

*For Illustration Purposes Only*

# Notification Requirement for Foreign Audit Firms under the Revised Japanese CPA Law

Japanese Financial Services Agency

October 2007

- The revised CPA Law was passed by the Diet of Japan on June 20, 2007, and will be effective as of April 2008.
- The proposal for Cabinet Order and the Cabinet Office Ordinance of the law were published on September 28, 2008.
- This presentation outlines the notification requirement set out in the revised CPA Law together with its proposed Cabinet Order and Cabinet Office Ordinance.

# I. Notification Requirement

1. Who is supposed to make notification?  
→Page 5
2. Who must be notified?  
→Page 6
3. By when should initial notification be made?  
→Page 7
4. What information is to be provided?  
→Page 8 to 10
5. How must notification be carried out?  
→Page 11
6. When should information be updated?  
→Page 12
7. What are results of failure to provide notification?  
→Page 13



# Summary of relevant provisions from the revised CPA Law

- Foreign audit firms that produce audit attestation for foreign issuers whose securities are publicly traded on Japanese market are required to notify the JFSA and make themselves subject to Japanese oversight.

*(Article 34-35 of the CPA Law)*

# 1. Who is supposed to make notification?

- Audit firms that produce audit reports for companies listed on any stock exchanges of Japan, including TSE, OSE and JASDAQ ... Yes.
- Audit firms that produce audit reports for companies that are not listed on Japanese Stock Exchanges but file continuous reporting documents to JFSA... Yes.
- Audit firms that do not produce audit reports for companies listed on Japanese Stock Exchanges but are involved in group audits by way of referred work for subsidiaries or company branches... No.

*(Article 34-35 of the CPA Law)*

## 2. Who must be notified?

Financial Services Agency of Japan  
Corporate Accounting and Disclosure Division  
3-1-1 Kasumigaseki, Chiyoda-ku, Tokyo  
100-8967 JAPAN

*(Article 83 of the proposed Cabinet Office Ordinance)*

(Note) The JFSA will move to a new building in December 2007.  
The above information is subject to change.

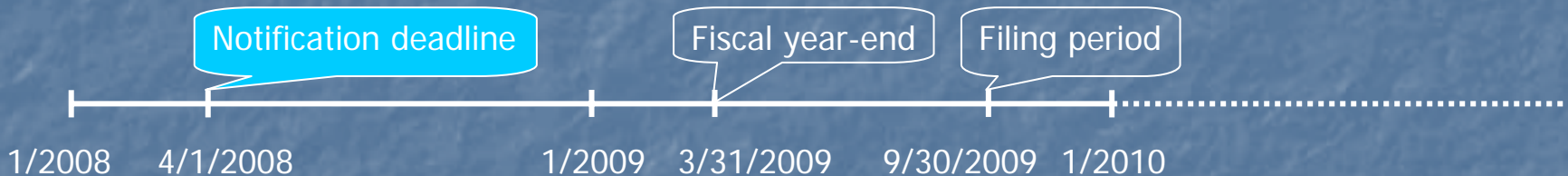


### 3. By when should initial notification be made?

- The subject audit firm shall provide notification in advance of performing relevant audit attestation service. (*Article 34-35 of the CPA Law*)

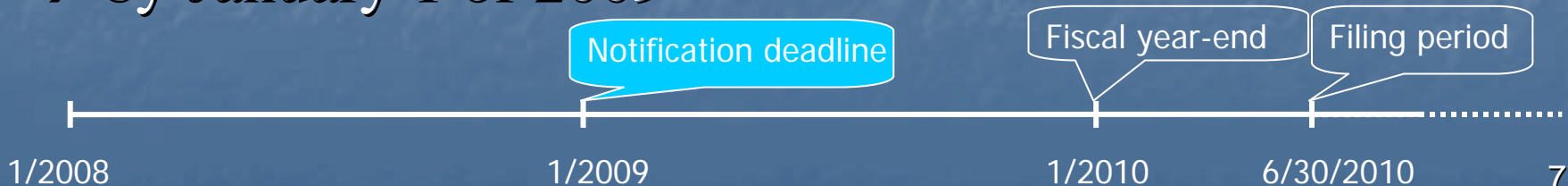
Case-A : Fiscal year ending March 31

→ by April 1 of 2008



Case-B : Fiscal year ending December 31

→ by January 1 of 2009



## 4. What information is to be provided (1/3)?

- Notification Document + Attachment shall be submitted.
- All forms shall be completed in Japanese.
- Information from notification documents shall be published via the official gazette of Japan, both initially and when updated.

