(Provisional translation)

Opinion on the Revision of Auditing Standards

April 9, 2009

Business Accounting Council

The original texts are prepared in the Japanese language, and this translation is only provisional. Therefore, for all purposes, users should make reference to the original Japanese text.

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I. Background

The Business Accounting Council (the “BAC” or the “Council”) first introduced provisions regarding the assumption that an entity would continue its business for a reasonable period of time (hereinafter referred to as the “going concern assumption”) to the Auditing Standards when they were revised in 2002, so as to address the increased concern of stakeholders, given the series of bankruptcies and considering the surroundings *inter-alia* that the International Standards on Auditing (ISAs) direct an auditor to address the going concern assumption.

The rapid deterioration of business performance recently has led to an increase in the number of entities which refer to the going concern assumption in explanatory notes of their (quarterly) financial statements, and as supplementary information in the relevant auditor’s reports. Some attributed this to the fact that the Regulations Concerning Financial Statements, etc., which stipulate the disclosure of explanatory notes regarding the going concern assumption, and the Auditing Standards, which set out the auditor’s responsibility therewith, seem to require that, whenever certain events or conditions exist, explanatory notes and supplementary information concerning the going concern assumption be included automatically in the financial statements and the auditor’s report respectively. There are heightened concerns that this has resulted in the practice in which the explanatory notes are added on the basis of a mere existence of such facts without allowing any judgment. It has also been suggested that these requirements and practices are not necessarily consistent with international standards.

In this light, in March 2009, the BAC had its Audit Committee examine this issue so as to provide investors with more useful information, and decided to amend the current provisions so that the auditor will determine whether appropriate supplementary information will be provided in the event that there still remains a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, having evaluated management’s assessment and plans for future actions to deal with these events or conditions. The BAC published an exposure draft that incorporated these amendments, and sought public comments. Then, taking into account the comments submitted, the Council undertook further discussion, revised some parts of the exposure draft, and decided to publish this in the form of a document, entitled “Opinion on the Revision of Auditing Standards.” The Council believes that these revisions to the Auditing Standards will enhance the international consistency of audit practices regarding the going concern assumption.

Furthermore, given that the semi-annual auditing standards and quarterly review standards also contain similar provisions regarding the going concern assumption, the Audit Committee will also need to consider revisions of these standards from a similar perspective.

In the international arena, auditing standards are under continuous revision; as to the ISA, in particular, the Clarity Project, which stratifies extant texts into the requirements and its application material, was just completed in March 2009. Furthermore, the “Application of International Financial Reporting Standards (IFRS) in Japan” is also currently under consideration by the Planning and Coordination Committee within the BAC. Should IFRS be implemented, even in the stage of voluntary application, it is necessary to ensure that audits of financial statements prepared in accordance with IFRS are carried out in an appropriate manner.

In view of these developments, it is important that the quality of audits conducted by certified public accountants be seamlessly improved through continuous review of the Auditing Standards while further improving their consistency with international auditing standards. For this reason, the BAC will revise the Auditing Standards on a continuous basis.

II. Major revisions and the reasons therewith

1. Audit Procedures regarding the Going Concern Assumption

As the accounting standards in Japan do neither contain explicit requirements that management make a specific assessment of the entity’s ability to continue as a going concern nor set out disclosure requirements in this connection, it is understood that the practice follows the Regulations Concerning Financial Statements, etc., which is a Cabinet Office Ordinance stipulating the rules on the presentation of financial statements. In light of consistency with IFRS, and from the perspective of providing investors with more useful information, the revision to the Regulations Concerning Financial Statements, etc. is currently under consideration, such that if there are events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, and a material uncertainty exists even after considering relevant management's plans for future actions, management shall disclose the effect in a note, such as: (1) that the said events or conditions exist, and the outline thereof; (2) the management's plans for future actions to deal with these events or conditions, and (3) that there is a material uncertainty related to these events and conditions, and the reasons thereof.

In conjunction with the revision to the Regulations Concerning Financial Statements, etc., the BAC has decided to clarify also the audit procedures regarding the going concern assumption in the Auditing Standards, considering the consistency with those in the ISA. In other words, if events or conditions have been identified that may cast significant doubt on the entity's ability as a going concern, the auditor shall determine whether or not a material uncertainty exists, having evaluated management's assessment and plans for future actions for a reasonable period of time.

