

4th March 2008

Ms. Rhonda Schnare
Director, International Affairs
The Public Company Accounting Oversight Board
1666 K Street, N.W., Washington, D.C.
20006-2803

Re: Comments on proposed policy statement “Guidance Regarding Implementation of PCAOB Rule 4012”

Dear Ms Schnare:

The Financial Services Agency of Japan (JFSA), together with the Certified Public Accountants and Auditing Oversight Board of Japan (CPAAOB), welcomes the opportunity to comment on the proposed policy statement “*Guidance Regarding Implementation of PCAOB Rule 4012*”, and highly commends the PCAOB (Board) for its efforts to implement the rule in a transparent manner. We believe that it is critical both for the Board and the JFSA/CPAAOB to develop a practical cooperative framework in pursuing common responsibilities, and thus we would highly appreciate the Board for giving due consideration to our comments in finalizing the guidance.

Please find our general comments in the main body of this letter; and the specific comments and/or observations to each question and principle therein, in the Appendix.

Japanese audit oversight regime

The Japanese authorities believe that high quality audits are an indispensable element of capital market integrity, and have therefore endeavored to improve the Japanese audit system through seamless efforts. We remain committed to ensuring that the Japanese audit oversight regime is effective and comprehensive in maintaining public trust in the capital markets.

For your information, the revised CPA Act will become effective as of April 2008. The Act requires all foreign audit firms that produce audit attestations for foreign issuers whose securities are publicly traded on the Japanese market (i.e. entities that are required to submit their reports to the JFSA) to notify the JFSA, and to become subject to oversight by the Japanese authorities. The Act also empowers the JFSA and the CPAAOB to order audit firms to submit any relevant reporting documents or to conduct on-site inspections of firms, when it is deemed necessary and appropriate in light of public interest and investor protection in Japan.

Approach towards reliance on other audit oversight authorities

We believe that the JFSA and the CPAAOB share with the Board the goal of investor protection and contributing to the public interest, while ensuring the fairness and efficiency of markets, and enhancing capital formation.

As noted above, the Japanese regulatory framework requires the JFSA/CPAAOB to carry out inspection of foreign audit firms or request them to submit reporting documents when it is deemed necessary and appropriate in light of public interest and investor protection. Within this framework, it is also possible that we utilize the work of foreign audit oversight authorities in light of efficiency of our work.

We understand that the Board is proposing an approach similar to ours, as the *sliding-scale approach* in the proposed guidance enables the Board to increase reliance in foreign audit oversight authorities, while ensuring the investor protection. We consider it a sensible approach to the end of achieving the public interest while minimizing administrative duplication.

For a non-Japanese audit oversight regime which is independent and robust as that of Japan, it may be beneficial if we can make the best use of the work by such a regime. It should also be beneficial for the Board to utilize the work by non-U.S regimes which meet your suggested criteria. To this end, we suggest that the guidance provide a specific reference to the reciprocal aspect, as it is an indispensable element in establishing a bilateral arrangement, from which both sides may benefit.

Possible cooperative framework and access to information

Regardless of the details in the guidance, we believe it essential to develop an effective cooperative arrangement between the JFSA/CPAAOB and the Board in conducting public oversight activities. The arrangements should be flexible so as to reflect the necessity and benefit for both sides; otherwise, it may hinder the objective that we should have. We also think that the arrangement should be clarified in writing, for example, through exchanges of letters. Rather, the document should also be flexible that should respond to the needs of both authorities.

We would like to stress that the exchange of information among regulators is one of essential piece for a cooperative framework. This will ensure the opportunity to obtain creditworthy information on a timely basis based on the mutual trust. From our side, we may be allowed to share relevant documents with the Board subject to certain conditions including the secrecy obligation and reciprocal treatments. Although we are aware that the Board currently has difficulties in sharing information, we are strongly in favor of exchanging inspection reports among regulators rather than obtaining them from audit firms, when it is necessary. We look forward to further discussion of this issue in the future.

Home-country based approach

We would like to note that the CPAAOB conducts inspection based on a mandate given by the CPA Act, and inspection reports are written in light of fulfilling the mandate. Therefore, the report covers results of inspection conducted in accordance with the Japanese requirements, but do not cover those conducted in accordance with the U.S. requirements. Nonetheless, we consider that the recent trend of global convergence towards high quality standards/regulations will increase the overlapping area, and may necessitate all the work re-conducted in accordance with U.S. requirements, and many may be benefited from the sliding-scale approach.

However, considering the global outlook where many jurisdictions are adopting the home-country based approach, we suggest that the Board consider taking the same approach

to the extent that the home-country's regulatory framework can be considered robust.

