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Technical Director

International Auditing and Assurance Standards Board

International Federation of Accountants

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**JICPA Comments on the Proposed ISAE 3420, *Assurance Reports on the Process to
Compile Pro Forma Financial Information Included in a Prospectus***

The Japanese Institute of Certified Public Accountants (“we”, “our” and “JICPA”) is pleased to provide you with our comments on the Proposed ISAE 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*.

I. Request for Specific Comments

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| <p>1. In relation to respondents’ roles and responsibilities, would respondents adopt or apply the proposed ISAE, or request an engagement in accordance therewith, if it became effective? If not, please explain why (in this regard, respondents are asked to also consider question 4 below).</p> |
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Comment:

In the Japanese capital market, there are no requirements in relevant laws and regulations, nor obvious practical needs for assurance engagements to report on the process to compile pro forma financial information (PFI) in a prospectus. Since suitable criteria regarding the process to compile PFI are not clearly established in Japan, to date, it has been difficult to make it a subject matter of an audit. Under these circumstances, Japanese accounting standards on business combinations require

disclosure of information similar to PFI, in cases where entities undertake a business combination during the period. However, Cabinet Office Ordinance on Audit Attestation on Financial Statements permits the option not to conduct an audit on the disclosure. In practice, the disclosure is not within the scope of an audit in most cases.

However, if in the future, there would be clear requirements on factually supported evidence, to provide relevant assurance engagements on PFI, then we believe that the basis of appropriate criteria and processes would be established.

Therefore, if the proposed ISAE became effective, it would be rare for it to be immediately applied. However, in the future, we would need to consider developing practical guidance sufficiently corresponding to the proposed ISAE, if relevant laws and regulations of this kind of assurance are developed, or practical needs increase in Japan.

Subject to the matters on relevance criteria referred to above, we provide below our views on the main potential challenges, in considering the practical guidance.

2. Do respondents believe that the work effort set out in the proposed ISAE is sufficient and appropriate to enable the practitioner to express an opinion as to whether the process to compile the PFI has, in all material respects, been applied in accordance with the applicable criteria?

Comment:

(1) Clarification of the scope of the assurance on compilation process

We believe that the proposed ISAE does not clearly define the scope of a reasonable assurance engagement on “the process to compile PFI,” performed under the proposed ISAE.

We believe that the proposed ISAE should clearly state that the scope of a reasonable assurance engagement does not include the following processes:

- (a) the process of gathering, classifying, and summarizing the source of the unadjusted financial information (UFI); and
- (b) the process of gathering, classifying, and summarizing the source of the acquiree or divestee financial information, used as the source for the pro forma adjustments.

(2) Clarification of the application material related to materiality

We believe that the application materials related to materiality (paragraph A17-A19)

are not sufficiently clear.

Generally, intended users of the PFI would take into account the fact that the information is based on assumed situation. Therefore, in considering the quantitative aspect of materiality on an assurance engagement for PFI, a practitioner might obtain sufficient appropriate evidence for the engagement with a larger degree of materiality than the level used in an audit of historical financial information. On the other hand, in a case where a practitioner conducts the engagement involving a divestment of a business, it may be appropriate for the practitioner to conduct the engagement with a smaller degree of materiality than used in the audit of the source of the UFI.

The application material on the subject of materiality should include situations such the ones above, and explain more clearly the matter of treatment of quantitative aspects.

(3) Written representation

The requirements of written representation (paragraph 24) should include the statements that the responsible party:

- (a) has fulfilled its responsibility for the application of the process to compile PFI in accordance with the applicable criteria, as set out in the terms of the engagement;**
- (b) has acknowledged and understood that the engagement does not require the practitioner to express any opinion on the PFI itself, the source of UFI, or any other underlying acquiree or divestee financial information, as agreed in the terms of the engagement;**
- (c) has provided the practitioner with all relevant information and access, as agreed in the terms of the engagement;**
- (d) has used the appropriate source of UFI, or any other underlying acquiree or divestee financial information.**

The proposed ISAE should also provide the requirements and/or application materials regarding the date of the written representation, and the requirements regarding cases when responsible party does not provide written representations.

(4) Subsequent events

We believe that the second sentence of paragraph A40 does not intend to impose further requirements on the assessments of presentations in the PFI. We believe that it should provide appropriate examples of procedures to be considered by a practitioner.

Therefore, in order to clarify this point, it should be modified as follows:

“Nevertheless, evaluating the presentation of the pro forma financial information may involves a consideration of whether the practitioner has become aware, through performing the procedures under this ISAE or otherwise, of any significant events subsequent to the date of the source of the unadjusted financial information that may require reference to, or disclosure in, the explanatory notes to the pro forma financial information to avoid the latter being misleading.”

3. Do respondents believe that it is clear from the illustrative practitioner’s report in the Appendix to the proposed ISAE that the practitioner is reporting on the process to compile the PFI and not on the PFI itself? Paragraph A52 of the proposed ISAE, in particular, provides two alternatives for the opinion in relation to the process, i.e.
- Whether the process to compile the PFI has, in all material respects, been applied in accordance with the applicable criteria; or
 - Whether the PFI has been properly compiled on the basis stated.

Comment:

In order to make it clear that the conclusion reported by a practitioner is on the process to compile PFI, not on PFI itself, we believe that it is appropriate to permit the wording in the second alternative, only in cases when relevant laws or regulations specifically require it.

4. As the proposed ISAE is designed to convey assurance on the process to compile the PFI, do respondents believe that it would be desirable for the IAASB to also develop a separate standard on reporting on the PFI itself? If yes:
- (a) What do respondents believe would be the work effort implications in undertaking engagements to report on the PFI itself? In particular, how would such work effort differ from that specified in the proposed ISAE?
- (b) Should both reasonable assurance and limited assurance on the PFI be addressed? If so, how should the nature and extent of the practitioner’s work effort be differentiated between a reasonable assurance engagement and a limited assurance engagement to report on the PFI?

Comment:

In Japan, at present, there is no obvious potential need for reasonable or limited assurance in such cases subject matter or subject matter information, regardless as to whether it is on the process to compile PFI or the PFI itself.

II. Other Comments

1. Matters to be described in the assurance report

(a) We believe that the proposed ISAE should include in paragraph 31 the purpose to compile the PFI; and state that it is not suitable for other purposes. Also, in order to minimize the possibility of misleading users, we believe that an application material corresponding to this requirement states that the assurance report should include the definitive nature of PFI, for example: "Since the PFI has been compiled solely for the purpose of illustrating the impact of the event or transaction on the historical financial information, it addresses a assumed situation and does not represent the entity's actual financial position, financial performance, or cash flows."

(b) With respect to the requirement in paragraph 31 (c)(ii), we believe that the proposed ISAE should describe, as an application material, whether the source of UFI of the acquiree or divestee had an audit or review, in cases where the source of the financial information was included in the pro forma adjustment.

In closing, we wish to express our appreciation for this opportunity to comment on this Exposure Draft.

Sincerely,

Hidenori Takahashi

Executive Board Member - Auditing and Assurance Practice

The Japanese Institute of Certified Public Accountants