

Code of Ethics

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THE PRINCIPLES AND SPIRIT OF THE CODE OF ETHICS

Certified Public Accountants should, as professional accountants, sincerely and fairly perform their duties on the basis of professional competence, in order to contribute to the public interest and the sound development of society.

In a society based on the principles of self-responsibility, the enhancement of the disclosure system for financial information and the ensuring of the reliability of disclosed financial information is necessary. Certified Public Accountants, as professional accountants, should therefore act in compliance with the following principles:

- (1) To ensure quality at the level that should be achieved when rendering services, and
- (2) To act in accordance with stringent professional ethics governing their behavior when providing professional services, in order to realize their social responsibilities and fulfill their duties.

Certified Public Accountants should recognize the importance of their mission and code of professional conduct. In addition, they should devote themselves to continuous improvement of their expertise, endeavor to acquire a wide range of general knowledge, maintain high standards of integrity, and exercise due professional care and proper judgment in rendering their services. In addition, Certified Public Accountants should always maintain a fair and independent attitude, and behave in a manner that will ensure firm public confidence is gained through their performance of audits and other assurance services.

The Japanese Institute of Certified Public Accountants (hereinafter referred to as "the Institute") prescribes here in the Code of Ethics that Certified Public Accountants should be aware of their social roles, discipline themselves, and be able to meet the public's expectations.

The members and associate members of the Institute should act not only in compliance with the Code of Ethics, which is explained later, but also conduct themselves properly in a manner based upon an understanding of the principles of this Code of Ethics, though these principles may not be explicitly prescribed here.

CHAPTER I GENERAL PROVISIONS

Article 1. Objective

1. The Code of Ethics prescribes matters concerning professional ethics which should be complied with by members and associate members of the Institute (collectively hereinafter referred as "a member") in accordance with provision of Article 43 of the Constitution of the Institute.

2. If there is doubt concerning the interpretation of the Code or a lack of clarity in matters concerning ethics not prescribed in the Code, members may consult with the Institute.

Article 2. Fundamental Principles

1. A member should comply with the following fundamental principles in performing professional services.

2. Integrity

A member should always act with integrity, and should not be associated with the preparation of information or disclosure where they believe that the information:

- (a) Contains a false or misleading statement;
- (b) Contains information with material errors; or
- (c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

3. Objectivity

A member should always maintain objectivity and should not allow bias, conflict of interest or the undue influence of others, which may compromise objectivity.

The principle of objectivity requires members to maintain objectivity in judgment in the course of work, including reasonableness of the purposes of performing services, impartiality in determining matters that should be considered when services are performed, and unbiased judgment. The appropriateness of these judgments should be verifiable by others.

4. Professional Competence

A member should maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service.

5. Due Care

A member should act diligently, as is required of professional accountants, and comply with the following requirements:

- (1) The professional requirements and professional standards when providing professional

services.

(2) The requirement to make clients, employers or other users of the professional services aware of limitations inherent in the services.

6. Confidentiality

A member should not, without any justifiable reason, disclose to others or use any confidential information acquired as result of professional and business relationships to their personal advantage or the advantage of third parties.

Confidential information acquired as result of professional and business relationships means a secret that a member obtained from an accounting firm, an employer (including a potential employer), a client (including a potential client) and a company to which professional services of the member were rendered.

A member should bear in mind that they should not give an impression that may suggest to other people that a member or members might use confidential information acquired as result of professional and business relationships.

7. The requirement of the preceding paragraph 6 (hereinafter referred to as "confidentiality") continues even after the end of relationships between a member and an accounting firm, a client or employer.

8. A member should take all reasonable steps to ensure that member's employees, other staff and persons from whom advice and assistance is obtained respect the member's duty of confidentiality.

