

**The Japanese Institute of
Certified Public Accountants**

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Directorate General for Internal Market and Services
European Commission
B – 1049 Brussels, Belgium

**Comments from JICPA Regarding the Consultation on the Implementation of
Articles 45- 47 of the Directive on Statutory Audit (2006/43/EC)**

We at the Japanese Institute of Certified Public Accountants (the "JICPA") are pleased to provide our comments regarding the Consultation on the Implementation of Articles 45 – 47 of the Directive on Statutory Audit (the "Consultation").

The JICPA supports the objectives of the Directive on Statutory Audit (the "Directive"): to enhance and harmonize the quality of statutory audits across EU Member States. In implementing this Directive, it will be most critical to strike an appropriate balance between investor protection and regulatory control.

We believe that the public oversight system in Japan is sufficiently robust and satisfies the requirements provided in the Directive. According to Article 46 (1) of the Directive, however, Member States may *modify* the requirements set forth in Article 45 (1) and (3) even if the public oversight systems of third countries are deemed to meet requirements equivalent to those of the Directive. As noted in the Consultation, however, the implementation of this provision may lead to market fragmentation and unnecessary administrative burdens that could reduce the attractiveness of the EU markets. For these reasons, the JICPA believes that this modification should be avoided by all means.

Below we give our point-by-point responses to the questions from the Commission.

Question 1:

Do you have further comments, or concerns to share, on the equivalence?

We agree that the European Commission, not Member States, should assess the equivalence of the public oversight systems of third countries. If each Member State was to undertake this task

independently, both the Member States and third countries would inevitably have to bear additional costs for the assessments. We also are apprehensive that different Member States would reach different conclusions based on their independent assessments.

There still seem to be unknowns, however, in the methods of the Commission to assess the public oversight systems of third countries. Which organization will carry out the assessment, for example, and what processes will be required? We expect the Commission to clarify these matters in the near future.

Question 2:

Do you have comments on the need for transitional measures?

Since we already have an adequate public oversight system in Japan, we do not agree with the "first avenue" suggested in this Consultation, under which the third country audit firms would be required to register in the various EU Member States now, in order to avoid market fragmentation and unnecessary administrative burdens. If the Commission falls short of completing the equivalency assessment of the many third countries by 30 June 2008, we think that it would be more practical to extend the transitional period for an appropriate period after the June 2008 target date.

Question 3:

Do you have any comments or observations on the above list of third countries? Do you have specific information on those third countries which you would like to share with the European Commission services and if so, which?

We believe the criteria proposed in the Consultation are appropriate. We have concerns, however, that it will be difficult to complete the assessment of all 35 countries by June 2008 and make in-depth assessments within the limited timeframe. We suggest placing higher priority on the assessment of major world economies, such as Japan, among the countries to be assessed.

The Consultation notes that the assessments will be based on documents compiled by various international organizations. We believe that a sufficient and appropriate assessment would be conducted more effectively and efficiently through public consultations and dialogues with relevant parties in conjunction with the document reviews. To ensure the transparency of the assessment process, we therefore recommend that the Commission provide opportunities for public consultation and dialogues with relevant parties (regulators, professional bodies, etc.) in the third countries concerned before issuing the final conclusions of its assessments.

We also urge the Commission to use the information available from the IFAC Compliance Programs

rather than merely referring to this information as an auxiliary reference. Each member body of IFAC has devoted considerable resources to prepare its responses to the self-assessment programs, and the information can now be easily accessed from the IFAC website. The IFAC Compliance Programs are detailed assessment processes. The member bodies assess their own compliance with the standards and other pronouncements issued by the various IFAC committees, and develop action plans when their compliance is found to be unsatisfactory. The JICPA has also devoted considerable resources and believes that the information obtained from this Compliance Program is of great potential value for the Commission in the assessments.

Question 4:

Do you have any comments or observations that you wish to bring to the European Commission's attention as regards the explanation in section 3.2?

As noted in this Consultation, different requirements for the procedures and different results on the possibility of registration among Member States would lead to unnecessary costs and market fragmentation. As we stated at the beginning of this document, all of the cases described in this Consultation should be avoided. None of the outcomes of these cases would be likely to achieve the objectives of creating an integrated market across Europe and protecting investors in European capital markets.

