

Annual Report 2020



JICPA

Annual Report 2020

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Message from the Chairman and President



The Contributions that CPAs Can Make to Japan's Future

A handwritten signature in black ink that reads "M. Tezuka".

Masahiko Tezuka, Chairman and President of JICPA

Japan today stands on the verge of unprecedented rapid population decline. Charting a path for economic and social growth going forward will prove extremely difficult. To build a bright future for the country, enhancing economic vitality is essential, especially enhancing the sustainable value creation capabilities of companies. Without the virtuous cycle of robustly functioning capital markets efficiently allocating capital to companies with strong value creation capabilities, thereby propelling corporate growth, the mechanisms of capital markets cannot sufficiently help increase the public's wealth and promote asset formation. Moreover, as lifespans grow longer, the public's asset formation is becoming more important than ever.

Since taking office as Chairman and President of JICPA in July 2019, I have been thinking about how CPAs can contribute to Japan's future in 10 or 20 years, working to identify the issues we need to resolve and, under the slogan "Move Forward to the Future," doing my utmost to advance the necessary changes.

Organizational Reforms to the JICPA

In hammering out our policy as chairman and president, I referred to the vision paper for the JICPA compiled in 2007 by then chairman Tsuguoki Fujinuma.¹ Even more than a decade later, this vision is as pertinent as ever, and I think it is a useful touchstone for us as an industry.

At the same time, the issues that the JICPA must address have broadened considerably since 2007. This is due in part to the growing number of listed companies, accelerating corporate globalization, and major changes to the structures of business itself due to digital innovation. The other major factor is the expansion of entities subject to auditing, as non-profit corporations (such as public interest corporations, social welfare corporations, and medical corporations) over a certain size are now required to undergo CPA audits. This expansion is expected to continue going forward.

To appropriately handle these rapid, enormous changes, I felt that we needed to shift the JICPA's activities from a more operation-based model, in which we steadily execute existing procedures and rules, to a more proactive management-based model that adapts to the changes in the landscape surrounding CPAs. To that end, functions that oversee and strategically advance the operations of the institute as a whole and that encourage open coordination across divisions are essential. In addition, to ensure the CPA

profession will continue to contribute to the public interest by adapting to the rapid changes in companies and society, we must maintain open communications with stakeholders, including legislatures, public offices, and the business community, clearly indicating and executing our initiatives to contribute to the public interest.

To fulfill such functions, we created the new General Strategy, Planning and Communication Division. This division has taken the lead in identifying material issues faced by the CPA industry, establishing five strategic targets to resolve these issues, and formulating measures to achieve these targets. As part of efforts to hammer these measures out more concretely and to foster an organizational culture that embraces change, we designated four values for all our officers and administrative employees to share.² These stipulate that we strive to approach issues with foresight, strategic thinking, and creativity; put the trust of our stakeholders first; work together and build constructive relationships; and conduct open, highly productive institute management. By doing so, we aim to become a professional organization, trusted by both its members and society, that makes the greatest possible contribution to sound economic development and the realization of greater well-being throughout society.

Message from the Chairman and President

Reinforcing Hands-On Auditing Skill

Practical, hands-on skill is the foundation underpinning audit quality and confidence. I believe that hands-on skill is the ability to correctly perceive the facts, find problems, identify their causes, and help solve them. Companies have a duty to disclose correct financial information, defining a correct way in which they should behave; in many cases, however there are gaps between this ideal and their reality—these are problems. CPAs are called upon to exercise professional skepticism to find these problems, identify their causes, and diligently work with companies to encourage actions that will help solve them. The exercise of such professional skepticism is the most crucial key to reinforcing hands-on

audit skill.

As companies grow larger and their businesses more diverse and globalized, understanding their activities is becoming markedly more difficult. As such, key issues for reinforcing practical audit skill include enhancing the qualities of auditors in line with evolving needs, utilizing advanced IT tools and data analysis techniques to bolster the sophistication and efficiency of auditing, securing adequate time for auditing, and studying case studies of misconduct to encourage the exercise of professional skepticism. To ensure unwavering confidence in CPA audits, the JICPA will put its full force into addressing these issues.

Three Key Ways of Contributing in Fiscal 2021

In fiscal 2021, we are focusing on three ways of contributing.

1. Contributing to the Formation of Capital Markets with Integrity and Vigor

The capital markets are where stocks, bonds, and other assets are traded. Capital markets that have integrity and vigor function briskly and soundly, efficiently allocating capital to companies with strong value creation capabilities, promoting corporate growth and thereby facilitating the public's wealth building and asset formation. By appropriately carrying out audits of financial statements and internal control, CPAs help ensure the reliability of corporate disclosure and soundness of corporate management, thereby contributing to the maintenance of capital markets with integrity and vigor.

Investor needs regarding corporate disclosure are changing. In particular, investors increasingly seek to evaluate a company's ability to sustainably create value not only based on financial data, but taking into account ESG information as well. In light of such needs, the JICPA has changed its internal structure to facilitate the unified consideration of financial and non-financial disclosure within a single internal organ rather than separate organs, as before. In addition, we have set up a special committee with outside experts to discuss corporate disclosure and related governance approaches.

In addition, more than half of CPAs in Japan work

outside of audit firms, often serving as officers or employees of companies. More than 1,600 CPAs currently serve as outside officers of listed companies. By supporting such CPAs who work at companies, I think the JICPA can help to realize proper corporate disclosure and sounder corporate management.