9. The following are circumstances where a member is or may be required to disclose confidential information or when such disclosure may be appropriate:

(1) Disclosure is authorized by the client. However, a member should consider whether the interests of all parties, including third parties whose interests may be affected, could be harmed;

(2) Disclosure is required by law, for example:

(i) Production of documents or other provision of evidence in the course of legal proceedings;

(ii) Response to an inquiry, investigation or inspection based on the laws and regulations; or

(iii) Reports on facts concerning illegal acts or other violations based on the laws and regulations; and

(3) There is a professional duty or right to disclose, when not prohibited by law:

(i) To protect the professional interests of a member in legal proceedings;

(ii) To comply with the quality control review of the Institute; or

(iii) To respond to an inquiry or investigation by the Institute in accordance with provisions of the Constitution and other regulations of the Institute; or

(iv) To ensure communication between predecessor and successor auditors.

10. Professional Behavior

A member should always behave as a professional accountant, comply with relevant laws and regulations and avoid any action that may bring discredit to members or negatively affects the good reputation of the profession.

Article 3. Conceptual Framework Approach

1. A member has an obligation to evaluate any threats to compliance with the fundamental principles when the member knows of circumstances or relationships that may compromise compliance with the fundamental principles described in the preceding Article.
2. If identified threats are other than clearly insignificant, a member should, where appropriate, consider and apply safeguards to eliminate the threats or reduce them to an acceptable level.
3. A member should take qualitative as well as quantitative factors into account when considering the significance of a threat.
4. If a member cannot implement appropriate safeguards, they should decline or discontinue the specific professional service involved, or where necessary resign from the client or the employing organization.
5. Once the violation of the provisions of this Code of Ethics is discovered, the violation should be corrected promptly and any necessary safeguards applied.
6. A member should bear in mind that the provisions of the preceding paragraphs 1 through 5 are applicable to professional services performed by a company that controls, or is controlled by, a member.

CHAPTER II RULES APPLICABLE TO ACCOUNTING FIRMS AND MEMBERS IN AN ACCOUNTING FIRM

Article 4. Consideration of Integrity of Clients

1. When accepting a new client relationship, threats to integrity and professional behavior may be created. Client issues that could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities, dishonesty or questionable financial reporting practices. The significance of any threats should be evaluated. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
2. Appropriate safeguards that a member should apply may include:
 - (1) Obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities, or
 - (2) Securing the client's commitment to improve corporate governance practices or internal controls.
3. Where it is not possible to eliminate or reduce the threats to integrity or professional behavior to an acceptable level, a member should decline to enter into the client relationship.
4. Acceptance decisions should be periodically reviewed for recurring client engagements.

Article 5. Professional Competency of an Engagement Team

1. When accepting a specific client engagement, threat to professional competence and due care may be created if the engagement team does not possess the competencies necessary to properly carry out the engagement. Alternatively, a threat to professional competence and due care is created if the engagement team gives the client expectations that exceeds its professional competencies. Before accepting a specific client engagement, a member should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be applied as necessary to eliminate them or reduce them to an acceptable level.
2. Such safeguards that a member should apply may include:
 - (1) Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.
 - (2) Acquiring knowledge of relevant industries or subject matters.
 - (3) Acquiring knowledge of relevant regulatory and reporting requirements.
 - (4) Assigning sufficient staff with the necessary competencies.
 - (5) Using experts where necessary.

- (6) Agreeing on a realistic time frame for the performance of the engagement.
 - (7) Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.
3. When a member intends to rely on the advice or work of an expert, a member should consider factors such as expertise, resources available and applicable professional and ethical standards, and evaluate whether such reliance is warranted.

