

# Implementation of Notification Requirements for Foreign Audit Firms under the Japanese CPA Act and Future Vision



Toshitake Inoue  
Financial Services Agency of Japan  
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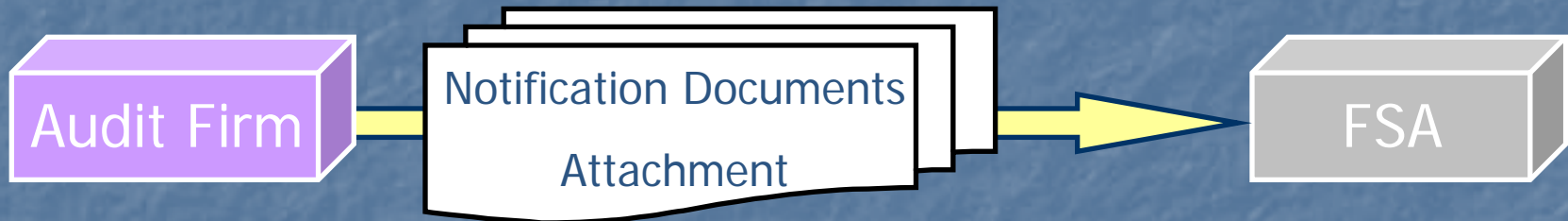
## I. Where we are

- The revised CPA Act was passed by the Diet in June 2007, and came into effect as of April 1, 2008.
- The relevant Cabinet Orders were published in December 2007. The relevant Cabinet Office Ordinance and the FAQ were published in March 2008.

## II. Immediate target

In implementing the regime, we need to ensure:

- All foreign audit firms within the scope of notification requirements provide the notification document and the attachment to the JFSA by their respective deadlines without undue impediments.



➔ Audit reports are invalidated if notification is not provided from the relevant audit firm prior to the release of audit reports.



## Potential notifiers

- In total, approximately 80 foreign audit firms from 30 jurisdictions are expected to file notifications. The FSA has received 18 notifications (including 10 from EU firms) so far.
- Potential notifiers include the following firms:
  - DTT
  - E&Y
  - KPMG
  - PwC
  - BDO
  - MAZAR
  - Other smaller firms

## Initial notification deadline

- Foreign audit firms shall provide notification in advance of performing relevant audit attestation services.

→ A relevant foreign audit firm shall submit “a notification document” immediately after it is appointed as an auditor.

*(Depending upon the laws and regulations of the relevant jurisdictions, the timing of appointments varies. In some jurisdictions, appointments are granted during shareholders' meetings.)*

→ Delayed submission deadline for “the attachments”

The attachments can be submitted within six months from the initial notification.

# Illustrations

*(Assumption)*

*The auditor is appointed at a shareholder's meeting, which takes place two months after the beginning of an accounting year.*

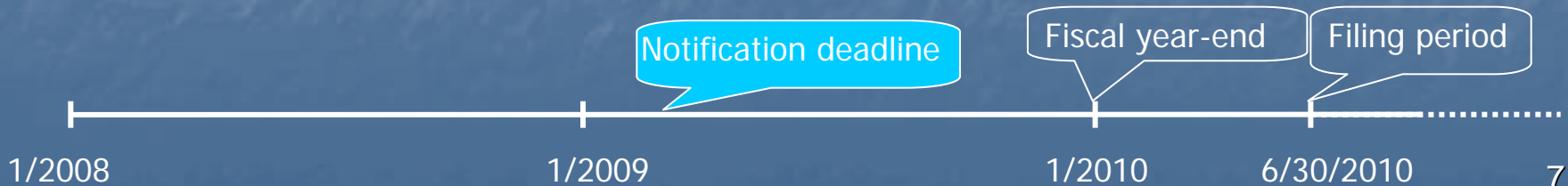
Company-A : Fiscal year ending March 31

→ Immediately after 5/31/2008 (Attachments: 11/30/2008)



Company-B : Fiscal year ending December 31

→ Immediately after 2/28/2009 (Attachments: 8/31/2009)



# Solving the implementation issues

- The FSA met with representatives from relevant foreign audit oversight authorities and major audit firms, so as to solve the implementation issues. The FSA will clarify issues by way of the FAQ.



- Issues include:
  - Our policy of not publicly disclosing the amount of “stated capital” provided from firms;
  - what particular information (e.g. a description of audit supervisory system) should be required to be provided in the attachment to the notification document.



### III. Future Vision

- Moving towards mutual reliance with the possibility of waiving the registration/notification requirement itself.
  
- To achieve the mutual reliance, the following items are necessary:
  - Implementation of the mechanism to ensure sufficient audit quality in both jurisdictions;
  - An effective information sharing scheme between oversight bodies; and
  - Reciprocity.

## Selected ideas



The following are some selected ideas for moving towards mutual reliance with a home-country based approach.

- Setting up an international supervisory college by major audit regulators
- Promoting information sharing among audit regulators via the IFIAR