II. Overview of the Audit Sector

I. Overview of the Audit Sector

A. CPAs

1. Introduction of the CPA system

The origin of the Japanese CPA system is the Accountants Act, which was enacted in 1927. With the economic and social reconstruction and democratization proceeding after the end of World War II, the Accountants Act was abolished, and the CPA system was introduced in 1948 for the purpose of ensuring the reliability of financial statements by determining the qualifications of audit and accounting experts whose primary duty is audit and attestation. Specifically, the Securities and Exchange Act was promulgated in 1947, requiring companies that issue or solicit investment in shares, corporate bonds or other securities to submit reports. The issuer of listed securities is required to obtain audit attestation from CPAs by the full overhaul of the 1948 Securities and Exchange Act (currently the Financial Instruments and Exchange Act (FIEA)) as well as the promulgation/enforcement of the CPA Act.

Accordingly, the Certified Public Accountants Management Committee was established to conduct CPA examinations, etc. (becoming the CPA Examination and Investigation Board in 1952 after a transfer of jurisdiction and expanded/restructured into the current CPAAOB in 2004). The Corporate Accounting Principles were released in 1949, and the Audit Standards in 1950.

The present CPA Act clearly sets out the mission and professional responsibilities of CPAs as given below. CPAs must always be self-aware of this mission and these professional responsibilities in performing their duties regardless of audit attestation services or non-audit services.

“The mission of certified public accountants, as professionals on auditing and accounting, shall be to ensure matters such as the fair business activities of companies, etc., and the protection of investors and creditors by ensuring the reliability of financial documents and any other information concerning finance from an independent standpoint, thereby contributing to the sound development of the national economy” (Article 1).

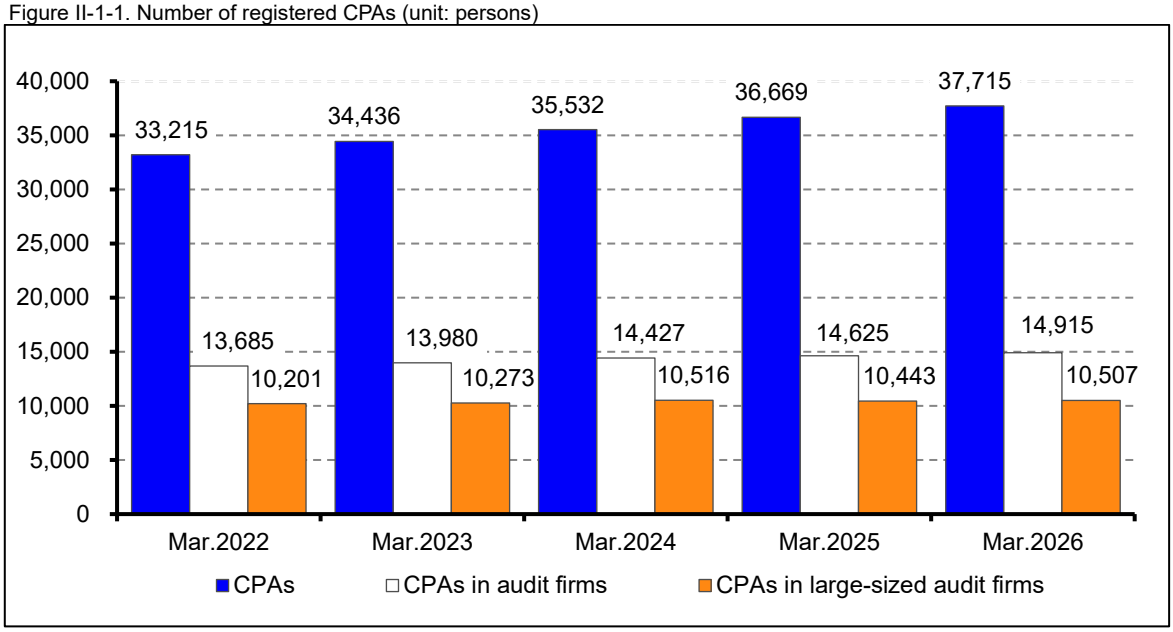
“A certified public accountant shall always maintain his/her dignity, endeavor to acquire knowledge and skills, and provide services with fairness and integrity from an independent standpoint” (Article 1-2).

2. CPAs

To become a certified public accountant, a person must pass the CPA examination, satisfy certain requirements (business assistance, professional accountancy education program, etc.), and be registered on the roster maintained by the JICPA (Articles 3, 17, and 18 of the CPA Act).

The number of registered CPAs has been increasing gradually for more than a decade. However, the number of CPAs working at audit firms has not increased as much as the number of registered CPAs. The ratio of the number of CPAs working at audit firms to the total number of registered CPAs has been declining year by year, and continued to decline from 41.2% at the end of March 2022 to 39.5% at the end of March 2026. Of the registered CPAs belonging to audit firms, around 70% belongs to large-sized audit firms (Figure II-1-1).

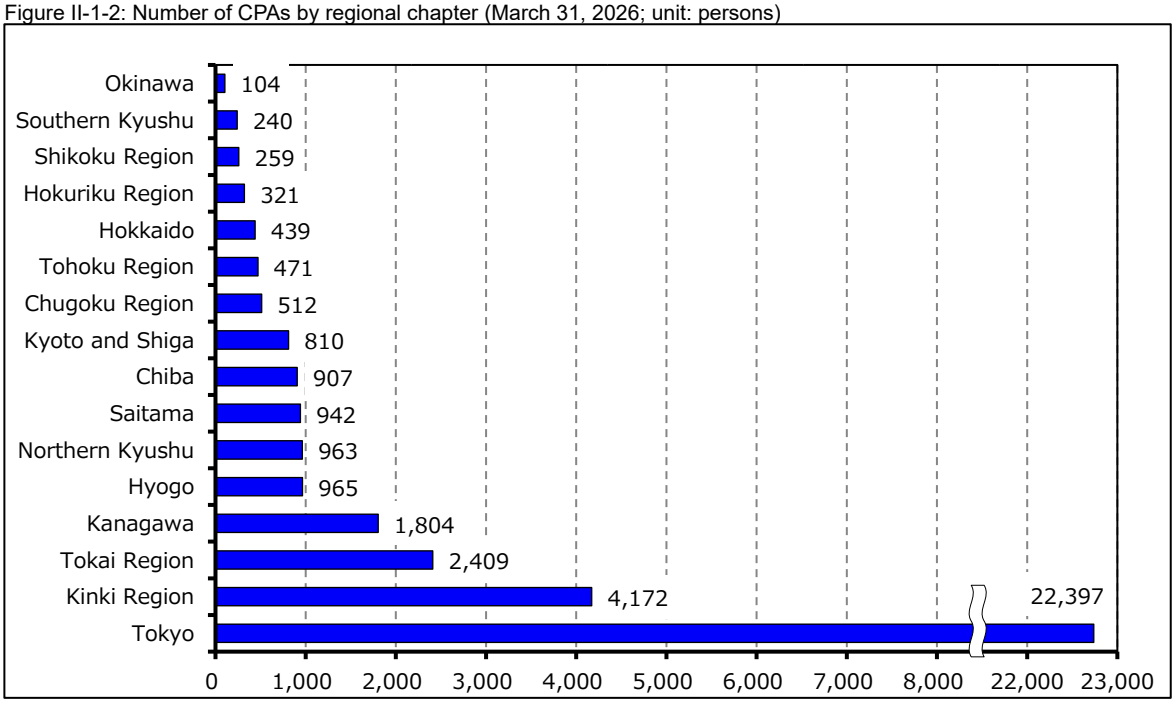
Figure II-1-1. Number of registered CPAs (unit: persons)



(Source) Prepared by the CPAAOB based on data from the JICPA

CPAs must be members of the JICPA (Article 46-2 of the CPA Act) and must belong to a regional chapter, i.e., one of the JICPA branches established across Japan (16 regional chapters as of March 31, 2026). Around 70% of CPAs are based in the Tokyo metropolitan area (Tokyo, Kanagawa, Saitama, Chiba) (Figure II-1-2).

Figure II-1-2: Number of CPAs by regional chapter (March 31, 2026; unit: persons)



(Source) Prepared by the CPAAOB based on data (e.g. survey of numbers of members) from the JICPA

■ Initiatives to Improve the Attractiveness of Audit and Assurance Engagements ■

In many jurisdictions, growth in the overall number of CPAs has been slowing, prompting various measures to address the issue. For example, under the U.S. CPA qualification system, candidates were traditionally required to complete 150 credit hours (or five years) of accounting and business-related education at the university level. In December 2025, however, the system was revised to introduce an alternative pathway allowing qualification with 120 credit hours (or four years) of study, subject to an additional one-year practical experience requirement. In Singapore, meanwhile, a committee comprising professional accounting bodies and other stakeholders has taken the lead in expanding awareness of and interest in the accounting profession among students. In addition to outreach activities through schools and social media, innovative initiatives such as campaigns involving influencers and popular animated characters have been implemented, contributing to an increase in the number of aspiring accountants. In Japan, the JICPA has likewise undertaken initiatives to promote understanding of the significance and importance of accounting, including accounting seminars for elementary and junior high school students and explanatory sessions on the CPA qualification system at high schools and universities, while also highlighting the important role played by CPAs in society.

Against the backdrop of these efforts to secure accounting talent, the number of registered CPAs in Japan increased from 24,964 as of March 31, 2013, to 37,715 as of March 31, 2026, representing a growth rate of 51.1%. However, while the number of personnel employed by audit firms also increased from 12,799 to 14,915 during the same period, the growth rate was only 16.5%, indicating slower growth compared with the overall increase in the number of registered CPAs. In addition, sustainability-related disclosures, whose importance has increased significantly in recent years, are expected to generate growing demand for assurance engagements. At the same time, the provision of such services requires highly specialized expertise, making it difficult to secure personnel with the necessary knowledge and skills.

Recently, career opportunities for CPAs have expanded considerably. Increasingly, accountants are choosing positions where they can more directly perceive their contribution to organizations and society, such as Chief Financial Officers (CFOs), heads of accounting departments, consultants, and positions within non-profit organizations. One illustration of this trend can be seen in the JICPA's "In-House Accountant Network." Excluding audit firms, tax corporations, and network firms, the number of registered CPAs employed by companies, other organizations, or government entities nearly doubled over the past decade, increasing from 1,377 at the end of 2016 to 2,545 at the end of 2025. Under these circumstances, some observers have pointed out that the traditional message that "auditing is a social infrastructure that underpins the fairness of capital markets," long regarded as a primary source of the profession's appeal, has become relatively less persuasive than in the past.

In response to these environmental changes, the large-sized audit firms have introduced a variety of human resource initiatives aimed at improving retention among younger CPAs. These measures include greater flexibility in career paths, shortening the time required for promotion to partner, enhancing lateral recruitment efforts, including the rehiring of professionals who previously left the audit profession, and raising compensation levels. At the same time, firms have sought to improve operational efficiency by standardizing workloads through centralized assignment management and by promoting the use of information technology, including artificial intelligence (AI), to standardize and automate audit processes. In addition, firms have reduced staff workloads by transferring routine, judgment-free tasks, such as the dispatch and collection of confirmation requests, to dedicated delivery centers established for that purpose. As a result of these efforts, turnover rates among managers and staff at large-sized audit firms have shown a declining trend in recent years.

Furthermore, as AI adoption continues to expand, routine tasks traditionally performed by junior accountants, such as data-processing work associated with audit sampling and document reconciliation, as well as the preparation of draft meeting minutes and audit working papers, are increasingly being automated. This has reduced the time required for such tasks and shortened the period traditionally spent acquiring experience through routine assignments. Consequently, CPAs are able to devote more time to higher-value activities, including evaluating and effectively utilizing AI-generated outputs. In particular, large-sized audit firms have begun incorporating agentic AI capable of performing tasks autonomously into their audit systems, and further reductions in time spent on activities such as reviewing audit documentation are anticipated. These developments are enabling even junior accountants to participate in more substantive and value-added work at an earlier stage of their careers.

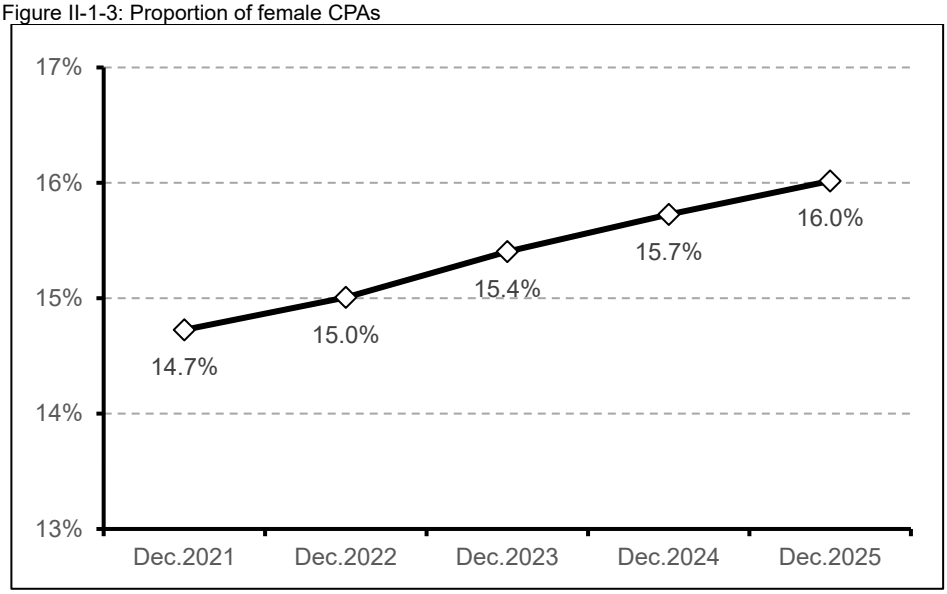
Moreover, areas such as generative AI, data analytics, and sustainability-related information provide CPAs with a wide range of opportunities for professional growth and are expected to enhance the attractiveness of audit and assurance work. To support the development of expertise in these fields, particularly among large-sized audit firms, specialized training programs and internal certification systems have been established.