Question 5:

Do you have comments on a concept for co-operation in registration procedures that would aim at reducing administrative burdens and cost?

We agree that the EGAOB should assume the roles set out in this Consultation. Without EGAOB involvement, investors would eventually shoulder the administrative burdens. Onerous procedures such as this will have to be prevented if the attractiveness of the European capital markets is to be preserved.

Question 6:

Do you have comments on the use of International Standards on auditing and US auditing standards (US GAAS) by third country audit firm for registration purposes for a limited transitional period?

We do not support any situation that may force third country audit firms to apply Member State GAAS. We believe that the use of the third country GAAS should be continued during the transitional period now permitted for third country audits. We also consider it inappropriate to allow only the use of US GAAS or ISA as a transitional measure. The Commission has yet to adopt ISA,

and auditing standards other than the US GAAS are employed in many places throughout the world. If the third country GAAS are required to be equivalent to the ISA, the Commission should define the ISA in the context of the assessment and specify the portions of the ISA that cannot be adopted. The JICPA has made ongoing efforts for the convergence with the ISA developed by the IAASB. We are unsure, however, if the ISA to be adopted by the Commission is the same as that developed by the IAASB. For this reason, we urge the Commission to announce when it will adopt the ISA, to specify the portions of the ISA that cannot be adopted, and to explain its reasons.

Given that the use of ISA or US GAAS is allowed for third country audits, we believe that the Japanese GAAS should also be allowed. The Japanese GAAS have incorporated most parts of the ISA, and we consider them equivalent to the ISA. With respect to the equivalency assessment for the third country GAAS, the tentative schedule should be provided.

Question 7:

Do you have any comments on independence issues under Article 45?

We consider Option 2 more appropriate because Option 1 may be impractical in a short period of time. The JICPA Code of Ethics incorporates the IFAC Code of Ethics with provisions somewhat more stringent than the provisions of the IFAC Code. We recognize that under Option 2, the third country Code of Ethics satisfies the requirements of the Directive so far as several provisions of the Code of Ethics are more stringent than those of the IFAC Code as described in "Preface" of the IFAC Code and that the Code of Ethics need not be "identical" to the IFAC Code under this option.

In order to ensure the transparency of the assessment process, we recommend that the Commission provide opportunities for public consultation and dialogue with the relevant parties (regulators, professional bodies, etc.) of the third countries concerned before issuing a final conclusion.

Question 8:

Do you have any concerns which you would like to make European Commission services aware of?

Question 9:

Do you have any comments on the conditions set up in the adequacy test?

Question 10:

Which circumstances could, in your view, be considered as exceptional?

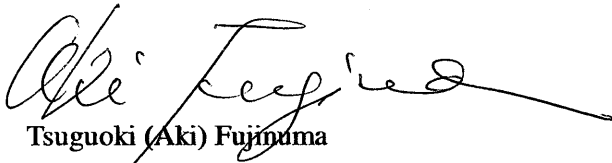
We provide the following comments on the assumption that the competent authorities from the EU Member States may request audit firms in Japan to transfer their audit working papers to any EU Member States.

Article 47 chiefly addresses the transfer of audit working papers and other documents. We find it difficult, however, to anticipate circumstances under which audit working papers and other documents would be solely transferred to a competent authority overseas through a national regulator without holding interviews with the audit firms and audit engagement teams concerned. As part of its oversight activities, the competent authority overseas may request the third country regulator to provide its oversight results. The specific circumstances, however, seem obscure when the transfer of only audit working papers and other documents would be requested.

Under the current legislation in Japan, audit firms are not permitted to comply with a request from an overseas regulator to transfer audit working papers and other documents unless the confidentiality obligations of the Japanese Certified Public Accountants Law are discharged.

In closing, we would like to express our appreciation for this opportunity to comment on this Consultation. We hope that you consider our comments.

Sincerely yours

A handwritten signature in black ink, appearing to read 'Aki Tsuguoki', with a long horizontal flourish extending to the right.

Tsuguoki (Aki) Fujinuma

Chairman and President

The Japanese Institute of Certified Public Accountants