2. Contributing to Regional Revitalization and Maintaining Sound Social Infrastructure

In Japan, depopulation and economic shrinkage in regional areas are serious social issues. The national government has made the revitalization of regional areas a key policy issue, and CPAs working in regional areas possess sophisticated expertise, developed through wide-ranging experience in auditing, accounting, and tax-related work, that can be used in the support of small- and medium-sized companies. Leveraging its network of CPAs across the country, the JICPA strives to allot human resources appropriately and provide well-calibrated support to small- and medium-size companies in regional areas. Furthermore, through audits of regional medical corporations, social welfare corporations, and other such organizations, we are working to maintain the soundness of the social infrastructure that underpins the daily lives of people in these areas.



3. Contributing to Financial and Economic Education

As lifespans grow ever longer, financial literacy is essential not just in business, but for all citizens as they form assets over the course of a lifetime. Mainly through our 16 regional chapters across Japan, we are rolling out "Hello! Accounting," an educational program for elementary and junior high school students that makes learning about accounting fun. I believe that accounting literacy is crucial to developing financial literacy, and we will continue this program going forward. In addition, new junior high and high school curriculum guidelines in

Japan include "using accounting information," creating a need for educational materials to help teachers understand and learn to teach this material. Accordingly, we are advancing considerations, involving academic experts in accounting and education, of concrete measures to provide support in this area. Through such efforts, we will continue working, as accounting and finance professionals, to contribute to financial and economic education to broadly promote financial literacy among the people of Japan.

In Closing

The novel coronavirus pandemic has thrust urgent challenges upon Japan and the CPA industry. Going forward, I think that we need to take the crises created by the pandemic into account as we establish a clear long-term vision for the CPA industry and the JICPA in cooperation with our members and other related parties. For example, we must fundamentally examine the form of the CPA system and industry a decade from now, including the necessity of legal changes. Such a fundamental reassessment will likely require at least five years. In addition, we must set clear milestones and continue to discuss the JICPA's governance, operations, and financial administration.

Based on my 33 years of practical experience, I am confident that the CPA profession is among those with the greatest potential to contribute to the resolution of the issues faced by society.

Going forward, I will continue in my unyielding efforts to build confidence in CPAs while focusing on future-oriented initiatives in cooperation with our members, associate members, and other stakeholders, to ensure that CPAs can broadly leverage their accumulated skills and robust networks in the service of the public interest.

I look forward to your continued guidance and support.

1. **▶ Vision paper on future direction of the JICPA, published March 1, 2007 (in Japanese)**
https://jicpa.or.jp/specialized_field/post_337.html

2. Values
- (1) We put the trust of our members and other stakeholders first
 - (2) We esteem foresight, strategic thinking, and creativity
 - (3) We strive to engage in constructive discussion and collaboration with stakeholders
 - (4) We esteem mutual aid and cooperation and strive for open, highly productive institute operations

Management Policy

On July 22, 2019, Masahiko Tezuka began his term as chairman and president.

The JICPA is an expert professional organization of CPAs, who are responsible for ensuring confidence in information while contributing to sound organizational governance. As such, the JICPA has, over the years, revised existing forms of CPA auditing many times, proactively working to reform and improve the audit system.

Over the past several years, systematic efforts to improve audits have made great progress. For precisely this reason, President Tezuka and the entire executive team have determined that the JICPA must now look beyond accounting audits and undertake efforts to reform institute operations from a long-term perspective, envisioning the CPA industry in 10 or 20 years. To this end, they established a slogan for the next three years.

Slogan

“Move Forward to the Future”

Building from this slogan, to define a vision and values for the JICPA, based on the mission of CPAs outlined in the Certified Public Accountants Act and our current tagline, “Engage in the Public Interest,” we laid out the JICPA’s mission, as follows.

The JICPA’s Mission

- Build social confidence in CPAs
- Support the enhancement of the professional abilities of our members
- Offer opportunities for members to exercise such abilities to contribute to society

1 Build Confidence in CPAs

Japan’s CPA system was created in 1948 to audit the financial statements of listed companies. Over the more than 70 intervening years, CPAs have worked constantly to protect confidence in capital markets through financial audits. Society’s need for our profession and the contribution CPAs provide

Based on this mission, the JICPA defined the following vision and values.

Vision

A professional organization, trusted by both its members and society, that makes the greatest possible contribution to sound economic development and the realization of greater wellbeing throughout society

Values

- We put the trust of our members and other stakeholders first
- We esteem foresight, strategic thinking, and creativity
- We strive to engage in constructive discussion and collaboration with stakeholders
- We esteem mutual aid and cooperation and strive for open, highly productive institute operations

In order to achieve this vision, taking into account current conditions surrounding the JICPA, we identified six key issues faced by the CPA industry.

Six Key Issues

- Reforming accounting audits
- Involvement in the formulation of accounting and auditing standards
- Adapting to changes in corporate disclosure
- Adapting to changes in corporate activities and technological innovation
- Meeting society’s needs for CPA work
- Adapting to rapid membership gains and the growing diversity of our members

To address these issues, we formulated the following five strategic targets and are advancing initiatives accordingly.

through their work are both fundamentally rooted in society’s confidence in financial audits. We will continue working to build that confidence while also working to reinforce hands-on auditing skill (see Message from the Chairman and President on page 4).

