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International Federation of Accountants
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Comments on May 2008 Exposure Draft: Section 290 of the Code of Ethics, Independence-Audit and Review Engagements

Dear Members of the International Ethics Standards Board for Accountants:

The Japanese Institute of Certified Public Accountants appreciates this opportunity to comment on the "May 2008 Exposure Draft: Section 290 of the Code of Ethics, Independence-Audit and Review Engagements" (the "May 2008 Exposure Draft").

Our comments in relation to the questions that the IESBA has raised are as follows:

Internal Audit Services

Question 1: Our views on whether the proposed restriction on providing internal audit services to public interest audit clients is appropriate

Considering the public interest of such audit clients, we do not believe that auditors should provide internal audit services that are related to internal accounting controls, financial systems or financial statements. Therefore, we support the proposed restriction on providing such services to an audit client that is a public interest entity.

However, there is one point that we wish to be clarified regarding the meaning of "providing" internal audit services by external auditors. In practice, the results of external audit work are often "utilized" by internal audit departments, and we understand that this would not be regarded as "providing" internal audit services. However, we believe further clarification is necessary in order to provide

guidance as to in what cases is external audit work regarded as being utilized for internal audit purposes, and in what cases are internal audit services regarded as being provided by external auditors.

Question 2: Our views as to whether there should be an exception for immaterial internal audit services provided to an audit client that is a public interest entity

We believe that there should be an exception for immaterial internal audit services provided to an audit client that is a public interest entity, as we do not consider it necessary to prohibit such services.

Fees – Relative Size

Question 3: Our views on the appropriateness of the required frequency of the application of a safeguard and the requirement to determine whether a pre-issuance review is required in those instances when the total fees significantly exceed 15%

The original exposure draft, issued in July 2007 (the "July 2007 Exposure Draft"), called for disclosure to those charged with governance of the client and the application of "a post-issuance review" or "a pre-issuance review". It also states that, as a minimum, a post-issuance review should be performed not less than once every three years.

However, the May 2008 Exposure Draft calls for this safeguard to be applied every year, and the requirement to determine whether a "pre-issuance review" is included for those instances in which the total fees significantly exceed 15%.

1. **Our comments regarding the increased frequency of the application of the safeguard**

   We do not believe it necessary for the safeguard to be applied every year, and that application of such a requirement on an annual basis would have negative implications. Rather, we recommend that the safeguard be implemented not less than once every three years as a minimum. In other words, even if the total fees exceed 15% every year, the auditor should decide whether the review is necessary every year by taking into consideration surrounding factors, including the degree of threat of impairment to auditors' independence and other regulatory frameworks with which auditors should comply.

   Our reasons are as follows:

   (1) To require such a safeguard every year would effectively result in prohibiting provision of services due to the heavy administrative burden.

   At first glance, it may appear easy to implement a review that is equivalent to an engagement quality control review; in practice, however, we do not believe that would be the case for small-sized firms, for which it would be very difficult to find the required personnel to carry-out such a "review".

Under such circumstances, it might not be possible to implement the safeguard every year as stated in the May 2008 Exposure Draft, and it might result in a negative impression of the firm to disclose such fact to those charged with governance of an audit client. For these reasons, to implement this safeguard every year would have virtually the same effect as prohibiting the provision of services.

In the Explanatory Memorandum to the July 2007 Exposure Draft, the IESBA considered whether there should be a threshold of relative size which, if exceeded, would indicate that the threat created was so significant that no safeguard could adequately address the threat and therefore the firm should either not act as auditor for the client or take steps to reduce the relative size of the fee to below the threshold. The IESBA was of the view that such an absolute threshold was not appropriate in a global code. However, we are concerned that adopting the proposal contained in the May 2008 Exposure Draft, which would result in virtually the same position as prohibiting the provision of services, might effectively result in introducing an absolute threshold, a position which was not adopted in the initial review of this issue in 2007.

Although the issue of the relative size of fees is important, there are various other requirements regarding independence. Under these circumstances, the safeguards as stated by us would be sufficient, without the annual review requirement.

(2) Generally speaking, the relative size of fees would be a greater issue for small-sized firms, which have fewer clients. Thus, there would be a higher possibility of total fees for such firms exceeding the 15% level. However, the size and structure of accounting firms in a particular jurisdiction will vary depending on a variety of factors, including the economic environment of the jurisdiction, the public accountancy system, the history of the development of the accounting firms, and the policies of regulators.

Also, since public interest entities include an entity defined by regulation or legislation as a public interest entity or for which an audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities, the scope of public interest entities varies depending on the regulations or legislation of the jurisdiction, and, in the jurisdictions where the scope is relatively widely defined, more firms will exceed the 15% level.

The IESBA considers the 15% threshold as appropriate, and generally speaking we might agree. However, in view of the above-mentioned factors, in some jurisdictions this may not be the case.

Under such circumstances, if the safeguard is so strict as to virtually prohibit the provision of services, measures close to prohibition would be taken without consideration of the above-mentioned situations. In such cases, this would result in a more significant impact than that which the IESBA Code of Ethics originally anticipated for certain jurisdictions.

(3) There is also concern about views expressed by some people that, in the long run, the quality of auditing will deteriorate if the introduction of such a safeguard leads to virtual prohibition

of the provision of services, which would drive small-size firms out of the auditing business, virtually eliminating competition in the industry.

Although the issue of the relative size of fees is important, the independence issue should be considered from a wider perspective, as it is affected by the situation of an individual accounting firm and the accounting system of a jurisdiction. Therefore, we should not introduce such a safeguard, which is equivalent to prohibition, but rather, strive to achieve both independence and competition.

2. **Our comments on the requirement to determine whether a pre-issuance review is required in those instances in which the total fees significantly exceed 15%**

In cases where the total fees significantly exceed 15%, while it may be necessary to consider additional measures such as increasing the frequency of safeguard implementation, we do not believe that it is necessary to implement pre-issuance reviews. Rather, we think that it would be more practical and effective to perform a post-issuance review. Thus, we do not think it necessary to determine whether a pre-issuance review is required.

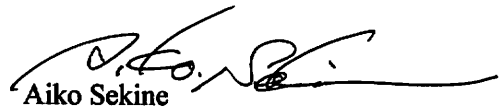
The "pre-issuance review" seems likely to create considerable difficulty in practice because the firm would be shouldered with dual obligations to carry out an internal quality control review and a similar external quality control review during the limited timeframe before the issuance of the audit report. Under such circumstances, the "pre-issuance review" would virtually have the same effect as prohibiting the provision of services.

Although the issue of relative size of fees is important, the question of independence should be considered from a wider, holistic perspective, and in that framework, a "post-issuance review" - a review that is equivalent to an engagement quality control review - would be effective since firms would be deterred from making judgments in their own self interests in consideration of future reviews.

Finally, in order to create the necessary conditions for audit firms to properly apply this code, transitional provisions should be introduced. Specifically, as a minimum, "fresh start" treatment at the time of the effective date (currently expected to be December 15, 2010) should be introduced.

We would be pleased to discuss any of these points in more detail.

Yours sincerely,



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