In view of consistency with the ISA and financial statements presentation requirements, the phrase "material uncertainty regarding the going concern assumption" is used as a terminology that has a particular meaning throughout the contexts of audit procedures regarding the going concern assumption.

2. Expression of Opinions relating to the Going concern Assumption

Given that the standards of fieldwork in the Auditing Standards will be revised so that the auditor will be required to determine whether a "material uncertainty regarding the going concern assumption" exists related to the events or conditions, the BAC has decided to amend the reporting standards so that the auditor is required to express an opinion as to the appropriateness of disclosure in relevant financial statements when a "material uncertainty regarding the going concern assumption" exists.

Under the current reporting standards, if there are events or conditions that may cast significant doubt, and management does not present a reasonable strategic plan or the like designed to resolve that doubt, the auditor is required to evaluate whether to disclaim an opinion as in cases where they are unable to fulfill an audit procedure that they believe is necessary. It was pointed out with regard to this provision that, in practice, the auditor would end up disclaiming an opinion if a highly reliable strategic plan or the like designed to resolve the doubt is not presented. This time, the BAC has decided to revise this provision considering international practices so that, if management does not present its assessment or plans for future actions, then the auditor would be required to determine whether to disclaim the opinion, as in cases where they are unable to fulfill an audit procedure that they believe is necessary and are unable to obtain sufficient appropriate audit evidence.

There may be cases where “explanatory notes regarding the going concern assumption” would have been made in accordance with the past standards but would not be provided in accordance with the revised standards, since management’s plans for future actions offset a potential material uncertainty relating to the events or conditions. For listed companies and the like, even in cases where the relevant explanatory notes are not provided based on a conclusion that a material uncertainty relating to the events or conditions does not exist, it would be appropriate to provide stakeholders with information through, for example, disclosing the particular events and management’s plans for future actions dealing with those events in the “Business and Other Risks” section or elsewhere of their annual securities report.

III. Effective date and other concerns

1. The revised Auditing Standards is effective for audits of financial statements for periods ending on or after March 31, 2009. In implementing the revised standards, relevant legal imperatives should be amended to conform to the revision.

2. The Japanese Institute of Certified Public Accountants is requested to provide implementation guidance so that the revised Auditing Standards will be properly applied in practice, followed by the consultation with relevant parties in accordance with its due process.

Auditing Standards

I. Objectives of Audits

The objective of an audit of the financial statements is to express the auditor’s opinion as to whether the financial statements prepared by management present fairly, in all material respects, the financial position, the results of its operations, and cash flows of the entity in accordance with generally accepted accounting principles, based on the audit evidence obtained by the auditor.

The auditor's opinion that the financial statements are presented fairly is expressed when the auditor concludes that the auditor has obtained reasonable assurance that the financial statements as a whole are free from material misstatements.

II. General Standards

(1) The auditor shall, as a professional expert, all the time endeavor to develop his or her professional expertise, and to accumulate knowledge through practical experience and other means.

(2) The auditor shall maintain integrity and objectivity, and shall not have any specific interest that may impair his or her independence, nor have an appearance that may lead others to suspect the independence when performing an audit.

(3) The auditor shall exercise due professional care, and conduct an audit with an attitude of professional skepticism.

(4) The auditor shall be alert to the risk of material misstatement of the financial statements due to fraudulent financial reporting or misappropriation of assets. In addition, the auditor shall be alert to the risk of material misstatement of the financial statements led by illegal acts.

(5) The auditor shall document the audit planning, procedures performed, judgment processes, and conclusions in working papers, and retain them for a period of time.

(6) The auditor shall establish, as an organization, policies and procedures that ensure sufficient quality so that audit engagements are performed appropriately in accordance with generally accepted auditing standards (hereafter “quality control”). The auditor shall confirm that the audit engagements are conducted in accordance with such policies and

procedures.

(7) In performing the audit, the auditor shall, in accordance with the quality control policies and procedures, define the lines of commands and assignment of tasks, and perform appropriate direction, coaching, and supervision to staff.