Another aspect of the merit of the home-country based approach is that each independent audit oversight body will more easily construct effective cooperative frameworks with foreign counterparts. If each oversight body were to ask foreign counterparts to conduct inspection based exclusively on its own laws, regulations, and standards, rather than those of the counterparts, the possible level of mutual reliance could be substantially constrained. Therefore, the Board may wish to consider honoring the home-country oversight activities to the extent that they are found to be independent and robust.

We sincerely thank you again for this opportunity to comment on your proposal, and look forward to continuing further dialogue in the future. Should you have any questions, please do not hesitate to contact us.

With our best regards,

Yours sincerely,

Junichi MARUYAMA
Deputy Commissioner for International Affairs
Financial Services Agency,
Government of Japan

Hideyuki FURIKADO
Secretary General
Certified Public Accountants and Auditing
Oversight Board
Government of Japan

Appendix

1. If a non-U.S. auditor oversight entity meets the essential criteria set forth in the proposed Policy Statement, are there reasons why the Board should not increase its level of reliance on inspections conducted by such an independent non-U.S. oversight entity? What are the benefits and costs of full reliance?

We agree with the Board's assessment that the proposed approach contributes to increasing the efficiency, while ensuring the public interest and investor protection.

2. Are the essential criteria set forth in section III.C. of the Policy Statement appropriate? Are these additional factors that should be considered? Should the criteria be modified in any way?

As noted in the main body of the comment letter, we suggest that the Board take reciprocal aspect into consideration in the essential criteria. Also, please see the followings for more details corresponding to each principle.

Principle 1 – Adequacy and Integrity of the Non-U.S. System

In regards to a disclosure of the remedial measures taken by the audit firm, we would like to note that, once the instructions or orders for improvement of operation is issued by the JFSA, the JFSA is to responsible for monitoring the remedial measures taken by the subject firms in subsequent years. The JFSA semi-annually receives reports from relevant audit firms outlining their remedial measures in response to the significant deficiencies of their operations identified by the CPAAOB, and determines whether sufficient improvements have been made after twelve months from the issuance of instructions.

We do not rule out the possibility to provide our assessments with the Board on a premise that they will be published; however, we believe that sufficient coordination between audit regulators should be needed in terms of timing, content, etc., so as not to cause confusion, when the Board disclose that sufficient improvement have not been noted at the firm.

Principle 2 – Independence of the Non-U.S. System

In regard to the composition of board members at a public oversight body, we would like to note the among ten board members, one is a practitioner and another is retired practitioner, while other eight members are non-practitioners who have no involvements in audit industry. We do not believe this composition has weakened the independence and robustness of our oversight activities, as shown in our supervisory experiences including history of disciplinary actions.

Principle 3 – Source of the Non-U.S. System's Funding

In regards to the funding, we would like to note that both the JFSA and the CPAAOB are the governmental organizations and all activities are funded by national taxes.

Principle 4 – Transparency of the Non-U.S. System

While we do not object to the idea of disclosing inspection reports by each audit firm, it may prove to be sensitive issue in terms of, *inter-alia*, confidential obligation under the Japanese Act, since the JFSA and the CPAAOB officers, as national public servants, are subject to a strict legal confidentiality obligations, and shall not disclose any confidential information obtained in the course of the performance of their duties, both during office and after resignation.

For example, if the report contains information relating to identity of individuals, those which may result in undermining competitiveness or other justifiable interests of firms, or those which may result in undermining the trust and confidence of a foreign state or an international organization, this constitute a serious problem. Therefore, we prefer to conduct extensive consultation beforehand.

Principle 5 – Historical Performance

In regards to the historical performance of the public oversight activities, we disclose all measures in our web-site. Please see the link below for your reference http://www.fsa.go.jp/news/19/syouken/news_menu_sy.html.

3. Would meeting the essential criteria set forth in 1.C – along with a satisfactory on-site assessment by the Board of the entity’s inspection practices through a period of joint inspections – provide sufficient assurance that the oversight entity’s inspection program merits full reliance?

We consider that the proposed approach by the Board is one of manners that provides sufficient assurance in this regard. Please see the outline of Japanese oversight regime for reference.

4. The Board has carefully balanced the requirement of the Act and those of non-U.S. jurisdictions (including laws related to data protection, confidentiality, and other important legal requirements). Are there additional differences between U.S. and non-U.S. auditor oversight regimes that should be considered? Would those differences suggest greater or less reliance?

As noted in the main body of the letter, we suggest the Board to consider taking a home-country based approach. Please see the details in the main body of the letter.

5. As described in section III.B. of the Policy Statement, does the Policy Statement establish the appropriate nature and level of reliance?

We generally agree with the proposed sliding-scale approach.

6. Will the proposed approach adequately protect the interests of investors in U.S. issuers

audited by non-U.S. audit firms?

We agree with the Board's assessment that the proposed approach contributes to increasing the efficiency, while ensuring the public interest and investor protection.