Many audit firms recognize that the expertise and experience gained through advisory services, including those relating to sustainability and digital technologies, can contribute significantly to the effective performance of audit engagements. From the perspective of creating professional development opportunities, firms have therefore implemented personnel development initiatives that enable audit professionals to participate in advisory work. Although the concept of managing audit and advisory services in a mutually complementary manner through an integrated organizational structure, commonly referred to as the multidisciplinary model, has existed for many years, its importance has increased further as auditing practices continue to evolve. Audit firms' efforts to promote such integrated operations are expected not only to strengthen organizational effectiveness but also to enhance the attractiveness of audit and assurance engagements. Accordingly, developments in this area will continue to attract close attention.

3. Proportion of Female CPAs

The percentage of women among the total number of registered CPAs is steadily increasing (Figure II-1-3), and at the end of 2025 the figure reached 16.0%.[30] On the other hand, it is still lower than the proportion of female attorneys and female CPAs in the UK.[31]

Figure II-1-3: Proportion of female CPAs



(Source) Prepared by the CPAAOB based on data from the JICPA

[30] According to "2025 Survey on Women's Participation in Policy and Decision-making Processes" by the Cabinet Office's Gender Equality Bureau, the proportion of female attorneys was 20.6% at the November 1st, 2025.
[31] According to the UK Financial Reporting Council's "Key Facts and Trends in the Accountancy Profession 2025," there are several CPA institutes in the UK, and the average female membership for them is 40%.

■ Efforts to Promote Gender Diversity ■

The auditing profession has been actively promoting initiatives to enhance the participation and advancement of female CPAs. For example, JICPA has established key performance indicators (KPIs) to increase the proportion of women to 30% among successful candidates in the CPA Examination by FY 2030 and to 30% among members and associate members by FY 2048. In addition, JICPA has implemented various measures to improve workplace accessibility and inclusiveness, including support for the use of maiden names, assistance with employment and return-to-work opportunities, exemptions from or reductions in membership fees, and Continuing Professional Development (CPD) arrangements for members on leave due to childbirth, childcare, or other family-related responsibilities. JICPA also promotes career development through initiatives such as networking opportunities for female CPAs and the introduction of female role models.

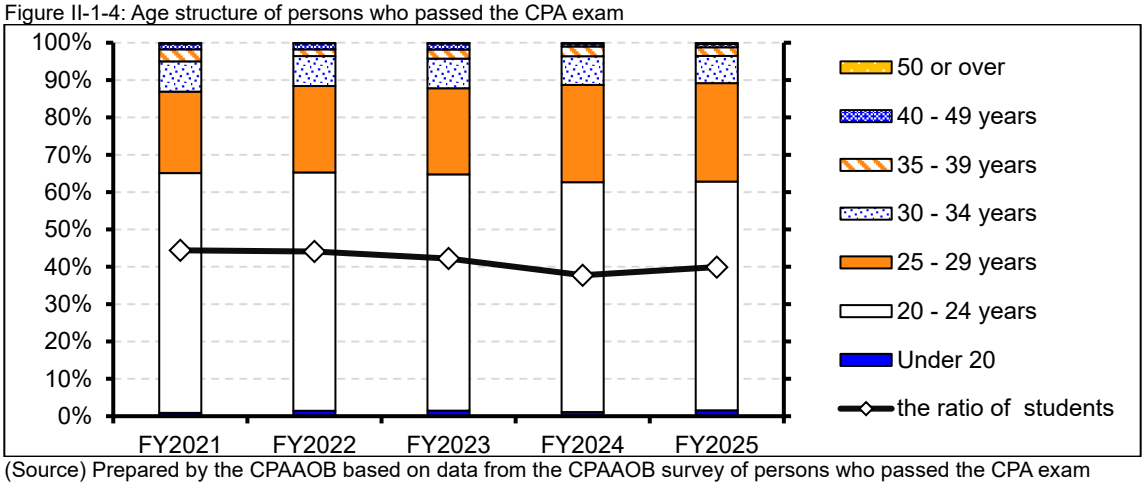
Large-sized audit firms have likewise advanced a range of initiatives, including the establishment of KPIs related to the proportion of women in managerial positions, programs to support women's career development, support measures tailored to different life stages such as childcare and eldercare responsibilities, encouragement of paternity leave uptake, and the promotion of networking opportunities among female professionals. According to the Audit Quality Reports of large-sized audit firms, women account for an average of approximately 9% of partners and equivalent positions, while the average proportion of women in management positions (including senior managers and managers) is approximately 23%.

The FSA, in collaboration with the JICPA, has published a brochure entitled Career Opportunities for CPAs and Successful CPA Examination Candidates. With a view to increasing the number of female CPA Examination applicants, the brochure highlights the attractiveness and rewards of the CPA profession, as well as possible career paths, through messages from female CPAs. In the 2025 CPA Examination, the pass rate for female candidates was 6.41% (compared with 7.81% for male candidates), representing an increase from the 2024 examination. Women accounted for 24.0% of successful candidates, an increase from the previous year, and the number of successful female candidates also rose year on year. Furthermore, both the number of female applicants and the number of successful female candidates have shown an upward trend over the past several years.

4. Age Structure of Persons who Passed the CPA exam

The age distribution of CPA exam passers shows that the persons aged 20 to 24 constituted the largest group, accounting for 61.2% of all persons who passed the CPA exam in 2025. Students (excluding those enrolled in vocational schools and similar institutions) represented the largest occupational category. Although the proportion has been declining, university students (including junior college students) still accounted for 39.9% in the 2025 examination (Figure II-1-4). In addition, the number of university student applicants has continued to increase, rising by 59.5% over the past five years.

Figure II-1-4: Age structure of persons who passed the CPA exam



(Source) Prepared by the CPAAOB based on data from the CPAAOB survey of persons who passed the CPA exam

B. Audit Firms

As of March 31, 2025, there were 2,411 audit offices in Japan; however, their services, organizational structures, and operational characteristics vary considerably. Audit and attestation services cover both statutory audits and non-statutory audits. Statutory audits are CPA audits required by law. When CPA audits were first introduced, the only statutory audits were FIEA audits, but thereafter CPA audits under the Companies Act were introduced, and then educational corporation audits under the Act on Subsidies for Private Schools. There are now a multitude of statutory audits, including audits of labor unions, credit unions, credit associations, agricultural cooperatives, social welfare corporations and medical corporations, etc. Further explanation of audit and attestation services is provided in C. Audited Companies, 1. Types of Audit and Attestation Services.

There are three types of entities providing audit and attestation services: audit firms, partnerships, and solo practitioners. Audit firms are established pursuant to the CPA Act for the purpose of organizationally performing audit and attestation services. When the audit corporation system was introduced in 1966, audit and attestation services were increasing in both volume and complexity as corporate activities expanded and business operations became more diversified. At the same time, numerous accounting fraud cases were emerging, leading to heightened scrutiny of the role and significance of CPA audits. The audit corporation system was therefore introduced to improve audit quality by enabling audits to be conducted on an organizational basis.

The approximate size of each category of audit offices classified by the CPAAOB based on firm size is shown below (Figure II-2-1). [32]

Figure II-2-1: Classifications of audit offices (as of March 31, 2025)

Audit Firm		Number of Firms
Large-sized audit firms		4
Mid-tier audit firms		4
Small and medium-sized audit firms		2,403
(Breakdown)	Small and medium-sized audit firms	(288)
	Partnerships (Note 1)	(48)
	Solo practitioners (Note 1, 2)	(2,067)

(Note 1) The number of audit offices in FY2024 (book closing date from April 1, 2024, till March 31, 2025) listed in copies of audit summaries or audit implementation reports submitted to the JICPA.
(Note 2) In order for solo practitioners to conduct an audit for a listed company it is required by the CPA Act and each exchange's securities listing regulations to conduct the audit jointly with other CPAs, etc.
(Source) Prepared by the CPAAOB based on data from the JICPA

1. Organizational Structure of Audit Firms

Audit firms are established through investment by persons including five or more CPAs, and their defining characteristics are that the persons who invested (partners) are directly engaged in management and that they ensure organizational discipline via mutual monitoring. Some audit firms comprise only partners, but those of a certain scale ordinarily employ CPAs (CPAs who have not

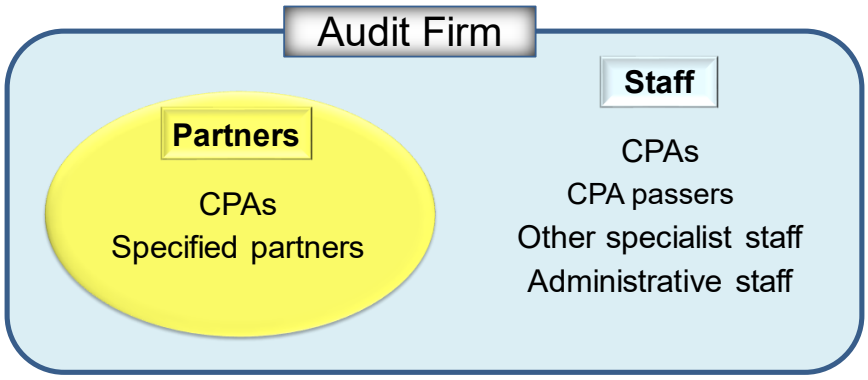
[32] Registration as a registered auditor of listed companies etc. is required to audit listed companies. For information on the registration system for listed company auditors, see "IV. Responses to Changes in the Global Environment Surrounding Audits, 1. Trends Surrounding Small and Medium-sized Audit Firms".

invested in order to become partners of the audit firm), CPA examination passers (persons who have passed the CPA exam but have not been registered as CPAs after undergoing practical training and providing assistance with audit work), and other experts as staff.

In the past, partners of audit firms were limited to CPAs, but in today's more sophisticated economy and society, partners are required to have knowledge and experience in a wide range of areas, including management, law, IT, pension mathematics to ensure appropriate operations at the audit firm and to provide effective organizational audit activities. Accordingly, as a result of the legal revisions in 2007, a "specified partner system" allowed non-CPAs to be partners at an audit firm. However, CPAs must comprise at least 75% of the audit firm's partners if specified partners join the firm. In FY2025 large-sized audit firms had 139 specified partners among a total of 1,811 partners.

The personnel composition of an audit firm is outlined below (Figure II-2-2), and explained in more detail in "III. Operation of Audit Firms, A. Operations Management System, 3. Human Resources of Audit Firms".

Figure II-2-2: Personnel composition at audit firms



(Source) Prepared by the CPAAOB with reference to page 55 of “New CPA/Audit firm Audit System - Ensuring Fair Financial/Capital Markets” (Dai-Ichi Hoki Co., Ltd., 2009), Yuichi Ikeda and Hidenori Mitsui, ed.

	Large-sized audit firm	Mid-tier audit firm	Small and medium-sized audit firm
Partners	Approx.250 to approx. 550	Approx. 40 to 100	Up to approx. 50(Note2)
Full-time staff	Approx. 3,400 to approx. 6,800	Approx. 230 to 950	Up to approx. 120(Note2)

(Note1) See “Figure III-1-3: Characteristics of each type of audit firm” (page 81) for the characteristics of organizational structure based on audit firm size.
(Note2) The fiscal years of small and medium-sized audit firms cover a wide range of months, and the figures for FY2025 have not yet been compiled. For this reason, small and medium-sized audit firms are included up to FY2024. Excluding an audit firm whose number of partners and full-time staff members is much higher than that of other firms.
(Source) Prepared by the CPAAOB based on business reports submitted by audit firms.