(8) The auditor shall not leak any information obtained during the course of the audit, and shall not use the information for any other purposes.

III. Standards of Fieldwork

1. General Principles

(1) The auditor shall assess the risks of material misstatement of the financial statements and determine the level of detection risk, so as to reduce audit risk to an acceptably low level, then plan and perform the audit taking account of audit materiality.

(2) The auditor shall obtain an understanding of the entity and its environment, including its internal control, and consider related business risks and other factors that may result in a risk of material misstatement of the financial statements.

(3) The auditor shall use management assertions, such as existence, completeness, rights and obligations, appropriateness of valuation, an attribution to periods, presentation and disclosure, and shall obtain sufficient appropriate audit evidence so as to obtain a reasonable basis in forming an audit opinion.

(4) When obtaining sufficient appropriate audit evidence, the auditor shall provisionally assess a risk of material misstatement of the financial statements, and perform, on a test basis, audit procedures responsive to the assessed risks.

(5) The auditor shall, with an attitude of professional skepticism, assess the risk of material misstatement of the financial statements whether due to fraud or error, reflect the results of that assessment in the audit plan, and perform his or her audit based on the plan.

(6) The auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, when planning and performing the audit.

2. Audit Planning

(1) The auditor shall develop the audit plan considering an audit risk and materiality so as to perform the audit effectively and efficiently.

(2) In developing an audit plan, the auditor shall obtain information relating to the entity's business activities, such as the general economic conditions, the industry in which the entity operates, the entity's business and structure, management's philosophy and policies, the structure of internal control, and the use of information technology(IT), then preliminarily assess the risk of material misstatement of the financial statements, which may result from business risks and other factors relating to the entity and its environment.

(3) If it is determined that a risk of material misstatement relates pervasively to the financial statements as a whole and are not necessarily linked to a particular financial statement item, the auditor shall reflect overall responses in the audit plan, such as assigning more engagement team members, use of an expert and ensuring adequate audit hours based on the risk assessment.

(4) The auditor shall develop an audit plan for tests of controls responsive to the preliminarily assessed risks of material misstatement at the assertion level, and substantive procedures responsive to the level of detection risk, then determine the nature, timing and extent of audit procedures.

(5) If the auditor determines that there is a significant risk that, in the auditor's judgment, requires special consideration, such as that relating to the management's judgments in making accounting estimates or revenue recognition, transactions which may indicate the possibility of fraud, or unusual transactions, he or she shall develop an audit plan which sets out audit procedures that are specifically responsive to that risk.

(6) The auditor shall consider the effect of the entity's use of IT on an audit, and develop an audit plan in response to such effect.

(7) In developing an audit plan, the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, such as adverse trends in financial ratios and the probability of insolvency.

(8) If there is a change in events or circumstances which the auditor originally considered as a premise in planning the audit, or new facts come to the auditor's attention during the course of the audit, he or she shall revise the audit plan accordingly.

3. Audit fieldwork

(1) The auditor shall perform the tests of controls and substantive procedures based on the original audit plan so long as the results of audit procedures performed and audit evidence obtained indicate no need to revise the preliminary assessment of a risk of material misstatement. If the auditor determines that the risk of material misstatement is higher than the preliminary assessment, he or she shall revise the original audit plan, which reduces the detection risk, and perform audit procedures to obtain sufficient appropriate audit evidence.

(2) If the auditor determines that no relevant control exists to the assertion, or controls are not likely to operate effectively, he or she shall obtain sufficient appropriate audit evidence through performance of substantive procedures without making reliance to the operating effectiveness of the controls.

(3) If the auditor determines that there is a significant risk that requires special consideration, he or she shall perform substantive audit procedures to verify whether the identified significant risk does not result in a material misstatement of the financial statements. The auditor shall evaluate the design and implementation of controls and perform the tests of controls to evaluate their operating effectiveness as necessary.

(4) If, during the course of the audit, the auditor newly identifies a risk of material misstatement which relates pervasively to the financial statements as a whole and is not necessarily linked to a particular financial statement item, or determines that the overall responses in the original audit plan are insufficient, he or she shall amend the original audit plan, modify the overall responses, and perform audit procedures accordingly.

