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IESBA Program and Senior Director
International Ethics Standards Board for Accountants
International Federation of Accountants
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Dear Mr. Siong:

Re: JICPA comments on the IESBA Exposure Draft, *Proposed Technology-related Revisions to 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 Technology-related Revisions to the Code*.

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

I. Request for Specific Comments

Technology-related Considerations When Applying the Conceptual Framework

1. Do you support the proposals which set out the thought process to be undertaken when considering whether the use of technology by a PA might create a threat to compliance with the fundamental principles in proposed paragraphs 200.6 A2 and 300.6 A2? Are there other considerations that should be included?

(Comment)

We support the proposal.

We believe that it is appropriate to set out the new application material that suggests a PA considering the threats to compliance with the fundamental principles which might be created when using technology. There are no other considerations to be included.

Determining Whether the Reliance on, or Use of, the Output of Technology is Reasonable or Appropriate for the Intended Purpose

2. Do you support the proposed revisions, including the proposed factors to be considered, in relation to determining whether to rely on, or use, the output of technology in proposed paragraphs R220.7, 220.7 A2, R320.10 and 320.10 A2? Are there other factors that should be considered?

(Comment)

We support the proposed revisions. The establishment of new factors to be considered when relying on or using the output produced from technology is an excellent example of matters on which inquiring mind shall be exercised. There are no other factors to be included.

Consideration of “Complex Circumstances” When Applying the Conceptual Framework

3. Do you support the proposed application material relating to complex circumstances in proposed paragraphs 120.13 A1 to A3?

(Comment)

We support the proposed application material. We believe that the establishment of the new concept, and elements of “complex circumstances”, as well as the inclusion of examples of actions to address them is useful as basic guidelines when faced with new technologies. However, we would suggest adding another point in 120.13 A3 as shown in the sentence underlined below:

120.13 A3 Managing the evolving interaction of such facts and circumstances as they develop assists the professional accountant to mitigate the challenges arising from complex circumstances. This might include:

- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.
- **Hiring an accountant who has a broad range of relevant skills, knowledge and experience in both accounting and the technology.**
- Using technology to analyze relevant data to better inform the accountant’s judgment.
- Making the firm or employing organization and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances.

- Monitoring any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the accountant has made.

In addition to consulting with experts, it is also recommendable for a firm to describe more specific measures such as encouraging firms to recruit and assigning appropriate personnel. Therefore, we propose adding “hiring professional accountants who have a broad range of relevant skills, knowledge and experience in both accounting and technology” as an additional approach that we believe would address complexity in the professional environment.

4. Are you aware of any other considerations, including jurisdiction-specific translation considerations (see paragraph 25 of the explanatory memorandum), that may impact the proposed revisions?

(Comment)

No, we are not aware of any other considerations.

In Japanese, we can distinguish the two words “complex” and “complicated” in paragraph 25 of the explanatory memorandum and thus no particular modification is necessary.

Professional Competence and Due Care

5. Do you support the proposed revisions to explain the skills that PAs need in the digital age, and to enhance transparency in proposed paragraph 113.1 A1 and the proposed revisions to paragraph R113.3, respectively?

(Comment)

We support the proposed revisions.

6. Do you agree with the IESBA not to include additional new application material (as illustrated in paragraph 29 of the explanatory memorandum) that would make an explicit reference to standards of professional competence such as the IESs (as implemented through the competency requirements in jurisdictions) in the Code?

(Comment)

We agree with the proposal because the extant Code includes an implicit obligation for PAs to identify relevant applicable professional competence standards and resources in order to comply with the requirements in paragraph R113.1.

Confidentiality and Confidential Information

7. Do you support (a) the proposed revisions relating to the description of the fundamental principle of confidentiality in paragraphs 114.1 A1 and 114.1 A3; and (b) the proposed

Glossary definition of “confidential information?”

(Comment)

We support (a) the proposed revisions. We agree with the clarification of the need for data protection in paragraph 114.1 A1 and the modernization of the wording in paragraph 114.1 A3, which is in line with the current trends in technology. We also support (b) the proposed Glossary definition of “confidential information.”

8. Do you agree that “privacy” should not be explicitly included as a requirement to be observed by PAs in the proposed definition of “confidential information” in the Glossary because it is addressed by national laws and regulations which PAs are required to comply with under paragraphs R100.7 to 100.7 A1 of the Code (see sub-paragraph 36(c) of the explanatory memorandum)?