Article 6. Changes in a Professional Appointment

1. A member who is asked to replace another member, should determine whether there are any professional reasons for not accepting the engagement, such as circumstances that threaten compliance with the fundamental principles. For example, there may be a threat to professional competence and due care if a member accepts the engagement before knowing all the pertinent facts. The significance of the threats should be evaluated. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
2. A member should bear in mind the following points pertinent to the preceding paragraph:
- (1) Depending on the nature of the engagement, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing member. In such circumstances, a member is required to partake in direct communication with the existing member to establish the facts and circumstances.
 - (2) An existing member is bound by confidentiality. The extent to which the existing member can and should discuss the affairs of a client with a proposed member will depend on the nature of the engagement and on:
 - (i) Whether the client's permission to do so has been obtained; or
 - (ii) The legal or ethical requirements relating to such communications and disclosure.
3. Safeguards that a member should apply may include:
- (1) Discussing the client's affairs fully and freely with the existing member.
 - (2) Asking the existing member to provide known information on any facts or circumstances that, in the existing member's opinion, the proposed member should be aware of before deciding whether to accept the engagement.
 - (3) When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing member will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted.
4. If a proposed member is unable to communicate fully with the existing member, the proposed member should more prudently consider whether to accept the engagement.

Article 7. Acceptance of Work that is Complementary or Additional to the Work of the Existing Member

1. A member may be asked to undertake work that is complementary or additional to the work of the existing member. Such circumstances may give rise to potential threats to professional competence and due care resulting from a lack of or incomplete information. The significance of the threats should be evaluated. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
2. Such safeguards that a member should apply may include:
 - (1) Confirming whether any other member is involved in the proposed work, and obtaining necessary information.
 - (2) Notifying, after obtaining the client's permission, the existing member of the proposed work, which would give the existing member the opportunity to provide any relevant information needed for the proper conduct of the work.

Article 8. Conflicts of Interest

1. A threat to objectivity may be created when a member competes directly with a client or has a joint venture or similar arrangement with a major competitor of a client. A threat to objectivity or confidentiality may also be created when a member performs services for clients whose interests are in conflict or the clients are in dispute with each other in relation to the matter or transaction in question. The significance of the threats should be evaluated. If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
2. Such safeguards that a member should apply may include:
 - (1) Notifying the client of the member's business interest or activities that may represent a conflict of interest, and obtaining their consent to act in such circumstances; or
 - (2) Notifying all known relevant parties that the member is acting for two or more parties in respect of a matter where their respective interests are in conflict, and obtaining their consent to so act; or
 - (3) Notifying the client that the member does not act exclusively for any one client in the provision of proposed services and obtaining their consent to so act.
3. The following additional safeguards should also be considered:
 - (1) The use of separate engagement teams; and
 - (2) Procedures to prevent access to information; and
 - (3) Clear guidelines for members of the engagement team on issues of information security and confidentiality; and

- (4) The use of confidentiality agreements signed by employees (including partners for audit corporations) involved in the engagement or transaction in question; and
 - (5) Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.
4. Where a conflict of interest poses a threat to one or more of the fundamental principles including objectivity or confidentiality that cannot be eliminated or reduced to an acceptable level through the application of safeguards, the member should not accept a specific engagement.

Article 9. Second Opinions

1. Situations where a member is asked to provide a second opinion on the application of accounting, auditing or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may give rise to threats to compliance with the fundamental principles. For example, there may be a threat to due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing member, or is based on inadequate evidence. The significance of the threat will depend on the circumstances of the request and available facts and evidence relevant to the expression of a professional judgment. A member should evaluate the significance of the threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
2. Such safeguards that a member should apply may include:
 - (1) Seeking client permission to contact the existing member.
 - (2) Describing the limitations surrounding any opinion in communications with the client when disclosure of facts and obtaining evidence are restricted.
3. If the company or entity seeking the opinion will not permit communication with the existing member, a member should consider more prudently whether it is appropriate to provide the opinion sought.

Article 10. Fees

1. A member should charge fair fees which reflect the nature and value of the professional services performed for the clients. A member should not quote or charge unjustifiably low fees.
2. When quoting a fee, a member should consider the following matters and make the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee.
 - (1) Knowledge and skill required to perform the engagement.
 - (2) Degree of training and experience required for team members assigned to the engagement.

