



**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 25, 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, *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*

The Japanese Institute of Certified Public Accountants (JICPA) appreciates this opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) Exposure Draft, *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*.

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

I. Request for Specific Comments

Cooling-Off Period for the EQCR on the Audit of a PIE

1. Do respondents agree that the IESBA's proposal in paragraphs 290.150A and 290.150B regarding the cooling-off period for the EQCR for audits of PIEs (i.e., five years with respect to listed entities and three years with respect to PIEs other than listed entities) reflects an appropriate balance in the public interest between:
 - (a) Addressing the need for a robust safeguard to ensure a "fresh look" given the important role of the EQCR on the audit engagement and the EQCR's familiarity with the audit issues; and
 - (b) Having regard to the practical consequences of implementation given the large numbers of small entities defined as PIEs around the world and the generally more limited availability of

individuals able to serve in an EQCR role?

If not, what alternative proposal might better address the need for this balance?

(Comment)

We agree that the IESBA's proposal in paragraphs 290.150A and 290.150B reflects an appropriate balance.

However, it is considered that the IESBA's proposal has a great impact on small and medium practices (SMPs). We received a large number of comments from JICPA members who belong to SMPs in Japan. Those are unfavorable comments expressing concerns regarding the extended cooling-off requirement for EQCRs (five year cooling-off period) in the proposed provisions. Approximately 150 SMPs in Japan audit listed companies and currently, all these SMPs are subject to the seven year time-on and two year cooling-off requirement for all KAPs including EPs and EQCRs. (Large audit firms are currently required for listed companies' audit to rotate EPs and EQCRs based on the cooling-off period of five years.)

These SMPs do not have a sufficient number of partners to meet a stricter rotation requirement than the current two year cooling-off period after seven year time-on period. As sufficient knowledge and considerable experience are necessary especially for the EQCRs' role and it also requires EQCRs to have sufficient and appropriate authority which calls for seniority and experience equivalent to the EPs to objectively evaluate EP's judgments and conclusions, there is inevitably a limited number of partners who can perform the role of the EQCRs. For this reason, the SMPs have a concern that proposed five year cooling-off period for the EQCR is likely to make rotation more difficult.

In addition, we have been receiving opinions against this proposal as it has no ground for why five year cooling-off period ensures a "fresh look."

Jurisdictional Safeguards

2. Do respondents support the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D?

(Comment)

We support the proposal.

3. If so, do Respondents agree with the conditions specified in subparagraphs 290.150D(a) and (b)? If not, why not, and what other conditions, if any, should be specified?

(Comment)

We agree with the conditions.

Service in a Combination of Roles during the Seven-year Time-on Period

4. Do respondents agree with the proposed principle "for either (a) four or more years or (b) at least two out of the last three years" to be used in determining whether the longer cooling-off period applies when a partner has served in a combination of roles, including that of EP or EQCR, during the seven-year time-on period (paragraphs 290.150A and 290.150B)?

(Comment)

We agree with the proposal.

It is considered, however, that the proposal has a great impact on SMPs.

The Exposure Draft of August 2014 stipulated that a KAP who has served as an EP at any time during the seven-year time-on period be required to cool off for a period of five years.

This proposal, however, stipulates that an individual who has acted as an EP or EQCR, in either capacity or a combination of these roles, for either four or more years, or for at least two out of the last three years be required to cool off for five years.

SMPs have a limited number of partners as described in 1 and, therefore, consideration should be given for responding to practical circumstances that are likely to occur and may lead a KAP to serve as the EP or EQCR for a short period of time, such as to cover a sick leave taken by an EP or EQCR.

For this reason, the approach for a determination should be practically applicable, but it is considered that the proposed approach is so complicated that it will increase administrative burdens on SMPs. Therefore, we request for an approach which is simpler, more understandable and easier to apply.

II. Request for General Comments

(a) *Small and Medium Practices (SMPs)* – The IESBA invites comments regarding the impact of the proposals subject to re-exposure for SMPs.

(Comment)

We consider that this revision has a great impact on SMPs in particular. Please refer to the above-mentioned I. 1. and 4 for specific comments.

(b) *Preparers (including SMEs) and users (including Those Charged with Governance and Regulators)* – The IESBA invites comments on the proposals subject to re-exposure from preparers, particularly with respect to the practical impact of those proposals, and users.

(Comment)

Not applicable.

(c) *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 subject to re-exposure, and in particular on any foreseeable difficulties in applying them in their environment.

(Comment)

Not applicable.

(d) *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals subject to re-exposure.

(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.

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