

Chairman and President's Release

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The Japanese Institute of Certified Public Accountants

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Chairman and President

On the alleged fraudulent accounting at Kanebo

1. The Disciplinary Committee of the Japanese Institute of Certified Accountants (JICPA) has been intensively investigating and deliberating the alleged Kanebo incident. As of this time, however, the committee has yet to obtain a complete understanding of the involvement of JICPA members in this incident as the auditors of Kanebo.

In my various interviews with media recently, I have sensed that CPAs are now under close public scrutiny. The Kanebo incident should not be regarded merely as a problem with an auditing corporation and the CPAs involved in the audit of one company. To the contrary, I believe that the incident should be recognized as a serious threat to the reliability of the CPA auditing system and its role in securing confidence in securities markets. To make matters worse, the Kanebo incident comes shortly after the discovery of a series of accounting frauds in companies in the information technology industry, as well as a deliberate publication of misstatements in the annual report of Seibu Railway Co. LTD.

2. The "CPA's mission" is clarified in Article 1 of the amended CPA Law put into effect in April 2004. The objective of disclosure system is to ensure the confidence in securities markets by providing investors with the company information they need to support their investment decisions. To accomplish this objective, CPAs assume the significant responsibility of assuring the fair presentation of corporate financial information. For the accomplishment of this highly public mission, the CPAs are the sole parties entrusted with the task of auditing. With this in mind, I urge JICPA members to again recognize why CPAs are exclusively authorized to conduct audits as guardians of markets, and to remain aware of the public expectation for rigorous audits.

3. The public is now scrutinizing whether the auditors remained independent from their clients in the Kanebo audit and other recent scandals. Auditors perform their mission not for audit clients, but for a wide range of stakeholders, including investors. Confidence in audits can be hardly ensured if the independence of the auditors remains in doubt. I urge JICPA members engaged in audits to once

more recognize their independence as auditors in their relations with audit clients. As they perform their audits, I entreat them to ask themselves whether they maintain their independence of mind as rigorously as their independence in appearance.

4. JICPA is now taking the following steps to ensure confidence in auditing:

4-1 We continue to strengthen our quality control review system to maintain and improve the quality of auditing practices at individual auditing firms. Our staff of full-time quality control reviewers has recently been doubled from 10 to 20 and an information technology expert has been hired to assist in JICPA quality control reviews.

4-2 In autumn of 2005 we set up a Disciplinary Board comprised of JICPA members and legal and academic experts to ensure transparency, fairness, and prompt actions.

4-3 We continue to encourage our members to reinforce their auditing procedures and to allocate appropriate and sufficient working hours for audits. Efforts are also taken to supervise their progress in doing so.

4-4 We have established telephone and email 'hotlines' to collect information on audits from CPAs and relevant persons in companies.

5. The recent auditing crises in Japan remind me of the Enron affair, a major debacle in the accounting world which coincided with my posting as President of the International Federation of Accountants. The Enron affair was not an isolated problem of one accounting firm. To the contrary, it was regarded as a failure of the entire CPA system and provoked a barrage of criticism against audits and auditors in the U.S. public. This affair ultimately led to the passage of the Sarbanes-Oxley Act, a legislation imposing severe controls on CPAs. I urge all JICPA members engaged in audits to make efforts to ensure the public confidence in auditing practices, together with the JICPA itself. As they do so, I further urge them not to regard the Enron affair as a distant or unrelated failure in the accounting system, nor to regard the Kanebo incident as an isolated problem involving only one auditing firm. Members not currently engaged in audits should also recognize the Kanebo incident as a failure in the auditing system involving all members, and assist JICPA in responding accordingly.