- (3) Appropriate time assigned to the engagement.
- (4) Degree of responsibility imposed with regard to performance of the engagement.

Article 11. Contingent Fees

1. The acceptance of an assurance engagement based on an arrangement in which a fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed (hereinafter referred to as "contingent fee") is involved, gives rise to threats to objectivity. Since no safeguards are sufficient to eliminate such threats or reduce them to an acceptable level, a member should not accept an assurance engagement based on a contingent fee.
2. When accepting a non-assurance engagement based on a contingent fee, such acceptance may give rise to threats to objectivity. The significance of such threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate or reduce them to an acceptable level.
3. Such safeguards that a member should apply against the threats in the preceding paragraph may include:
 - (1) An advance written agreement with the client as to the basis of remuneration.
 - (2) The establishment of appropriate policies and procedures relating to contingent fees and adherence to them.

Article 12. Referral Fees

When accepting or performing professional services, a member, with respect to referring or accepting an engagement, should not receive or pay a referral or brokerage fee, or other fee or consideration resulting from the engagement.

Article 13. Marketing Professional Services

1. A member should be honest and truthful when soliciting professional services through advertising or other forms of marketing, and should not bring the profession into disgrace or disrepute.
2. In order to avoid bringing the profession into disgrace or disrepute, a member should:
 - (1) Not make exaggerated claims for services offered, qualifications possessed or experience gained;
 - (2) Not make disparaging references to or comparisons to the work of another member;
 - (3) Communicate true information;
 - (4) Not make any advertisement that violates laws and regulations, the Constitution and regulation of the Institute.

3. If a member is in doubt whether a proposed form and contents of advertising or marketing is appropriate, the member may consult with the Institute.

Article 14. Gifts and Hospitality

1. A member may be offered gifts or hospitality from a client to whom it provides assurance services. A member may also offer gifts or hospitality to a client to whom it provides assurance services. Such an offer gives rise to threats to objectivity. If evaluated threats are other than clearly insignificant, no safeguards are sufficient enough to reduce them to an acceptable level. Therefore, an accounting firm or members of the assurance service team should not accept such offers unless evaluated threats are clearly insignificant.
2. A member may be offered gifts or hospitality from a client to whom it provides non-assurance services. A member may also offer gifts or hospitality to a client to whom it provides non-assurance services. Such an offer gives rise to threats to objectivity. The significance of such threats will depend on the nature, value and intent behind the offer. The significance of identified threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
3. Such safeguards that a member should apply against the threats in the preceding paragraph may include:
 - (1) Establishing appropriate policies and procedures about gifts and hospitality and abiding by them.
 - (2) Obtaining approval of persons responsible for gifts and hospitality.
 - (3) Documenting contents of gifts and hospitality and reporting them.

Article 15. Objectivity of Professional Services

1. When providing any professional service, there are potential threats to objectivity resulting from the fact that a member, the spouse of the member or any relative within the second degree of kinship (parents, siblings, grandparents and grandchildren in addition to spouse and children) who share the same livelihood as the member, have interests in, or close relationships with, a client or directors or employees. The existence of threats to objectivity when providing any professional service will depend upon the particular circumstances of the engagement and the nature of the work. A member should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
2. Such safeguards that a member should apply may include:
 - (1) Withdrawing from the engagement team.
 - (2) Supervisory procedures.
 - (3) Terminating the financial or business relationship giving rise to the threat.

- (4) Discussing the issue with higher levels of management within the firm.
- (5) Discussing the issue with those charged with governance of the client.