(5) The auditor shall obtain sufficient appropriate audit evidence to assess the appropriateness of management's accounting estimates by evaluating the methods of estimates and/or comparing such estimates with actual results or his or her own estimates.

(6) If the auditor identifies fraud or error during the course of the audit, he or she shall inform the appropriate level of management. Furthermore, the auditor shall obtain

sufficient appropriate audit evidence through performance of additional audit procedures as necessary, and evaluate their effect to the financial statements.

(7) The auditor shall evaluate a management's assessment of the entity's ability to continue as a going concern for a reasonable period of time, in order to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements.

(8) If events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall determine whether or not a material uncertainty regarding the going concern assumption exists, with regard to the management's assessment and plans for future actions for a reasonable period of time.

(9) The auditor shall obtain from a management a written representation, which acknowledges the management's responsibility for fair presentation of the financial statements, states the basis of presentation in the financial statements, specifies the significant accounting policies selected by management, affirms that management has made all relevant information available to the auditor, and includes any other matters which the auditor believes are necessary.

4. Using the work of Other Auditors etc.

(1) When using the work of other auditors, the auditor shall determine the nature and extent of his or her reliance on that work, taking into account the significance of the financial information on which the other auditors performed the work, and reliability of their work considering their quality control policies and procedures.

(2) When using the work of experts, the auditor shall evaluate their qualifications and objectivity, and evaluate whether their work constitutes sufficient and appropriate audit evidence.

(3) The auditor shall decide whether to use the work of internal auditors, taking into account whether their objectives and procedures are consistent with his or her audit, and their procedures and reliability is acceptable to the auditor. When using the work of internal auditors, the auditor shall determine the level of reliance on their work, taking into consideration the effects on the financial statements.

IV. Reporting Standards

1. General Principles

(1) The auditor shall express an opinion as to whether the financial statements prepared by management present fairly, in all material respects, the financial position, the results of operations, and cash flows of the entity in accordance with generally accepted accounting principles.

(2) In reaching a conclusion as to whether the financial statements are presented fairly in conformity with generally accepted accounting principles, the auditor shall evaluate whether accounting policies selected by management are consistently applied in conformity with generally accepted accounting principles, whether they appropriately reflect subject events or transactions as well as the appropriateness of the financial statements presentation.

(3) In expressing an audit opinion, the auditor shall obtain a reasonable basis for his or her opinion, having reduced audit risk to an acceptably low level.

(4) The auditor shall not express audit opinion if he or she is unable to obtain a reasonable basis to form an opinion, due to a limitation on material audit procedures.

(5) The auditor shall obtain an engagement quality control review in order to evaluate whether his or her opinion is appropriate and is in accordance with generally accepted auditing standards before expressing his or her opinion. Such engagement quality control review shall be conducted in accordance with quality control policies and procedures.

2. Paragraphs in Auditor's Report

(1) The auditor shall describe the scope of audit, outline of audit performed, and opinion to financial statements in the auditor's report in a brief and clear manner. If the auditor does not express an opinion, the auditor shall describe the effect in the auditor's report.

(2) If the auditor concludes that the financial statements are presented fairly but provide supplementary information to elaborate the basis of the conclusion or emphasize particular matters in the financial statements, they shall be presented in a manner clearly separate from the opinion.

3. Matters described in Unmodified Opinions

If the auditor concludes that the financial statements prepared by management present fairly, in all material respects, the financial position, the results of operations and the cash flows of the entity in accordance with generally accepted accounting principles, he or she shall express his or her opinion of the effect (hereafter “unmodified opinion”). The matters to be included in the auditor’s report are the following:

(a) Scope of audit

The scope of financial statements which are the subject of an audit; the effect that the management is responsible for the preparation of financial statements and that the auditor is responsible for expressing an opinion to the financial statements in independent manner.

(b) Outline of audit performed

The effect that the audit was conducted in accordance with generally accepted auditing standards; that the auditing standards require the auditor to obtain reasonable assurance that the financial statements are free from material misstatement; that the audit procedures were performed on a test basis; that the subject of audit was a presentation of the financial statements taken as a whole, which encompasses an evaluation of accounting policies selected by management as well as their application and those of the managements accounting estimates; and that a reasonable basis was obtained to express an opinion.

