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GOVERNMENT OF JAPAN  
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August 15, 2003

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

Re: Proposed Rules on Inspections of Registered Public Accounting Firms  
(PCAOB Rulemaking Docket Matter No. 006)

Dear Secretary:

As the Director for International Financial Markets of the Financial Services Agency of Japan ("FSA"), I am pleased to submit this letter on behalf of the FSA in response to the request of the Public Company Accounting Oversight Board ("PCAOB") for comments on the Proposed Rules on Inspections of Registered Public Accounting Firms ("Proposed Rules") as contained in PCAOB Release No. 2003-013 ( July 28, 2003)("Release" ).

**(Importance of dialogues and cooperation between the PCAOB and the FSA)**

We appreciate that the PCAOB acknowledges in the Release special issues relating to Non-U.S. firms and the need for dialogues between the Board and its foreign counterparts. Such acknowledgement by the PCAOB is consistent with the acknowledgement, encouragement and urge by the Securities and Exchange Commission ("SEC") contained in its Release No. 34-48180 in which the SEC granted approval of the PCAOB's proposed rules relating to registration system. As the auditor oversight body in Japan, the FSA is also willing to continue constructive and practical dialogues and cooperation with the PCAOB in order to solve the serious issues of the oversight over the Japanese audit firms by the PCAOB in a mutually satisfactory way. My visit to the PCAOB at the end of June was a first step toward such purpose.

**( Request for an appropriate exemption from the oversight by the PCAOB )**

The PCAOB's oversight, including inspections, of foreign public accounting firms would raise a much more serious problem than the registration requirement. This raises not only the issue of imposing "unnecessary burdens or conflicting requirements" as stated by the SEC and PCAOB, but also the *more fundamental issue concerning the need to respect foreign jurisdictions' sovereignty and equivalent auditor oversight systems*, as shown in our public comment letter to the PCAOB dated March 28 and as I mentioned at the Roundtable on Registration and Oversight of Non-U.S. Public Accounting Firms on March 31. We would like to add that on May 30 the Japanese Diet passed a bill for the comprehensive revision of the Japanese CPAs Law, and through this revision, which will become effective next April, the Japanese auditor oversight system will be even more substantially equivalent to that provided under the Sarbanes-Oxley Act.

*Japanese audit firms should not be subject to the oversight powers of the PCAOB.* Legal powers of the PCAOB, including inspections, should not be, and could not be, conducted or enforced within the Japanese jurisdiction as a matter of sovereignty. In addition, since the FSA and CPAAOB (CPAs and Auditing Oversight Board) to be established next April under the revised CPAs Law have the power to inspect Japanese audit firms, and the JICPA (Japanese Institute of CPAs) will regularly conduct audit quality control review of Japanese audit firms under the oversight by the CPAAOB, *it is not necessary or appropriate for the PCAOB to conduct inspections, in particular regular inspections, of Japanese audit firms.* I would like to add that all of the Japanese audit firms which audit issuers are subject to the review by the associated large U.S. public accounting firms, of which the PCAOB can conduct inspections.

From this viewpoint, there is a problem in the Proposed Rules because they do not include any provision to deal with non-U.S. firms, including Japanese audit firms. Although the Release states that "the Board's proposed rules are not intended in any way to signal that the Board has already determined how its oversight should operate as to those firms, or to preclude any adjustments to the rules that may be appropriate in light of those discussions," non-U.S. firms would be subject to the same inspections by the PCAOB as the U.S. firms if the Proposed Rules were not adjusted. Such an outcome would not be in line with the emphasis by the SEC and the PCAOB on dialogues with foreign counterparts. The sequence of steps which should be taken should be as follows:

- First, registered foreign accounting firms should be exempted from the Proposed Rules.
- Second, the PCAOB and its foreign counterparts (the FSA and the JICPA) should continue dialogues and reach a mutually satisfactory conclusion.
- Third, the PCAOB's Rules on Inspections of Registered Public Accounting Firms should be adjusted as necessary based on the above conclusion.

Therefore, *we respectfully request the PCAOB to provide an appropriate exemption from the Proposed Rules to Japanese audit firms.*

**(Request for providing an exemption from the duty to cooperate with inspectors )**

Based on this premise, we would like to make further comments on the Proposed Rules.

The PCAOB's effective Registration Rules include the provision (Rule 2105) that allows an applicant to withhold information from its application for registration when submission of such information would cause the applicant to violate a non-U.S. law if that information were submitted to the PCAOB. The same kind of provision to deal with conflicting non-U.S. laws (such as the duty to keep confidentiality of information under the Japanese CPAs Law) is necessary with regard to the proposed duty to cooperate with inspectors under Rule 4006 of the Proposed Rules.

Therefore, *we respectfully request the PCAOB to provide an appropriate exemption from the duty to cooperate with inspectors in case such action conflicts with non-U.S. laws.*

**(Conclusion)**

*We respectfully request that the PCAOB will take full account of our comments in promulgating the final rules.*

Yours Sincerely,

Naohiko MATSUO  
Director for International Financial Markets  
Financial Services Agency, Japan