

Proposed Basic Guidelines on Information Requirements and Inspection on Foreign Audit Firms etc. by the Certified Public Accountants and Auditing Oversight Board

I Mutual Reliance on Information Requirements and Inspection

With respect to information requirements and inspections regarding a foreign audit firm, etc. (hereinafter referred to as a “Firm” (Note 1)), the Certified Public Accountants and Auditing Oversight Board (hereinafter referred to as the “CPAAOB”) will, in principle, rely on such actions taken by the competent authorities of the Firms’ home jurisdictions (hereinafter referred to as “Foreign Competent Authorities”), and will not seek to obtain information from or conduct inspections on Firms themselves, provided that (i) audit and public oversight systems in the Firms’ home jurisdictions are equivalent to those of Japan, (ii) necessary information can be obtained from the Foreign Competent Authorities through appropriate arrangements of information exchange, and (iii) reciprocity is ensured. It is a prerequisite for entering into an arrangement of information exchange that the staffs of the Foreign Competent Authorities are subject to professional confidentiality obligations and are prohibited from using the information beyond predetermined purposes.

In cases where any of the above conditions cannot be met and thus the framework of mutual reliance cannot work, the CPAAOB will seek to obtain information from or conduct inspections on Firms on their own. Also, even if all the above conditions are met, in cases where the above arrangements of information exchange cannot be fully performed, including when information cannot be obtained from a Foreign Competent Authority in a sustained manner, or when, despite the arrangements, provision of such information as the CPAAOB deems necessary cannot be ensured, such information may be directly collected from the Firm.

(Note 1) A person who makes notification stipulated in Article 34-35 (1) of the Certified Public Accountants Act (hereinafter referred to as the “ Act”)

II Purpose of Information Requirements and Inspection, etc.

These Guidelines set forth the basic procedures, etc. for implementation of information requirements and inspection.

1. Purpose

The purpose of information requirements and inspection by the CPAAOB is to verify and confirm whether the Firm's services corresponding to audit and attestation services as prescribed in Article 2(1) of the Act (hereinafter referred to as the "Audit and Attestation Services") are conducted properly, with the objective of securing and improving, for the sake of public interests, the quality of audit concerning financial documents of foreign company, etc., as prescribed in Article 34-35(1) of the Act (hereinafter referred to as the "Foreign Company Financial Documents").

2. Legal Basis

The authority to implement information requirements and inspection is granted to the CPAAOB,

- (i) with respect to information requirements against Firms, by Article 49-3-2(1) of the Act, and
- (ii) with respect to inspection on Firms and at places related to the Audit and Attestation Services conducted by Firms, by Article 49-3-2(2) of the Act.

3. Cooperation with Foreign Competent Authorities

With a view to ensuring appropriate and smooth implementation of information requirements and inspection of Firms, the CPAAOB shall endeavor to strengthen the cooperative relationship with Foreign Competent Authorities, by sending an appropriate notice to the relevant Foreign Competent Authority or taking any other appropriate measure.

III Information Requirements

1. Overview of Information Requirements

(1) Regular Requirement

In principle, the CPAAOB will require, once every three years and after sending an advance notice to the relevant Foreign Competent Authority, a Firm to submit the documents (hereinafter referred to as "the Documents"), which describe:

- (i) in relation to all of the Firms, items specifically set forth in Section VIII A., including overview of the Firms and results of inspection/review conducted by a foreign administrative agency or similar organization (Note 2), and
- (ii) in relation to the Firms which provide Audit and Attestation Services to the issuers of securities which are listed on a financial instruments exchange in Japan, items specifically set forth in Section VIII B. in addition to the information mentioned in (i) above, including overview of the audit conducted by the Firm and manuals relating to quality control system.

(Note 2) A foreign administrative agency or similar organization as stipulated in Article 5(1) of the Cabinet Office Ordinance regarding Notification Requirements for Foreign Audit Firms, etc.