Article 16. Independence

1. When accepting or continuing an assurance engagement, a member should maintain independence from clients.
2. A member should ensure prevention of circumstances or relationships which might compromise the independence of members of an assurance services team, employees, companies that control, or are controlled by, the member, or a network firm from a client.
3. Independence requires:
 - (1) Independence of Mind
The state of mind that permits the expression of a conclusion without being affected by influences or pressure that compromises professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
 - (2) Independence in Appearance
The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including applicable laws and regulations, would reasonably conclude a member's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.
4. A member should not have interests that are prescribed in the laws and regulations in their relationship with the clients of financial statement audits.
5. When a member accepts or continues audit engagements other than audits that are prescribed in the Financial Instruments and Exchange Law, a member should not have any of the following relationships in addition to the one described in the preceding paragraph:
 - (1) A member, being engaged in financial statement audits as an assistant, with relationships as described in paragraph 1, item 1 or 2, or paragraph 3 of Article 24 of the Certified Public Accountants Law, or paragraph 1, item 1, 4, 5, 6, 8 or 9 of Article 7 of the Ministerial Ordinance for the Certified Public Accountants Law.
 - (2) In the case that a member is a Certified Public Accountant, a foreign Certified Public Accountant, or partners who have prepared an audit certification for clients in an audit corporation, the member's relatives within the second degree of kinship have such relationships as shown on Article 24 paragraph 1 item 1 of the Certified Public Accountants Law and Article 7 paragraph 1 item 1 of the Ministerial Ordinance for the Certified Public Accountants Law.

6. If a member knows of circumstances or relationships that might compromise independence when the member accepts or continues an assurance engagement, the member should evaluate the significance of identified threats based on the particular circumstances or relationships and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level to ensure independence.
7. A member is required to judge his or her independence on the basis of "the application guidance for conceptual framework of independence" that is separate from this Code and adapt it to the particular circumstances under consideration.

Article 17. Quality Control

A member should endeavor to ensure quality in the performance of professional services by having a good organizational structure and by providing appropriate guidance or supervision to employees, etc.

Article 18. Prohibition of Name Lending

A member should not permit anyone who is not in the employment of the member to render professional services in the name of the member, and should not express any opinion on any professional services by people not in the employment of the member.

Article 19. Expression of Opinions Regarding Future Events

A member should refrain from expressing opinions in any manner which may mislead others to believe that the member is attesting to the attainability of a forecast regarding future events.

Rule 20. Other Inappropriate Business

A member should not concurrently engage in any business, occupation, or activity which impairs or might impair professional integrity, objectivity, or public confidence in the performance of professional services.

Article 21. Prohibitory Conduct against Other Members

A member should refrain from the following conduct:

- (1) Slandering or impairing the professional reputation of other members.
- (2) Encroaching upon the practice of other members by unfair means.
- (3) Offering employment to other members' employees when such offers would significantly hinder the practices of the other members.

Article 22. Mutual Conference between Members

Members jointly performing professional services should communicate and confer with each other to a sufficient extent.

Article 23. Name of an Audit Corporation

1. A member should not use a name that may bring the profession into disrepute when forming an audit corporation, changing the name of the audit corporation or merging with another audit corporation.
2. A member should not use the same name or similar name to other audit corporations and others (joint firms, foreign offices that are equivalent to a professional accountant's firm), when forming an audit corporation, changing the name of the audit corporation or merging with some other audit corporation.
3. A member should make an inquiry to the Institute as to the name of an audit corporation before forming an audit corporation, changing the name of the audit corporation or merging with some other audit corporation, in view of the public interest associated with audit services.

CHAPTER III RULES APPLICABLE TO MEMBERS IN BUSINESS

Article 24. Compliance with the Fundamental Principles

Members in business must realize the importance of the mission and code of professional conduct of Certified Public Accountants, and abide by the fundamental principles described in Article 2.

Article 25. Potential Conflicts

1. When a member in business is under direct or indirect pressure to act or behave in ways that could threaten compliance with the fundamental principles of objectivity, the significance of threats arising from such pressures should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. A member in business may face pressure to:
 - (1) Act contrary to law or regulation.
 - (2) Act contrary to technical or professional standards.
 - (3) Facilitate fraud or illegal earnings management strategies.
 - (4) Lie to, or otherwise intentionally mislead the auditors of the employing organization or regulators.
 - (5) Be associated with a financial or non-financial report that materially misrepresents the facts.
2. Safeguards that a member in business should apply may include:
 - (1) Obtaining advice from superiors of the employing organization, an independent professional advisor or a relevant professional body.
 - (2) Relying on a formal dispute resolution process within the employing organization.
 - (3) Seeking legal advice.