2 Enhance Stakeholder Engagement

To fulfill the mission of CPAs contributing to the sound development of the national economy, coordination with a wide range of stakeholders, including governmental bodies, market

actors, and international institutions, is essential. By promoting constructive dialogue with stakeholders, we will strive to further build up relationships of trust.

3 Secure and Develop Human Resources

The globalization of corporate activities, AI and other technological innovation, and other such factors are driving significant changes in the environment surrounding CPAs. Given these changes, to ensure that CPAs will continue to contribute to society in the future, we will redefine the qualities and abilities necessary in a CPA.

Furthermore, with efforts to promote the professional participation of women and growing numbers of CPAs working within companies or as external corporate officers, the sphere of CPA activity has been growing increasingly diverse in recent years. In response to this shift, we will advance diversity and inclusion initiatives.

4 Meet Society’s Needs

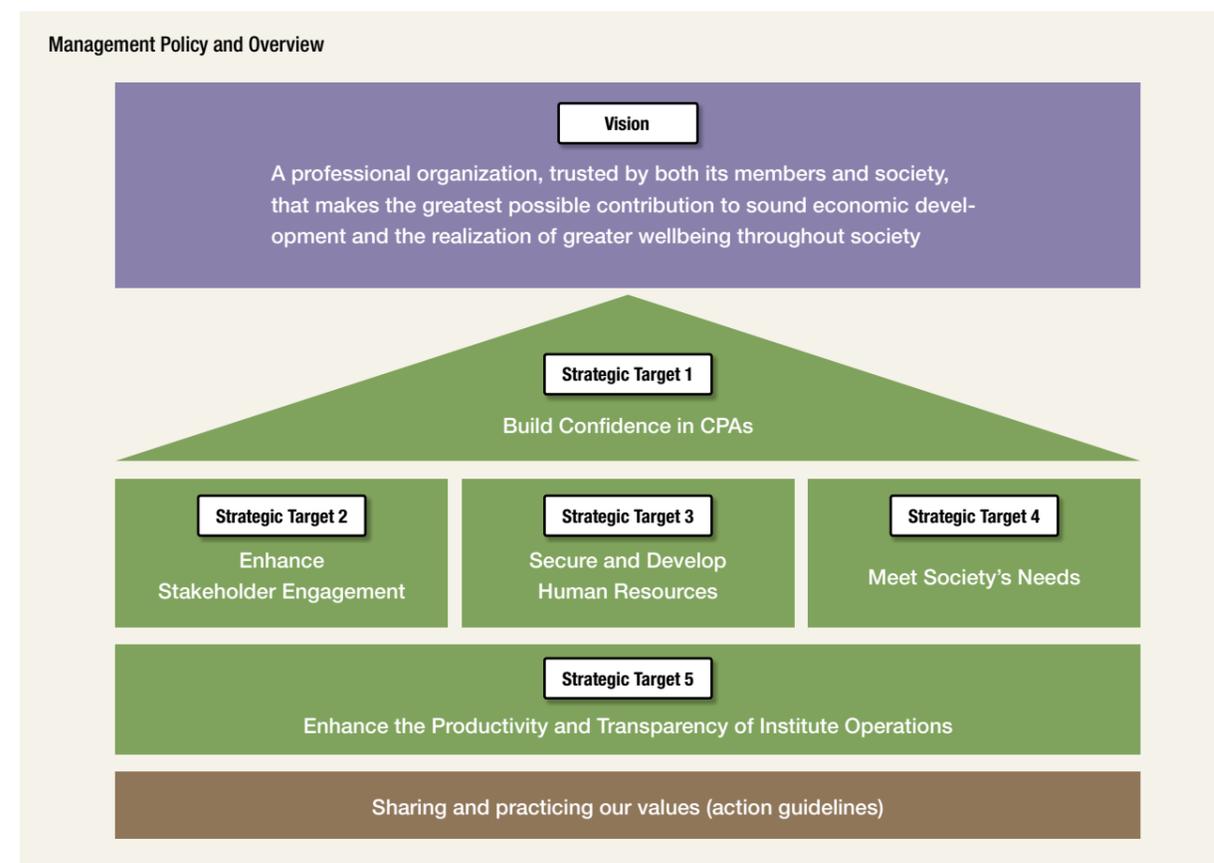
Japan is facing many serious challenges, including a declining population and birth rate, demographic graying, and the depopulation of regional areas. As such, enhancing the productivity and ensuring the management soundness of organizations deeply connected to the public interest is an urgent task. Accordingly, the range of entities subject to CPA audits is expanding to include incorporated schools, regional public

entities, medical corporations, social welfare corporations, and agricultural cooperatives. We will work to ensure that through audits and other work, CPAs contribute to the soundness of such organizations’ operations while contributing to governance reforms and productivity gains, thereby supporting the revitalization of regional areas.

5 Enhance the Productivity and Transparency of Institute Operations

Enhancing the productivity of the JICPA will be essential to achieving these strategic targets. As such, we are advancing organizational reforms, including revising our governance system and promoting work style reforms for institute staff.

In addition, we are working to enhance transparency to fulfill the JICPA’s duty of accountability by providing timely, appropriate information to society.



Special Dialogue

We invited Mitsuhiro Hasegawa, Chairman of the Securities and Exchange Surveillance Commission (SESC), to a special dialogue with Masahiko Tezuka, Chairman and President of the Japanese Institute of Certified Public Accountants (JICPA). The SESC plays an important role supporting the sound development of capital markets, an indispensable factor in the growth of the Japanese economy and the public's stable asset formation. The dialogue focused on the role of the JICPA and how we can strengthen our relationship with the SESC going forward.

