



# Comments on the PCAOB's Proposal - PCAOB Roundtable -

Financial Services Agency (FSA) of Japan  
March 31, 2003



# Appreciation

- We appreciate that the Public Company Accounting Oversight Board (“Board”) recognizes that the registration of foreign public accounting firms may raise special issues, and that it convenes the Roundtable.
- We respectfully request that the Board will take full accounts of our comments in promulgating the final rules.



# I. Request for an appropriate exemption from the registration requirement (1)

## [Conclusion]

- We respectfully request the Board to provide an appropriate exemption from the registration requirement to Japanese audit firms, utilizing the exemption authority provided by Section 106(c) of the Sarbanes-Oxley Act.
- The Japanese audit firms should not be subject to such oversight powers as inspections, investigations, and disciplinary proceedings by the Board.



# I. Request for an appropriate exemption from the registration requirement (2)

## 1. Principle of registration with and oversight by the authority of a home jurisdiction

### (1) IOSCO Principles "Principles for Auditor Oversight"

“In relation to companies operating or listing on a cross-border basis, IOSCO members are encouraged to provide each other, whether directly or through coordinating with the auditor oversight body in their jurisdiction, with the fullest assistance permissible in efforts to examine or investigate matters in which improper auditing may have occurred and on any other matters relating to auditor oversight.”



- Registration and oversight of auditors are within the responsibility of the authorities of the home jurisdiction of auditors.
- Critically important principle from the viewpoint of mutual respect and international comity over each jurisdiction's sovereignty and auditor oversight system
- Also important principle to avoid regulatory duplications or contradictions among auditor oversight bodies in different jurisdictions, and unnecessary regulatory burden or costs to foreign public accounting firms



# I. Request for an appropriate exemption from the registration requirement (3)

## (2) Japanese auditor oversight system

- The FSA has the same mission as the Board to protect investors in securities markets and to further the public interest by ensuring that public company financial statements are audited according to the highest standards of quality, independence, and ethics.
- The FSA is prepared to cooperate with the Board appropriately in line with the IOSCO Principles.
- It is not only inappropriate but also unnecessary for the Board to subject Japanese audit firms to registration with and oversight by the Board.
- We respectfully request the Board to respect and not infringe on the auditor oversight system by the Japanese authorities.



# I. Request for an appropriate exemption from the registration requirement (4)

## 2. Enhancing the Japanese auditor oversight system

### (1) IOSCO Principles

“Effective oversight structure generally includes that a mechanism should exist to require auditors to be subject to the disciplines of an auditor oversight body that is independent of the audit profession, or, if a professional body acts as the oversight body, is overseen by an independent body. Such an auditor oversight body must operate in the public interest.”



# I. Request for an appropriate exemption from the registration requirement (5)

## (2) Enhancement of the Japanese auditor oversight system

- The Japanese government submitted a bill ("Bill") to the current regular session of the Diet (the Japanese legislature) on March 14 to comprehensively revise the CPA Law.
- Through this comprehensive revision, the Japanese auditor oversight system will further provide an auditor oversight system substantially equivalent to that provided under the Sarbanes-Oxley Act.