(2) Non-regular Requirement

In addition to regular requirement, the CPAAOB will require, when it deems necessary and appropriate, a Firm to submit such information as the CPAAOB considers necessary. In this case, the CPAAOB will, in principle, send an advance notice to the relevant Foreign Competent Authority.

2. Notice to Firm

In requesting submission of information, the CPAAOB shall send to a Firm a written notice which states that the Firm is required to submit information stipulated in “1. Overview of Information Requirements”. The original of this notice shall be in Japanese, with an English translation attached for reference.

3. Language

In principle, the Firm is required to prepare and submit the Documents in Japanese; provided, however, that the Documents can be prepared in English.

In case that a Firm has an existing material, which covers the information as stipulated in “1. Overview of Information Requirements”, the Firm may submit, in relation to the relevant information, such an existing material in place of the Documents, when the CPAAOB so permits. In this case, to the extent that the CPAAOB deems necessary after reviewing the submitted material, the Firm will be required to submit Japanese or English translation of any part of the material, which is to be specified by the CPAAOB.

4. Submission of the Statement

If a Firm finds it impossible, due to restraints by the governing law of the jurisdiction where the Firm’s principal office is located, to submit the Documents that include the information required by the CPAAOB, the Firm shall submit, instead of submitting the relevant Documents, a statement (hereinafter referred to as the “Statement”) which includes the followings:

- (i) the fact that the Firm cannot submit the required information due to restraints by the governing law of the jurisdiction where the Firm’s principal office is located, and the relevant provision(s) of such governing law,
- (ii) a legal opinion by an attorney which opines that those described in (i) above are true and accurate, and
- (iii) in case that the Firm needs to obtain permission, consent or approval (hereinafter referred

to as the “permission, etc.”) in order to submit such information and that the Firm is unable to submit the required information due to the Firm’s failure in obtaining the permission, etc., a statement which describes:

- (a) measures taken by the Firm for obtaining the permission, etc. and
- (b) the reason why the permission, etc. was not obtained even after the above measures were taken.

If a Firm fails to submit the Documents without submitting the Statement, the CPAAOB will report the fact to the Financial Service Agency (hereinafter referred to as the “FSA”).

5. Delivery of the Documents and the Statement

The Documents and the Statement shall be addressed to and physically delivered to the CPAAOB.

IV Inspection

1. Scope and Manner of Inspection

(1) Scope of Inspection

The CPAAOB will conduct inspection, in relation to matters related to its Audit and Attestation Services, on a Firm and at the place related to its Audit and Attestation Services.

(2) Manner of Inspection

The CPAAOB will conduct its inspection:

- (i) by examining books and records and other materials related to the Firm’s Audit and Attestation Services,
- (ii) by verifying and confirming whether the Firm’s Audit and Attestation Services are in compliance with the laws, regulations and standards, mainly, such as,
 - (a) the laws and regulations (the Act, the Cabinet Office Ordinance regarding Notification Requirements for Foreign Audit Firms, etc. and any other laws and regulations related to the Audit and Attestation Services conducted by the Firm),
 - (b) auditing standards followed by the Firm in providing the Audit and Attestation Services, including ISA and ISQC1, and
 - (c) accounting standards followed by a foreign company, etc., as stipulated in Article 4(1)(iii) of the Cabinet Office Ordinance regarding Notification Requirements for Foreign Audit Firms (hereinafter referred to as a “Foreign Company”), including IFRS, in preparing its financial documents.

(3) Points to be Considered

In conducting inspection, the CPAAOB will endeavor to implement an efficient and effective inspection by collecting information of the Firms to be inspected as well as having good communication with them.

The CPAAOB shall not exercise its authority for inspection for the purpose of conducting criminal investigation (Note 3).

(Note 3) Refer to Articles 49-3(4) and 49-3-2(3) of the Act.

