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Mr. Matthew M. Waldron
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 5th Avenue, 6th Floor
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Dear Mr. Waldron,

JICPA Comments on the Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*

The Japanese Institute of Certified Public Accountants ("we", "our", and "JICPA") is pleased to provide you with our comments on the Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements* (DP). Our comments below focus on the questions from the DP we would like to respond to.

Credibility and Trust		
Q1	Section III describes factors that enhance the credibility of EER reports and engender user trust.	a. Are there any other factors that need to be considered by the IAASB? b. If so, what are they?

Our comments

1.a.	We are not aware of any other factors. We would like to reemphasize the importance of the third key factor, "Consistent wider information," and suggest that supplementary information through dialogue with preparers should be provided to users to engender user trust in the EER report.

Credibility and Trust		
Q2	Sections II and IV describe different types of professional services that are either currently performed or could be useful in enhancing credibility and trust.	a. Are there other types of professional services the IAASB needs to consider, that are, or may in future be, relevant in enhancing credibility and trust? b. If so, what are they?

Our comments

2.a.	None.

Q3	Paragraphs 23–26 of Section II describe the responsibilities of the auditor of the financial statements under ISA 720 (Revised) with respect to the other information included in the annual report.	a. Is this sufficient when EER information is included in the annual report; or b. Is there a need for assurance or other professional services, or for further enhancement of the responsibilities of the financial statement auditor, to enhance credibility and trust when EER information is in the annual report?

Our comments

3.a.	As stated in paragraphs 25-26, we do not think the current auditors' work required under ISA is sufficient enough to achieve credibility and trust in the other information included in the annual report , given that the auditor's work is not designed provide assurance to the other information.
3.b.	We believe that there is a need for assurance or other professional services, not for further enhancement of the responsibilities of the auditor, in order to enhance reliability of information as well as credibility and trust in EER reports. Enhancing the financial statement auditor's responsibilities could inappropriately increase the burden on the auditor, given that users' expectation gap may arise, as stated in paragraph 26, under the following circumstances: the financial statement auditor does not always have sufficient appropriate knowledge on information other than that in the financial statements; and while EER reports contain wide range of other information, the auditor's knowledge obtained during an audit is basically related to information on financial statements, thus chances to identify indications of material inconsistencies or misstatements through reading the EER

	report are limited.

Scope of the IAASB's International Standards and Related Guidance

Q4	Section IV describes the different types of engagements covered by the IAASB's International Standards and Section V suggests that the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the existing International Standards for EER assurance engagements.	a. Do you agree? b. If so, should the IAASB also explore whether such guidance should be extended to assist practitioners in applying the requirements of any other International Standards (agreed-upon procedures or compilation engagements) and, if so, in what areas? (For assurance engagements, see Q6-7) c. If you disagree, please provide the reasons why and describe what other action(s) you believe the IAASB should take.

Our comments

4.a.	We agree with the DP.
4.b.	We do not think that the IAASB need to explore any guidance on engagements other than EER assurance engagements at the moment. We suggest, however, that the IAASB should understand the nature of other engagements and analyze application issues, if any, in relation to exploring guidance on assurance engagements, including the following: ・Identify differences between certifications (paragraph 29) and assurance engagements. ・Among the "Four Key Factors" at Section II for enhancing user credibility and trust, we suggest professional services should be discussed and analyzed not only in the context of "External professional services reports" (Factor 4), but also of "Strong governance" (Factor 2) and "Consistent wider information" (Factor 3). For example, certain agreed-upon procedures engagement may be performed at the request of the management in order to strengthen internal control or governance on the preparation of EER information and may be used to assess whether the EER information is consistent with other information. Those possibility indicates that external professional services may be able to contribute to "Strong governance" (Factor 2) or possibly provide "Consistent wider information" (Factor 3). In summary, we encourage IAASB to review and analyze professional services as a whole (including that other than EER assurance engagements) when discussing enhancing user credibility and trust of EER. In such case, Factor 2 and 3 needs to be considered as well, ・Professional services should also be considered from the point of whether intended users are widespread or specified. As intended users of EER reports are expected to be a broader group, an analysis should be given as to the appropriate type of professional services to be provided to enhance credibility and trust for the users. Other professional services, such as advisory engagements, are expected to be provided to specified users. Thus, we believe that assurance engagements, for which a wider range of users are expected, are more suitable to enhance credibility and trust in EER reports as whole. ・As already being addressed by the IAASB, further consideration should be given on the appropriateness of agreed-upon procedures engagements, whether they could be utilized for widespread users instead of specified users so as to enhance credibility in EER reports.

