



**The Japanese Institute of
Certified Public Accountants**
4-4-1 Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan
Phone: 81-3-3515-1130 Fax: 81-3-5226-3355
Email: international@sec.jicpa.or.jp

April 18, 2016

Mr. Ken Siong
Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor,
New York, NY 10017
USA

Dear Mr. Siong:

Re: JICPA comments on the IESBA Exposure Draft, *Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1*

The Japanese Institute of Certified Public Accountants (JICPA) appreciates this opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) Exposure Draft, *Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1*.

Our responses to the specific questions raised by the IESBA are as follows:

I. Request for Specific Comments

Refinements to the Code

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| <p>1. Do you agree with the proposals, or do you have any suggestions for further improvement to the material in the ED, particularly with regard to:</p> <ul style="list-style-type: none">(a) Understandability, including the usefulness of the Guide to the Code?(b) The clarity of the relationship between requirements and application material?(c) The clarity of the principles basis of the Code supported by specific requirements?(d) The clarity of the responsibility of individual accountants and firms for compliance with requirements of the Code in particular circumstances?(e) The clarity of language? |
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- (f) The navigability of the Code, including:
 - (i) Numbering and layout of the sections;
 - (ii) Suggestions for future electronic enhancements; and
 - (iii) Suggestions for future tools?
- (g) The enforceability of the Code?

(Comment)

We agree the proposals and also provide the following suggestions:

1. TABLE OF CONTENTS

We propose that all subtitles be included in Table of Contents and the corresponding paragraph numbers be noted in parenthesis at the end of each subtitle (please refer to the attachment). We consider that it allows users to refer to the provisions more easily.

2. Proposed paragraph 400.1

In the footnotes, it is stated that “‘audit client’ includes ‘review client’ and related entities of the audit client.” However, as the former and the latter are different in nature, we consider that referring to them in two different sentences is easier to understand. For example, it can be stated that “An ‘audit client’ includes a ‘review client.’ Related entities of an audit client are also included in an ‘audit client.’”

3. Proposed paragraph 400.4

Although this provision refers to paragraph 300.2 A10, we consider that it should refer to 300.2 A9, thereby proposing alteration.

4. From proposed paragraph 401.3 A2 to A9

We propose subheads for each paragraph. This would allow us to understand what guidance is stipulated in each paragraph easily.

For example, we propose subheads as follows: A2—Profit or Cost Sharing; A3—Within the Structure Share Common Ownership, Control or Management; A4—Sharing Common Quality Control Policies and Procedures; A5—Sharing Common Business Strategy; A6—Sharing the Use of Common Brand Name; and A8—Sharing Significant Part of Professional Resources.

5. Proposed paragraph R401.4

We understand that this paragraph is for a requirement because of the letter “R.” However, it is not easy to understand what the requirement is as a sentence including “shall” comes at the end of the paragraph. Therefore, we propose to move the sentence including “shall” to the

beginning of the paragraph.

In such a case, for example, the current sentence can be placed at the beginning of the paragraph by rephrasing it as follows: “**The following** entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.”

(Current proposal)

R401.4 If a firm or a network sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the sold component might continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation and are therefore not network firms. Those entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

We are proposing the change as follows:

R401.4 The following entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties. If a firm or a network sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the sold component might continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation and are therefore not network firms.

6. Restructuring of the Code regarding proposed Section 410

In the draft of the proposed Code, there are “Introduction” and “Requirements and Application Material” for each section (Level 1), some of which are subdivided into groups with titles in italics (Level 2). If necessary, these groups are further broken into smaller parts, which are differentiated by using headings in a regular font (Level 3) by each group. For example, in Section 410, the head “Audit Clients that are Public Interest Entities” is classified as Level 3, as follows, which is a further subdivision of the Level 2 head “Fees-Relative Size.” In this way of using headings, the levels of the headings are difficult to see at a first reading. Accordingly, the way of using the headings needs to be improved. For example, the style and layout of each level of headings can be reorganized by changing indents and/ or underlining, for example.

The following is an excerpt from the proposed code associated with Section 410 described above:

Requirements and Application Material (Level 1)

R410.2 A firm shall apply the conceptual framework set out in Section 120 to fees or other remuneration.

Fees – Relative Size (Level 2)

410.3A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

- The operating structure of the firm.
- Whether the firm is well established or new.
- The significance of the client qualitatively and/or quantitatively to the firm.

(Omission)

Audit Clients that are Public Interest Entities (Level 3)

R410.4 Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph R400.11) represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall

(Omission)

Fees – Overdue (Level 2)

R410.7 When a significant part of fees due from an audit client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement because of the significance of the overdue fees.

(The following is omitted)

7. Numbering and ordering of the sections of the Code

We propose the following three improvements:

- (1) In the draft of the Code, there is only one Section concerning Business Relationships, Section 520; this may not be enough to respond to an increase in the number of the future provisions properly. Taking into consideration the expanding guidance in the future, we consider that it is better to leave Sections 520–529 for the provisions of Business Relationships.

