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Mr. Ken Siong
Senior 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 to the Fee-related Provisions of the Code*

The Japanese Institute of Certified Public Accountants (JICPA) expresses its appreciation for the activities of the International Ethics Standards Board for Accountants (IESBA), and is grateful for the opportunity to share its comments on the IESBA Exposure Draft, *Proposed Revisions to the Fee-related Provisions of the Code*.

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

I. Request for Specific Comments

Evaluating Threats Created by Fees Paid by the Audit Client

1. Do you agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client)?

(Comment)

We agree.

2. Do you support the requirement in paragraph R410.4 for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable

level:

- (a) Before the firm accepts an audit or any other engagement for the client; and
- (b) Before a network firm accepts to provide a service to the client?

(Comment)

We support the IESBA proposals.

3. Do you have views or suggestions as to what the IESBA should consider as further factors (or conditions, policies and procedures) relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client? In particular, do you support recognizing as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence?

(Comment)

We have no proposals for additional items other than those factors (or conditions, policies and procedures) listed in paragraphs 410.4 A2, 410.4 A3, etc.

Advice from an independent committee may be an effective means for firms to evaluate impartially the level of threats created by fees paid by the audit client, but an independent committee is established as part of the governance structure of a firm, and because still limited number of firms have put such an independent committee in place, we do not believe it appropriate to include it as an example in the Code of Ethics at this point.

Impact of Services Other than Audit Provided to an Audit Client

4. Do you support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client?

(Comment)

We support the IESBA proposals.

Proportion of Fees for Services Other than Audit to Audit Fee

5. Do you support that the guidance on determination of the proportion of fees for services other than audit in paragraph 410.10 A1 include consideration of fees for services other than audit:

- (a) Charged by both the firm and network firms to the audit client; and
- (b) Delivered to related entities of the audit client?

(Comment)

We support the IESBA proposals.

From the perspective of addressing the threats created by fees paid by the audit client, we believe

that fees paid by the client for services other than audit to other firms are not a factor in creating threats to independence. Accordingly, we believe it appropriate to limit the scope of the fees for services other than audit to the fees charged by the firm or network firms to the audit client and its related entities in determining the proportion of fees for services other than audit to audit fee.

Fee Dependency for non-PIE Audit Clients

6. Do you support the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependency on a non-PIE audit client? Do you support the proposed threshold in paragraph R410.14?

(Comment)

We do not support the proposal.

We do not disagree that, from the perspective of ensuring the credibility of the audit, independence should be maintained in the case of audit services to non-PIE clients as well as PIE clients. However, although the extent of public interest in non-PIEs is not large in comparison to that in PIEs, the number of non-PIEs is very large. Even if requirement on fee dependency were established based on one threshold value across the board, it would be impractical for the JICPA, as a self-regulated body, to monitor the state of compliance by its members, which would create concerns from the viewpoint of the effectiveness of the requirement.

7. Do you support the proposed actions in paragraph R410.14 to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold?

(Comment)

We do not support the proposal.

As per our response to question 6, in the case of audit clients that are not PIE, we have concerns about the effectiveness of actions taken to reduce the threats created by fee dependency based on the across-the-board application of a single threshold value.

In the case of audits of non-PIE, it would be appropriate for firms to apply the conceptual framework approach in accordance with the general provisions set out in paragraphs 410.13 A1 to 410.13 A4, with each firm taking actions in the examples presented in paragraph 410.13 A4 as necessary, after considering such factors as the size of the entity and its extent of public interest in evaluating the level of the threats.

Fee Dependency for PIE Audit Clients

8. Do you support the proposed action in paragraph R410.17 to reduce the threats created by fee dependency to an acceptable level in the case of a PIE audit client?

(Comment)

We support the IESBA proposal.

9. Do you agree with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client? Do you have any specific concerns about its operability?

(Comment)

We do not agree.

As the JICPA commented in the opinion it submitted on July 10, 2018 in response to the request for comments on the IESBA Consultation Paper “Proposed Strategy and Work Plan, 2019-2023,” when developing the Code of Ethics we believe it is important to set evidence-based standards (i.e. to set standards based on appropriate research and evidence concerning issues to be addressed). We also believe it is important that the burden of changing the Code and merit brought to the public interest are fully analyzed, and that the details and results of these analyses are disclosed in exposure drafts and basis for conclusions. IESBA itself recognized the importance of evidence-based standard setting, in paragraphs 32 and 33 of the “Strategy and Work Plan, 2019-2023” published in April 2019.