(Dialogue held March 5, 2020)

Mitsuhiro Hasegawa

Graduated from the Legal Training and Research Institute of the Supreme Court in 1982, becoming a public prosecutor. Served as Director of the Tokyo High District Public Prosecutors Office Criminal Division, public prosecutor for the Supreme Public Prosecutors Office, and Chief Public Prosecutor for the Nagoya District Public Prosecutors Office before retiring as the Superintending Public Prosecutor for the Hiroshima High Public Prosecutors Office in September 2016. Assumed office as the Fifth Chairman of the Securities and Exchange Surveillance Commission in December 2016.



Tezuka With the ongoing low birth rate and demographic graying, Japan's population is expected to decrease in the coming decades. Given this, the importance of ensuring confidence in capital markets to bolster asset formation by the public and maintain the vitality of the economy is only growing. The market surveillance carried out by the SESC and the audits performed by CPAs serve to check companies from different angles, but we share the common objective of ensuring market fairness and transparency. We have held periodic discussions in the past, but I hope that our talk today will be a first step toward building a more robust cooperative relationship between the SESC and the JICPA.

The SESC's Approach to the Market Environment and Market Issues

Tezuka First, I'd be interested to hear your thoughts as chairman of the SESC about the environment surrounding capital markets today and the issues you perceive.

Hasegawa The environment surrounding capital markets is undergoing substantial change, due to two structural factors. First is the rapid progress of globalization.

Investments from overseas into Japan are on the rise as are investments overseas from Japan. The activities of companies themselves are also growing more international through outsourcing and the delegation of functions to overseas subsidiaries. Second is the revolutionary advance of digitalization. Algorithmic and high-frequency trading are now staples in stock trading, and business is being transformed by Big Data, IoT, and AI.

At the same time, the capital markets, including stock and bond markets, are growing closely integrated. Asset flows into high-risk, low-liquidity funds and similar assets are increasing due to low interest rates around the world. Economic uncertainty is increasing due to international tensions and geopolitical risk. Securities transactions and financial products are becoming more sophisticated, complex, and diverse. In step with these changes, the tactics for misconduct, such as market manipulation, are also increasing in sophistication and variation. As an oversight authority, figuring out how to handle new situations is often challenging. At the same time, although awareness around proper disclosure of corporate information at listed companies is increasing, accounting fraud and violations of disclosure regulations remain rife. In particular, the

response to accounting fraud by global companies is now a crucial issue.

Furthermore, in recent years, investors have focused more on medium- to long-term corporate value, which goes beyond financial information. In light of this, I believe we need to include non-financial information, especially that about governance, in the scope of our purview. There was a case in which a company received a great deal of attention from the public for disclosing the compensation of its individual executives, and I think that this has a tremendous historical significance in terms of the governance of Japanese companies. The key here is not the question of whether such compensation is too high or low, but the importance of disclosing information which allows the market to judge whether the compensation is appropriate as an incentive for executives. Descriptive information is also important for evaluating medium- to long-term corporate value, and non-financial information can provide a useful comparative tool to detect financial misstatements.

Tezuka We have also been concerned by the increase in improper accounting by listed companies and put out a statement from the Chairman & President on February 14 to raise awareness among audit professionals.¹ I see this

as a pressing issue, because a serious audit deficiency could damage confidence in auditing. What do you think are the causes of improper disclosure?

Hasegawa There can be various factors, but those that affect companies that have become a so-called "shell company" and those that affect global companies are very different. In the case of the hollowed-out shell company, the underlying issue is poor compliance awareness and governance dysfunction. Many such companies become focused solely on cobbling together apparent profits just to stay listed. Global companies, on the other hand, might have the feeling that they cannot disclose figures that would cause embarrassment. Even with proper governance systems in place, such improper actions arise. Ultimately, they stem from issues in human psychology and management approach. I think that the mindset of executives is the most important factor.

The SESC's Initiatives

Tezuka The SESC recently published its Strategy & Policy 2020-2022.² Could you explain some of the key points?

Hasegawa Strategy & Policy 2020-2022 lays out three goals for ensuring trusted and attractive capital markets, namely, holistic oversight, timely oversight, and in-depth oversight, as well as five policy priorities to achieve these goals. I'd like to talk particularly about the inspection of corporate disclosure.

First, we are working to further reinforce and enhance intelligence gathering and analysis. As I mentioned, global companies and shell companies have different kinds of risk for improper disclosure. With global companies, we constantly monitor and analyze industry-specific risks from a macro perspective, whereas with shell companies, the key is gathering information on an individual company basis, as each company is quite unique.

There are differences in the impact of improper disclosure on markets, as well. Improper disclosure by a global company causes a significant impact on global markets due to the negative impression it creates. We investigate violations of disclosure regulations by such companies in coordination with the foreign authorities. We perform inspections of disclosed statements quickly and efficiently, and when a violation of disclosure regulations is found, seek to effectively deter future violations with recommendations to issue administrative monetary penalty payment orders and so on. To check the accuracy of financial information

Special Dialogue

in an annual securities report, we look at whether the information presented lines up with available non-financial information, examine the flow of funds, and conduct hearings not only with the issuer, but its clients, as well.