2. Selection of the Firm to be Inspected

The CPAAOB will analyze the information obtained through the process mentioned in “III Information Requirement” as well as information otherwise collected and consider whether it is necessary to conduct inspection to verify whether the Firm’s Audit and Attestation Services are conducted properly, and whether their operation control systems are functioning effectively. As a result of this process, if a Firm is recognized as the one which needs to be inspected, the CPAAOB will select the Firm as the one to be inspected.

Notwithstanding the above, when the CPAAOB deems it necessary and appropriate to inspect a Firm in light of public interests or investor protection (for instance, when the CPAAOB comes to notice that a Firm has allegedly made fraudulent or inappropriate attestation), the CPAAOB may conduct inspection on the Firm without going through the process described in “III Information Requirement”.

3. Advance Notice of Inspection

The CPAAOB will, in principle, make an advance notice of commencement of the on-site inspection at least two months prior to the commencement to a responsible person, i.e. a representative of the Firm or a person of the Firm responsible for responding to the inspection, of the Firm to be inspected (hereinafter referred to as a “Responsible Person”).

The notice will be made by sending to the Responsible Person a document, the original in Japanese with an English translation, stating the date when the on-site inspection is planned to begin and the “cut-off date” of inspection, etc. The “cut-off date” is the date set forth for limiting the scope of inspection and is basically the business day immediately preceding the date when the advance notice is made. The CPAAOB will also make a telephone call to the Responsible Person and coordinate with him/her the date for “Explanation of Material Points of Inspection” described in paragraph 4.(2) below.

Before the CPAAOB makes an advance notice to the Firm, it will, in principle, make to the Foreign Competent Authority a notice that it plans to conduct the inspection. In case that it turns

out that the Foreign Competent Authority also intends to conduct inspection of the same Firm, the CPAAOB will make utmost efforts to coordinate with the Foreign Competent Authority so that the inspection by the two authorities will be simultaneously implemented.

4. Points to be Considered regarding Inspection

(1) Scope of Inspection

With respect to audit engagement with a specific client, the scope of inspection is limited to those related to its Foreign Company Financial Documents. With respect to operation control systems, the inspection is to be conducted regarding the Firm's entire operation. In conducting inspection, the CPAAOB will pursue efficiency of inspection and endeavor to lessen burden of the Firm.

(2) Explanation of Material Points of Inspection

Before the beginning date of the on-site inspection, the Chief Inspector shall explain to the Responsible Person by a telephone conference or any other means the followings:

- (i) legal ground and purpose of inspection,
- (ii) procedures of inspection, and
- (iii) any other matters deemed necessary.

(3) Language

In inspection, Japanese shall be used, in principle; provided, however, that English may also be used for understanding the status of the Audit and Attestation Services and operation and maintenance of the quality control systems, when the Chief Inspector so permits.

(4) Inquiry after Advance Notice of Inspection

After issuing an advance notice, the Chief Inspector may confirm, even before the beginning of the on-site inspection, the contents of the Documents and any other materials submitted by the Firm by sending an inquiry in writing to the Firm. The original of the inquiry shall be in Japanese with an English translation attached to it.

(5) Presentation of Inspection Order etc.

The Chief Inspector will show to the Responsible Person the Inspection Order and his/her identification as an Inspector.

(6) Interview with Officers and Employees of the Firm

The inspector shall verify whether the Firm is in compliance with laws, regulations, standards as well as the Firm's policies and procedures concerning quality control by examining

books, records and other materials and interviewing officers and employees of the Firm, including partners and staffs engaged in the audit.

When the Firm makes a request that an interviewee be accompanied by another person, the inspector may allow such accompaniment, if the inspector recognizes that the reason is justifiable and that such accompaniment will not interfere with the inspection.

(7) Interview with Representative etc. of the Firm

The Chief Inspector shall have an interview with the representative etc. of the Firm regarding the overall business status and high-level policy concerning quality control of the Firm.

(8) Adequate Care to Working Hours of the Firm

The inspector shall take adequate care so that the business operation of the Firm will not be interfered with.

