

## IFIAR 2020 Member Profile – FSA/CPA/OB

<b>1. Jurisdiction</b>	<b>1.1 Insert the name of the jurisdiction in English:</b>  Japan
<b>2. Member<sup>1</sup></b>	<b>2.1 Insert the name of the Member, both in the local language and in English:</b>  金融庁 Financial Services Agency  公認会計士・監査審査会 Certified Public Accountants and Auditing Oversight Board
	<b>2.2 Include relevant contact information, including postal address, telephone numbers, a link to the website and other relevant information:</b>  3-2-1 Kasumigaseki, Chiyoda-ku Tokyo 100-8905 Japan The Central Common Government Offices No. 7 Email: <a href="mailto:equestion@fsa.go.jp">equestion@fsa.go.jp</a> Website: <a href="http://www.fsa.go.jp/en/index.html">http://www.fsa.go.jp/en/index.html</a> <a href="http://www.fsa.go.jp/cpaob/english/index.html">http://www.fsa.go.jp/cpaob/english/index.html</a>

<sup>1</sup> In the case where there are two or more regulators from the same jurisdiction that have been approved according to Section 2.3 of the IFIAR Charter, they together are considered as one Member. In that case, regulators are requested to include information for both organizations in the Member Profile.

**2.3 Include the basis for establishment of the Member, as well as the legislation or regulations which provide the Member the authority/mandate with respect to audit regulation. Please describe with an appropriate level of detail the mission and responsibilities of the Member with respect to audit regulation:**

CPAAOB

The Certified Public Accountants and Auditing Oversight Board (CPAAOB), an independent regulatory body (Council) established within the Financial Services Agency (FSA) in April 2004.

The mission of the CPAAOB is to further enhance the quality and effectiveness of the auditing process, and to ensure the fairness and transparency of the Japanese capital market by fulfilling the following statutory responsibilities, thereby contributing to the enhancement of investor confidence.

- Responsibilities of the CPAAOB
  1. Reviews of “Quality Control Review” by the JICPA (the Japanese Institute of Certified Public Accountants), inspections of audit firms, CPAs, and the JICPA, and recommendation of administrative actions and other measures to the FSA.
  2. Deliberation of disciplinary actions against CPAs and audit firms.
  3. Implementation of CPA examinations.

FSA

The Financial Services Agency (FSA) is a government agency and responsible for (i) ensuring the stability of the financial system; (ii) protecting the users of financial instruments and services, such as depositors, insurance policy holders, investors and the like; and (iii) facilitating the smooth function of financial services. In order to meet these responsibilities, the FSA has function of planning and policy making, inspection and supervision for financial system including banking, securities and insurance market.

- Responsibilities of the FSA with respect to audit regulation
  1. Planning and policy making for CPA systems.
  2. Supervision of audit firms and taking administrative actions.

**2.4 Have there been any major changes to the Member’s organization or to the governing legislation since completing last year’s Member Profile?**

Yes                       No

**If yes, please describe these changes with an appropriate level of detail:**

N/A

3. <b>Governing Composition members</b>	<b>Body and</b>	<b>3.1 Describe with an appropriate level of detail the current composition of the Member’s governing body, including the ratio between Board members who are independent from the audit profession and those who are not<sup>2</sup>. The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</b>
<b>Composition of the CPAAOB</b>		
Chairperson (full-time)	Hisakatsu Sakurai	Professor Emeritus, Kobe University Former Professor School & Graduate School of Business Administration, Kwansei Gakuin University
Commissioner (full-time)	Takayuki Matsui	Former Professor Graduate School of Professional Accountancy, Aoyama Gakuin University
Commissioner (part-time)	Yuko Katsuo	Graduate Program Chair and Professor, Graduate School of Management, Gakushuin University Professor, Faculty of Economics, Gakushuin University Outside auditor, DAIKEN CORPORATION
	Yoshiko Sato	Executive Managing Director and Chief Research Fellow, Japan Investor Relations Association
	Yuko Tamai	Partner, Nagashima Ohno & Tsunematsu Outside Director, Mitsui Sugar Co., Ltd. Outside Corporate Auditor, Japan Bank for International Cooperation
	Yoshihiro Tokuga	Vice-President and Professor, Kyoto University
	Keiko Mizuguchi	Counselor and Chief Analyst, Japan Credit Rating Agency, Ltd.
	Kunihito Minakawa	Outside Director, Sony Corporation Outside Director, Santen Pharmaceutical Co., Ltd.
	Tatsumi Yamada	Specially Appointed Professor Faculty of Commerce, Chuo University Statutory Auditor NOMURA Co. Ltd.
	Keita Yoshida	Partner, Deloitte Touche Tohmatsu LLC
All except for one are independent.		