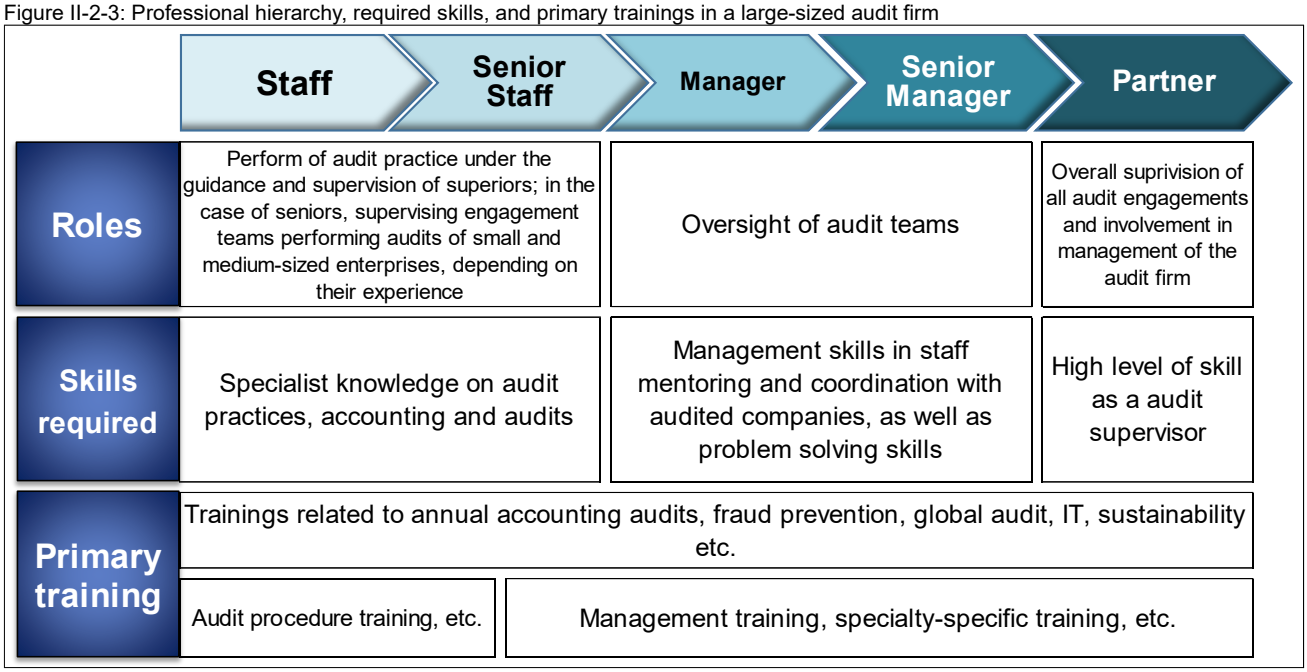
In response to the increasing complexity and internationalization of business activities of domestic listed companies, particularly large listed companies, audit firms have grown in size. Large-sized audit firms, which conduct the majority of audits of major listed companies, employ several thousand personnel, while even mid-tier audit firms now have more than 200 personnel.

As audit firms grow in scale, they need to introduce job classification systems based on factors such as competencies and experience in order to manage their organizations effectively. (Figure II-2-3). It is standard practice for personnel to progress through the ranks from staff and senior staff to manager,

senior manager, and, where selected, partner. In recent years, some large-sized audit firms have also recruited audit assistants (staff who do not hold qualifications related to financial statement audits, such as the CPA qualification) to reduce the workload of CPAs and enable them to focus on duties requiring professional judgment.

As audit firms have expanded and their organizational structures have become more complex, ensuring audit quality has become increasingly challenging. In response to these developments, the Audit Firm Governance Code, originally formulated in March 2017, was revised in March 2023. As a result of this revision, audit firms registered on the List of Auditors of Listed Companies are required to establish operational frameworks in accordance with the Code and frameworks for enhanced disclosure. For details, refer to III. Operation of Audit Firms, A. Operations Management System, 2. Efforts in Response to Audit Firm Governance Code.

Figure II-2-3: Professional hierarchy, required skills, and primary trainings in a large-sized audit firm



(Note) For details, see "III. Operation of Audit Firms, A. Operations Management System, 4. Organizational Structure for Providing Audit Services" and "5. Organizational Structure for Supporting Audit Services".
(Source) Prepared by the CPAAOB

2. Development and Implementation of Systems of Quality Management by Audit Firms

To ensure audit quality, it is important that audit firms develop and operate appropriate quality management structures to serve as a foundation for having their partners provide audit services properly.

The Standards on Quality Control for Audits were formulated for audit and attestation services in 2005, and revised in November 2021 in response to the establishment or revision of international quality management standards, including the International Standard on Quality Management 1 (ISQM1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements. Audit firms need to comply with professional ethics in

their services other than audit and attestation services as well.

The Revised Standards on Quality Control for Audits (“Revised Standards") require individual audit firms to introduce the system of quality management based on a risk-based approach, under which they should

a. Set their own quality objectives,
b. Identify and assess quality risks that could adversely affect the achievement of those quality objectives,
c. Design and operate policies or procedures for addressing the assessed quality risks, and
d. Make improvements based on the root cause analysis of deficiencies, if any.

Additionally, the Revised Standards state that the system of quality management should include the following as components:

a. The firm’s risk assessment process;
b. Governance and leadership;
c. Professional ethics and independence;
d. Acceptance and continuance of audit engagements;
e. Engagement performance;
f. Resources for operational management of the audit firm;
g. Information and communication;
h. The monitoring and remediation process of the system of quality management; and
i. Communication between predecessor and successor auditors.

Furthermore, the Revised Standards newly require the individual assigned ultimate responsibility for the audit firm's system of quality management to evaluate the system at least once a year by setting a base date and to conclude whether the system provides the audit firm with reasonable assurance that the objectives of the systems are being achieved.

The Revised Standards are effective for audits of financial statements for a business year or an accounting period starting on or after July 1, 2023 (for audit firms other than large-sized audit firms under the CPA Act, for a business year or an accounting period starting on or after July 1, 2024).

With respect to the establishment and implementation of the system of quality management at large-sized audit firms, firms belonging to global networks have received tools from their global networks to support the design and operation of their systems of quality management. Based on the quality objectives and quality risks established by global networks, they have incorporated additional evaluation items and taken other measures to comply with the Revised Standards. The number of quality objectives, quality risks, and policies and procedures established to address those risks varies among firms.

Regarding the operation of the system of quality management, at many large-sized audit firms, the persons responsible for each division oversee processes owners’ identification of quality risks and the design and operation of policies and procedures for dealing with those risks as well as the assessment

of those risks. A steering committee provides comprehensive oversight of these activities. Some firms have also established positions responsible for independently monitoring compliance with the Revised Standards.

The timelines for the evaluation of the system of quality management also vary from firm to firm, depending on the evaluation date established by each firm. Regarding the overall evaluation results, at all large-sized audit firms, the chief responsible officer for the system of quality management has concluded that “the firm’s system of quality management provides reasonable assurance that the objectives of the system are being achieved.”

While the operation and monitoring of the system of quality management have become increasingly embedded at large-sized audit firms, some firms continue to recognize the need to further enhance awareness and understanding of the system among engagement teams. In addition, some firms identify as a challenge the need to further collect and analyze risk information in order to improve the accuracy of identifying high-risk audit engagements, control processes, and key areas of focus for monitoring activities.

All mid-tier audit firms have applied the Revised Standards since July 1, 2024. Regarding the risk assessment process for the system of quality management, similar to large-sized audit firms, they establish quality objectives, identify and assess quality risks, and design and implement policies and procedures to address those risks based on the items presented in tools provided by their global networks, and add quality risks and other items arising from requirements specific to the Revised Standards. Regarding the overall evaluation results, at all mid-tier audit firms, the chief responsible officer for the system of quality management concludes that “the firm’s system of quality management provides reasonable assurance that the objectives of the system are being achieved.”

In addition, as part of their efforts to promote firm-wide understanding and effective implementation of the system of quality management throughout their firms, they conduct meetings, including partner meetings, and training sessions. Some mid-tier audit firms hold quality management committee meetings once every three months, with at least one participant from each regional office.

Small and medium-sized audit firms have also begun applying the Revised Standards. According to the results of reports collected in PY2025, many audit firms have taken measures such as establishing quality objectives, quality risks, and policies and procedures to address those risks by using tools published by the JICPA. As the evaluation date for the system of quality management differs from firm to firm, the evaluation results are being published on a rolling basis.

Under the Revised Standards, conclusions on the system of quality management are classified into the following three categories:

A) The system of quality management provides the firm with reasonable assurance that the objectives of the system are being achieved.

B) Except for identified deficiencies that are significant but not pervasive in the design and operation of the system of quality management, the system of quality management provides the firm with

reasonable assurance that the objectives of the system are being achieved.

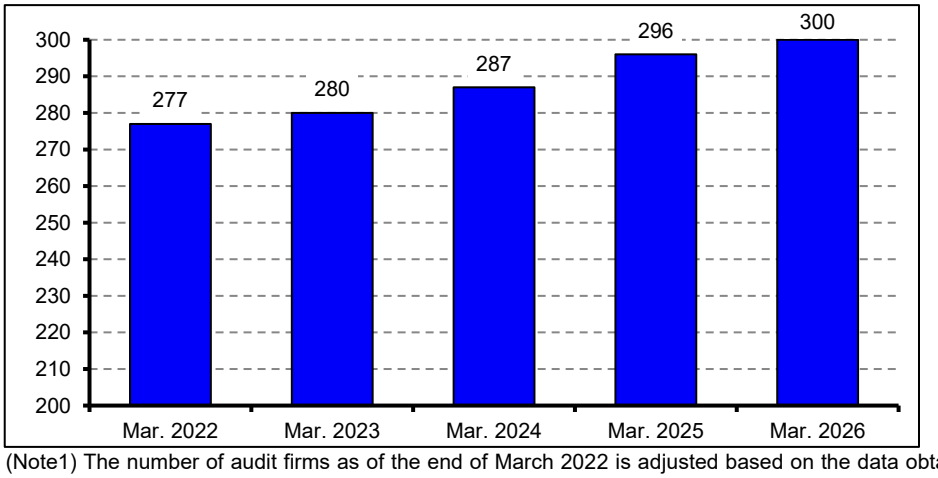
C) The system of quality management does not provide the firm with reasonable assurance that the objectives of the system are being achieved.

Both large-sized audit firms and mid-tier audit firms reached conclusions falling under category A). However, among small and medium-sized audit firms that have already published their evaluation results, some firms reached conclusions falling under category B), indicating the existence of identified deficiencies that are significant but not pervasive. In some cases, such conclusions were attributable to the results of JICPA Quality Control Review in which extremely significant deficiencies or significant deficiencies had been identified. According to reports collected during PY2025, some small and medium-sized audit firms recognized challenges in responding to the Revised Standards, including securing sufficient resources for quality management activities and selecting quality objectives, quality risks, and policies and procedures to address those risks that are appropriate to the size and characteristics of the firm. In this regard, a key challenge is to steadily operate the PDCA cycle through the firm's own evaluation process for the system of quality management by promptly identifying matters requiring improvement, analyzing their root causes, and developing and implementing necessary remedial actions.

3. Number of Audit Firms

The number of audit firms has continued to increase in recent years. As of March 31, 2026, there were 300 audit firms. During the period from April 2025 to March 2026, five firms ceased to exist due to dissolution or merger, while nine new firms were established, resulting in a net increase of four firms year on year (Figure II-2-4). For details on mergers since FY 2022, see "4. Mergers of Audit Firms".

Figure II-2-4: Change in the number of audit firms (unit: firms)

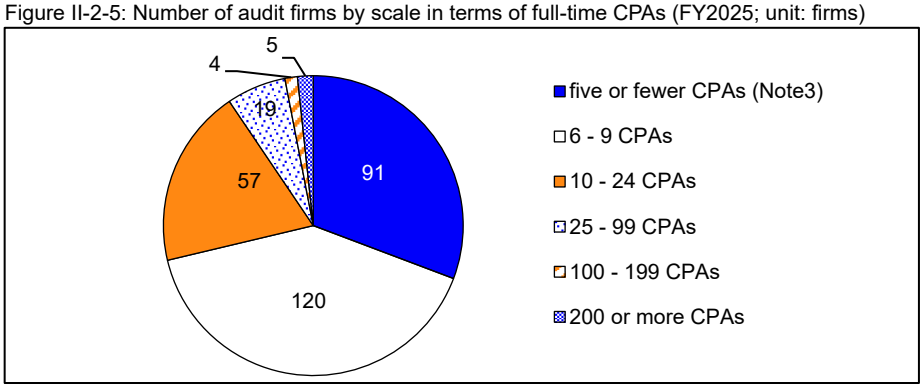


(Note1) The number of audit firms as of the end of March 2022 is adjusted based on the data obtained after the previous Monitoring Report was published.
(Note2) The number of limited liability audit firms[33] as of the end of March 2026 was 38.
(Source) Prepared by the CPAAOB based on data (e.g. survey of numbers of members) from the JICPA and reports of individual audit firms. The list of limited liability audit firms is published on the FSA website.

[33] An audit firm in which designated limited liability partners are jointly and severally liable only for specified attestations in which they participate, whereas liability for other business activities is limited to the amount of each partner's contribution.

Classification by the number of full-time CPAs belonging to each audit firm reveals that firms with fewer than 25 CPAs make up over 90% of the total (Figure II-2-5).

Figure II-2-5: Number of audit firms by scale in terms of full-time CPAs (FY2025; unit: firms)



(Note 1) The number of full-time CPAs is the total of partners who are CPAs and full-time staff who are CPAs.
(Note 2) Data on 296 audit firms was collected from business reports submitted by these firms in FY2025. The timing of the submission of the business reports of each audit firm differs depending on the financial year.
(Note 3) An audit firm where the number of partners who are CPAs drops to four or fewer should be dissolved, but a six-months grace period is provided under the CPA Act.
(Source) Prepared by the CPAAOB based on business reports submitted by audit firms.

4. Mergers of Audit Firms

Since FY2021, seven mergers of audit firms have taken place (Figure II-2-6). The main reasons cited for these mergers were to strengthen management foundations and broaden geographic coverage.

