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February 28, 2012

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JICPA Comments on the Exposure Draft,
"Statements of Membership Obligations 1 – 7 (Revised)"

The Japanese Institute of Certified Public Accountants welcomes the opportunity to comment on the Exposure Draft, "Statements of Membership Obligations 1 – 7 (Revised)" (the "ED").

I. Overall Comments

1. Best Endeavors Concept

As described in the ED, we agree that the best endeavor concept continues to be effective. Considering different national environments and stages of developments of the member bodies, we believe that this critical concept should continue to be applied.

2. Applicability Framework and Clearly Defined Requirements

We are fully aware that the IFAC established the applicability framework with three degrees of responsibility to clarify member bodies' requirements.
The clarified requirements may remind some member bodies that they have not followed their requirements. Therefore, we believe that the IFAC should provide an adequate preparation period. In addition, during that time, the IFAC should study the findings of such member bodies, and take this opportunity to further improve the SMOs.

3. Change of Terminology from "Incorporation" to "Adoption and Implementation"

The IFAC established the application guidance and the definitions of "adoption and implementation" in the ED. We are concerned that these unique definitions will cause confusion in the world, since these are not consistent with other international standard setters.

For example, the International Auditing and Assurance Standards Board (IAASB) issued an unauthorized policy position "A Guide for National Standard Setters that Adopt IAASB's International Standards but Find It Necessary to Make Limited Modifications". This policy position also explains the "adoption" of IAASB's international standards. We doubt that the other Standard Setting Boards under the IFAC have a consistent concept. Also, the various interpretations of "adoption" of IFRSs by the International Accounting Standards Board (IASB) have already been controversial in many parts of the world.

In many countries including Japan, "adoption" often means abolishing national standards, and using international standards instead. This stricter interpretation does not include "incorporation" or "convergence". As the IFAC recognizes, in the current regulatory environment, it is not realistic to set out member bodies' obligations using this stricter interpretation.

In preparing an application guidance of "adoption and implementation", the IFAC should engage in adequate consultations with other key international standard setters including the IASB. Therefore, given this situation, we believe that it is appropriate to retain "incorporation".

4. Translation Requirements

Currently, the translation requirement is included only in SMO 3. However, in this ED, this requirement is expanded to all standards in the SMOs. We disagree with this proposal.

We agree that the translation is critical to adopt international standards without any amendments. However, in incorporating international standards, it is not always necessary to translate and publish the entire text of the standards. It is more important to develop an accurate understanding of the contents. For example, when we incorporate international standards into national standards, we focus on the original texts in English rather than its translation, in order to properly understand the material.

Furthermore, except for a few countries applying full adoption, the IFAC should ensure

the individual national standards (i.e. what is incorporated and what is carved out) rather than the translation status.

Translation of entire text to local Member Bodies is useful to improve awareness of international standards. However, it is extremely expensive to translate a set of the international standards in accordance with the IFAC Translation Policy. In addition to the cost of translating thousands of pages of standards, exposure drafts, and revised standards, it requires appropriate human resources and to appoint a Principal Translator and Review Committee members. This would be a substantial burden for many countries including Japan, especially for developing nations. Therefore, we believe that the member bodies should decide whether or not to translate each standard based on a cost-benefit effectiveness analysis.

Furthermore, a feeling of unfairness may be fostered by the burden gap between countries using major languages (English, French, Spanish, etc.) and those using languages less used. Also, it is necessary to explain applications for the countries which have plural official languages.

Therefore, we believe that the translation effort should remain to be on the basis of encouragement (as opposed to requirement), according to member bodies' circumstances.

II. Specific Comments

1. SMO 1 Quality Assurance

A) Scope of Quality Assurance Review System

(Para. 15)

The scope of statutory audits varies according to a national legal framework. Therefore, it is not appropriate to refer to statutory audits in considering the priority of the scope of quality assurance review system.

We believe that the scope of quality assurance review system should include at least audits of financial statements of PIEs. As for the other audits, it should be determined based on appropriate criteria and other circumstances. (Please see the following answer to Para.18)

(Para.18 and 19)

Mandatory quality assurance review should apply, as a minimum, to audits of financial statements of PIEs, since these audits have a particularly large impact on the public interest. We do not agree to expand the scope to all audits of financial statements. Member bodies that for within the meaning of Para. 9(a) should consider the scope of quality assurance review, from a cost benefit viewpoint, based on the criteria in Para.19

and its regulatory environment around audit. It is not always the most effective operation for a quality assurance review system to expand the scope to all of the other audits. As stated above, we believe that the scope should include at least audits of financial statements of PIEs, and the scope of the other audits should be determined based on appropriate criteria and national circumstances.

As described in Para. 9, there are member bodies which have a direct responsibility for the area covered by this SMO, and those which have no responsibility, according to their national legal framework. In our view, originally, it is desirable for a member body, as a self-regulating body, to have direct responsibility for the area covered by this SMO. Member bodies described in Para.7 could afford to consider expanding the scope to the other audits. However, it is necessary for each member body to determine the scope based on individual national circumstances. We believe that SMO1 should be drafted on the assumption that member bodies have the desirable system.

B) Reference to ISA220

(Para. 20)

We believe that it is necessary to delete the reference to ISA 220, or improve the explanations.

- Para. 20(b) requires "firms" to implement an appropriate quality control system in accordance with ISQC 1 and ISA 220, as applicable. ISQC 1 applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements. On the other hand, ISA 220 deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements. That is, ISA 220 does not deal with the responsibilities of firms regarding maintenance and development of quality control system. The wording of Para.20 does not clearly express this distinction.

- ISA 220 deals with quality control procedures for an audit of financial statements at the engagement level. However, ISA 220 does not include procedures for engagements other than audit of financial statements. These procedures are included in each engagement standard. We understand that, for example, the provisions regarding quality control at the engagement level will be included in International Standards on Review Engagement (ISRE) 2400, and International Standards on Assurance Engagement (ISAE) 3000 and 3410, under development by the IAASB. It is expected that these engagements will become more important over time. Therefore, we believe that it is not appropriate to refer only to ISA 220,

in order to maintain a balanced viewpoint.

C) Other Quality Control Guidance

(Para. 24 and 25)

We believe that it is not appropriate to require member bodies to develop and publish relevant guidance on quality control standards. This requirement may be a tool to (a) help firms understand the objectives of quality control; and (b) implement and maintain appropriate systems of quality control. However, it is not appropriate to set out this tool as a comprehensive requirement. In our view, (a) and (b) should be required in para.24, and developing and publishing relevant guidance should be referred in the next para.25 as an example to support these requirements.

D) Review Cycle

(Para. 34)

Many developed countries use a mixed approach of a cycle-based and a risk-based approach. We believe that this mixed approach is more effective than the other approaches.

In the ED, a maximum cycle for non-PIEs is set as six (6) years. As we pointed out above, the scope of quality assurance review for non-PIEs should depend on individual countries. Therefore, a specific period should not be set as a requirement. An appropriate number of the year may vary according to the scope of review, circumstances, contents of engagements, laws and regulations, etc.

(Para. 81)

We have a similar view relating to the period for implementation reviews. There is no description regarding means and contents of implementation review in the ED. Also, there are differences in each country. Therefore, we believe that the specific number of the period two (2) years should not be set out.

We wish to express, again, our appreciation for this opportunity to comment on this ED.

Sincerely,

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Chairman and President
The Japanese Institute of Certified Public Accountants