The on-site inspection shall be implemented, in principle, during business hours of the Firm. In conducting the on-site inspection before or after the Firm's business hours, consent shall be obtained from the Firm. The on-site inspection during non-business hours of the Firm shall not be regularly conducted without reasonable necessity.

(9) Implementation of Efficient and Effective Inspection

In order to achieve efficient and effective inspection, the Chief Inspector shall communicate with the Firm regarding the progress of the inspection, the Firm's responsiveness to the inspection, etc. in the course of the on-site inspection.

In order to achieve highly efficient inspection, the Chief Inspector shall also communicate with the Firm regarding the manner of inspection.

(10) Recognition of Facts and Developments

The inspector shall examine books, records and other materials so that the issues to be addressed by the Firm (hereinafter referred to as the "Issues") will be appropriately identified and, after reporting the identified Issues to the Chief Inspector, obtain the Firm's recognition on the Issues from the Responsible Person.

In this instance, the inspector may provide the Responsible Person with a document describing inquiries and/or facts surrounding the Issues, the original in Japanese with a translation in English, and request the Responsible Person to write the Firm's answers/recognition on the document, when the inspector finds it necessary.

(11) Action to be taken in Case of Problem

When the Chief Inspector recognizes it difficult to continue the inspection, he/she shall

confirm with the Responsible Person the situation to the extent deemed necessary. The Chief Inspector shall also promptly report the situation to the Deputy Secretary General, Monitoring and Inspection of the CPAAOB and receive necessary instruction.

5. Request for Inspection Materials

(1) Effective Use of Existing Materials

The inspector shall endeavor to lessen burden of the Firm by making use of, in principle, existing materials of the Firm. Before requesting submission of materials other than those then existing, the inspector shall make sufficient consideration of the necessity for making such a request.

When the Firm requests submission of materials in electronic media, the inspector may allow the Firm to do so, unless such submission interferes with the inspection.

(2) Efficient Requests for Materials

In making requests for submission of materials, the inspector shall, in principle, endeavor to make requests in organized manner through the department responsible for inspection, such as operation control department, etc., and explain appropriately the reason for making such requests.

In determining a request, the inspector shall take into consideration the priorities of the materials for inspection and burdens on the Firm.

When the inspector borrows original documents, such as books, records or work-related notes (hereinafter referred to as the "Originals") from the Firm, he/she shall submit a written confirmation and keep the materials in an appropriate manner.

The Chief Inspector shall endeavor to constantly recognize the status of the requests to avoid duplicated requests.

(3) Restoration of Borrowed Materials

When the Firm makes a request for temporary take-out or restoration of the Original in the course of the on-site inspection, stating that the Original is necessary for its business operation, the inspector will allow such temporary take-out or restoration, unless it interferes with the inspection.

The inspector shall take utmost care to the treatment of the materials submitted in the course of inspection, and return the Originals to the Firm by the end of inspection.

6. Termination of On-site Inspection

The Chief Inspector shall sufficiently discuss with the Firm any discrepancies in understanding of the facts detected in the course of the on-site inspection and confirm the contents of such discrepancies with the Responsible Person, before completing the on-site inspection.

7. Exchange of Opinions on the Issues Identified in Inspection

Once the Issues identified in the course of on-site inspection are organized, the Chief Inspector will send to the Responsible Person a document describing contents of the Issues, the original in Japanese with an English translation. The Firm may express its opinions regarding the Issues described in the document by sending a written statement to the Secretary-General of Executive Bureau of the CPAAOB before the expiry of the period, which the CPAAOB will set forth as the time necessary for the Firm to review the document. The statement, in principle, has to be prepared in Japanese, although the statement prepared in English is also acceptable. The opinions, etc. thus submitted shall be reported to the Board of the CPAAOB.

8. Notice of Inspection Results

Notice of the inspection results shall be made by delivering to the Responsible Person a document describing the inspection results (hereinafter referred to as an “Inspection Report”). The document shall be prepared in the name of Chairman of the CPAAOB in Japanese with an English translation attached for reference.