According to paragraph 58 of the explanatory memorandum in the Exposure Draft, IESBA noted that no safeguards would be capable of reducing the threats to an acceptable level in the cases where fee dependency exceeds 15% for more than five consecutive years. With regard to this conclusion, we believe it is necessary for IESBA, as the standard-setting body, to take a step to confirm that the current rules are no longer functioning effectively.

On this point, we believe that this step has not been executed appropriately in relation to the proposed revision, and that rational grounds for the necessity of changing the current rules have not been presented to those involved in audit services.

Because Japan has a relatively high number of listed companies, and audits for PIEs are carried out by a large number of small and medium-sized audit firms, we expect resignation clauses to be applied in some cases. We understand that it is important to maintain independence (including independence in appearance) in order to ensure the credibility of the audit, but because this is a change in provisions that would have a significant impact on companies and auditors, we believe that a judgment should be made on whether to proceed with the amendment, based on a implementation review of the current rules at least and after which the understanding of the companies and auditors who would be affected by this revision should be sought.

In addition, in paragraph R410.25 (c), the firm is required to disclose information about fee dependency. Disclosure of this information will assist stakeholders (such as TCGW, shareholders, and investors) in making their judgments about independence (including independence in appearance) of the auditor. We believe that, rather than a means of requiring an auditor to resign,

entrusting the judgment to stakeholders is an effective measure that is to serve the public interest.

10. Do you support the exception provided in paragraph R410.20?

(Comment)

We support the exception.

We believe that even in cases where fee dependency has continued to exceed the threshold value, conditions specific to individual countries may mean that the public interest is served by the auditor not resigning. Accordingly, as per our response to question 9, we are opposed to the addition of resignation clauses, but even in the event of resignation clauses becoming a requirement, we would consider it necessary for exceptions to be provided.

Also, with regard to the method of counting the five years, we believe it should be made clear that the fiscal year in which application of the revised provisions begins is counted as the first year.

Transparency of Fee-related Information for PIE Audit Clients

11. Do you support the proposed requirement in paragraph R410.25 regarding public disclosure of fee-related information for a PIE audit client? In particular, having regard to the objective of the requirement and taking into account the related application material, do you have views about the operability of the proposal?

(Comment)

We do not support the proposed requirement in paragraph R410.25 (a) (ii).

We are concerned that the disclosure of fees for audit procedures performed by other firms could lead to a significant operational burden in terms of information gathering. In addition, because we do not believe that audit fees paid by the audit clients to other firms are a factor in creating threats to independence, in our opinion it is appropriate that this be excluded from the scope of disclosure.

With regard to the information related to fee dependency in R410.25 (c), because this would be useful information when appointing or dismissing an auditor, we believe it appropriate for this to be disclosed in the proposals at the client's shareholders meeting on the election of an auditor, or in their annual reports.

12. Do you have views or suggestions as to what the IESBA should consider as:

- (a) Possible other ways to achieve transparency of fee-related information for PIEs audit clients;
and
- (b) Information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm's independence?

(Comment)

We have no additional suggestions.

Anti-Trust and Anti-Competition Issues

13. Do you have views regarding whether the proposals could be adopted by national standard setters or IFAC member bodies (whether or not they have a regulatory remit) within the framework of national anti-trust or anti-competition laws? The IESBA would welcome comments in particular from national standard setters, professional accountancy organizations, regulators and competition authorities.

(Comment)

We are concerned that the setting out of resignation causes by the JICPA, a professional accountancy body, could lead to infringements of Japan's Antimonopoly Act. We are in process of confirming our concern with the Japan Fair Trade Commission, and as of the date of this comment letter we have not obtained their final opinion.

Proposed Consequential and Conforming Amendments

14. Do you support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in this Exposure Draft? In relation to overdue fees from an assurance client, would you generally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement?

(Comment)

We support the proposed amendments to Section 905.

15. Do you believe that there are any other areas within the Code that may warrant a conforming change as a result of the proposed revisions?

(Comment)

Nothing in particular.

II. Request for General Comments

● *Those Charged with Governance, including Audit Committee Members* – The IESBA invites comments regarding any aspect of the proposals from individuals with responsibilities for governance and financial reporting oversight. This includes small businesses where a single owner manages the entity and also has a governance role.

(Comment)

We do not have any specific comments.

● *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The

IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

(Comment)

As per our response to question 9, we are opposed to resignation clauses for fee dependency.

● *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.

● *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.

● *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)

We do not have any specific comments on the wording used in the Exposure Draft from the perspective of translation into Japanese.

However, 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,

Toshiyuki Nishida

Executive Board Member - Ethics Standards

The Japanese Institute of Certified Public Accountants