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July 8, 2022

Mr. Ken Siong  
IESBA Program and Senior 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 *IESBA Strategy Survey 2022***

The Japanese Institute of Certified Public Accountants (JICPA) expresses its appreciation for the activities of the International Ethics Standards Board for Accountants (IESBA), and is grateful for the opportunity to share its comments on *IESBA Strategy Survey 2022*.

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

**Section A: Demographic Information**

**Personal and organizational information**

Your name: -

Your Organization (if applicable): Japanese Institute of Certified Public Accountants (JICPA)

Your role: -

Email address: rinri@sec.jicpa.or.jp

**Stakeholder Group**

Please specify the stakeholder you/your organization represents

Academia

- Accounting/Audit firm or network
- Audit oversight body
- IFAC member body or other professional accountancy organization
- Investor or analyst
- National standard setter
- Other users of financial statements/Environmental, Social and Governance (ESG) information (e.g., customer, creditor/supplier, lender), please specify:  
\_\_\_\_\_
- Preparer of financial statements/ESG information
- Firm (other than an accounting/audit firm) that provides assurance on ESG information
- Public sector
- Regulator
- Those charged with governance
- Other, please specify: \_\_\_\_\_

**Geographical location**

Please specify the geographical region where you or your organization is based:

- Global
- Africa-Middle East
- Asia
- Oceania
- Europe
- Latin America
- North America

## Section B: Strategic direction and priorities

### I. Responding to developments relating to reporting and assurance of sustainability information

1. What level of importance do you believe the IESBA should place on dedicating strategic focus to responding through standard-setting action to the developments in sustainability reporting and assurance in its next strategy period (2024-2027)? Please be as specific as possible and explain your reasoning.

(Comment)

In light of the rapid increase in disclosure of ESG information in the financial market and the growing need for assurance, and the fact that practices are already ahead of the standard-setting actions, we believe that a speedy response is required in setting up a framework for sustainability reporting and assurance. Considering the current situation where companies are already disclosing information that does not have any certified third-party assurance, we believe that it is in the public interest to ensure the reliability of disclosed information by establishing an assurance framework for disclosed information as soon as possible from the perspective of investor protection.

The IESBA plans to complete its fact-finding work within the current strategic period, by 2023, after which we believe the IESBA should make the resources be concentrated on this matter so that it can move quickly to the standard-setting process.

2. Do you believe the IESBA should explore the concept of expanding the scope of the Code to cover assurance service providers other than PAPPs? What preconditions would need to be in place and what potential challenges or drawbacks do you foresee if the Code's provisions were scoped to the nature of the assurance services provided as opposed to who is providing the assurance services?

(Comment)

We believe that assurance service providers should comply with certain ethical standards to ensure confidence in assurance. Since the scope of assurance is broad, including non-financial information, and there are a number of practices where assurance services are provided by those who are not professional accountants (non-PAs), it is conceivable that a new code of ethics, different from the Code, could be developed for non-PAs and require them to comply with it. However, from the standpoint of users of assured information, it is a precondition for the use of assured information that the assurance services providers, regardless of whether they are PAs or non-PAs, adhere to uniform ethical standards, and this is desirable from the standpoint of investor protection. Therefore, one of the measures to be considered is to establish a framework in which those who provide third-party assurances shall equally comply with the Code regardless of whether the information subject

to assurance is financial or non-financial, thereby expanding the scope of application of the Code to be consistent with this precondition.

On the other hand, if the scope of the Code is expanded to cover the nature of the assurance services provided, rather than the assurance services providers, the Code will cover "all assurance services for both financial and non-financial information," and, therefore, those who provide such services (both PAs and non-PAs) will be subject to the Code. This is another approach to address the matter.

However, the Code is a high-level code that is intended for PAs and may not be appropriate for non-PAs. In particular, Part 1 is based on public trust in the accounting profession, and it is not realistic to apply the Code to non-PAs who do not understand the significance of the accounting profession's existence and the background of code of ethics required of them.

If non-PAs are required to comply with only a part of the Code, such as Part 4B, there is a risk that the Code will not be applied as a whole based on correct understanding of its spirit and purpose.

We believe that consideration should be given to the risk that changing the level of the Code applicable to different providers of the services would degrade the Code, which in turn could lead to the tarnishing of the brand image of the accounting profession.

In Europe, the European Commission's Corporate Social Responsibility Directive currently includes independence requirements for sustainability disclosure and assurance engagements, and the U.S. Securities and Exchange Commission (SEC) is discussing the possibility of allowing non-PAs to participate. We have heard that the assurance of sustainability information has been discussed and a draft standard is in the process of being approved. In the event that different disclosure and assurance provisions are enacted in these different jurisdictions, we believe that it is essential to proceed with consideration with the aim of establishing a standard, which is to be a global baseline code of ethics.

3. Are there other matters the IESBA should consider with regards to this strategic focus area?

(Comment)

We have no comment.

## II. Raising the bar of ethical behavior for professional accountants in business

4. Beyond sustainability reporting which is covered under the first strategic focus area above, do you believe the IESBA should dedicate strategic focus on further raising the bar of ethical behavior for PAIBs in its next strategy period (2024-2027)? Please be as specific as possible in terms of specific trends, developments or issues and explain your reasoning.