(Comment)

We agree with the proposal. We agree that the term “Privacy”, which can differ in meaning from jurisdiction to jurisdiction, should not be explicitly included as a requirement to be observed by PAs in the definition of “confidential information” in the Glossary.

Independence (Parts 4A and 4B)

9. Do you support the proposed revisions to the International Independence Standards, including:

- (a) The proposed revisions in paragraphs 400.16 A1, 601.5 A2 and A3 relating to “routine or mechanical” services.
- (b) The additional proposed examples to clarify the technology-related arrangements that constitute a close business relationship in paragraph 520.3 A2. See also paragraphs 40 to 42 of the explanatory memorandum.
- (c) The proposed revisions to remind PAs providing, selling, reselling or licensing technology to an audit client to apply the NAS provisions in Section 600, including its subsections (see proposed paragraphs 520.7 A1 and 600.6).

(Comment)

We support the proposed revisions including (a), (b) and (c).

10. Do you support the proposed revisions to subsection 606, including:

- (a) The prohibition on services in relation to hosting (directly or indirectly) of an audit client’s data, and the operation of an audit client’s network security, business continuity and disaster recovery function because they result in the assumption of a management responsibility (see proposed paragraph 606.3 A1 and related paragraph 606.3 A2)?
- (b) The withdrawal of the presumption in extant subparagraph 606.4 A2(c) and the addition of

“Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm” as an example of an IT systems service that might create a self-review threat¹⁹ in proposed paragraph 606.4 A3?

(c) The other examples of IT systems services that might create a self-review threat in proposed paragraph 606.4 A3?

(Comment)

We support the proposed revisions to the subsection 606, including (a) and (b).

We support the proposed revisions to the subsection 606 with respect to paragraph 606.4 A3 in (c). However, we would suggest that you add paragraphs 606.4 A4 and 606.4 A5 as below.

606.4 A4 When providing IT systems services to an audit client, self-interest, advocacy and intimidation threats to compliance with the independence requirements might be created in addition to a self-review threat.

606.4 A5 If certain criteria are met, the provision of IT systems services to an audit client is deemed not to create a self-review threat or any other relevant threats. Such criteria might include:

- The service focuses on non-financial and non-ICFR (Internal Control over Financial Reporting) areas.
- The service does not provide functions to assist management in making judgments and decisions.
- The service provided is routine or mechanical.
- The service involves automated functions.
- The service is for the client’s internal use only without any client-specific customization.
- The service is provided under normal commercial terms and conditions.
- The service provided is not material in monetary terms.
- The service is in the public interest.

In connection with paragraph 606.4 A5 above, we also propose that the following explanation be included in the Basis for Conclusion.

8 criteria	Implication
The service focuses on non-financial and non-ICFR areas.	A self-review threat might not be created.
The service does not provide functions to assist management in making judgments and	A management responsibility might not be assumed.

decisions.	
The service provided is routine or mechanical.	To avoid PA's making professional judgement in the provision of a service because it will create the other threats.
The service involves automated functions.	If an auditor performs manual activities, the auditor's "objectivity" and "the value as a gatekeeper of the capital market" may be undermined or perceived to be undermined because performing manual activities could be considered an equivalent of performing an employee's function. In addition, the provision of automated products using technology is now a normal business relationship for a firm or a network firm.
The service is for the client's internal use only without any client-specific customization.	Significant self-interest threat might not be created, and requiring condition to make the purchase of the service and related product permissible under Section 520.6 A1.
The service is provided under normal commercial terms and conditions.	Significant self-interest threat might not be created, and requiring normal business relationships to make the situation permissible under Section 520.
The service provided is not material in monetary terms.	Significant self-interest or intimidation threats might not be created, and requiring normal business relationships to be acceptable under Section 520.
The service is in the public interest.	To act in the public interest by providing a wide range of services to the public, including those services to audit clients.

(Background and reasons of our proposal)

We would like to discuss the background and reasons why we believe our proposal is relevant and should be included.

In the first half of the Exposure Draft, there are new requirements for PAs to keep pace with the development of technology. We agree that establishing a requirement for PAs to acquire the ability to understand and use output from technology in an effective manner, to have an inquiring mind and to identify threats and an analysis thereof is appropriate. On the other hand, the extant requirements about providing IT systems services from which relevant threats are not created (e.g., off-the-shelf package software) have been deleted in the Exposure Draft and the draft seems to have made the Code more stringent.