When the Inspection Report is delivered, the CPAAOB will obtain a written acknowledgement of its receipt from the Responsible Person.

V Handling of Inspection Results, etc.

1. Handling of Inspection Results

- (1) The CPAAOB shall keep the confidentiality of the Inspection Report.
- (2) As for the inspection results and inspection-related information (Note 4), the Chief Inspector shall, by the beginning date of the on-site inspection, explain to the Responsible Person that the Firm is prohibited from disclosing them to a third party without obtaining a prior consent from the CPAAOB, and by then obtain the firm’s acknowledgement to the prohibition.

In relation to the prior consent for disclosure to a third party, the Chief Inspector shall explain:

- (i) that the Firm has to submit a written request, in English, describing the recipient of information, the contents of information to be disclosed and the reason for such disclosure;
- (ii) that the Firm has to obtain the acknowledgement by the expected recipient that it will not disclose the delivered information to further third party; and
- (iii) that the Firm has to include in the written request mentioned in (i) above the statement that the recipient’s acknowledgement has been duly obtained.

(Note 4) Inspection-related information means any contents of communication, including questions, indications and

requests by inspectors, between (i) inspectors and (ii) officers, employees, partners and staff of the Firm.

2. Publication of Recommendation, etc.

(1) For the sake of public interests and investor protection, the CPAAOB will, in principle, publicize the recommendation to the FSA, after the recommendation is made.

Notwithstanding the forgoing, when the CPAAOB recognizes after taking into consideration its possible effects on public interests or investor protection that the publication is inappropriate, the CPAAOB will abstain from publicizing the recommendation or take any other appropriate measure.

(2) In addition to (1) above, in the case where contribution to securement/enhancement of audit quality is recognized, the CPAAOB will publicize summaries of the relevant implemented inspections in such manner that the inspected Firms and the Foreign Companies will not be identified.

VI Confidentiality of Obtained Information

The CPAAOB shall appropriately manage the information obtained through information requirement or inspection or from Foreign Competent Authorities (hereinafter referred to as the “Obtained Information”) in a manner complying with Japanese laws and regulations (including the Act on the Protection of Personal Information Held by Administrative Organs) and general rules related to management of administrative documents, etc. In so doing, special care shall be paid so that

- (i) The CPAAOB shall not divulge any confidential Obtained Information to a third party;
- (ii) The CPAAOB shall not use the Obtained Information for any purposes other than those originally intended, except for the case where such information is used for a purpose approved by the relevant law; and
- (iii) In particular, utmost attention shall be paid to the security of the confidential Obtained Information.

VII Effective Date

This Guideline will come into effect as of [], 2009, and shall apply to an inspection, in relation to which an advance notice is made on or after that date.

VIII Items Subject to Information Requirements (See attached)

VIII Items Subject to Information Requirements

A. Information to be obtained from all Firms

I. General information concerning the Firm

1. Outline of the business of the Firm

- (1) Outline of the audit system of the Firm's jurisdiction (This can be substituted by mentioning the public website where the relevant information is provided.)
- (2) Business purpose and history of the Firm
- (3) Legal form and ownership of the Firm
- (4) Governance structure of the Firm
- (5) Organization chart of the Firm

2. Information concerning partners and staff

- (1) Information concerning partners and staff
Number of partners and staff and increase/decrease from the preceding fiscal year
- (2) Name, title and personal history of the partners with a management role in the Firm

3. Information concerning the office(s)

The following information shall be submitted for each of the offices.