(Comment)

Considering the situation of heightened expectations from public interest to strengthen corporate

governance and the emergence of new social issues such as cyber security, the importance of the role played by PAIBs is expected to increase. Therefore, we believe that it is necessary to set a high standard of ethical behavior for PAIBs to observe.

However, the ethical behavior of PAIBs is required when they perform their professional activities as professional accountants, and we believe that it is necessary to organize the expected roles of PAIBs so that the scope of ethical behavior to be observed by PAIBs is not unnecessarily extended beyond the scope of its inherent professional activities such as financial and corporate reporting.

### **III. Strengthening independence standards for audit engagements**

5. Do you believe the IESBA should continue to dedicate strategic focus on strengthening the IIS for audit engagements in its next strategy period (2024-2027)? If so, what specific developments or issues do you believe the IESBA should focus on beyond the matters outlined above and in Section C? Please be as specific as possible and explain your reasoning.

(Comment)

In a situation where auditors' independence is a continuing focus, we believe that the independence provisions for audit engagements should be robust. However, rather than further strengthening the existing provisions, the focus should be on appropriate amendments and clarification of the rules to address the changing circumstances on which the existing rules are based. For example, in response to the expansion of business provided by firms and network firms, the expansion of the scope of assurance services (assurance of non-financial information), and the expansion of new financial instruments (e.g., cryptocurrency) and payment instruments, etc., we believe that IESBA should consider how auditors should maintain independence in these circumstances.

In addition, technology continues to evolve day by day, and we believe that the relationship between technological developments and the provisions governing independence for audit engagements should be reviewed on an ongoing basis.

In strengthening the independence rules, it is essential to evaluate not only the implementation of the rules but also their effectiveness, which we believe will lead to further improvement of the Code of Ethics in the future.

### **IV. Promoting timely adoption and effective implementation of the Code**

6. Do you believe the IESBA should devote strategic focus on promoting timely adoption and effective implementation of the Code in its next strategy period (2024-2027)? Please be as specific as possible and explain your reasoning.

(Comment)

To ensure the effectiveness of the revised Code, we believe that its timely adoption and effective application should be monitored in conjunction with the establishment of the Code. Recently established provisions on non-assurance services (NASs), fees, and the definition of public interest entity (PIE) are of particular importance from the perspective of ensuring auditors' independence. We believe that the next strategic period should include a focus on assessing the status of their implementation.

In a group audit, the component audit team is required to comply with the Code with which the group auditor is required to comply, and the status of the implementation of the Code in each jurisdiction (fully implemented/partially implemented) has created a situation where the level of the Code to be followed by the component audit team differs. This creates an undue burden on both the group audit team and the component audit teams to reconcile these differences. It would be beneficial to reduce the burden of group audit teams by providing guidance to require the uniform application of the requirements of the Code in group audits, and it is strongly recommended that measures be developed and implemented to encourage the full implementation of the Code in each jurisdiction.

7. Are there specific operability issues or concerns with respect to the Code you believe the IESBA should be made aware of?

(Comment)

We have no comment.

#### **OTHER KEY ENVIRONMENTAL TRENDS OR DEVELOPMENTS**

8. Are there key environmental trends or developments, beyond those already noted above, you believe the IESBA should focus on in its next strategy period (2024-2027)? Please be as specific as possible and explain your reasoning.

(Comment)

We have no comment.

#### **Section C: Possible future standards-related projects or initiatives**

Please rate each topic listed below on its level of importance as a priority for the IESBA's SWP 2024-2027 on a scale of 1 to 5 (1 = lowest level of importance). Please refer to the factors for rating the topics above when assessing each topic.

For those topics that you rated either a 4 or 5 (i.e., the highest levels of importance), please provide a brief explanation for your rating.

(Comment)

- **Independence of External Experts**  
2
  
- **Audit Firm – Audit Client Relationship**  
4 : This matter is a major premise for the independence of audit engagements, and we believe it is highly important to subject auditors' independence to consideration in order to reaffirm the appropriateness of such relationship between the two parties, assuming the audit client payer model in which compensation is received directly from the client of the audit engagement.
  
- **Business Relationships**  
4 : With the expansion of business offered by a firm or a network firm, there has been an increase in the number of cases of business relationship with audit clients, and new forms of such relationship have emerged in recent years. We believe that it is important to consider business relationship because there may be some points that are not clearly covered in the extant Code.
  
- **Definition of Audit Client for PIEs**  
4 : If the audit client is a PIE, additional requirements such as NASSs, Fees, long association of the Code apply to the audit engagement. Therefore, it is important in practice to clarify the definition, and this topic is of high importance.
  
- **Matters Arising from Quality Management (QM)-Related Conforming Amendments to the Code**  
2
  
- **Familiarity Threat in Relation to Part 2 of the Code**  
3
  
- **Professional Appointments**  
3
  
- **Breaches of the Code**  
2
  
- **Definitions and Descriptions of Terms**  
4 : We believe that clarifying definitions of terms is essential for accurate understanding and

application of the Code. In addition, we believe that terms for which clarification is suggested by users of the Code should be addressed on a priority basis.

➤ **Non-Authoritative Material (NAM)**

2

9. Are there specific ethics or independence-related topics not otherwise covered in this Section or this survey that you believe should be given a high priority by the IESBA? If so, please explain and be as specific as possible.
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(Comment)

We have no comment.

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

Sincerely yours,

Toshiyuki Nishida

Executive Board Member - Ethics Standards

The Japanese Institute of Certified Public Accountants