

**The Japanese Institute of
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Mr John Grewe
Professional Oversight Board
Financial Reporting Council
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United Kingdom

***Comments from JICPA on Regulation of Third Country Auditors
- Giving Effect in the UK to the Requirements of the Statutory Audit Directive***

Dear Mr Grewe,

We at the Japanese Institute of Certified Public Accountants (JICPA) are pleased to comment on the Consultation Paper: Regulation of Third Country Auditors - Giving Effect in the UK to the Requirements of the Statutory Audit Directive. We find that this proposal is reasonable, mostly following the transitional measures proposed by the European Commission. We welcome your efforts to reduce duplicative work of third country auditors who would be affected by the Eighth Company Law Directive on Statutory Audit by developing common format application forms for registration and trying to find ways of sharing information within the European Group of Auditor Oversight Bodies (EAOB), as indicated in paragraph 1.25.

Article 46 of Statutory Audit Directive 2006/43/EC provides that Member States may disapply the requirements in Article 45(1) and (3) on the basis of reciprocity only if the third-country auditors or audit entities are subject to systems of public oversight, quality assurance and investigations and penalties in the third country that meet requirements equivalent to those of Articles 29, 30 and 32. We believe it is appropriate for the Professional Oversight Board (POB) to defer the registration and oversight requirements until the European Commission makes equivalence decisions, for the auditors from jurisdictions subject to the transitional arrangements proposed by the Commission.

In addition, a draft Decision proposed by the Commission sets out that third-country audit firms under the transitional arrangements must provide necessary information about the outcome of the last quality assurance review. Regulations vary greatly among jurisdictions about whether audit firms are permitted to provide the results of quality assurance reviews for third parties. As we assume it would be difficult for audit firms to solve this issue, we suggest that the POB consider practical solutions by having discussions with the third-country regulators concerned and with the International Forum of Independent Audit Regulators (IFIAR).

We believe that the Japanese public oversight system is sufficiently robust and satisfies the requirements provided in the Statutory Audit Directive. We also believe that registration should not be required; however, we provide our comments given that the POB would require the registration of third country auditors as proposed.

Timing of Introduction of Arrangements for Registration

Q1:

How important is it that the Oversight Board has arrangements in place to accept and process applications (both for full registration and under transitional arrangements) from third country auditors as soon as the Commission Decision on transitional provisions is published (expected to be July)? Or should the Oversight Board allow more time to try to use common format application forms with other Member States from the outset? A realistic date for introducing this is September or October (paragraph 1.28).

There are many Japanese audit firms that audit Japanese companies listed in EU markets. For example, Japanese companies are listed in the UK, Germany, France, Luxembourg and Belgium, and eighteen Japanese audit firms audit these companies according to the European Commission's document "Consultation on Implementation of Articles 45-47 of the Directive on Statutory Audit (2006/43/EC): Cooperation with Non-EU Jurisdictions on Auditor Oversight" issued in January 2007.

We think it would be easier for audit firms to begin applying for the registration after the EGAOB develops the common format application forms for the purpose of avoiding administrative cumbersome procedures. In case transitional arrangements of Commission Decision are applicable to the accounting period beginning on or after 29 June 2008, the auditor's report would be issued more than one year later because most companies follow the one year accounting period. Therefore, we believe that the effects of allowing more time would be minimal, even if audit firms begin applying for the registration in September or October 2008, when the common format application forms is expected to be available.

Registration

Q2:

Do you agree with the overall approach to registration and in particular that there should be different requirements for ‘transitional’ third country auditors and for ‘other’ third country auditors? What comments do you have on the detailed registration requirements (paragraphs 2.7 to 2.10)?

We agree with the overall approach to registration, particularly that there should be different requirements for ‘transitional’ third country auditors (TTCAs) and for ‘other’ third country auditors. We also fully agree with the principle of home country regulation.

Paragraph 2.8 states “TTCAs must provide necessary information about the outcome”, which is the same requirement as proposed by the European Commission, but in many countries the detailed quality control review report on individual audit firms is not publicly disclosed. In addition, regulations vary greatly among jurisdictions about whether audit firms are permitted to provide the results of quality assurance reviews for third parties. For example, the public oversight authority in Japan — the Certified Public Accountants and Auditing Oversight Board (CPAAOB) — publishes brief summaries of its inspection reports, but prohibits Japanese audit firms from providing detailed inspect reports for third parties. Therefore, if the POB intends to implement this proposal, they should discuss with the CPAAOB to determine how Japanese audit firms respond. We propose that an exemption be provided for cases in which the POB has obtained inspection reports as a result of information exchange with the other oversight bodies concerned.

Q3:

To what extent should Overall Board seek to verify the accuracy and reliability of the information provided to apply for registration; to what extent should it rely on the audit firm to provide accurate information; and in particular should the firm be expected to provide references in support of its statement on good repute? (paragraph 2.11).

The POB may not need to verify the accuracy and reliability of the information provided to apply for registration, since most audit firms are organized within a network which the POB is able to utilize for enquiries into apparent errors in the information provided. It may not be necessary for audit firms to provide references in support of its statement on good repute.

De-Registration

Q4:

What are your comments on the proposals on de-registration (paragraphs 2.12 to 2.13)?

We consider that the examples of circumstances and processes that lead to the de-registration of third-country audit firms are reasonable.

External Quality Assurance Inspections

Q5:

What are your comments on the approach to external inspections of third country auditors (paragraphs 2.14 to 2.15)?

It is appropriate that the POB shall not undertake inspections of TTCAs. We believe that the principle of home country regulation should be respected.

Q6:

Do you have any suggestions that we should take into account as we develop more detailed ideas for external monitoring 'other' third country auditors?

N/A

Oversight

Q7:

What are your comments on the proposed approach to the continuing oversight of third country auditors (paragraphs 2.16 to 2.17)?

The POB expects that continuing oversight of TTCAs will be modest. However, we believe it is appropriate for the POB to defer the oversight requirement as well as the registration requirement until the European Commission makes equivalence decisions. If the TTCAs are required to submit an annual return, we propose that the EGAOB develop a common format as well.

Investigations

Q8:

What are your comments on the proposed approach to investigations and sanctions by the Oversight Board of third country auditors (paragraphs 2.18 to 2.19)?

We agree with the proposed approach that TTCAs will not be subject to a formal system of investigation and sanctions as described in paragraph 2.18.

Fees

Q9:

Do you have comments or suggestions on the proposed structure of fees? Do you have comments on the proposed level of fees? (paragraphs 2.20 to 2.27)

We believe it is not appropriate for the POB to charge fees in order to enforce laws. For example, the Financial Services Agency of Japan does not charge fees to audit firms, although they are required to notify certain information to the agency.

Costs and Benefits

Q10:

Do you have comments on the assessment of costs and benefits in Chapter 4?

We highly regard your approach that seeks to minimize additional regulatory costs in order to maintain the attractiveness of London as a capital market.

Other Points

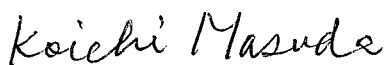
Q11:

Do you have any other comments or suggestions on how we should regulate third country auditors?

If the POB could enhance cooperation with third countries' auditor oversight bodies and the IFIARs so as to eliminate duplicate inspections of auditors by multiple oversight bodies, we believe this would set an example to other EU Member States.

We hope that you will consider our comments to conclude this regulation.

Yours truly,



Koichi Masuda

Chairman and President

The Japanese Institute of Certified Public Accountants