Preemptive measures are crucial to prevent recurrences of disclosure regulation violations. In addition to determining the background and root causes of violations, it is important to engage in dialogue and discussion with the management of the company involved so that they will better understand the problem and consider possible solutions. By doing so, we can encourage the development or improvement of systems to ensure proper disclosure.

The Role of and Expectations for the JICPA

Tezuka What do you see as the role of CPAs, and what do you want to see from us going forward?

Hasegawa I hope to see further initiatives that reinforce and enhance audit quality. The demands of auditing are growing more complex and expanding in both quality and quantity. As such, I expect the JICPA to provide support for mid-tier audit firms, beyond the Big Four, so they can proactively step up to accept the audits of major listed companies. In addition, there have been incidents at certain small and medium audit firms that have undermined confidence in auditing as a whole. In light of these, self-regulation, including the quality control review, is important to quell suspicions that audit firms might have been chosen because they would overlook improper

accounting. Today, as at all kinds of organizations, in order to avoid being seen as easy on your fellow insiders, it is important to be all the tougher on them.

To strengthen and improve audit quality, active discussion between audit firms and the audited companies is important. Maintaining and exercising “professional competence and skepticism,” as the Audit Firm Governance Code puts it, continues to be of particular importance. Healthy skepticism is vital for any professional. I have heard that auditors sometimes face difficulties caused by time limitations and inadequate response from the companies they are auditing to requests for additional explanations or documents. To solve such difficulties, I think that the key is discussions and support of the JICPA. This also gets to the hands-on, practical auditing skill you often talk about, but I hope that the JICPA will proactively work to promote the maintenance and exercise of professional skepticism.

Tezuka I think of hands-on audit skill as the ability to correctly perceive the facts, find problems, identify their causes, and help solve them. Exactly as you say, exercising professional skepticism is absolutely crucial to reinforcing these skills. We are currently advancing discussions about reinforcing hands-on audit skills, and we believe that a deep knowledge of improper accounting cases is essential for an auditor. The SESC’s Case Report from Inspection of Disclosure Statements³ is extremely useful for developing this kind of case knowledge.

Hasegawa The case report you’re referring to contains not only cases that led to recommendations for administrative monetary penalty payment orders, but also the details and problems in cases that did not result in such recommendations. I hope that the case report will serve to reinforce prevention by providing lessons to be drawn based on the past disclosure violations of other companies. It also contains messages to auditors, which I would encourage them to take a look at.

I also have great expectations for the JICPA in terms of speaking up and contributing at the international level. In particular, I expect that the JICPA will increase its voice at the International Federation of



Accountants (IFAC) in which international discussions of ethics, auditing standards and other topics are held. I believe that Japan should continue to play an important role in improving audit quality in the Asia-Pacific region and increase its international presence.

In addition, I look forward to seeing CPAs more firmly exercise professional ethics and establish KPIs to promote the engagement of women in accounting.

CPAs Working in the SESC

Tezuka Many CPAs work at the SESC. What is their work like?

Hasegawa The CPAs play an extremely important role in the SESC’s work. In every aspect of oversight operations, the work of digging into financial documents and correctly analyzing financial data in order to spot misstatements is a truly professional job that requires the abundant expertise and experience of a CPA.

The common thread among the CPAs working at the SESC is their strong commitment to not tolerating misconduct and their faithfulness to professional ethics. Furthermore, I feel that a kind of craftsmanship, based on their years of experience, is increasingly important in the oversight of capital markets. We leverage the opinions that they provide based on their unique perspectives as CPAs in our analyses of various business models and governance structures. After their terms at the SESC, they work and succeed in a various fields, which demonstrates the necessity of their expert insight across society. It seems to me that the realm in which CPAs contribute is extremely expansive.

Tezuka That’s very kind of you. I hope that we will continue to deepen the personnel-based ties between our organizations and leverage our respective strengths together.

Collaboration between the SESC and JICPA

Tezuka On what kinds of initiatives do you think the SESC and JICPA can work together going forward?

Hasegawa The disclosure of corporate information is of paramount importance to investor protection. Our cooperative relationship is founded upon the JICPA’s initiatives to reinforce and enhance audit quality, along with the SESC’s ongoing inspections of corporate disclosure and detection of violations of disclosure regulations, which indirectly



prompt such initiatives. The role of the Certified Public Accountants and Auditing Oversight Board is also crucial, so I think that we need to work to reinforce cooperation among all three organizations. Sharing information and opinions is key, as well. Perhaps the JICPA and SESC could periodically discuss issues on audits identified through inspections of disclosed statements to share information and foster a common understanding of problems. The lessons gleaned from such discussions could then be circulated among the JICPA’s members—CPAs and audit firms—to help better prevent disclosure regulation violations.

Tezuka I hope that we can build a very deep, close relationship. Is there anything you would like to say in closing?

Hasegawa CPAs and audit firms form a major piece of the social infrastructure supporting the development of capital markets going forward, and they are supported in turn by the JICPA. The SESC and the JICPA, as it contributes to the sound maintenance and development of capital markets, are in many ways kindred spirits. I see them playing two closely linked and complementary roles. I look forward to continuing to deepen our relationship going forward.

Tezuka As do I. Thank you very much for taking the time for this discussion today.

