in the section I.1 above, the requirements and application material discussed in Phase 2 are expected to be referred to and applied in practice more frequently compared to those in Phase 1. We believe it is desirable to provide additional subheadings because it would be more readable and usable to provide the subheadings of (Relevant factors in evaluating the level of threat), (Example of possible safeguards), and (Actions to eliminate the threat) throughout Chapter 2, while it is difficult to understand what the text of each paragraph in the current draft means without reading all the text. (Please refer to the example proposed in the section I.1. above)

(b) We agree with the proposed conforming amendments except for the issues discussed below:

- 1) Although actions that might be safeguards are stipulated in paragraph 900.32 A1 of Part 4B of “Independence for Other Assurance Engagement”, the following action listed in the extant Code as an example has been deleted. We are of the view that the IESBA should consider including it as an example in paragraph 900.32 A1 because such an action continues to be provided for as an example in paragraph 400.32 A1 of Part 4A of “Independence for Audits and Reviews”.
 - Engaging another firm to evaluate the results of the non-assurance service, or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

2) In paragraph 200.7 A2 of Part 2, it is stipulated, “in extreme situations, if the

circumstances that created the threats cannot be eliminated or safeguards are not capable of being applied to reduce the threat to an acceptable level, it might be necessary for a professional accountant to resign from the employing organization.” However, we believe it is not clearly articulated as to who will determine the necessity of such resignation. In order to clearly define that the necessity of such resignation should be determined by a professional accountant, we propose to change it back to the closed-off text, “a professional accountant may conclude that it is appropriate to resign from the employing organization”.

- 3) In paragraph 921.8 A2 (Section 921 of “Independence for Other Assurance Engagements”, provisions concerning family and personal relationships), it is prescribed that “an example of an action that might address threats created by close relationships of assurance team members is structuring the responsibilities of the assurance team so that the audit team member does not deal with matters that are within the responsibility of the individual with whom the assurance team member has a close relationship”. However, since this section deals with the provisions concerning the independence for other assurance engagements, we are of the view that the term “audit team member” should be replaced with “assurance team member”.
- 4) Paragraph 921.9 A1 provides for the “threats that might be created by a personal or family relationship” and “factors that are relevant in evaluating the level of any threat created by such relationships”. However, because in other instances (e.g., provisions concerned with a close family member in paragraphs 921.7 A1 and 921.7 A2), “threat” and “factors that are relevant in evaluating the level of any threat created by such relationships” are provided for in separate paragraphs, we believe that paragraph 921.9 A1 should be divided into two and the factors should be placed as paragraph 921.9 A2. (Consequently, the current paragraph 921.9 A2 will become paragraph 921.9 A3.)

5. Respondents are asked for any comments on any other matters that are relevant to Phase 2 of the Safeguards project.
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(Comment)

Since the requirements and application material discussed in Phase 2 are expected to be referred to and applied in practice more frequently compared to those in Phase 1, the numbering should be more understandable, straightforward and consistent with the rule for grouping which should be easy to search. This exposure draft adopts the numbering system with respect to numbering paragraphs of “application material” where the grouping based on theme is numbered before the

letter “A” and an index number is placed after the letter “A” for each detailed provision like XX.1 A1, XX.2 A1, XX.2 A2 and XX.3 A1. However, it seems that the grouping rules and numbering system are not always unified and consistent. Rather, we believe that a simple sequential numbering system applied in the extant Code is more straightforward and easier to search.

II. Request for General Comments

(a) *Small and Medium Practices (SMPs) and PAIBs* – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.

(Comment)

1) General Comments

Because examples of possible safeguards are valuable and usable for applying in practice, we request as many examples as possible to be provided.

2) Comments on Individual Matters

The following matter as expressed in the section I.1 above is also a comment received from small and medium practices.

With respect to the proposal to extend the scope of the prohibition on recruiting services stipulated in paragraph 26(h) of the exposure draft to all audit client entities, we expect the rationale behind will be described in the basis for conclusion, and as such, we believe the following point should be clearly described as well in addition to the background information.

Although it is concluded in the exposure draft that safeguards are not capable of reducing the threat of self-interest or familiarity in this regard, we believe the illustrated example of the safeguard as provided in paragraph 609.4 A2 (use of professionals who are not audit team members to perform the service) can be still an applicable option. Therefore, we are of the view that it is essential to clearly articulate the rationale behind concluding that such option is not acceptable and thus any safeguards are not capable of reducing those threats.

(b) *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.

(Comment)

Not applicable.

(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.

(Comment)

Not applicable.

(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 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.

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

Sincerely yours,

Sayaka Shimura

Executive Board Member - Ethics Standards

The Japanese Institute of Certified Public Accountants