- (1) Name and address of the office(s)
- (2) Number of partners (including number of those registered as professional accountants) and staff
- (3) Number of the companies audited by the office (including number of foreign company, etc., as stipulated in Article 4(1)(iii) of the Cabinet Office Ordinance regarding Notification Requirements for Foreign Audit Firms, etc. (hereinafter referred to as a "Foreign Company"))

4. Information concerning the affiliated entities

Name, address and business of each affiliated entity and name of its representative officer

5. Financial information

- (1) Revenue from Audit and Attestation Services and non-Audit and Attestation Services in the preceding three fiscal years
- (2) Financial statements for the preceding three fiscal years

6. Information concerning the companies audited by the Firm (limited to Foreign Companies)

- (1) Name, fiscal year end, amount of share capital and name of CEO of the Foreign Company
- (2) Name of co-auditor (if any)
- (3) Information concerning the execution/termination of the engagement with the Foreign Company

II. General information concerning operation, etc. of the Firm

1. Information concerning services

(1) Information concerning services

(i) Number of clients of Audit and Attestation Services and non-Audit and Attestation Services (including number of Foreign Companies) and increase/decrease from the preceding fiscal year

(ii) Information concerning services which the Firm newly commenced in the preceding three years

(2) Information concerning operation

(i) Measures taken in order to ensure operational appropriateness (including key management policies and measures employed for management and legal compliance)

(ii) Policies concerning quality control and measures taken to enforce such policies (including policies concerning auditors' independence and determination of partners' remuneration and outline of training.)

2. Information concerning engagement quality control review ("EQCR")

Name of person responsible for EQCR, number of persons who are involved in EQCR, review criteria and procedures for EQCR (including information as to whether review is conducted by a single reviewer or by a review board, the nature, timing and extent of EQCR, procedures for resolving differences of opinions and items of main focus) and organization chart of the review system

3. Information concerning periodic inspections

Name of person responsible for periodic inspections, number of persons who are involved in inspections, inspection scope and how the scope is determined, frequency of inspections, inspection methodology, items of main focus and outline of the results of the most recent inspection

4. Information concerning business alliances

(1) Information concerning business alliances in the field of the audit services with another professional accountant or audit firm

(2) If the Firm is a member of a network, outline of the network and the basic arrangement between the Firm and the network

5. Outline of lawsuits in the preceding three years (if any)

6. Outline of the criminal penalty or administrative sanctions imposed upon the Firm in

the preceding three years (if any)

III. Date and results of the most recent inspection/review conducted by administrative agencies, etc.

Inspection/review report, items pointed out in the results of the inspection/review, measures taken for improvement, the plan for improvement and progress of execution of the improvement plan

B. Information to be obtained from the Firms that audit companies, etc. listed on a financial instruments exchange in Japan

I. Information concerning Audit and Attestation Services for a company, etc. listed on a financial instruments exchange in Japan

The following information shall be submitted for each of the listed companies.

1. General information concerning engagement team members

(1) Information concerning engagement team

- (i) Name of engagement partner and the periods during which the partner has been successively involved in the audits of the same audit client
- (ii) Number of partners and professional staff (excluding engagement partner) and name of such partner (if any) who was an engagement partner of the audit of the same audit client in the past
- (iii) Change of engagement firm, partners, etc.

(2) Information concerning the engagement

- (i) Amount of fees received from the company in relation to the Audit and Attestation Services and the non-Audit and Attestation Services
- (ii) Termination of the engagement (if any)

(3) Information concerning quality control

- (i) Name of the professional accountant and/or section of the Firm responsible for quality control
- (ii) Name of the person who conducted EQCR

2. Information concerning performance of the engagement

(1) Information concerning performance of the engagement

Number of persons who performed the engagement (categorized by (i) engagement partner, (ii) other professional accountant and (iii) other staff) and time (days or hours) spent on the engagement per category.

- (2) Items particularly considered in performing the engagement, etc.
- (3) Information concerning use of work by other auditors
- (4) Information concerning audit opinion
- (5) Information concerning EQCR
- (6) Whether there are any explanatory notes added to the report and the reason for such notes being added

II. Information concerning quality control system (including manuals regarding quality control system)

1. Names of manuals and guidelines relating to the quality control system (together with the date of the latest amendment) and copies of the manuals and guidelines

2. Audit methodology manual

3. Results of quality review conducted by network

Review report, items pointed out as a result of review, measures taken for improvement, the plan for improvement and progress of execution of the improvement plan