Article 26. Preparation and Reporting of Information

1. When involved in the preparation or reporting of information, a member in business should prepare or present such information in accordance with relevant professional standards.
2. A member in business who has responsibility for the preparation or approval of the financial statements of an employing organization should ensure that those financial statements are presented in accordance with the applicable financial reporting standards.
3. Threats to compliance with the fundamental principles such as objectivity, professional competence and due care may be created where a member in business may be pressured to become associated with preparation or reporting of misleading information. The significance of threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.

4. Such safeguards that a member in business should apply may include consultation with superiors within the employing organization, an independent expert or a relevant professional body.

Article 27. Acting with Sufficient Expertise and Experience

1. A member in business should not intentionally mislead an employer as to the level of expertise or experience possessed, nor should a member in business fail to seek appropriate expert advice and assistance when required.
2. The following circumstances may threaten the ability of a member in business to perform duties with the appropriate degree of professional competence and due care. The significance of threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
 - (1) Incomplete, restricted or otherwise inadequate information for performing the duties properly.
 - (2) Insufficient experience, training and/or education for performing the duties properly.
 - (3) Inadequate resources for performing the duties properly.
 - (4) Insufficient time for performing the duties properly.
3. Safeguards that a member in business should apply may include:
 - (1) Obtaining additional advice or assistance from someone with the necessary expertise.
 - (2) Obtaining training for properly performing the relevant duties.
 - (3) Ensuring that there is adequate time available for performing the relevant duties.
 - (4) Consulting with superiors within the employing organization, or
 - (5) Consulting with independent experts or a relevant professional body

Article 28. Financial Interests

1. When a member in business, the spouse of the member or relatives within the second degree of kinship who share the same livelihood as the member, has financial interests in the employing organization, threats to objectivity or confidentiality may be created. A member in business should evaluate the significance of such a threat, and if threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
2. Examples of circumstances that may create threats to objectivity or confidentiality include cases in which a member :
 - (1) Holds a direct or indirect financial interest in the employing organization and the value of that financial interest could be directly affected by decisions made by the member in business;
 - (2) Is eligible for a profit related bonus and the value of that bonus could be directly affected by decisions made by the member in business;
 - (3) Holds, directly or indirectly, share options in the employing organization, the value of which could be directly affected by decisions made by the member in business;

3. Safeguards that a member in business should apply may include:
 - (1) Consultation with superiors within the employing organization.
 - (2) Consultation with independent experts or relevant professional bodies.

Article 29. Manipulation of Information and Use of Confidential Information

A member in business should neither manipulate information nor use confidential information for personal gain.

Article 30. Inducements

1. A member in business, the spouse of the member or relatives within the second degree of kinship who share the same livelihood as the member, may be offered an inducement. Inducements may take various forms, including gifts, hospitality, and preferential treatment. Threats to objectivity or confidentiality are created where an inducement is made in an attempt to unduly influence actions or decisions, encourage illegal or dishonest behavior or obtain confidential information. A member in business should evaluate the significance of such a threat, and if evaluated threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
2. Safeguards that a member in business should apply may include:
 - (1) Where such offers have been made, immediately inform higher levels of management of the employing organization;
 - (2) Inform third parties of the offer – for example, a professional body or the employer of the individual who made the offer; a member in business should, however, consider seeking legal advice before taking such a step; and
 - (3) Advise the spouse and relatives within the second degree of kinship in the same livelihood of relevant threats and safeguards where they are potentially in positions that might result in offers of inducements as a result of their employment situation.
3. A member in business should not offer an inducement to improperly influence the professional judgment of another individual or organization, or obtain confidential information.

