



**The Japanese Institute of  
Certified Public Accountants**

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Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, D.C. 20006  
United States

Dear Ms. Rhonda Schnare:

**RE: Proposed Policy Statement**  
**Guidance Regarding Implementation of PCAOB Rule 4012**

The Japanese Institute of Certified Public Accountants (JICPA) appreciates the opportunity to comment on the proposed policy statement: guidance regarding implementation of PCAOB Rule 4012.

The JICPA shares with the PCAOB, and other auditor oversight entities, many objectives such as protecting investors, improving audit quality, ensuring effective oversight of audit firms, and helping to restore the public trust in the auditing profession. We also recognize the importance of the role of auditor oversight entities.

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) was established in Japan in 2004 as an organization with similar responsibilities to those of the PCAOB; and has continued its auditor oversight activities to this date.

We believe that the CPAAOB maintains the high level of independence and rigor set forth in Rule 4012, which is sufficient to be relied upon by the PCAOB. We also believe that the CPAAOB fully satisfies the five principles. In our view, there are some issues to be discussed in the future between the United States and Japanese Governments, as well as between the PCAOB and the CPAAOB. These relate to legal impediments arising from applicable laws and regulations in different jurisdictions, and differences in

accounting and auditing standards applied to audits subject to inspections. However, benefits accruing from audit regulations should outweigh the related costs. In particular, we note that some Japanese registered audit firms were inspected directly by the PCAOB in the U.S. A tremendous amount of human and monetary efforts were expended in preparation for the inspections. Therefore, we welcome PCAOB proposal that may reduce the burden on audit firms that would otherwise be subjected to duplicate inspections by authorities of multiple jurisdictions.

The JICPA expects that the CPAAOB and the PCAOB will carry out sufficient discussions and inspections, so that the PCAOB can rely on inspections conducted by the CPAAOB.

Following is our response to each of the specific questions:

1. If a non-U.S. auditor oversight entity meets the essential criteria set forth in the proposed Policy Statement, are there reasons why the Board should not increase its level of reliance on inspections conducted by such an independent non-U.S. oversight entity? What are the benefits and costs of full reliance?

There is no reason as to why the Board should not increase its level of reliance on inspections. As stated above, benefits accruing from audit regulations should outweigh the costs associated with them. Considering that Japanese registered audit corporations were inspected directly by the PCAOB in the U.S., with a tremendous amount of efforts expended in preparation for the inspections, a full reliance would significantly reduce the costs.

2. Are the essential criteria set forth in section III.C. of the Policy Statement appropriate? Are there additional factors that should be considered? Should the criteria be modified in any way?

Principle 1, No. 5 states to the effect that non-U.S. oversight system's inspections staff must have sufficient expertise in applicable U.S. laws, regulations and professional standards. Likewise, Principle 1 No. 6 requires an assessment of the firm's compliance with applicable U.S. laws, regulations and professional standards. We believe that, in assessing non-U.S. oversight entities, it is necessary to clarify the meaning of "applicable U.S. laws, regulations and 'professional standards'", referred to therein.

Principle 4, No. 3 states to the effect that if the non-U.S. oversight entity does not issue

public inspection reports on individual firms, it must agree not to object to the PCAOB issuing such reports. However, we are concerned if the PCAOB would issue a public inspection report that would disclose certain deficiencies identified by the non-U.S. oversight entity, which deficiencies were determined not to be publicly reportable based on legal restrictions or other reasonable judgment made in the country concerned. Furthermore, we would like to raise a question as to whether a non-U.S. oversight entity has the authority to agree not to object to the PCAOB issuing such a public report.

3. Would meeting the essential criteria set forth in section III.C. – along with a satisfactory on-site assessment by the Board of the entity's inspection practices through a period of joint inspections – provide sufficient assurance that the oversight entity's inspection program merits full reliance?

We believe that these would provide sufficient assurance. In addition, please refer to our response to question No.2 above.

4. The Board has carefully balanced the requirements of the Act and those of non-U.S. jurisdictions (including laws related to data protection, confidentiality and other important legal requirements). Are there additional differences between U.S. and non-U.S. auditor oversight regimes that should be considered? Would those differences suggest greater or less reliance?

As stated above, even though there exist legal impediments arising from applicable laws and regulations in different jurisdictions, and differences in accounting and auditing standards applied to auditing services subject to inspections, we expect that these would be eliminated in the course of bilateral dialogue between the PCAOB and the CPAAOB.

5. As described in section III.B. of the Policy Statement, does the Policy Statement establish the appropriate nature and level of reliance?
6. Will the proposed approach adequately protect the interests of investors in U.S. issuers audited by non-U.S. audit firms?

Our answer is “Yes” with respect to each of the questions. We believe that the Policy Statement establishes the appropriate nature and level of reliance. Also we believe that the proposed approach will adequately protect the interests of investors.

In closing, we appreciate your consideration of our views in finalizing the Policy Statement.

Yours truly,

Koichi Masuda  
Chairman and President  
The Japanese Institute of Certified Public Accountants