<sup>2</sup> An individual is independent of the profession even if he is a CPA, Chartered Accountant, or holder of another equivalent qualification, as long as this individual is not employed by or affiliated to a registered audit firm, nor employed by or affiliated to of a professional accountancy body, nor employed by or affiliated to bodies or entities associated with the audit profession.

	<p>The FSA is a government agency led by a Ministerial Team composed of the Minister of State for Financial Services, State Minister and Parliamentary Vice-Minister.</p>
	<p><b>3.2 What are the eligibility criteria / requirements and composition requirements for the members of the governing body?</b></p> <p>The CPAAOB is an independent regulatory body (Council) established within the FSA and consists of ten members, i.e. one chairperson, and one full-time and eight part-time commissioners.</p> <p>The members are appointed by the Prime Minister with the consent of both Houses of the Diet based on the viewpoint that the CPAAOB should be comprised of members from a wide range of relevant expertise on a fair and equitable basis in light of eliminating the risk of biased management and ensuring public interest and independence from the professional audit society.</p>
	<p><b>3.3. Is each member of the governing body independent from the audit profession? The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</b></p> <p><input type="checkbox"/> Yes                      <input checked="" type="checkbox"/> No</p>
	<p><b>3.4 If the answer to question 3.3 is “No”, is the majority of the members of the governing body non-practitioner?</b></p> <p><input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No</p>
	<p><b>3.5 If the answer to question 3.3 is “No”, which safeguards are in place to provide for the Member’s overall independence from the audit profession?</b></p> <p>The members are appointed by the Prime Minister with the consent of both Houses of the Diet based on the viewpoint that the CPAAOB should be comprised of members from a wide range of relevant expertise on a fair and equitable basis in light of eliminating the risk of biased management and ensuring public interest and independence from the professional audit society.</p>
	<p><b>3.6 Is there a restriction or recusal process that is applicable to members of the governing body of the Member who are current or former auditors/practitioners?</b></p>

	<p><input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No</p> <p><b>Does this include a “cooling-off” period for former auditors?</b></p> <p><input type="checkbox"/> Yes                      <input checked="" type="checkbox"/> No</p> <p><b>If yes to either of the above, please describe:</b></p> <p>The members are appointed by the Prime Minister with the consent of both Houses of the Diet based on the viewpoint that the CPAAOB should be comprised of members from a wide range of relevant expertise on a fair and equitable basis in light of eliminating the risk of biased management and ensuring public interest and independence from the professional audit society.</p>
	<p><b>3.7 Other than the governing body, are members of the profession involved in the Member’s organization (including in any inspections, committee or panel role)?</b></p> <p><input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No</p> <p><b>If yes, please describe their role with an appropriate level of detail, including the ratio between those who are independent and those who are not in the relevant function and whether such role includes decisional or control authority:</b></p> <p>There is no specific requirement with regard to independence from the profession per se. Meanwhile, staff members of the FSA and CPAAOB are segregated from the private sector entities as public servants. As a general rule, all CPAs at the FSA and CPAAOB are hired after leaving audit firms on a full-time basis.</p> <p>In addition, the CPAAOB secures prevention of conflicts of interest relating to the inspection activities by composing an inspection team, made up of inspectors who have no interests in inspected firms, when approving its inspection plan of the relevant firms.</p>
<p><b>4. Funding Arrangements</b></p>	<p><b>4.1 Describe the main funding arrangements of the Member, including the setting and approval of the budget and the fees, if any:</b></p> <p>The FSA’s budget including CPAAOB’s expenses is funded by the national budget and is unaffected by any affiliates of the public accounting profession.</p>