1. Chairman & President Statement: Recent Reporting on Improper Accounting (in Japanese)
 2. January 24, 2020. Strategy & Policy 2020-2022 – For Trusted and Attractive Capital Markets –
 3. <https://www.fsa.go.jp/sec/jirei/index.htm> (in Japanese)

Philosophy and Activities

Philosophy

The Mission of the CPA and the Role of the JICPA

Japan's Certified Public Accountants Act states that "The mission of certified public accountants, as auditing and accounting professionals, shall be to ensure such matters as the fair business activities of companies and the protection of investors and creditors by securing 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." The Act defines the purpose of the Japanese Institute of Certified Public Accountants (JICPA) as upholding the professionalism of CPAs as well as guiding, connecting, and supervising Japan's CPAs.

Tagline

The Japanese Institute of Certified Public Accountants adopted "Engage in the Public Interest" as its official tagline in July 2013. CPAs serve as accounting and audit professionals, and the JICPA provides instruction and oversight to maintain and improve confidence in their work. This understanding, along with our desire that both the JICPA and its members continue to contribute to society, is reflected in our tagline.



Membership Badge

CPAs are required to wear their JICPA membership badge at all times while working.

Membership badge

The badge's design is a collection of simple squares enclosed in an ellipse. The repetition of squares, which evoke stability, represents the community of CPAs, who safeguard the stability of economic society, while the ellipse they form invokes the globe, representing the pride that CPAs take in protecting the global economy.



Activities

The JICPA was established under the Certified Public Accountants Act for the purpose of guiding, connecting, and supervising CPAs as well as performing administrative work related to CPA registration. As a self-regulatory body, the JICPA engages in a variety of activities under the tagline "Engage in the Public Interest." These include activities related to ensuring professional ethics, maintaining and improving the credentials of its members, and upholding the quality of their work.

Article 3 of the JICPA Constitution outlines the Institute's activities as follows.

The Activities of the Japanese Institute of Certified Public Accountants (JICPA Constitution, Article 3)

1. Establish standards of professional ethics for CPAs to abide by and work to maintain and improve such ethics.
2. Implement measures to improve the qualifications of members, such as holding lectures and study sessions related to the work of members.
3. Conduct research on the theory and practice of auditing, promote the use and adoption of auditing standards, and establish auditing systems.
4. Conduct research on the theory and practice of accounting, promote the use and adoption of accounting principles, and establish corporate and other accounting systems.
5. Conduct research on the CPA system and the duties (including tax-related duties) of CPAs, and issue recommendations and provide consultation to governmental and regulatory agencies as necessary.
6. Design and implement measures to support proper auditing by members.
7. Provide necessary support to members with regard to the work of CPAs, including providing consultation and materials.
8. Provide mediation to help resolve disputes over the work of CPAs.
9. Design and implement measures for the education and training of individuals who pass the CPA examinations.
10. Perform administrative tasks related to the registration of CPAs, junior accountants, CPAs of other countries, and specified partners of audit companies.
11. Other operations necessary to achieve the purpose of the Institute.

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Business Plan and Activities

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Self-Regulation Initiatives

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Social Contribution Activities

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Building Confidence in CPAs

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Contributing to a Robust
Accounting Infrastructure
in Wide-Ranging Fields

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Continuing Professional
Education System

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History

The Genesis and Evolution of the CPA System

Japan's professional accountant system dates back to the 1927 establishment of the profession of accountant based on the Accountant Law. The period immediately after World War II brought advances in democratizing the nation's economy, including breaking up the *zaibatsu* industrial and financial conglomerates as well as the enactment of the Securities Exchange Law in 1948. In the same year, the Accountant Law was abolished and replaced with the Certified Public

Accountants Act. In 1949, eight stock exchanges, including those of Tokyo, Osaka, and Nagoya, were opened, and 1951 brought the first CPA audits under the Securities Exchange Law. The CPA system thus emerged from the securities market's need to ensure the trustworthiness of financial statements.

As the securities market expanded, the importance of CPA audits grew, and the Certified Public Accountants Act was amended accordingly. In 1966, to facilitate organized audits of