Figure II-2-6: Audit firms involved in mergers from FY2021 (March 31, 2026)

FY	Surviving firm	Disappearing firm
2021	Yasaka Kaikeisha Audit Corporation	Keihin Audit Corporation
2022	Kyoritsu Audit Corporation	Shinmei Audit Corporation
	Moore Shisei Audit Corporation (Moore Mirai Audit Corporation)	Kisaragi Audit Corporation
	SKIP Audit Corporation	Godai Audit Corporation
2023	Souken Nichiei Audit Corporation (Fujimi Audit Corporation)	Seinan Audit Corporation, Nagoya Audit Corporation
	PricewaterhouseCoopers Aarata LLC (PricewaterhouseCoopers Japan LLC)	PricewaterhouseCoopers Kyoto Audit Corporation
2024	(No mergers)	
2025	Nanatsuboshi Audit Corporation	Sourei Audit Corporation

(Note) Names in parentheses show the new name after the merger as of March 31, 2026.
(Source) Prepared by the CPAAOB from materials made publicly available by audit firms

Reports collected from mid-tier audit firms in PY2025 showed that many of them considered mergers as an option for their future business strategies. The collection of reports from small and medium-sized audit firms (involving 44 firms) in the same program year showed that approximately 43% of small and medium-sized audit firms would consider a merger if they could find a good partner.

5. Financial Condition (Operating Revenue, Proportion of Audit and Attestation Services and Non-audit and Attestation Services)

In addition to audit and attestation services, audit firms provide non-audit services, including assurance services other than audit and attestation services, financial advisory services such as support for initial public offerings (IPOs), IFRS adoption, and organizational restructuring, as well as sustainability-related advisory services.

Operating revenues over the five years until FY2025 (FY2024 in the case of small and medium-sized audit firms) showed an uptrend across large-sized, mid-tier and small and medium-sized audit firms (excluding the impact of the merger between PwC Aarata and PwC Kyoto).

Revenues from audit and attestation services roughly accounted for 70% of operating revenues at large-sized audit firms, while the corresponding ratios at mid-tier and small and medium-sized audit firms were approximately 95% and 90%, respectively (Figure II-2-7). For audit firm groups' operating revenues, see "III. Operation of Audit Firms, A. Operations Management System, 9. Domestic Audit Firm Groups".

Characteristics of audit firms, classified by size, are as follows:

a. Large-sized audit firms

The ratio of audit and attestation service revenues to total operating revenues has remained in the low 70% range for large-sized audit firms as a whole. However, the composition varies across firms. Of the four large-sized audit firms, three have maintained ratios at approximately the low 80% range, the high 70% range, and around 50%, respectively. The remaining firm recorded a ratio in the mid-60% range for some time, but this has recently risen to the mid-70% range, indicating differences among firms.

Large-sized audit firms generally consider it necessary to maintain a certain level of non-audit services. This approach is based on the view that non-audit services provide personnel with opportunities to gain diverse professional experience, that such a broad range of experiences and knowledge contributes to improving audit quality, and that non-audit services are effective in attracting and retaining talent. At the same time, some large-sized audit firms have transferred certain non-audit services to other entities within their audit firm groups. As a result, the proportion of audit and attestation service revenues has increased at some firms.

b. Mid-tier audit firms

Audit and attestation service revenues have shown an upward trend, and their share of total operating revenues has remained at around 95%.

As mid-tier audit firms operate primarily with a focus on audit and attestation services, they limit their provision of non-audit services to those that are considered beneficial when performed in conjunction with audit and attestation engagements or to services that can be provided with their available staffing and operational capacity.

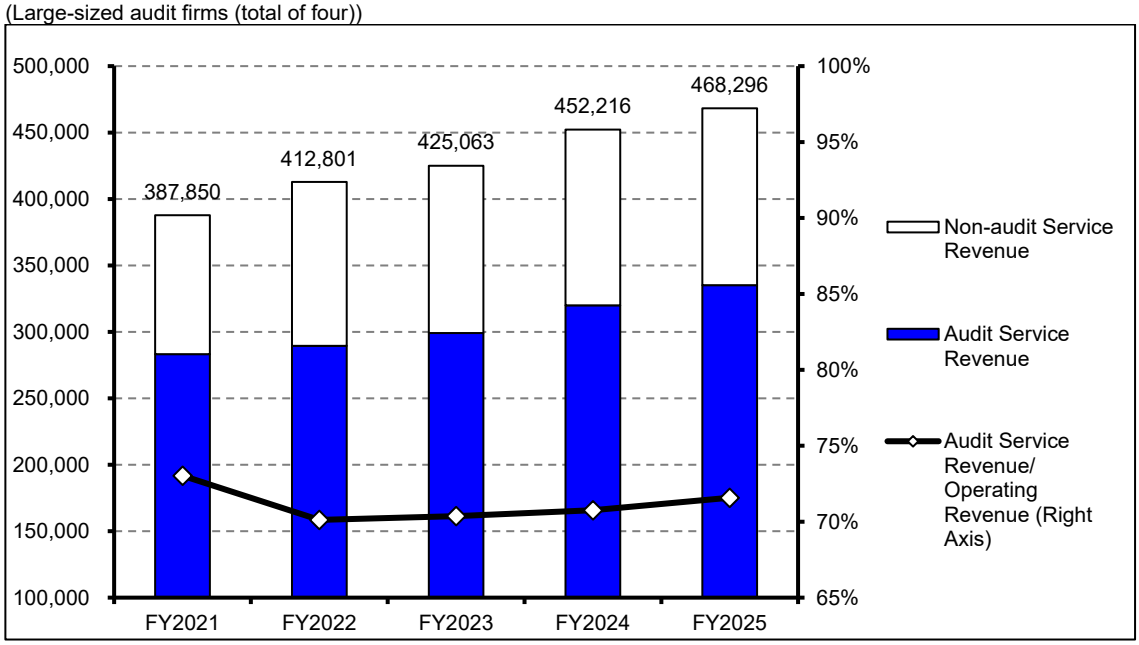
c. Small and medium-sized audit firms

The ratio of audit and attestation service revenues to total operating revenues has remained at around 90%.

While small and medium-sized audit firms generally have relatively low levels of operating revenue, some of the larger firms within this category have expanded their business by accepting audit engagements from listed domestic companies whose previous auditors, primarily large-sized audit firms, had terminated or declined to continue the audit engagements. As changes in accounting auditors among listed domestic companies have led to an increase in the number of audit clients of small and medium-sized audit firms, these firms have experienced substantial growth in audit and attestation service revenues. For changes in accounting auditors, see "III. Operation of Audit Firms, E. Acceptance of New Audit Engagements and Changes of Accounting Auditors".

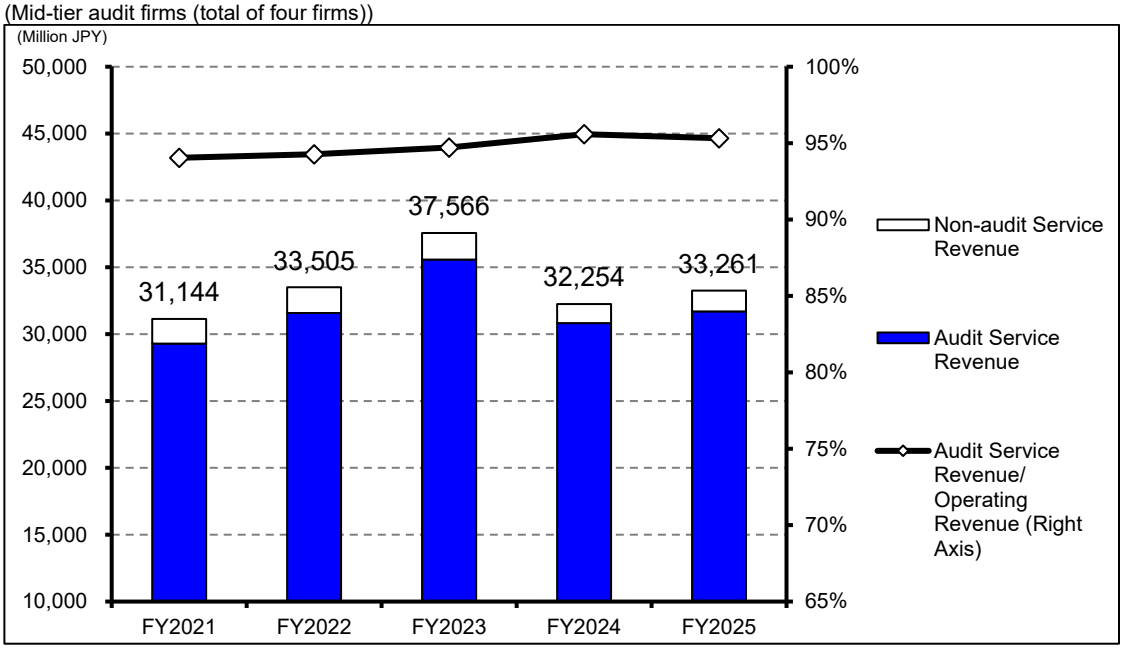
Figure II-2-7: Operating revenues, breakdowns of operating revenues, and proportions of audit and attestation service revenues to total operating revenues

(Large-sized audit firms (total of four))



(Note 1) For FY2021 through FY2023, the data are compiled based on the fiscal years prior to the establishment of PwC Japan. Accordingly, the impact of the merger between PwC Aarata and PwC Kyoto is not reflected in the figures.
(Note 2) From FY2024 onward, operating revenues and the amounts of their components increased due to the establishment of PwC Japan LLC through the merger of PwC Aarata and PwC Kyoto.
(Source) Prepared by the CPAAOB based on business reports submitted by audit firms.

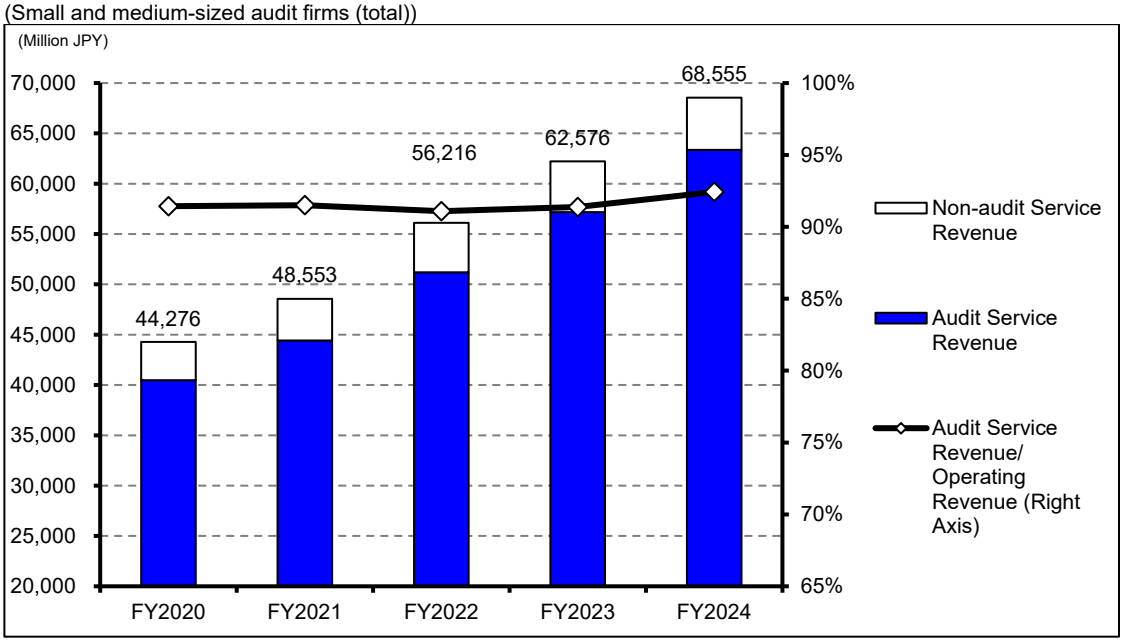
(Mid-tier audit firms (total of four firms))



(Note) For FY2021 through FY2023, the figures represent the combined totals of Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, and Crowe Toyo & Co., and PwC Kyoto. From FY2024 onward, following the merger of PwC Aarata and PwC Kyoto in December 2023, the figures represent the combined totals of four firms: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, and Crowe Toyo & Co. As a result, operating revenues and the amounts of their components decreased.

(Source) Prepared by the CPAAOB based on business reports submitted by audit firms.

(Small and medium-sized audit firms (total))



(Note) Due to the wide range of fiscal year-end dates among small and medium-sized audit firms, data for FY2025 have not yet been compiled. Therefore, the figures for small and medium-sized audit firms cover only up to FY2024. The number of firms included in the compilation differs by fiscal year, and 281 firms were included for FY2024.

(Source) Prepared by the CPAAOB based on business reports submitted by audit firms.

C. Audited Companies

1. Types of Audit and Attestation Services

As previously noted in "B. Audit Firms", audit and attestation services include statutory audits, which are under laws such as the FIEA, the Companies Act, the Act on Subsidies for Private Schools, and the Labor Union Act, as well as non-statutory audits whose objectives and scope are determined by the parties involved. The types of audit and attestation services provided by audit firms are shown below (Figure II-3-1).