| Q5 | The IAASB would like to understand the usefulness of subject-matter specific assurance standards. ISAE 3410, a subject matter specific standard for assurance engagements relating to Greenhouse Gas Statements, was issued in 2013. | a. | Please indicate the extent to which assurance reports under ISAE 3410 engagements are being obtained, issued or used in practice by your organization. |
| | | b. | If not to any great extent, why not and what other form of pronouncement from the IAASB might be useful? |

Our comments

| 5.a. | As ISAE 3410 engagements are not always performed by the members of JICPA, we are not in a position to fully grasp the big picture of ISAE 3410 engagements in Japan. Having that being said, we understand that JICPA members use ISAE 3410 in addition to ISAE 3000 for assurance engagements, in which greenhouse gas emission is included as the subject matter information. |

| Q6 | Section V suggests it may be too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks due to the current stage of development of EER frameworks and related standards. | Do you agree or disagree and why? |

Our comments

| 6 | We agree with the IAASB's suggestion.

We understand that assurance engagements on EER cover an extensively wide range of subject matters. If measurement, evaluation and disclosure frameworks of an underlying subject matter for a particular EER are already determined, it might be possible to individually develop a specific assurance engagement standard. However, we do not think it is practical to develop an assurance engagement standard as a prescriptive standard for EER reports. For example, when considering "neutrality," one of the characteristics of suitable criteria, we need to discuss about the requirements for an EER framework to contain the nature of "neutrality." Furthermore, even when a subject-matter-specific assurance engagement standard for a particular EER, including Integrated Reporting, could be individually developed, such standard is often dependent on prepares as they can determine the way measurement, evaluation and disclosure frameworks are established. Accordingly, we believe it is essential to have a conceptual understanding on EER frameworks before individually developing a subject-matter-specific assurance engagement standard. We do not necessarily disagree with exploring the possibility of developing a general prescriptive standard on EER or subject-matter-specific assurance engagement standard with a mid- to long-term goal; however, we think it is too early to develop a new assurance engagement standard on EER, given the current stage of development of EER frameworks and related standards. |

| **Ten Key Challenges in Relation to EER Assurance Engagements** | | |

| Q7 | Section V describes assurance engagements and the Ten Key Challenges we have identified in | a. | Do you agree with our analysis of the key challenges? |
| | | b. | For each key challenge in Section V, do you |

addressing EER in such engagements (see box below) and suggests that the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the IAASB's existing International Standards to EER assurance engagements.	agree that guidance may be helpful in addressing the challenge? c. If so, what priority should the IAASB give to addressing each key challenge and why? d. If not, why and describe any other actions that you believe the IAASB should take. e. Are there any other key challenges that need to be addressed by the IAASB's International Standards or new guidance and, if so, what are they, and why?

The Ten Key Challenges

- Scoping EER assurance engagements
- Suitability of criteria
- Materiality
- Building assertions in planning and performing the engagement
- Maturity of governance and internal control processes

- Narrative information
- Future-oriented information
- Professional skepticism and professional judgment
- Competence of practitioners performing the engagement
- Form of the assurance report