	<p><b>4.2 Is the funding free from undue influence by the profession?</b></p> <p><input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No</p> <p><b>Please describe with an appropriate level of detail the safeguards in place to prevent undue influence by the profession:</b></p> <p>The FSA’s budget including CPAAOB’s expenses is funded by the national budget and is unaffected by any affiliates of the public accounting profession.</p>
<p><b>5. Inspection System</b></p>	<p><b>5.1 Does the Member have the responsibility for recurring inspections of audit firms undertaking audits of public interest entities (PIEs)?</b></p> <p><input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No</p>
	<p><b>5.2 Is this responsibility undertaken directly or through oversight of inspection conducted by another organization?</b></p> <p><input checked="" type="checkbox"/> Directly                      <input checked="" type="checkbox"/> Through Oversight</p> <p><b>If through oversight of another organization, please describe with an appropriate level of detail the other organization, its relation to the Member, its role, and the arrangements for oversight:</b></p> <p>The CPAAOB conducts inspections on audit firms, CPAs and the JICPA. As to inspections on audit firms, the CPAAOB takes into account the results of JICPA’s quality control review as explained below. If the results of inspections show that the quality control review was not conducted properly, or CPAs/audit firms did not conform to laws, regulations and standards related to quality control of audits, etc., the CPAAOB Board will recommend that the Commissioner of the FSA takes administrative actions and other measures necessary to ensure the proper operation of audit firms, CPAs and the JICPA.</p>
	<p><b>5.3 Please describe with an appropriate level of detail the requirements and practices regarding the frequency of inspections:</b></p> <p>The CPAAOB conducts regulatory inspection once every three years in principle. Since mid-2016, CPAAOB has conducted inspection on the big audit firms annually, which is comprised of biannual full-scope inspection and follow-up inspection in the subsequent year.</p> <p>Since the CPA Act requires the JICPA to review the status of the operation of audit and attestation services provided by its members, the JICPA established its bylaws to conduct its quality control review once every</p>



	<p><b>organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedure applied, as well as the role of the Member in these procedures.</b></p> <p>The FSA manages registries of limited liability audit firms and notifications of foreign audit firms.</p> <hr/> <p><b>7.3 If the Member has the responsibility for <u>Audit and/or Ethics Standard Setting</u>, please indicate whether this responsibility is undertaken directly or through oversight of Audit and/or Ethics Standard Setting conducted by another organization?</b></p> <p><input checked="" type="checkbox"/> <b>Directly</b>                      <input type="checkbox"/> <b>Through Oversight</b></p> <p><b>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</b></p> <p>The Business Accounting Council, which is established within the FSA, sets auditing standards.</p> <hr/> <p><b>7.4 If the Member has the responsibility for <u>Permanent Education of Auditors</u>, please indicate whether this responsibility is undertaken directly or through oversight of Permanent Education of Auditors conducted by another organization?</b></p> <p><input checked="" type="checkbox"/> <b>Directly</b>                      <input checked="" type="checkbox"/> <b>Through Oversight</b></p> <p><b>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</b></p> <p>Based on the CPA Act, the CPAAOB implements the CPA Examinations every year for the purpose of determining whether a person has the necessary knowledge and applied skills to become a CPA.</p> <p>The CPA Act requires CPAs to take a continuing education and training (CPE: Continuing Professional Education) by the JICPA and to earn certain credits every business year. The JICPA summarizes the implementation status of the CPE and reports it to the FSA.</p>
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	<p><b>7.5 If the Member has the responsibility for <u>Enforcement</u>, please indicate whether this responsibility is undertaken directly or through referral to other organization(s)?</b></p> <p><input checked="" type="checkbox"/> <b>Directly</b>                      <input type="checkbox"/> <b>Through Referral</b></p> <p><b>If through referral, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the enforcement powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</b></p> <p>The FSA may carry out necessary investigations if the FSA considers that a fact exists that may lead to an enforcement action. The FSA is authorized to take enforcement actions based on the results of investigations and/or the recommendations by the CPAAOB after the inspections.</p> <p><b>7.6 If the Member has the responsibility for other tasks within the area of Audit Oversight, please describe with an appropriate level of detail:</b></p>
<p><b>8. Main Responsibilities of the Member <u>outside</u> the area of Audit Oversight</b></p>	<p><b>8.1 Please describe with an appropriate level of detail whether the Member has responsibility for tasks outside the area of audit oversight such as Supervision of Financial Reporting or Securities Regulation:</b></p> <p>FSA is an integrated regulator and has responsibilities outside of audit oversight (Please also see 2.3 above for details).</p>
<p><b>9. Major Events and Activities</b></p>	<p><b>9.1 Describe any recent major events and activities:</b></p> <p><u>December 20, 2019</u> CPAAOB published the English version of "2019 Monitoring Report" (#)</p> <p><u>November 29, 2019</u> CPAAOB published the English version of the "Case Report from Audit Firm Inspection Results (In Program Year 2019) " (#)</p> <p><u>October 31, 2019</u> CPAAOB published "Basic Plan for Monitoring Audit Firms in Program Year 2019" and "Basic Policy for Monitoring Audit Firms - Aiming to Further Enhance Audit Effectiveness " (#)</p> <p><u>January 22, 2019</u> FSA published the Report of the Advisory Council on "Enhancement of auditors' accountability" (#).</p> <p><i>(#) These reports are accessible on our web site.</i></p>