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April 12, 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, *Proposed Revisions Pertaining to Safeguards in the Code—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, *Proposed Revisions Pertaining to Safeguards in the Code—Phase 1*.

The JICPA agrees to the *Proposed Revisions*, as they further clarify the description of safeguards and also enhance compliance with fundamental principles by better correlating a safeguard with the threat.

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

I. Request for Specific Comments

Proposed Revisions to the Conceptual Framework

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| <p>1. Do respondents support the Board's proposed revisions to the extant Code pertaining to the conceptual framework, including the proposed requirements and application material related to:</p> <ul style="list-style-type: none">(a) Identifying threats;(b) Evaluating threats;(c) Addressing threats;(d) Re-evaluating threats; and |
|---|

(e) The overall assessment.

If not, why not?

(Comment)

We support the Board's proposed revisions.

Proposed Revised Descriptions of "Reasonable and Informed Third Party" and "Acceptable Level"

2. Do respondents support the proposed revisions aimed at clarifying the concepts of (a) "reasonable and informed third party;" and (b) "acceptable level" in the Code. If not, why not?

(Comment)

We support the proposed revisions.

Proposed Revised Description of Safeguards

3. Do respondents support the proposed description of "safeguards?" If not, why not?

(Comment)

We support the proposed description of "safeguards" except for the following:

In paragraph 120.7 A2, safeguards are defined as follows:

"Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level."

Meanwhile, "Addressing Threats" is stipulated in paragraph R120.7 as follows (this is also provided in paragraph 300.2 A7):

"If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating or reducing them to an acceptable level. The accountant shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied; or
- (c) Declining or discontinuing the specific professional activity or service involved."

The definition of safeguards in paragraph 120.7 A2 implies that there is a case where threats

are effectively eliminated by applying safeguards and there is another case where threats are reduced to an acceptable level by applying safeguards. Meanwhile, the actions taken by the professional accountant stated in paragraph R120.7 include (a) eliminating the circumstances and (b) applying safeguards. This is understood that “(a) eliminating the circumstances” can be accomplished without applying safeguards. However, it is considered that there are quite a few cases where safeguards are applied to eliminate the circumstances. In this regard, the relationship between eliminating the circumstances and applying safeguards is unclear.

In addition, in the extant code, there has been a logical flow that “a circumstance may create threats and then the accountant eliminates or reduces them to an acceptable level by applying safeguards” which is stated in paragraphs 100.12 and 100.13 of the extant code. Compared to the extant code, in this proposal, it is unclear how the definition of safeguards relates to the provisions of addressing threats.

Extant Paragraph 100.12 (excerpt)

”A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle.”

Extant Paragraph 100.13 (excerpt)

”Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level.”

Therefore, if separating “eliminating the circumstances” and “applying safeguards” is meaningful for the professional accountants to better address threats, the wording is considered appropriate as those in the proposal. However, if it is not meaningful to better address threats, only application of safeguards should be stated in both paragraphs R120.7 and 300.2 A7 without separating (a) and (b).

In the case of separating (a) and (b) without practical benefits, it is considered that there will be harmful effects on practice, only increasing check boxes in a checklist, for example.

4. Do respondents agree with the IESBA’s conclusions that “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” in the extant Code:
- (a) Do not meet the proposed description of safeguards in this ED?

(b) Are better characterized as “conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats as discussed in paragraphs 26–28 of this Explanatory Memorandum?”

If not, why not?

(Comment)

We agree with the IESBA’s conclusions.

Proposals for Professional Accountants in Public Practice

5. Do respondents agree with the IESBA’s approach to the revisions in proposed Section 300 for professional accountants in public practice? If not, why not and what suggestions for an alternative approach do respondents have that they believe would be more appropriate?

(Comment)

We agree with the IESBA’s approach to the revisions in proposed Section 300.

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)

In the Proposed Revisions, the number of examples of safeguards has been reorganized and cut down. However, some SMPs have requested for providing as many examples as possible in the code. We request more examples to be included.

(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.

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