*(Article 34-35&36 of the CPA Law)*



## 4. What information is to be provided (2/3)?

(By way of the notification document)

- Name and location of firm
- Amount of stated capital or equity of firm
- Name of board members of firm

*(Article 34-36 of the CPA Law)*

- Date of firm's incorporation, jurisdiction where a firm is founded
- Name, address of issuers whose securities are publicly traded in Japan
- Persons responsible for applicable audit engagements
- History of disciplinary actions
- Name, address of agent

*(Article 85 of the proposed Cabinet Office Ordinance)*

## 4. What information is to be provided (3/3)?

(By way of attachment)

- Articles of incorporation and certification of registry, or equivalent thereto
- Professional history of partners responsible for relevant engagements
- Outline of audit systems of jurisdiction where the firm is domiciled (Please see text for further detail)
- Outline of the firm's operations (Please see text for further detail)
- Documents which certify that a firm has granted its agent full authority over notification

*(Article 86 of the proposed Cabinet Office Ordinance)*

## 5. How must notification be carried out?

- Agents who act solely on behalf of the firm shall be designated to carry out notification
- Agents shall be located in Japan.  
*(Article 84 of the proposed Cabinet Office Ordinance)*

(Note)

Firms and/or agents may be requested to rectify notified information, if deficiencies are found in the information provided.



## 6. When should information be updated?

- Information from notification documents shall be updated within two weeks of the relevant events affecting information therein, including:
  - Mergers & acquisitions;
  - Changes in firm chairpersons or partners responsible for the engagement in question;
  - Disciplinary actions levied by relevant authorities;
  - Changes in audit clients whose securities are publicly traded in Japan.
  
- If the firm ceases to conduct audits of relevant issuers or terminates all of its operations, notification thereof shall be provided.

*(Article 34-37&39 of the CPA Law)*

## 7. What are results of failure to provide notification?

- Audit reports produced by the audit firm are to be invalidated, if notification is not provided to the JFSA before audit report is released.
- This may lead to the delisting of the relevant audited company from Japanese Stock Exchanges, unless it appoints another auditor who has provided notification to the JFSA.

*(Article 34-38 of the CPA Law & Article 193-2 (1) of the Securities and Exchange Law)*

## II. After Notification

- What may be done to notified audit firms from the JFSA?
  1. Submission of relevant information *and/or* on-site inspections → Page16
  2. Instructions for audit firms → Page17&18



# Summary of relevant provisions from the revised CPA Law

- The JFSA may request foreign firms to submit relevant reporting document or may conduct on-site inspections of firms, when deemed necessary and appropriate in light of public interest and investor protection.

*(Article 49-3-2 of the CPA Law)*

# What may be done to audit firms by the JFSA?

- 1. Submission of relevant information  
*and/or* on-site inspections -

- Submission of relevant information may be requested in writing *and/or* on-site inspections may be conducted, when deemed necessary and appropriate in light of public interest and investor protection.

*(Article 49-3-2 of the CPA Law)*

# What may be done to audit firms by the JFSA?

## - 2. Instructions for audit firms (1/2) -

- Instructions to rectify firms' operations may be addressed, when audit attestation operations of firms are deemed significantly inappropriate, and instructions are deemed necessary to assure proper operations.

*(Article 34-38 of the CPA Law)*



# What may be done to audit firms by the JFSA?

## - 2. Instructions for audit firms (2/2) -

### ■ Nature of instructions

Not disciplinary action. However, when an audit firm does not comply with instructions, the facts and content of said instructions are to be disclosed. This invalidates the audit report issued by the subject firm.

### ■ Remedial measures by the firm

If remedial measures are subsequently taken by the firm, the facts thereof shall be disclosed. This revives the audit report produced by the subject firm.

*(Article 193-2 (3) of the Securities and Exchange Law)*