(c) Opinion to financial statements

The effect that the financial statements prepared by the management present fairly, in all material respects, the financial position, the results of operations, and the cash flows of the entity in accordance with generally accepted accounting principles.

IV. Modifications to Opinion

(1) The auditor shall express a qualified opinion with a description of qualification, if the accounting policy whether its selection or application, or the manner of presentation in the financial statements, is inappropriate and that an unmodified opinion cannot be expressed, but that the effect is not so material and pervasive to conclude that the financial statements as a whole are not presented fairly. In this case, he or she shall state the effect of qualification and its consequences to the financial statements in the auditor’s report.

(2) The auditor shall express an adverse opinion, if he or she determines that the accounting policy whether its selection or application, or the manner of presentation in the financial statements, is materially inappropriate, and in auditor’s judgment, it leads

to the misstatements of financial statements taken as a whole. In this case, he or she shall state the effect and its basis in the auditor's report.

V. Scope Limitation on Audit Procedures

(1) The auditor shall express a qualified opinion with a description of qualification when he or she has not been able to carry out audit procedures that he or she believes are necessary, thus an unmodified opinion cannot be expressed, but the effects of such audit procedures are not so material and pervasive such that he or she is unable to express an opinion on the financial statements taken as a whole. In this case, the auditor shall state in the auditor's report the audit procedures that were not performed in the scope paragraph with their consequences in the opinion paragraph.

(2) The auditor shall not express an audit opinion when he or she has not been able to carry out audit procedures that he or she believes are necessary, thus has not obtained reasonable basis to express his or her opinion on the financial statements. In this case, the auditor shall state the effect that he or she disclaims expressing an opinion with the reason accompanied in the auditor's report.

(3) If the auditor determines that he or she is not able to use the work of other auditors on critical audit issues, and has not been able to carry out substantial audit procedures in this respect, the auditor shall determine whether to disclaim the opinion, having followed the provisions similar to the situations where he or she is not able to perform substantial audit procedures that he or she believes are necessary.

(4) The auditor shall give particular consideration when expressing his or her opinion having followed the provisions similar to the situations where he or she is not able to perform substantial audit procedures that he or she believes are necessary, if there are multiple and complex uncertainties on which he or she believes that the effect of a particular contingency is not determinable and the possible effect in the financial statements is of major proportions.

VI. Going concern Assumption

(1) If a material uncertainty regarding the going concern assumption exists but the auditor concludes that the use of such assumption is appropriate when an adequate disclosure is made to such effect in the financial statements, he or she shall provide supplementary information to his or her unmodified opinion in the auditor's report.

(2) If a material uncertainty regarding the going concern assumption exists but the auditor concludes that the use of the going concern assumption is appropriate when an adequate disclosure is not made to the effect in the financial statements, he or she shall express a qualified opinion with such effect specified as the basis of the qualification, or an adverse opinion that the financial statements are not presented fairly with the reason specified in the auditor’s report.

(3) If the management does not present its assessments or plans for future actions in relation to the events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, there may be cases where the auditor is not able to obtain sufficient appropriate audit evidence to verify whether a material uncertainty regarding the going concern assumption exists. In such cases, the auditor shall determine whether to disclaim the opinion, having followed the provisions similar to the situations where he or she is not able to perform the audit procedures that he or she believes are necessary.

(4) If the auditor determines that the use of a going concern assumption is inappropriate for the financial statements prepared on the basis of the assumption, he or she shall express an adverse opinion to the financial statements with the reason specified in the auditor’s report.

VII. Additional Matter Paragraph

The auditor shall add extra paragraphs as supplementary information in the auditor’s report to provide additional explanations or to emphasize certain matters that he or she determines to be appropriate. Examples of such matters are as follows:

(a) Changes in accounting policies with reasonable justification;

(b) Material contingencies;

(c) Material subsequent events;

(d) Material inconsistencies between the figures presented in audited financial statements and other information in documents containing relevant financial statements.