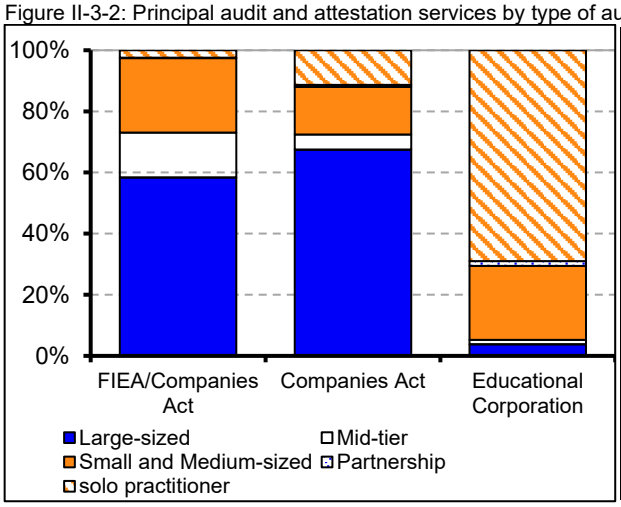
Figure II-3-1: Types of audit and attestation services by audit firm

Type	Statutory audits						Non-statutory audits	Total
	FIEA & Companies Act	FIEA	Companies Act	Act on Subsidies for Private Schools	Labor Union Act	Other		
Number of companies	4,173	305	5,550	1,483	417	4,733	5,871	22,532
Percentage	18.5	1.4	24.6	6.6	1.9	21.0	26.0	100.0

(Note 1) The number of audited companies has been aggregated from business reports submitted by audit firms in FY2024
(Note 2) "FIEA & Companies Act" denotes operations where audit and attestation under both the FIEA and Companies Act are required, while "FIEA" and "Companies Act" denote operations where audit and attestation under the FIEA only or the Company Act only, respectively.
(Source) Prepared by the CPAAOB based on business reports submitted by audit firms.

Audit firms, partnerships and solo practitioners are the entities that provide audit and attestation services. Looking at the entities providing audit and attestation services, about 60-70% of FIEA & Companies Act audits and Companies Act audits are conducted by large-sized audit firms, while about 70% of educational corporation audits are conducted by solo practitioners (Figure II-3-2).

Figure II-3-2: Principal audit and attestation services by type of audit provider (unit: companies)



Type		FIEA & Companies Act	Companies Act	Educational Corporation
Audit firms		4,117	5,519	1,387
(Breakdown)	Large-sized	(2,410)	(4,212)	(180)
	Mid-tier	(631)	(309)	(71)
	Small and medium-sized	(1,076)	(998)	(1,136)
Partnership		6	42	71
Solo practitioner		103	737	3,157

(Note 1) Data were aggregated from audits conducted from the term ended April 2024 to the term ended March 2025. The figures do not match the figures in Figure II-3-1 because the collection period is different.
(Note 2) The figures in the column "FIEA & Companies Act" include services requiring audit and attestation only under the FIEA, in addition to services requiring audit and attestation under the FIEA & Companies Act.
(Source) Prepared by the CPAAOB based on data from the JICPA

2. FIEA and Companies Act Audits

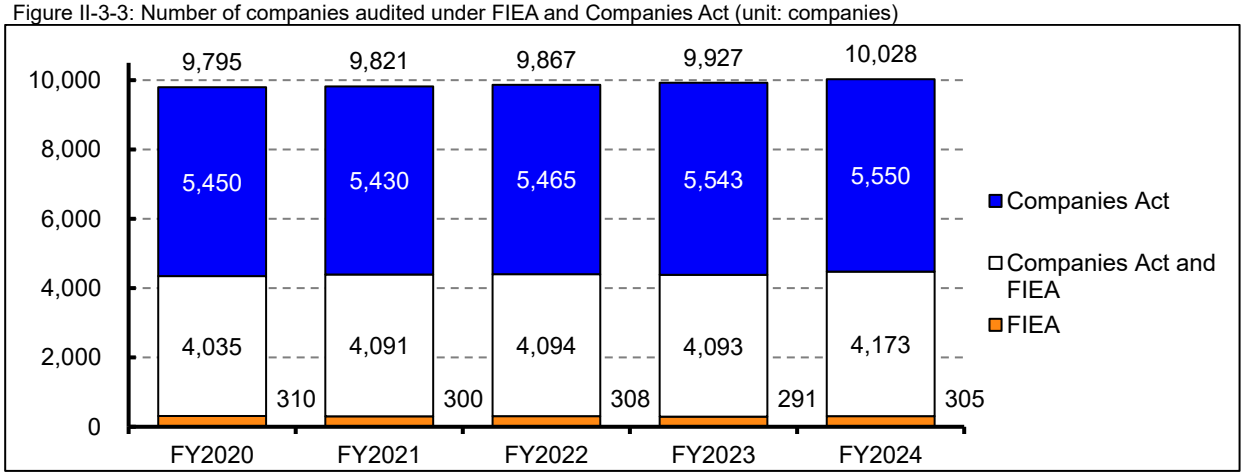
The results of analysis of audited companies etc. and listed companies that are subject to statutory audits under the FIEA and the Companies Act are as follows:

a. Number of companies audited under the FIEA and the Companies Act and share by scale of audit firm

There has been no significant change in the number of companies audited under the FIEA or the Companies Act (Figure II-3-3). With regard to share by scale of audit firm, large-sized audit firms' share has declined, while the shares of mid-tier and small and medium-sized audit firms have increased annually (Figure II-3-4).

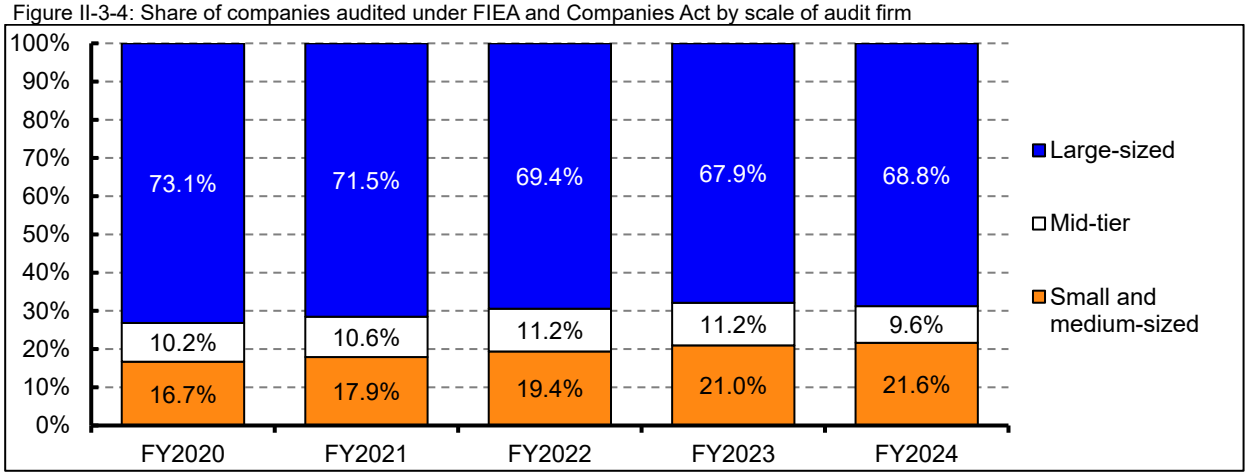
Note that the decline in the share of mid-tier audit firms and the increase in the share of large-sized audit firms from FY2023 to FY2024 were primarily attributable to the merger of PwC Aarata and PwC Kyoto in December 2023.

Figure II-3-3: Number of companies audited under FIEA and Companies Act (unit: companies)



(Note) Because fiscal year-end months vary across audit firms, the horizontal axis shows the fiscal year in which the CPAAOB obtained the business reports. The figures represent the aggregated number of audited companies and other audited entities reported in the business reports submitted by each audit firm in each fiscal year.
(Source) Prepared by the CPAAOB based on business reports submitted by audit firms.

Figure II-3-4: Share of companies audited under FIEA and Companies Act by scale of audit firm



(Note) Because fiscal year-end months vary across audit firms, the horizontal axis shows the fiscal year in which the CPAAOB obtained the business reports. The figures represent the aggregated number of audited companies and other audited entities reported in the business reports submitted by each audit firm in each fiscal year.
(Source) Prepared by the CPAAOB based on business reports submitted by audit firms.

b. Share of listed domestic companies by scale of audit firms

Figure II-3-5 shows the auditors of 3,843 domestic listed companies as of March 2026.

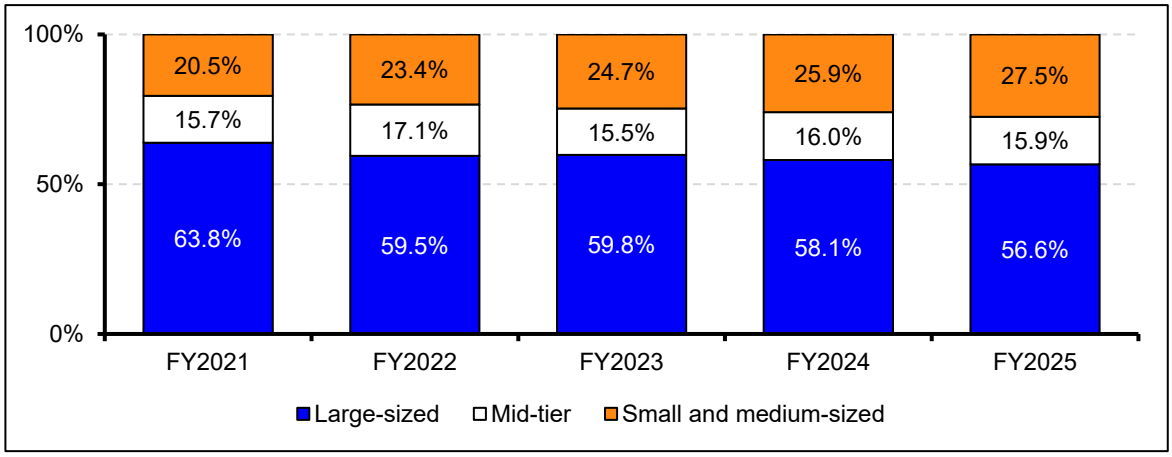
Figure II-3-5: Number and market capitalization of listed domestic companies by scale of auditor (as of the end of March 2026)

	Domestic listed companies	
	Number of companies	Market capitalization (billion yen)
large-sized audit firms	2,177	1,163,702.4
Mid-tier audit firms	610	25,006.1
Small and medium-sized audit firms	1,056	33,987.4
Total	3,843	1,222,695.8

(Source) Prepared by the CPAAOB based on data from Quick and exchanges

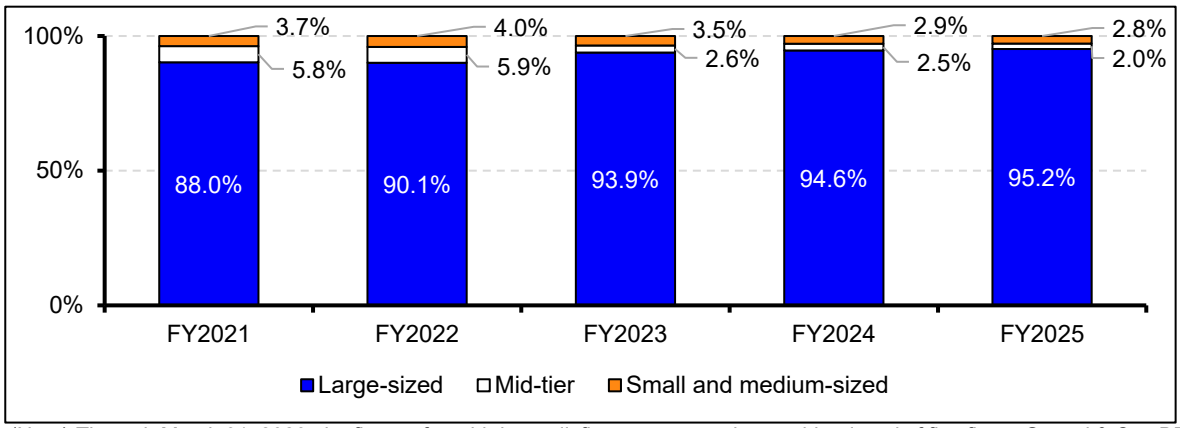
Although large-sized audit firms have gradually reduced their market share in terms of the number of companies audited, they still audit about 60% of listed domestic companies and approximately 90% of the total market capitalization of listed domestic companies. This pattern has remained consistent over time. One possible explanation is that listed domestic companies with large market capitalizations generally have larger business operations and often engage in complex and international activities. Auditing such companies requires not only a large number of audit personnel but also a wide range of specialized expertise, making it difficult for audit firms other than large-sized audit firms to undertake these audits (Figures II-3-6 and II-3-7).

Figure II-3-6: Number of listed domestic companies by audit firm size



(Note) Through March 31, 2023, the figures for mid-tier audit firms represent the combined total of five firms: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, Crowe Toyo & Co., and PwC Kyoto. Following the merger of PwC Aarata LLC and PwC Kyoto in December 2023, the figures from March 31, 2024 onward represent the combined total of four firms: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, and Crowe Toyo & Co.
(Source) Prepared by the CPAAOB based on data from Quick and exchanges

Figure II-3-7: Share by total market value of listed domestic companies by scale of accounting auditor

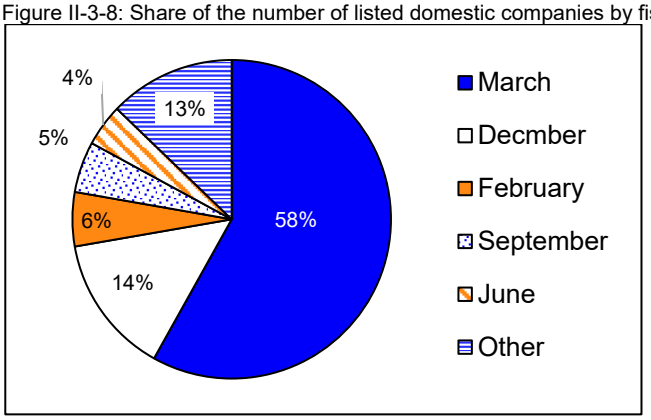


(Note) Through March 31, 2023, the figures for mid-tier audit firms represent the combined total of five firms: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, Crowe Toyo & Co., and PwC Kyoto. Following the merger of PwC Aarata LLC and PwC Kyoto in December 2023, the figures from March 31, 2024 onward represent the combined total of four firms: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, and Crowe Toyo & Co.
(Source) Prepared by the CPAAOB based on data from Quick and exchanges

c. Number of listed domestic companies and total market value by fiscal year-end

59% of listed domestic companies close their books at the end of March, and these companies account for 82% of the total market capitalization. This fact explains why audit operations are heavily concentrated in specific periods (Figures II-3-8 and II-3-9).

