

Dear Sir,

Recently, a set of draft guidelines of internal control were published in Japan. They include interesting criteria for management's assessment, for example;

- 5% of income before tax (to judge materiality/material weakness)
- 2/3 of annual sales (to select significant locations/business units for manufacturers, wholesaler, etc.)
- sales, account receivable and inventory (these three accounts have priority as "significant accounts" to assess process-level controls for manufacturers, wholesaler, etc.)
- 42 endpoints to test company-level control (which are similar to "attributes" indicated in small COSO).

I assume that they may be of some help to prepare a guideline for management.

The current draft guidelines are comprised of three sections, namely;

1. Basic framework of internal control (Japanese "COSO")
2. Assessment and report on internal control over financial reporting (guideline for management)
3. Audit of internal control over financial reporting (guideline for auditor)

They are open for public comments till December 20, 2006.

The standards of internal control were issued last year, which are also comprised of the above three sections.

All public companies in Japan, including small companies, will be obliged to assess and report on internal control over financial reporting starting from the fiscal year which begins on/after April 1, 2008. At the same time, audit of internal control will be also obliged for all public companies.

The standards/guidelines are rather compact since they will apply evenly to small public company within 2 years.

Sincerely yours,