Presently, Sections 521–525 are allocated to the following items; each of the items is

related to the provisions responding to the threats arising from employment relationships, which are all related to employment. Taking the above into consideration, to clarify the relationship among the provisions, we propose that Sections 530–539 be for the provisions concerning Employment Relationships, for example, as follows:

ED	Proposed Amendments
521 Family and Personal Relationships	531 Family and Personal Relationships
522 Recent Service with an Audit Client	532 Recent Service with an Audit Client
523 Serving as a Director or Officer of an Audit Client	533 Serving as a Director or Officer of an Audit Client
524 Employment with an Audit Client	534 Employment with an Audit Client
525 Temporary Personnel Assignments	535 Temporary Personnel Assignments

- (2) In the draft of the Code, although “Section 511 Loans and Guarantees” includes the provisions concerning “R511.7 Deposits or Brokerage Accounts,” in light of clearness, we propose to set another Section for the provisions concerning “Deposits or Brokerage Accounts” to separate from the provisions of Loans. For example, we propose that another Section called “Other Financial Interests” be created to include the provisions concerning “Deposits or Brokerage Accounts.” For now, although there is no other provision concerning financial interests that needs to be moved to that Section, there is a possibility that the provisions concerning insurance and other matters are added to the Section in the future.
- (3) Financial Interest is defined as “an interest in an equity or other security, debenture, loan or other debt instrument of an entity.” Meanwhile, the provisions for financial interests from R510.5 in Section 510 are mostly related to direct and indirect financial interests. On the other hand, “Loans and Guarantees” that is included in financial interests by definition is prescribed in Section 511, separating from Section 510. To match the title of the Section with its content, we propose that the overall provisions concerning financial interests be included in Section 510 and that the provisions concerning direct and indirect financial interests be included in a new section, Section 511, for example. In such a case, the provisions of “Loans and Guarantees” shall be included in Section 512.

2. Do you believe the restructuring will enhance the adoption of the Code?
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(Comment)

As its writing style is more straightforward and less redundant, we consider that this will

enhance the adoption of the Code. We request to keep setting criteria where translation is taken into consideration down the road.

3. Do you believe that the restructuring has changed the meaning of the Code with respect to any particular provisions? If so, please explain why and suggest alternative wording.

(Comment)

We believe that the restructuring has not changed the meaning of the Code.

Other Matters

4. Do you have any comments on the clarity and appropriateness of the term “audit” continuing to include “review” for the purposes of the independence standards?

(Comment)

We do not have any specific comments.

5. Do you have any comments on the clarity and appropriateness of the restructured material in the way that it distinguishes firms and network firms?

(Comment)

We do not have any specific comments.

Title

6. Is the proposed title for the restructured Code appropriate?

(Comment)

With regard to the change of the title of the Code (brand change), the words “Code” and “Standard” are used in the proposed title “*International Code of Ethics Standards for Professional Accountants*”; however, they shall not be used together in Japanese because of their meanings as a result of translation. For that reason, it is difficult to translate the title into Japanese.

Further, the Code is a code of conduct for professional accountants which has been developed under fundamental principles and conceptual framework approach that governs not only professional accountants in public practice but also professional accountants in business. Therefore, we believe it would be appropriate to keep the current title (brand) of IESBA, *the Code of Ethics for Professional Accountants*.

II. Request for General Comments

(a) Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposed changes for SMPs.

(Comment)

We do not have any specific comments.

(b) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular, on any foreseeable difficulties in applying them in their environment.

(Comment)

Not applicable.

(c) *Translations*—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

(Comment)

English is not the official language in Japan, thus, it is inevitable to translate the Code from English to Japanese in an understandable manner. For this reason, we pay close attention to the wording used in the Code in respect of whether it is translatable and comprehensible when translated. We therefore request the IESBA to avoid lengthy sentences and to use concise and easily understandable wording.

Please also refer to the comments in our response to Question 6 above.

We hope the comments provided above will contribute to the robust discussions at the IESBA.

Sincerely yours,

Mineo Kanbayashi
Executive Board Member - Ethics Standards
The Japanese Institute of Certified Public Accountants

(Attachment)

Preface

Guide to the Code

Propose of the code (1-3)

How the Code is structured (4-5)

How to Use the Code (6)

Requirements (7)

Application Material (8-9)

Exceptional Circumstances (10-12)

Additional Non-Authoritative Guidance (13)

Part A – Introduction to the Code and Fundamental Principles

100 Compliance with the Code

Introduction to the code (100.1~)

110 The Fundamental Principles

Introduction(110.1~)

111 Integrity(R111.1~)

112 Objectivity(R112.1~)

113 Professional Competence and Due Care(R113.1~)

114 Confidentiality(R114.1~)

115 Professional Behavior(R115.1~)

120 The Conceptual Framework

Introduction (120.1~)

Requirements and Application Material (R120.3~)

Reasonable and Informed Third Party (120.4A1)

Identifying Threats (R120.5~)

Evaluating Threat (R120.6~)

Addressing Threats (R120.7~)

Re-evaluating Threats (R120.8~)

Overall Assessment (R120.9~)

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