Figure II-3-8: Share of the number of listed domestic companies by fiscal year-end (March 31, 2026) (unit: companies)

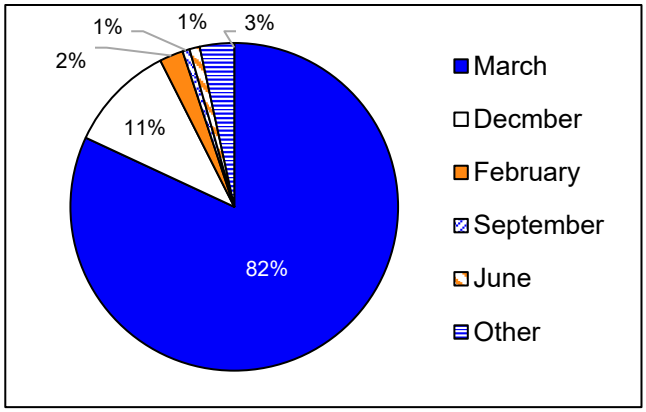


March	2,233
December	544
February	211
September	199
June	164
Other	492
Total	3,843

(Source) Prepared by the CPAAOB based on data from QUICK and exchanges

Figure II-3-9: Share of market value of listed domestic companies by fiscal year-end (March 31, 2026)

(unit: hundred million JPY)



March	10,017,676
December	1,298,821
February	285,846
September	85,865
June	124,593
Other	414,158
Total	12,226,958

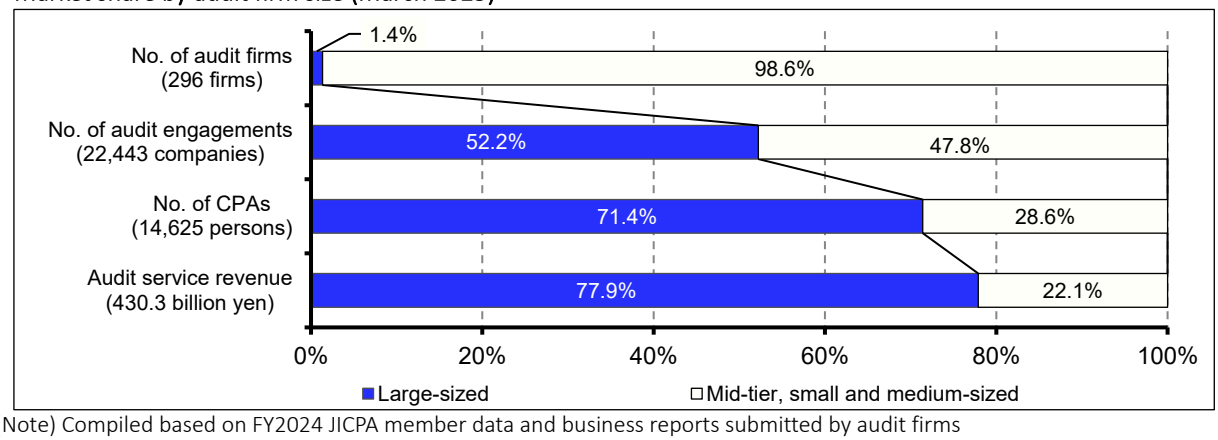
(Source) Prepared by the CPAAOB based on data from QUICK and exchanges

■ Share of Large-sized Audit Firms ■

Among the 296 audit firms as of the end of March 2025, large-sized audit firms accounted for a large shares of audit and attestation engagements, CPAs, and audit and attestation service revenues.

The share of large-sized audit firms in the number of audit and attestation engagements, audit service revenues and other categories has been on the decline in recent years as a result of audit firms' policies and decisions regarding the continuance of audit engagements. See "III. Operation of Audit Firms, E. Acceptance of New Audit Engagements and Changes of Accounting Auditors".

< Market share by audit firm size (March 2025) >



(Note) Compiled based on FY2024 JICPA member data and business reports submitted by audit firms

■ Impact of the Expiration of Transitional Measures for the Tokyo Stock Exchange's Continued Listing Criteria on Audit Risk ■

Following the Tokyo Stock Exchange's market restructuring in April 2022, the transitional measures that had been applied to companies that did not meet the continued listing criteria expired. Consequently, the regular continued listing criteria have applied to assessments of compliance with the continued listing criteria for recoded dates falling on or after March 1, 2025.

If a company falls to meet the continued listing criteria, it will enter an improvement period of one year in principle (six months for the trading volume criterion). If it fails to meet the criteria within this period, it will be delisted after a period of designation as a Security Under Supervision or a Security to be Delisted (six months in principle).

<Listing Maintenance Criteria for Each Market Segment>

Item	Prime Market	Standard Market	Growth Market
Number of Shareholders	800 or more	400 or more	150 or more
Number of Tradable Shares	20,000 trading units or more	2,000 trading units or more	1,000 trading units or more
Market Capitalization of Tradable Shares	JPY 10 billion or more	JPY 1 billion or more	JPY 500 million or more
Ratio of Tradable Shares	35% or more	25% or more	25% or more
Trading Value	Average daily trading value of JPY 20 million or more	Average monthly trading volume of 10 trading units or more	Average monthly trading volume of 10 trading units or more
Net Assets	Positive net assets	Positive net assets	Positive net assets
Market Capitalization	–	–	JPY 4 billion or more (applicable 10 years after listing)*

(Note) From March 1, 2030, the threshold will be revised to ¥10 billion or more and applicable five years after listing.

For companies with a March fiscal year-end, the improvement period expired during March 2026. According to data published by the Tokyo Stock Exchange, as of April 1, 2026, one company had been designated as a Security to be Delisted following a decision to delist, while 21 companies had been designated as Securities Under Supervision (excluding companies not subject to the transitional measures and those designated as Securities Under Supervision due to non-compliance with criteria for which no transitional measures apply, such as the net assets criterion). Companies designated as Securities Under Supervision will be allowed to maintain their listings if they subsequently satisfy the continued listing criteria or meet the requirements for a change in market segment. Failure to do so, however, will result in delisting. In addition, a certain number of companies with fiscal year-ends other than March remain within improvement periods due to non-compliance with the continued listing criteria.

The continued listing criteria with which companies most frequently fail to comply are Tradable Share Market Capitalization in the Prime and Standard Markets and Market Capitalization in the Growth Market. Accordingly, companies that do not satisfy the continued listing criteria are increasingly expected to undertake initiatives that take into account the cost of capital and stock price performance. On the other hand, among companies that had been subject to the transitional measures, some have avoided domestic delisting by obtaining approval for a change in market segment or for dual listing on another stock exchange, while others have chosen to go private through management buyouts (MBOs) or similar transactions.

The primary objective of management that is conscious of the cost of capital and stock prices is to enhance medium- to long-term corporate value and achieve sustainable growth by promoting fundamental initiatives, such as growth investments and reviews of business portfolios, while giving due consideration to the cost of capital and capital efficiency. However, companies that do not satisfy the continued listing criteria may become overly focused on their stock prices and adopt a short-term orientation in an effort to obtain favorable evaluations from investors as quickly as possible.

Ordinarily, listed companies face a certain degree of pressure to achieve their business performance targets. In financial statement audits, auditors assess fraud risks arising from such pressures and design and perform audit procedures that appropriately respond to those risks. In contrast, management of companies that have entered an improvement period due to non-compliance with the continued listing criteria, or companies that may fail to satisfy those criteria as of future record dates, may face even greater pressure to produce favorable financial results that could help support stock prices and thereby avoid delisting. As a result, the risk of fraud may increase.

Accordingly, auditors should take into account the audited company's compliance with the continued listing criteria and carefully and promptly assess fraud risks, including the incentives and pressures that may give rise to fraudulent conduct. The CPAAOB will continue to monitor the impact of compliance with the continued listing criteria on audit risk and will also monitor whether audit firms are responding appropriately to such risks.

■ Trends in Accounting Fraud Based on Timely Disclosure Requirements ■

In general, “accounting fraud” refers to any intentional misconduct involving a company’s financial information or accounting records, including misrepresentation, concealment, or falsification. Recently, announcements of accounting fraud by listed Japanese companies have occurred with increasing frequency and have attracted significant public attention. In July 2025, the JICPA published Management Research Committee Research Material No. 12: Trends in Accounting Fraud at Listed Companies and Related Entities (2025 Edition).[34] The following provides an overview of some of its findings.

The report analyzes 196 listed companies and related entities (including listed companies and their affiliates) that publicly disclosed accounting fraud between April 2020 and March 2025 under the timely disclosure systems of Japanese stock exchanges. The data are classified by fiscal year based on the date of disclosure.

Over the five-year period from the fiscal year ended March 2021 to the fiscal year ended March 2025, the number of listed companies that disclosed accounting fraud increased every year. The number rose from 26 companies in FY2021 to 56 companies in FY2025, more than doubling during the period. Among the 177 listed companies whose investigation reports were publicly available, 184 fraud incidents were identified in which the location of the fraud could be determined. Approximately 45% occurred at headquarters, while about 55% occurred outside headquarters, including domestic subsidiaries, overseas subsidiaries, or both. In FY2025, the number of fraud cases discovered at overseas subsidiaries increased to eight, compared with three in the previous fiscal year. The report also classified 158 cases for which the method of detection could be identified. During the five-year period, the most common means of detection was investigations by regulatory authorities. This was followed by internal controls and related procedures, whistleblowing reports, inquiries from business partners, external audits conducted by certified public accountants, and internal audits.

Of the 184 accounting fraud cases identified at the 177 listed companies, those for which the fraud scheme could be determined were further classified by type. A total of 263 instances fell into the category of fraudulent financial reporting, while 76 instances were categorized as asset misappropriation. For fraudulent financial reporting, multiple schemes within a single case were counted separately, resulting in a total that exceeds 184 cases. In other words, out of 339 identified fraud schemes, approximately 77% were related to fraudulent financial reporting. Since fraudulent financial reporting generally has a greater impact on financial statements than asset misappropriation, the report suggests that a higher number of accounting fraud cases disclosed under stock exchange timely disclosure requirements fall into the former category. A more detailed analysis of fraudulent financial reporting found that common schemes included fictitious purchases and cost manipulation and overstatement of revenue. In FY2025, approximately 32% of fraudulent financial reporting cases involved revenue-related misconduct, such as fictitious or premature revenue recognition, circular transactions, and abuse of the percentage-of-completion method. The second most common category involved cost-related fraud, such as fictitious purchases and cost manipulation, accounting for approximately 27% of fraudulent financial reporting schemes. With respect to asset misappropriation, the most common schemes were cash embezzlement and the diversion of funds through third-party companies. Together, these accounted for approximately 70% of all asset misappropriation cases. The report also analyzed industries in which accounting fraud occurred. During the five-year period, the service industry accounted for the largest number of cases, with 46 companies representing approximately 24% of the total. This was followed by wholesale trade (27 companies), construction (21 companies), and information and communications (20 companies).

One explanation for the recent increase in accounting fraud disclosures is that the widespread adoption of remote work during the COVID-19 pandemic weakened supervisory and monitoring functions within companies, creating more opportunities for fraud. Subsequently, as employees returned to the workplace, internal control systems and whistleblowing mechanisms regained effectiveness, leading to the detection of previously undiscovered misconduct. Nevertheless, listed companies face continuing pressure to achieve financial performance targets due to the expectations of shareholders and other stakeholders. As a result, incentives for management and employees to engage in accounting fraud remain. Consequently, the importance of internal audits, audits conducted by corporate auditors and audit committees, and external audits performed by independent auditors continues to grow. The CPAAOB intends to continue its monitoring activities with close attention to developments in accounting fraud.

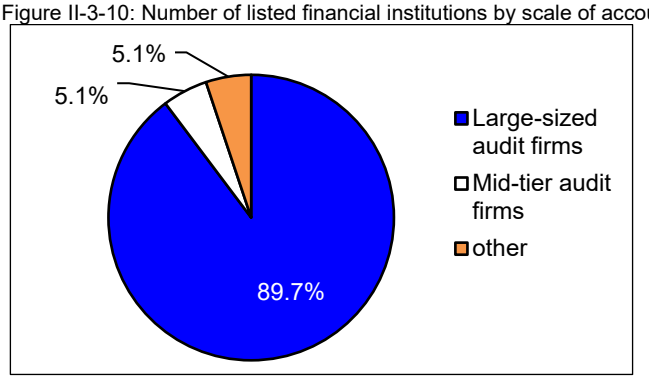
[34] Refer to https://jicpa.or.jp/specialized_field/20250724jqd.html

3. Audits of Financial Institutions

About 90% of listed financial institutions (117 companies) were audited by large-sized audit firms, and in terms of market capitalization, large-sized audit firms handled 99%. Accordingly, compared with domestic listed companies as a whole, the share audited by large-sized audit firms was even higher (Figures II-3-10 and II-3-11). For details, see "2. FIEA and Companies Act Audits".