Without the criteria we propose in paragraph 606.4 A5, a firm and its network firms will adopt

the conceptual framework to determine if a proposition of IT systems service is permissible based on its judgement and, as a result, judgments may vary significantly in practice. By presenting certain basic criteria, the accounting profession will have an advantage in reducing risks and threats when providing technology-related services.

By comparing this Exposure Draft with the SEC rules, we hereafter discuss issues related to the provision of non-assurance services involving technology, but this discussion is not intended to propose amendments to either the IESBA Code of Ethics or the SEC rules, but to provide a discussion of ethics, particularly independence requirements, related to technology that should be an ongoing discussion.

Under the SEC rules, provision of services whose nature is routine or mechanical is prohibited because it could be seen as acting as an employee of an audit client. In addition, if an automated product that has similar nature and functionality is provided, it is not considered as a normal business relationship and therefore will be prohibited.

In cases where a non-SEC audit client becomes an SEC audit client as a result of an acquisition, the audit client which has implemented an IT application provided by a firm or its network firms must be ceased. Uninstalling such IT application will be burdensome and time-consuming.

Thus, since there are situations where IT system services that are permissible under the IESBA Code cannot be provided in the same way in the circumstances where the SEC rules are also applied, partial harmonization of the two standards would be helpful in filling the gap between the standards at the global level.

In light of the above discussion, the following table summarizes how the permissibility of providing services differs between the provisions of the IESBA Code of Ethics (PIE) and the provisions of the SEC rules, based on the circumstances proposed by JICPA in Section 606.4 A5.

	IESBA-PIE		SEC	
	Manual	Automated	Manual	Automated
Self review threat	impermissible	impermissible	impermissible	impermissible
Assuming a management responsibility	impermissible	impermissible	impermissible	impermissible
Professional expertise ※	It depends	It depends	It depends	It depends
routine and mechanical	permissible	permissible	impermissible (employee function)	impermissible (product)

※ Whether the technology incorporates expertise or judgments of the firm (paragraph 300.6 A2)

Ensuring consistency would be particularly useful in the following situations. For example, the

provision of an application to automatically trace the spread of the Covid-19 in the workplace can be beneficial to the society and thus is for the public interest. We consider that it is a tremendous loss to the public if, for example, in a state of emergency, a firm is prohibited from providing such an automated application for routine tasks because of the SEC requirements.

The SEC rules will continue to be greatly meaningful in the area of manual services. However, when providing automated services, we believe that no independence issues to the value of the auditor and its network firms would arise as we believe that the firm could take the same approach. For instance, taking secretarial document organizing services as an example which are provided by a firm using its human resources, there is a concern that this may have an adverse effect on the auditor's position, or may be viewed by a third party as being affected. But if the same task is automated under certain conditions and it brings in the same value, the threats to auditor independence, more specifically, threats to auditor's objectivity and their status as a market watchdog, could be deterred or eliminated.

As technology advances, firms have been developing their skills and business in various forms. If the IESBA can deepen its consideration of these issues such as those we propose and if those discussions are considered reasonable, the SEC rules may be partially revised in the future while maintaining their basic concept.

In addition, through our communication with clients, we have learned that there are expectations for firms and its network firms to be candidates for providing non-assurance IT systems services to them especially when the clients are seeking to introduce cutting-edge technology for optimizing the workload of securing and strengthening soundness of the companies (e.g., managing Covid-19 spread with sensors, detecting fraud and harassment related emails using AI, etc.). In such situations, credibility that a PA can offer through experience acquired over the years tends to be one of the key factors in vendor selection. We strongly believe that such demand in society needs to be responded to whilst making sure that we set higher ethical standards related to technology based on the Code and the SEC rules.

There is an argument that making rules in technology in areas other than those related to accounting tools would not be useful in practice, but under the current system of network firms we see, the firms are expected to make contributions in a variety of areas. Therefore, the benefits of defining the rules would be high even if it is limited to the non-accounting areas.

Finally, this proposal is a challenging one and is for the next generation who will lead the industry. With the progress of AI development, etc., it is possible that human resources in the accounting field will be replaced. If regulation enforcement continues to become a trend, the profession will be viewed as unattractive compared to other professions that can compete with free ideas, and there is a concern that the ability to recruit personnel who have cutting-edge knowledge and experience in technology will be restrained. We hope to see the setting of standards that keeps pace with new

technologies and that also takes into account areas in which these technologies can be utilized.

11. Do you support the proposed changes to Part 4B of the Code?

(Comment)

We support the proposed changes.

II. Request for General 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)

We have no comment.

● *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)

We have no comment.

● *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