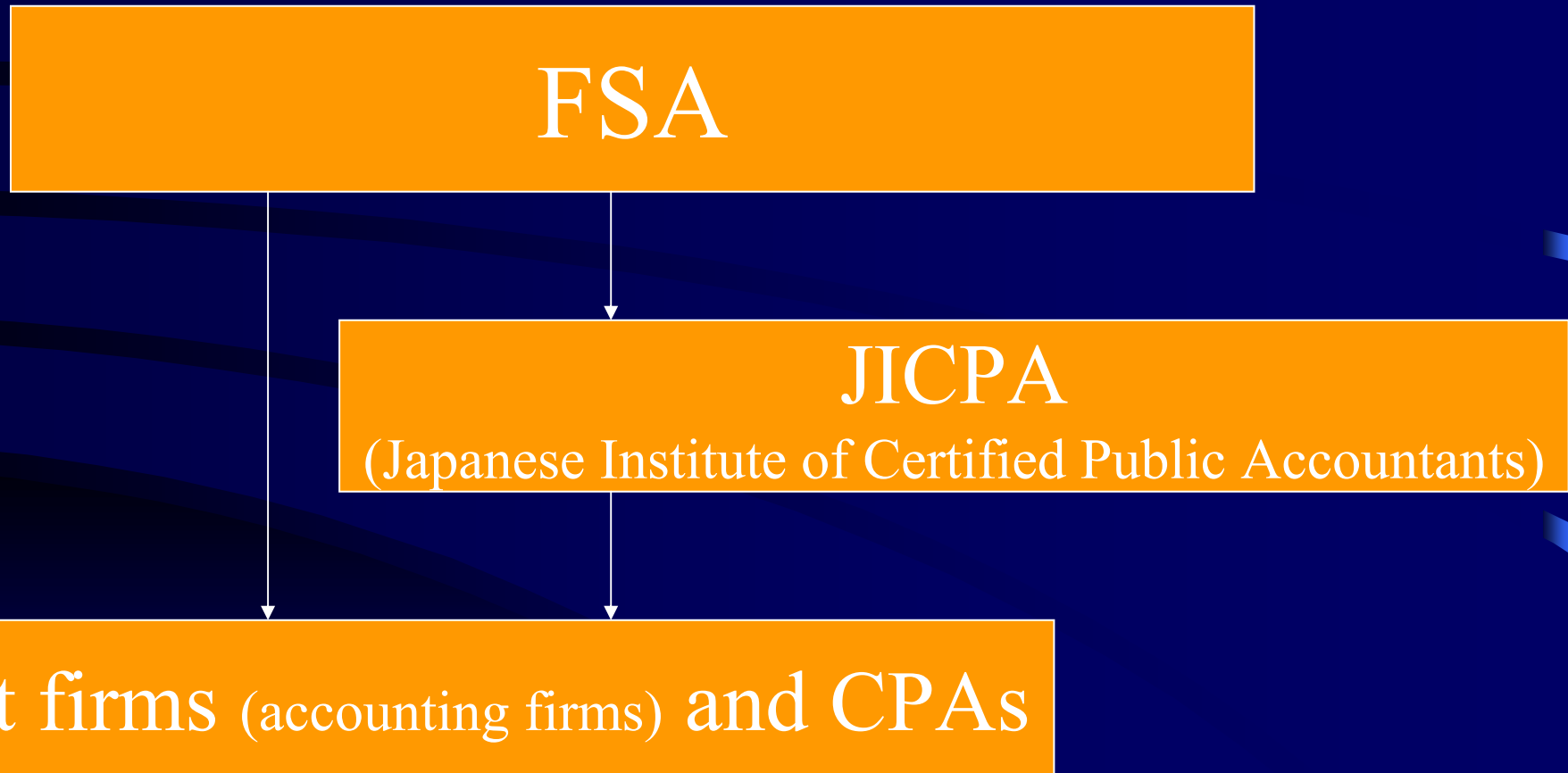
### [Major Points]

- Enhancing auditor oversight
- Strengthening auditor independence
- Reviewing CPAs examinations to increase the number and enhancing quality of CPAs



# I. Request for an appropriate exemption from the registration requirement (6)

[Current auditor oversight structure in Japan]







# I. Request for an appropriate exemption from the registration requirement (7)

## [Comprehensive Revision of the CPA Law]

### ○ Enhancement of the system of quality control review

- Quality control review by the JICPA will be monitored and reviewed by the CPA and Auditing Oversight Board ("CPAAOB"), an independent third-party board established within the FSA. (The current CPA Examination and Investigation Board will be reorganized and its functions will be expanded and strengthened.)
- Members of the CPAAOB will be appointed by the Prime Minister with the consents of both Houses of the Diet. The term of office of the members will be three years. The members will exercise their authorities independently. The CPAAOB will have its Executive Bureau including the Secretary-General.
- The JICPA will be required to make reports on the quality control review of its members' auditing to the CPAAOB.
- The CPAAOB will have the authority to inspect CPAs and audit firms in this respect.
- The CPAAOB will be authorized to issue recommendations for administrative actions or directions against CPAs, audit firms or the JICPA to the FSA.



# I. Request for an appropriate exemption from the registration requirement (8)

## ○Enhancement of the government oversight function

- Introducing the general authority of on-site inspections of audit firms (currently, on-site inspections of audit firms are conducted for the purpose of taking disciplinary actions.)
- Introducing the authority of administrative direction against audit firms (in addition to the current authority of the FSA to take such disciplinary actions as issuing business suspension orders against audit firms)
- Introducing the authority to issue business improvement orders against the JICPA (in addition to the current authority of the FSA to take such disciplinary actions as issuing an order for revocation of the resolution of the JICPA's general meeting)