To cope with accounting and audit practices that are specific to the listed financial institutions, large-sized audit firms are establishing departments specializing in financial services in their audit operations divisions, and some mid-tier audit firms have established support systems that specialize in handling inquiries about the accounting procedures of financial institutions.

Figure II-3-10: Number of listed financial institutions by scale of accounting auditor (As of March 31, 2026)

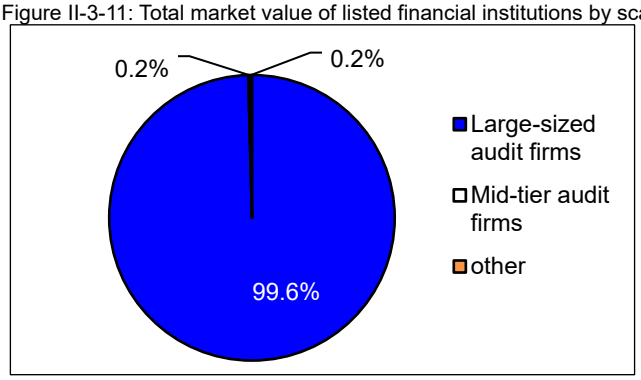


(unit: companies)

Large-sized audit firms	105
Mid-tier audit firms	6
Small and medium-sized audit firms, partnerships and solo practitioners	6
Total	117

(Source) Prepared by the CPAAOB based on data from QUICK and exchanges

Figure II-3-11: Total market value of listed financial institutions by scale of accounting auditor (As of March 31, 2026)



(unit: hundred million JPY)

Large-sized audit firms	1,524,977
Mid-tier audit firms	3,099
Small and medium-sized audit firms, partnerships and solo practitioners	3,275
Total	1,531,352

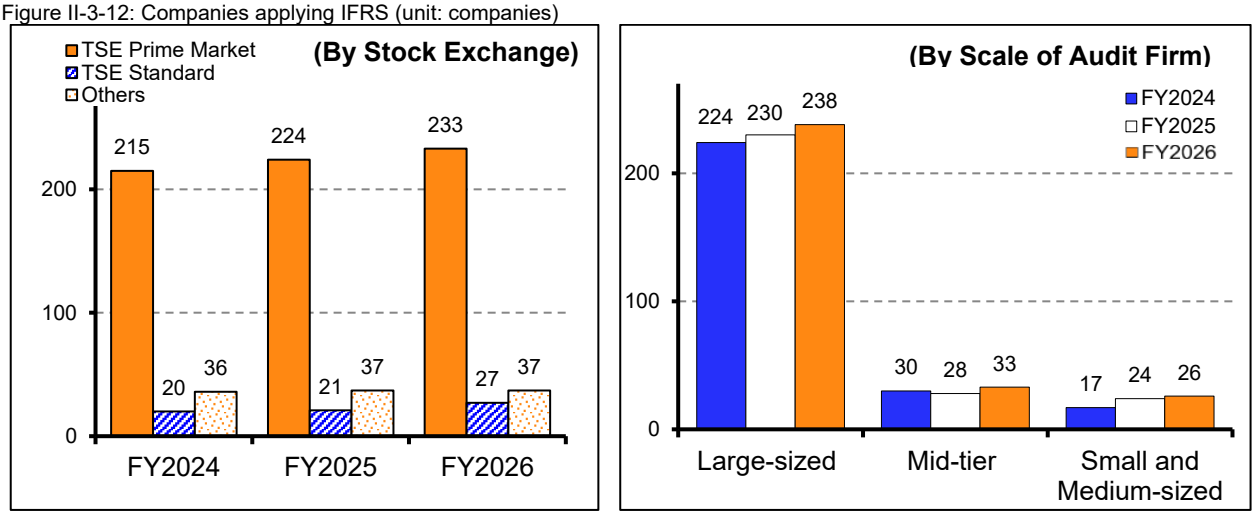
(Source) Prepared by the CPAAOB based on data from QUICK and exchanges

4. IFRS Adopting Companies

The following figures show the listing markets for companies applying IFRS and the scale of the accounting auditors for these companies as of the end of March 2026 (Figures II-3-12).

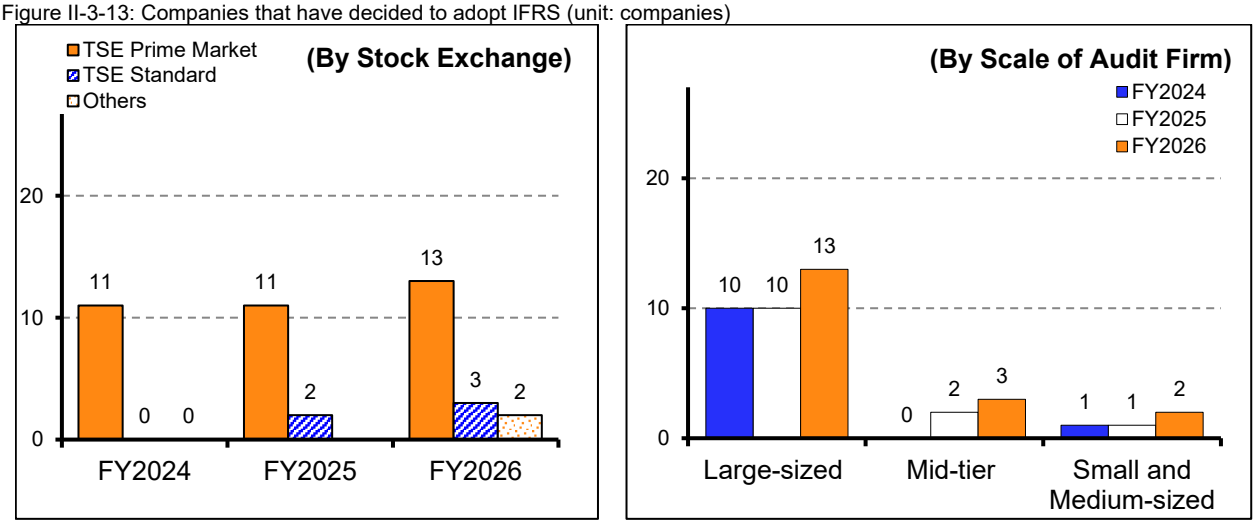
The majority of companies that have adopted IFRS are listed on the Prime Section of the Tokyo Stock Exchange, and many of them operate internationally. Audit contracts are concentrated in large-sized audit firms that are members of major global networks. A similar situation is seen with companies that have decided to adopt IFRS (companies in which the business execution body has decided to adopt IFRS and has disclosed this decision to the public) (Figure II-3-13).

Figure II-3-12: Companies applying IFRS (unit: companies)



(Note) PwC Arata and PwC Kyoto merged on December 1, 2023 to form PwC Japan, and the former PwC Kyoto is classified as a large-sized audit firm for the purpose of classification by audit firm size as of March 31, 2026.
(Source) Prepared by the CPAAOB based on data from exchanges

Figure II-3-13: Companies that have decided to adopt IFRS (unit: companies)



(Note) PwC Arata and PwC Kyoto merged on December 1, 2023 to form PwC Japan, and the former PwC Kyoto is classified as a large-sized audit firm for the purpose of classification by audit firm size as of March 31, 2026.
(Source) Prepared by the CPAAOB based on data from exchanges

5. Audits of Initial Public Offerings

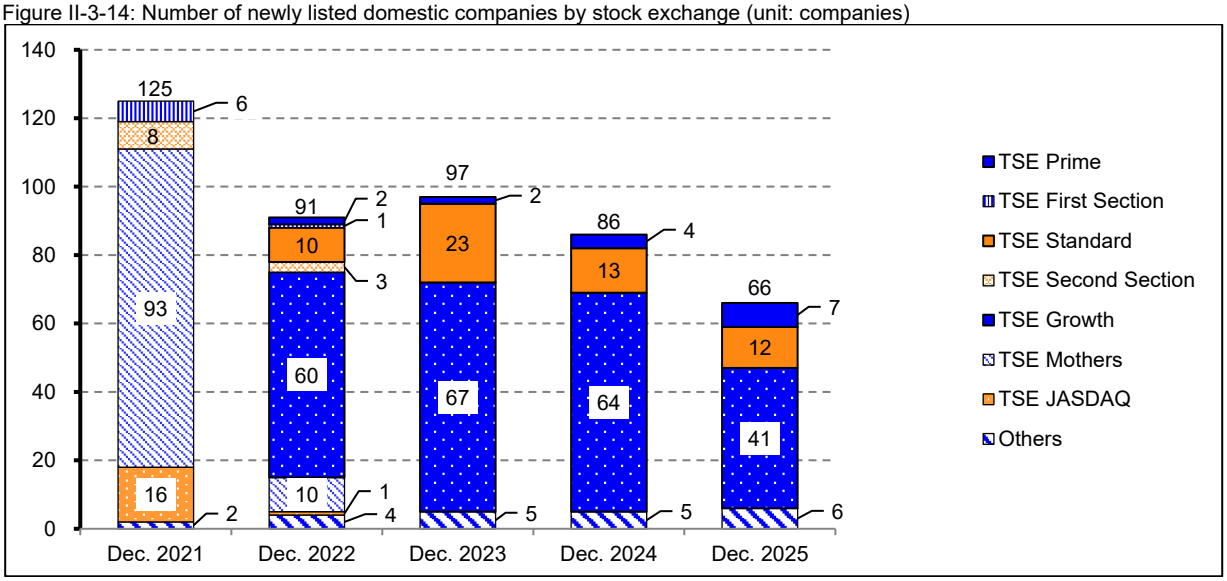
The number of IPOs (excluding listings on the TOKYO PRO Market and Fukuoka PRO Market) for the period from January 2025 to December 2025 (year through December 2025) came to 66, significantly below the 86 IPOs recorded in the previous year. By market segment, the number of newly listed companies on the Tokyo Stock Exchange Growth Market declined sharply from 64 to 41. This decrease followed the decision to tighten the market capitalization requirement under the continued listing criteria from “a market capitalization of at least JPY 4 billion after ten years from listing” to “a market capitalization of at least JPY 10 billion after five years from listing,” effective on and after March 1, 2030 (Figure II-3-14).

Looking at market share by size of audit firms, large-sized audit firms continued to hold a substantial share of the IPO audit market (Figure II-3-15). However, the share held by each individual large-sized audit firm fluctuated, likely reflecting changes in the firms’ respective business operation policies and

the status of their IPO-related services. For information regarding audit firms' policies on accepting IPO audit engagements and their organizational structures, see "III. Operation of Audit Firms, A. Operations Management System, 4. Organizational Structure for Providing Audit Services".

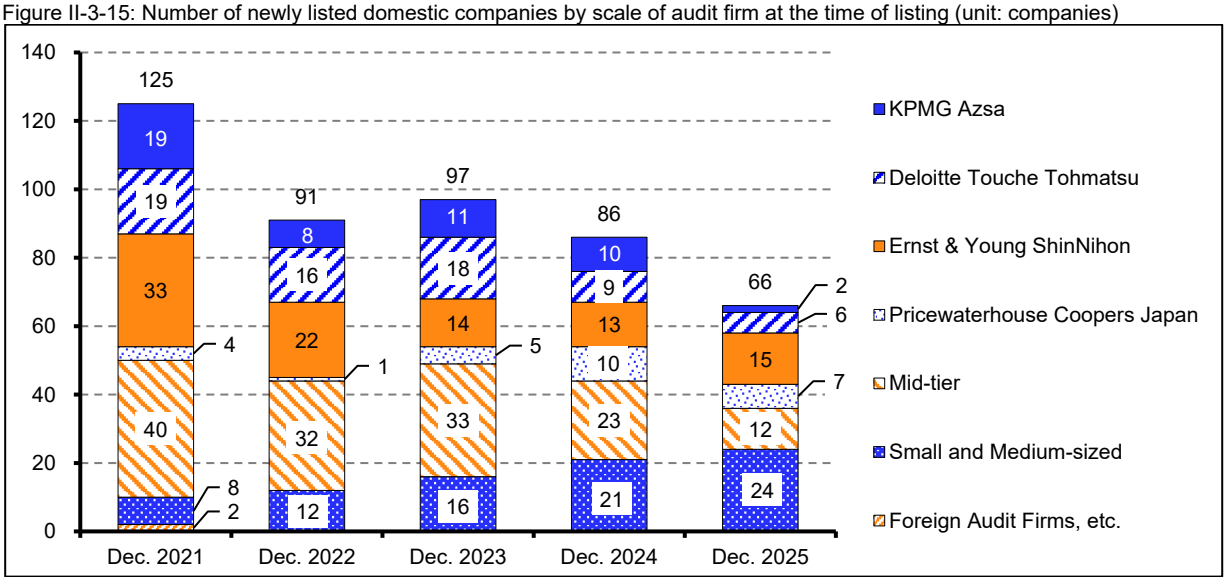
As of December 31, 2025, the share of large-sized audit firms decreased from 49% to 46%, while the share of mid-tier audit firms declined from 27% to 18%. In contrast, the share of small and medium-sized audit firms increased from 24% to 36%.

Figure II-3-14: Number of newly listed domestic companies by stock exchange (unit: companies)



(Source) Prepared by the CPAAOB based on data from exchanges

Figure II-3-15: Number of newly listed domestic companies by scale of audit firm at the time of listing (unit: companies)



(Note) As of December 1, 2023, PricewaterhouseCoopers Aarata and PwC Kyoto were merged to form PwC Japan. For companies whose IPO audits were involved by PwC Kyoto before the merger, PwC Kyoto is classified as a mid-tier audit firm.