Our comments

7.a.	We overall agree with the IAASB's analysis of the Ten Key Challenges, except for our comment on 7.e. below.
7.b.	We agree that guidance will be helpful. For example, guidance should be useful in addressing the following issues: ・Preparers of EER reports need to take a lead on providing sufficient disclosures, including the selection process of information disclosed, frameworks applied, definition of or calculation criteria for performance measures disclosed, and boundaries of reporting. ・When subject matters involve information on a broad range of stakeholders, clarifications are required on how to express a comprehensive conclusion after considering key points to be tested ("assertions") and their materiality. ・Necessary competence and capability. ・Quality control when assurance engagements are performed by external professionals.
7.c.	[Priority: High] (1) Scoping EER assurance engagements, (2) Suitability of criteria, (3) Materiality, (4) Building assertions in planning and performing the engagement (5) Maturity of governance and internal control processes, (6) Narrative information, (7) Future-oriented information ● We suggest that the IAASB give priority to address the seven challenges as a whole in order to consider "What can or cannot be covered by assurance engagements?" ● Especially, priority should be given to the following: building assertions, as they are related to scoping issues ("What can be covered by assurance engagements?"); and maturity of governance and internal control processes, as they are pre-conditions for assurance engagements. [Priority: Low] (8) Professional skepticism and professional judgment, (9) Competence of practitioners performing the engagement, (10) Form of the assurance report ● We think that low priority should be given on the three challenges listed above, as they appear to be prescriptive, in general, and have few issues required to be discussed separately. Further, we think that form of the assurance report should be discussed only after addressing the seven challenges.

7.e.	(1) As stated in paragraph 10, we understand that the IAASB International Standards take a "framework-neutral approach." However we believe separate consideration should be given, when an engagement is performed on a EER report that contains both historical financial information (which is generally audited directly or indirectly) and information other than historical financial information, for example, on areas to be covered by external professional services engagements and the boundaries in the EER report etc..
	(2) When a multi-scope engagement is performed (for example, when an assurance engagement is performed on a particular EER information and an agreed-upon procedures engagement is performed on other EER information), we believe that consideration should be given on the form of subject matter information provided as well as the content and format of the assurance report.
	(3) We suggest that IAASB need to carefully investigate if consideration should be given as to whether it would cause any difference in performing assurance engagements or other professional services or not, when a wide range of intended users are expected, compared to intended users are limited to shareholders and investors,.

Potential Demand for Assurance Engagements and Other Professional Services

Q8	The IAASB wishes to understand the impact on potential demand for assurance engagements, if the Ten Key Challenges we have identified can be addressed appropriately, and in particular whether: ・Doing so would enhance the usefulness of EER assurance engagements for users ・Such demand would come from internal or external users or both ・There are barriers to such demand and alternative approaches should be considered.	a. Do you believe that there is likely to be substantial user demand for EER assurance engagements if the key challenges can be appropriately addressed? b. If so, do you believe such demand: i. Will come from internal or external users or both? ii. Will lead to more EER assurance engagements being obtained voluntarily or that this outcome would require legal or regulatory requirements? c. If not, is your reasoning that: i. EER frameworks and governance will first need to mature further? ii. Users would prefer other type(s) of professional services or external inputs (if so, what type(s) – see box below for examples of possible types)? iii. There are cost-benefit or other reasons (please explain)?

・Further enhanced responsibilities for financial statement auditors under ISA 720? ・Agreed-upon procedures reports? ・Compilation reports?	・Other types of professional services or other external inputs (please indicate what type of service or input and whether you believe the IAASB should consider developing related standards or guidance)?

Our comments

8.a.	Considering the growing need for EER reporting, we believe user demand for EER assurance engagements will be enhanced if the 10 Key Challenges can be appropriately addressed, although uncertainties remain.
8.b.i.	We believe such demand would mainly come from external users. Internal users may find it useful from the perspective of developing Governance on EER.
8.b.ii.	Considering the growing need for EER reporting, more EER assurance engagements are expected to be performed voluntarily. For EER assurance engagements to spread wider on a going forward basis, we believe legal or regulatory requirements would become essential.

Other		
Q9	The IAASB would like to understand stakeholder views on areas where the IAASB should be collaborating with other organizations in relation to EER reporting.	For which actions would collaboration with, or actions by, other organizations also be needed?

Our comments

9	We believe that the IAASB should be collaborating with the IIRC and coordinating with standard- and criteria-setters for assurance engagements as well as regulatory authorities of each jurisdiction in order to establish and refine EER frameworks, which may become suitable criteria for assurance engagements.
	Moreover, in developing standards for assurance engagements, we believe continuous global review on how statutory EER assurance engagements are performed in each jurisdiction should be conducted. The "project page" of the Integrated Reporting Working Group, referred to on page 4 in the DP, might be a good example as a platform for research work.