

Chairman and President Statement

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The Japanese Institute of Certified Public Accountants

Statement on the Publication of the "Principles for Effective Management of Audit Firms (The Audit Firm Governance Code)"

Today the Financial Services Agency of Japan has published the “Principles for Effective Management of Audit Firms (The Audit Firm Governance Code)” (hereinafter “the Code”) which was developed by the Council of Experts on Audit Firm Governance Code.

The Code, which primarily focuses on effective management of large-sized audit firms, comprises principles regarding: (a) development of a firm culture where continuous enhancement of audit quality is valued; (b) establishment of an effective management function and a function to supervise and evaluate the management effectiveness; and (c) dialogue toward enhancing audit quality and transparency of the firm’s management and organizational operation that makes such dialogue possible. The publication of the Code provides a momentum for the audit firms to further enhance their governance. The audit firms’ proactive commitments and actions for the implementation of the Code will contribute to sustaining and furthering the capital markets’ confidence in auditing.

Audit firms which adopt the Code are required to explain, in their publicly available documents for transparency of their effective management, the status of the Code’s implementation and related initiatives in an easily understandable way by using their own words, without using formulaic expressions. The audit firms need to utilize this transparency mechanism to further enhance dialogue and engagement with capital market participants - particularly with those charged with governance, directors, shareholders and investors of listed companies – toward enhancing audit quality. I hope that capital market participants will contribute to the constructive dialogue to enhance audit quality.

Furthermore, I understand that the audit firms that do not adopt the Code are also expected to commit themselves to develop a firm culture where continuous enhancement of audit quality is valued, enhance transparency, and ensure effective management of their organization through implementing the most appropriate means in light of their own specific organizational characteristics.

The Japanese Institute of Certified Public Accountants will continue its effort to ensure public confidence in audit by implementing various measures to enhance audit quality.