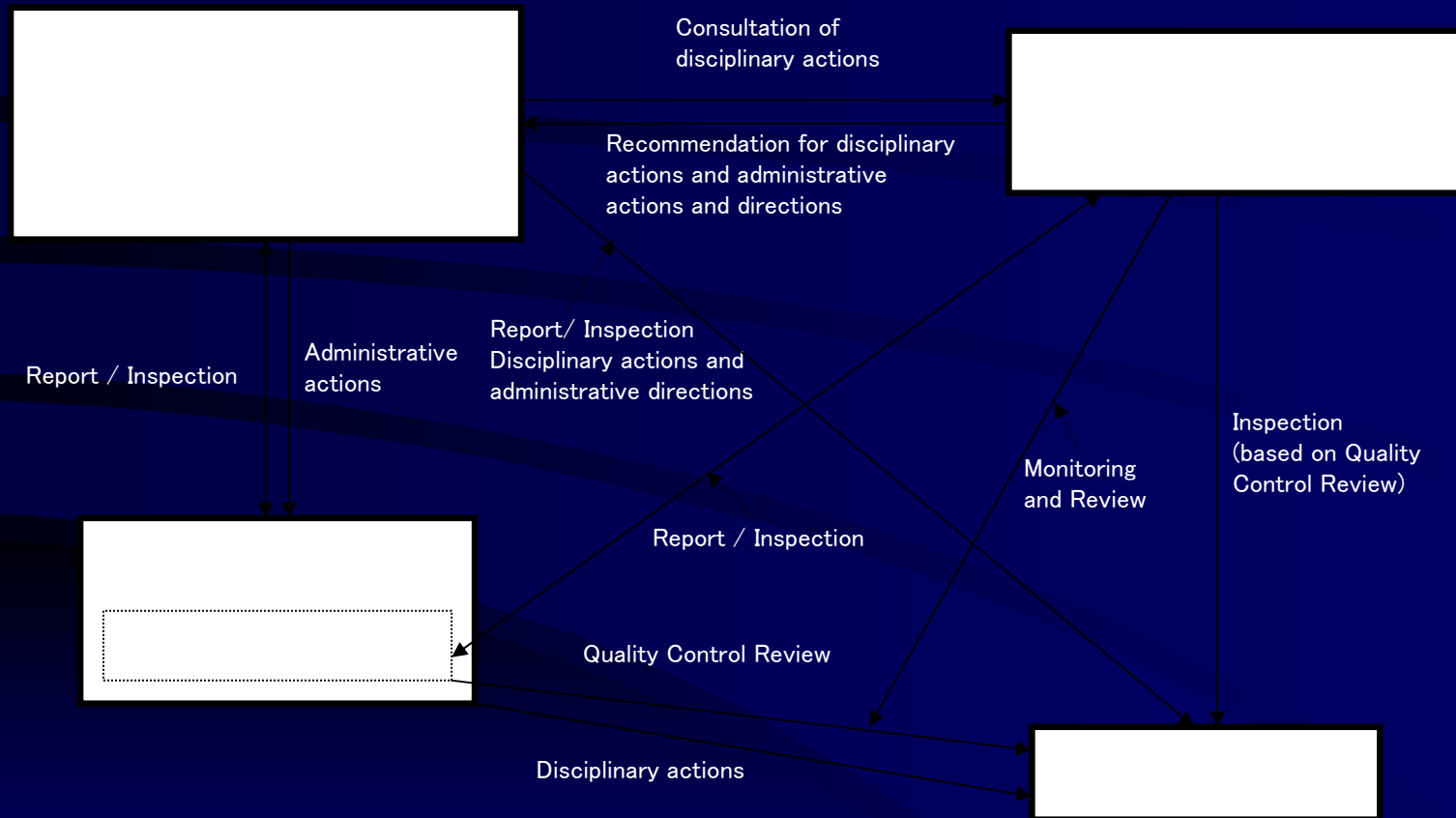
## ○Enhancement of the JICPA's oversight function

- Introducing the legal authority for the JICPA to conduct quality control review (currently, the JICPA's quality control review is pursuant to the Constitution of the JICPA, and there is no explicit provision in the CPA Law.)

⇒ Therefore, we respectfully request the Board to respect the further enhanced and more substantially equivalent auditor oversight system in Japan.



# I. Request for an appropriate exemption from the registration requirement (9)





# I. Request for an appropriate exemption from the registration requirement (10)

## [Other points on the Japanese auditor oversight system]

- Auditing standards ⇒ Set by the Business Accounting Council, which is an important advisory council established within the FSA
- Quality control standards ⇒ Currently set by the JICPA, and will be reviewed by the CPAAOB
- Ethics standards ⇒ Set in the Code of Ethics of the JICPA which is subject to oversight by the FSA
- Independence standards ⇒ Prescribed in the CPA Law and the Cabinet Ordinance



# I. Request for an appropriate exemption from the registration requirement (11)

## 3. Conflicts with the duty of keeping confidentiality of information

A clear conflict between the Japanese CPAs' duty to keep confidentiality of information imposed under the CPA Law and the duty to provide information to the Board if such duty were imposed on the Japanese audit firms under the Sarbanes-Oxley Act

⇒ Therefore, we respectfully request the Board to respect the Japanese CPA Law in this respect.



# I. Request for an appropriate exemption from the registration requirement (12)

## 4. Other issues

- (1) Contradiction with the promotion of competition in the auditing industry
- (2) Unfounded justification for registration of foreign public accounting firms



## II. Comments on Proposed Registered System

### (1) Excessive requirements for information

- The Board's need for information should be focused on SEC-registered issuers in the U.S. securities markets.

⇒ Part III - Applicant Financial Information

Part V - Listing of Certain Proceedings Involving the  
Applicant's Audit Practice

- The Board should not be an oversight body of the Japanese audit firms.

⇒ Part VIII - Consents of Applicants

### (2) Others