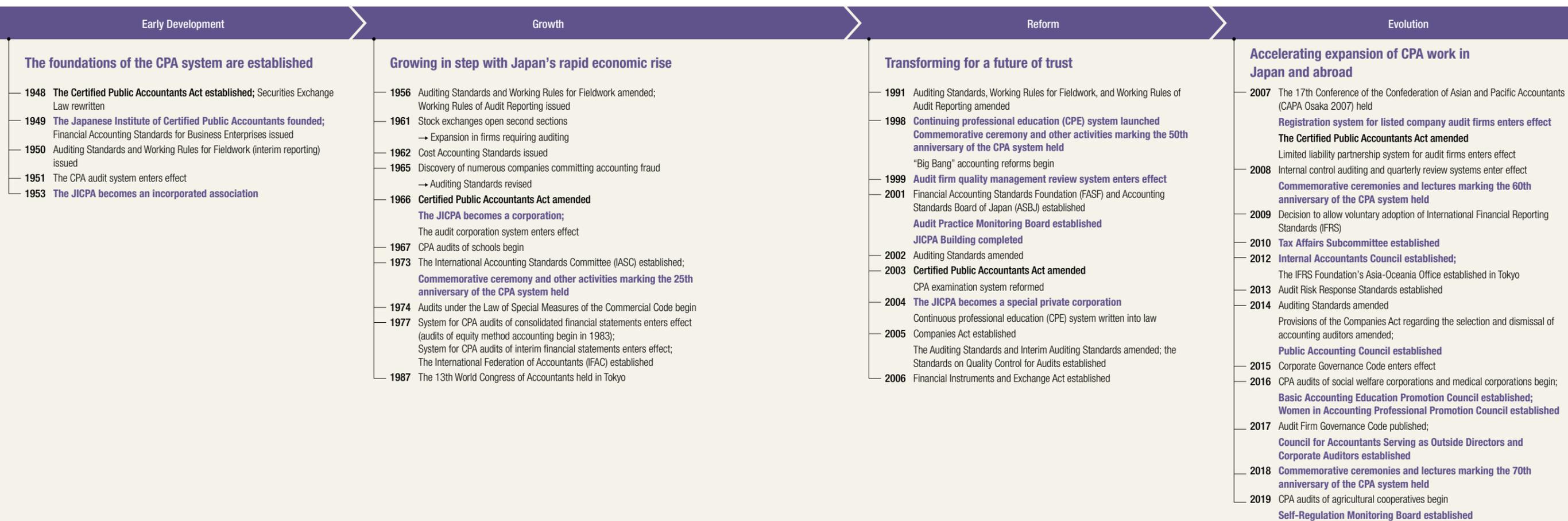
increasingly large-scale corporate activities, a system of audit corporations bearing unlimited joint liability was introduced. With audits of schools beginning in 1967 and the introduction of CPA audits based on the Commercial Code in 1974, CPA skills were no longer restricted to the securities market, and the need for them spread throughout broader society. The 2003 amendment to the Certified Public Accountants Act put the mission of CPAs in Article 1 of the Act and reinforced CPA independence. The following amendment of the Act, in 2007, strengthened the quality management, governance, and disclosure requirements for audit corporations; reinforced the independence and position of auditors; and revised the oversight and liability of audit corporations.

The Audit Firm Governance Code was released in 2017, and

the 2018 amendment of Japan's Auditing Standards introduced the Key Audit Matters (KAMs). These and other initiatives are being advanced to enhance audit transparency.

In these ways, Japan's CPA system has evolved in step with the changes and development of the corporate community.

At the same time, companies, a primary subject of auditing, have undergone advances in corporate governance, including the introduction of internal control auditing at listed companies in 2008 and the application of the Corporate Governance Code in 2015. CPAs, who perform audits, and companies, which undergo them, are each working in their own roles to secure confidence in capital markets.



The Offices of the Japanese Institute of Certified Public Accountants



Oct. 1949–May 1956
Leased space on the 1st floor of the former Tokyo Chamber of Commerce and Industry building (Chiyoda-ku, Tokyo)



May 1956–June 1963
Leased space on the 5th floor of the Daido Seimei Building (Chuo-ku, Tokyo)



June 1963–Feb. 1966
Leased space on the 1st floor of the Tokyo Chamber of Commerce and Industry Building (Chiyoda-ku, Tokyo)



Feb. 1966–Nov. 1969
Leased space on the 4th floor and in the basement of the Tokyo Shoken Building (Chuo-ku, Tokyo)



Nov. 1969–June 1977
Leased space on the 3rd and 4th floors of the Kabuki Kaikan (Chuo-ku, Tokyo)



Jun. 1977–Nov. 2001
Previous JICPA Building (Bunkyo-ku, Tokyo)



Nov. 2001–
Current JICPA Building (Chiyoda-ku, Tokyo)

Overview of the CPA Profession

1 Audits by CPAs

Japan's CPA system was created alongside post-war securities market reforms, positioning CPAs as expert auditors for listed companies.

Subsequently, the Law of Special Measures of the Commercial Code made audits of listed companies mandatory, after which audits of a wider range of organizations became mandated by law, steadily expanding the fields in which CPAs perform audits. In recent years, the use of CPA audits in the

non-profit sector has been increasing, and, based on the Revised Agricultural Cooperative Law promulgated on April 1, 2016, from fiscal 2019 onward, agricultural cooperatives with more than ¥20 billion in deposits and cooperative associations with more than ¥20 billion in liabilities will be required by law to undergo audits by accounting auditors (CPAs or audit corporations).

The main bodies required by laws and regulations to undergo audits are as follows.

Statutory Audits (Audits Required by Laws and Regulations)

- Audits based on the Financial Instruments and Exchange Act**

Documents related to the financial calculations contained in the securities reports (balance sheets, profit and loss statements, and other statements) submitted by specified securities issuers must receive an audit certification by a CPA or audit corporation (Article 193-2, paragraphs 1 and 2).

- Audits based on the Companies Act**

Large companies, companies with a board of corporate auditors, and companies with nominating and other committees must retain an accounting auditor (Companies Act articles 327 and 328). Furthermore, any stock company that so designates in its articles of incorporation may retain an accounting auditor.

Statutory audits include audits of the following:

- Mutual life insurance companies
- Special purpose companies
- Investment corporations
- Limited partnerships for investment
- Limited liability beneficiary certificate issuing trusts
- Incorporated schools that receive national or regional public subsidies
- Incorporated schools applying for an act of endowment
- Shinkin banks
- Credit unions
- Labor banks
- Independent administrative entities
- Regional independent administrative entities
- National university corporations and the Inter-University Research Institute Corporation
- Public interest incorporated associations and foundations
- General incorporated associations and foundations
- Consumer cooperative associations
- The University of the Air Foundation
- Agricultural credit fund associations
- The Norinchukin Bank
- Reports on expenses, etc., made using party subsidies based on the Political Party Subsidies Act
- Social welfare corporations
- Medical corporations
- Virtual currency exchange service providers as specified in the Payment Services Act
- Agricultural cooperatives