DEFINITIONS

Professional services

Services that are set forth in Article 2, paragraph 1 and 2 of the Certified Public Accountants Law, or services performed by a member in business.

Potential client

Companies and others that plan to commission professional services to members.

Threats to fundamental principles

Circumstances that may impede compliance with the fundamental principles. Many threats fall into the following categories:

- (1) Self-interest threats, which may occur as a result of the financial or other interests of a member, the spouse or relatives within the second degree of kinship;
- (2) Self-review threats, which may occur when a previous judgment needs to be re-evaluated by a member responsible for that judgment;
- (3) Advocacy threats, which may occur when a member promotes a position or opinion of the client or the employing organization to the point that subsequent objectivity may be compromised;
- (4) Familiarity threats, which may occur when, because of a close relationship, a member becomes too sympathetic to the interests of others; and
- (5) Intimidation threats, which may occur when a member may be deterred from acting objectively by threats, actual or perceived.

Safeguards

Measures to be taken when the member knows of circumstances or relationships that may compromise compliance with the fundamental principles.

Accounting firm

Firms that are operated by a member (excluding firms established pursuant to the laws other than the Certified Public Accountants), audit corporations and the entities controlling, or controlled by, such parties through ownership, management or other means.

Members in an accounting firm

Members, irrespective of functional classification (e.g., audit or consulting) in an accounting firm.

Engagement team

All personnel performing certain professional services, including any experts contracted by the firm in connection with that engagement.

Existing member

A member in an accounting firm currently conducting an audit engagement or carrying out accounting, consulting or similar professional services for a client.

Advertising

The communication to the public of information as to the services or skills provided by members with a view to procuring professional business.

Financial interest

An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

Assurance engagement

An engagement in which a member expresses a conclusion designed to enhance the degree of confidence of the intended users about the outcome of the evaluation or measurement made by the responsible party of a subject matter against criteria or the subject matter directly, based on the evidence obtained by the member.

Assurance team

(1) All members of the engagement team for the assurance engagement, all others within an accounting firm who can directly influence the outcome of the assurance engagement, including:

(i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement. For the purposes of a financial statement audit engagement this includes those at all successively senior levels above the engagement partner through the firm's chief executive;

(ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and

(iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement; and

(2) For the purposes of a financial statement audit client, all those within a network firm who can directly influence the outcome of the financial statement audit engagement.

Network firm

An accounting firm or an entity that belongs to a network.

Network

A large structure:

(1) That is aimed at cooperation among accounting firms or entities that belong to it, and

(2) To which any of the following are applicable:

(i) is clearly aimed at profit or cost sharing,

(ii) shares a common business strategy,

(iii) shares common ownership, control or management,

- (iv) shares common quality control policies and procedures,
- (v) shares the use of a common brand-name, or
- (vi) shares a significant part of business resources.

Members in business

Members employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a member contracted by such entities.

Related entity

An entity that has any of the following relationships with the client:

- (1) An entity that has direct or indirect control over the client provided the client is material to such entity;
- (2) An entity with a direct financial interest in the client provided that such entity has significant influence over the client and the interest in the client is material to such entity;
- (3) An entity over which the client has direct or indirect control;
- (4) An entity in which the client, or an entity related to the client under (3) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (3); and
- (5) An entity which is under common control with the client (hereinafter a "sister entity") provided the sister entity and the client are both material to the entity that controls both the client and sister entity.

Direct financial interest

A financial interest:

- (1) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
- (2) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control

Indirect financial interest

A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.

Director or officer

A director, its equivalent position, or an administrative person responsible for financial matters, including employees significantly associated with management decision-making.

Supplementary Provisions (revised on December 10, 2007)

This revised Code should be effective on December 10, 2007, and becomes applicable from the day when the Act on the amendment of the CPA Law (Act No. 99 of 2007) comes into effect (April 1, 2008).