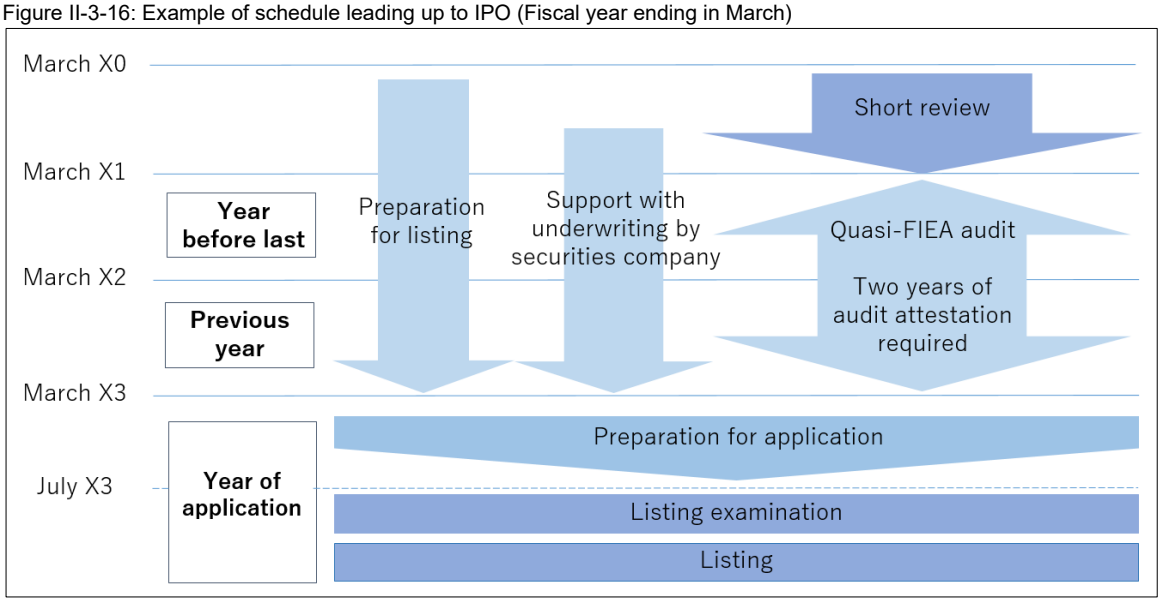
(Source) Prepared by the CPAAOB based on data from exchanges

Most audit firms regard the acceptance of IPO audit engagements as a part of the mission of audit firms since assisting with IPOs contributes not only to companies' growth but also to socioeconomic development.

However, IPO audits often entail relatively high audit risk because audited companies may have weaknesses in their internal control structures, and improper accounting may already be occurring by the time of the IPO. Accordingly, many audit firms have a policy of more carefully considering engagement risks than usual when accepting IPO audit engagements.

The increase in the market share of small and medium-sized audit firms may be attributable to several factors, including resource constraints at large-sized and mid-tier audit firms and the tendency of those firms to seek higher audit fees commensurate with the level of audit effort required in light of the risks associated with IPO audits. As a result, audited companies may have viewed the audit fees charged by small and medium-sized audit firms as being more commensurate with the scale of their businesses.

Figure II-3-16: Example of schedule leading up to IPO (Fiscal year ending in March)



(Source) Prepared by the CPAAOB

■ IPO Support Services ■

Article 192-2, paragraph 1 of the FIEA stipulates that to obtain a listing, a company needs to have its financial statements audited for the two years prior to the year in which it will be listed (application year). (This type of audit is described as “quasi-FIEA audit”). Furthermore, before concluding a quasi-FIEA audit contract, a short review is conducted to identify and resolve issues ahead of listing. This is the typical workflow when preparing for listing. Companies often ask CPAs and audit firms for support with conducting the short review and resolving issues, and CPAs and audit firms accept these engagements as non-audit work. The IPO-related support services that CPAs and audit firms provide as non-audit work include the following:

- Short reviews
- Support with establishing management structures
- Support with establishing internal control structures
- Support with speeding up book-closing procedures
- Support with preparing listing application documentation

According to the collection of reports from small and medium-sized audit firms (covering 44 small and medium-sized audit firms in PY2025), 59% of respondents reported that they either "provide audit services" or "provide non-audit services" to companies preparing for an IPO. As indicated by the aforementioned market shares by audit firm size at the time of listing, small and medium-sized audit firms have continued to achieve growth by adopting management strategies that focus on providing services to companies preparing for an IPO.

The CPAAOB will continue to examine, through inspections and the collection of reports from small and medium-sized audit firms, whether there are any issues relating to the provision of audit and other professional services to companies preparing for an IPO.

■ Responses to Accounting Fraud Cases Identified at the Time of IPO ■

In response to cases in which accounting fraud was discovered shortly after the listing of newly listed companies, the IPO Liaison Meeting[35] (Secretariat: Tokyo Stock Exchange, Inc. and Japan Exchange Regulation (hereinafter collectively referred to as the "TSE and JPX-R")) published "*The Exchange's Measures in Response to Accounting Fraud Cases at the Time of IPO*" ("TSE and JPX-R Liaison Meeting Paper") on December 12, 2025.

This paper states that the following measures will be implemented to enhance the quality of the listing examination process and to prevent recurrence through cooperation and collaboration among IPO stakeholders:

- Listing examination based on fraud risk;
- Review of the proper establishment of whistleblowing systems and enhancement of collection and sharing of fraud-related information;
- Awareness activities and other initiatives for executives;
- Partnership with IPO stakeholders; and
- Initiatives to enhance the listing examination capabilities related to fraud risk at JPX-R.

Following the publication of the TSE and JPX-R Liaison Meeting Paper, various IPO stakeholders announced their respective response measures. On January 26, 2026, JICPA published *Audit Responses to Accounting Fraud Cases at Newly Listed Companies and Other Entities (Notice)* ("JICPA Notice") and *Initiatives to Enhance the Reliability of Audits Conducted by Auditors of Registered Listed Companies and Other Entities*. In addition, on March 18, 2026, the Japan Securities Dealers Association (JSDA) published the *Guidelines for Underwriting Examinations in Light of Accounting Fraud Cases Identified at the Time of Initial Public Offerings*. Subsequently, on March 27, 2026, the TSE and JPX-R, the JICPA, and the JSDA jointly published *Responses by IPO Stakeholders to Accounting Fraud Cases Identified at the Time of Initial Public Offerings*, which consolidated the measures adopted by IPO stakeholders.

As one of these measures, where an audit firm has been replaced during the IPO preparation period, the TSE and JPX-R and the lead managing securities company will verify the circumstances surrounding the auditor change, including discussions with the predecessor auditor, as part of the listing examination process. In addition, to enhance auditors' capabilities to address fraud risks, the JICPA has announced measures such as considering stricter eligibility requirements for registered auditors of listed companies and strengthening the monitoring of auditors. These measures reflect the growing participation of small and medium-sized audit firms in the IPO market and are expected to affect audit firms involved in IPO engagements.

The JICPA Notice also summarizes six areas requiring particular attention when complying with auditing standards and other professional requirements, based on the results of investigations and reviews of member firms' audit practices in actual accounting fraud cases. Its objective is to maintain and enhance public confidence in auditing. In particular, the Notice highlights that small and medium-sized audit firms with relatively few listed company audit clients often have limited human resources and practical experience in dealing with accounting fraud cases. Accordingly, such firms are encouraged to refer to the JICPA Notice and to re-emphasize the proper application of the risk-based approach, including the identification, assessment, and response to risks of material misstatement.

For further details regarding each of these publications, see "IV. Responses to Changes in the Global Environment Surrounding Audits, A. Trends Surrounding Small and Medium-Sized Audit Firms".

[35] The IPO Liaison Meeting is a forum established in January 2025 by the Japan Exchange Group, Inc. for the purpose of conducting regular exchanges of views with securities companies, audit firms, and other stakeholders regarding issues relating to IPOs.

D. Foreign Audit Firms

1. System for Foreign Audit Firms

Financial statements submitted by domestic listed companies under the FIEA generally require audit attestation by Japanese CPAs or audit firms. For foreign companies, however, audit attestations of financial statements to be submitted pursuant to the FIEA are generally provided by CPAs or audit firms in their home jurisdictions. To avoid duplicate audits, an exemption is granted where the issuer has obtained audit attestation deemed equivalent to that required under the FIEA.

To further enhance the soundness of Japan's capital markets, the CPA Act was amended in 2007 to require foreign CPAs and audit firms auditing foreign companies, etc. subject to the FIEA disclosure requirements to file a notification with the FSA Commissioner. Upon filing the notification, they are recognized as foreign audit firms (Article 1-3(7) and 34-35 (1) of the CPA Act) and become subject to inspection and supervision by the CPAAOB and the FSA.

Under "Approach to Inspections and Supervision of Foreign Audit Firms" (September 14, 2009), the CPAAOB generally collects reports from foreign audit firms once every three years. Most recently, in PY2024, the CPAAOB collected reports from 28 foreign firms in 12 countries and regions as the most recent case. The CPAAOB has published the *"Basic Guidelines on Information Requirements and Inspection on Foreign Audit Firms etc. by the CPAAOB"* [37], which sets out the procedures for report collections and inspections.

2. Foreign Audit Firms

Most foreign audit firms registered with the FSA are based in Europe, followed by the Asia-Pacific region (Figure II-4-1). France and the Cayman Islands have the largest number of registered firms (eight each), followed by the U.S. and Hong Kong (seven each). Registered foreign audit firms are listed and updated on the FSA website.

Figure II-4-1: Number of registered foreign audit firms (as of March 31, 2026)

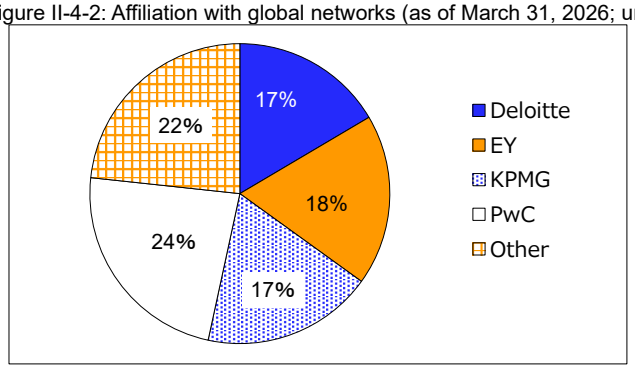
	Number of countries/regions	Number of foreign audit firms
Europe	16	61
Asia-Pacific	10	30
North America	2	10
Middle East	1	2
Total	29	103

(Source) Prepared by the CPAAOB based on information from the FSA website

[36] This document sets out specific implementation procedures and matters requiring attention regarding policies for the supervision and inspection of foreign audit firms (published in September 2009)
[37] The guideline prescribes specific procedures, points requiring attention, and other matters relating to the collection of reports from and inspections of foreign audit firms, etc. (Most recently revised in June 2024.)

Around 80% of foreign audit firms are affiliated with Big Four global accounting firms (Figure II-4-2).

Figure II-4-2: Affiliation with global networks (as of March 31, 2026; unit in right-hand table: Firms)



Big Four global accounting firms	80
Other	23
Total	103

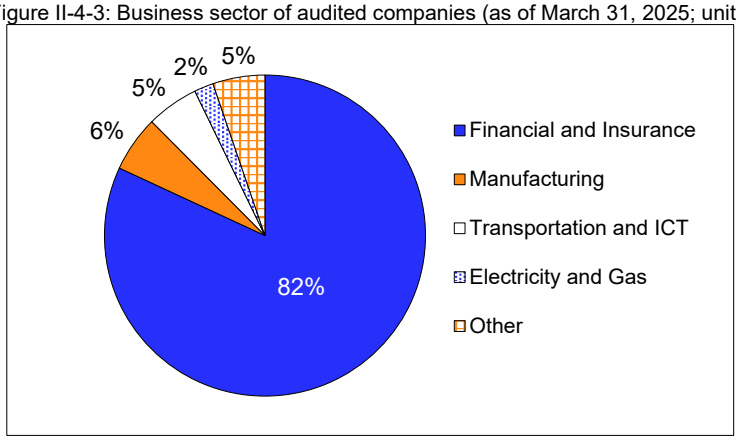
(Note) The figures cover foreign audit firms registered with the FSA and whose audit firm names include the names of one of the Big Four global networks.
(Source) Prepared by the CPAAOB based on information from the FSA website

3. Audited Companies

Securities issued by foreign companies that are subject to the FIEA disclosure regulations include not only shares issued by a foreign company that are offered for public offering or secondary distribution, or listed on exchanges in Japan, but also bonds issued by foreign companies, beneficiary certificates issued by foreign investment trusts, and foreign investment securities. Among foreign companies currently subject to disclosure rules, most are unlisted funds (foreign investment trusts and foreign investment securities).

Regarding the business sectors of companies audited by foreign audit firms, 82% are classified as finance and insurance, and around 65% of these are unlisted funds (Figure II-4-3).

Figure II-4-3: Business sector of audited companies (as of March 31, 2025; unit in right-hand table: companies)



Finance and Insurance		421(3)
	Unlisted Funds	273
	Fund issuer	69
Manufacturing		29(-)
Transportation and ICT		27(-)
Electricity and Gas		10(-)
Other		27(4)
Total		514(7)

(Note) Figures in parentheses are the number of companies (including funds) listed on exchanges in Japan
(Source) Prepared by the CPAAOB based on information on the FSA website