Non-statutory audits include audits of the following:

- Audits of financial statements of companies not subject to statutory audits
- Special-purpose financial statements

International audits include audits of the following:

- Companies with shares listed on overseas exchanges or that are applying for such listing
- Companies that have procured or seek to procure funding overseas
- Overseas branches, subsidiaries, and joint ventures of Japanese companies
- Japanese branches and subsidiaries of overseas companies

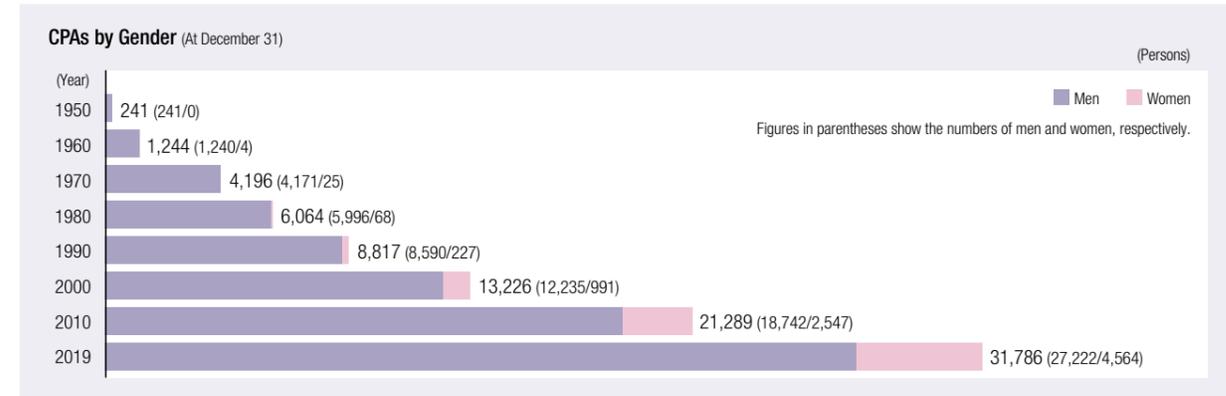
2 Number of Accounting Auditors

The number of CPAs in Japan is steadily rising. As of March 31, 2020, the number of CPAs stood at 32,040.

1951 saw the first registration of female CPAs (2 individuals). Today, approximately 14% of Japan's CPAs are women. The portion of successful CPA examination candidates who are women has been around 20% in recent years, reaching 23.6%

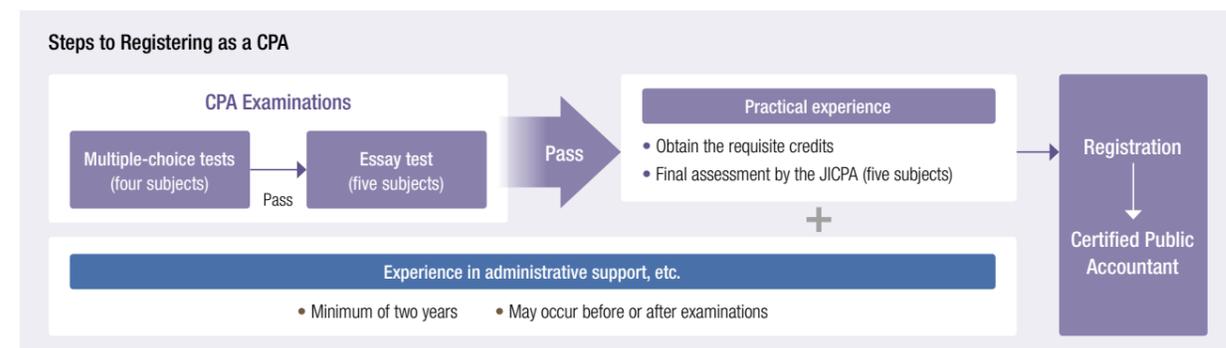
in 2019, indicating that the proportion of women among CPAs will continue to increase going forward.

We have established targets regarding the proportion of women among our members and associate members and among successful CPA examination candidates. We are examining measures to achieve these targets (see page 25).



To become a CPA, an applicant must pass the CPA examinations (multiple-choice tests and essay tests), complete at least two years of practical experience, undergo a professional accountancy education program administered by the Japan

Foundation for Accounting Education and Learning, and pass a final assessment by the JICPA. After confirmation from the prime minister, the applicant's name is added to the register of CPAs.



CPAs of Japan and of other countries practicing in Japan are required to register as members of the JICPA. In addition, the types of individuals shown at right may become associate members of the JICPA (non-mandatory).

- Individuals qualified to be a CPA in Japan or another country
- Junior accountants
- Individuals qualified to be a junior accountant
- Successful CPA examination candidates
- Specified partners of audit corporations

Overview of the CPA Profession

3 Areas of CPA Activity

In addition to accounting, CPAs work in a wide range of fields and roles in society as accounting experts.

1 Tax-Related Work

By registering as a tax accountant, CPAs can carry out tax-related work. These CPAs prepare tax declarations, provide tax-related consultation, and use their wide-ranging knowledge to provide counsel and advice in specialized tax matters, such as tax duties related to M&A and international taxation.



2 Consulting

CPAs provide counsel and advice in all areas of management, including drafting management strategy, organizational reform, and due diligence.

3 Professional Accountants in Business (PAIB)

CPAs work at corporations and other public and private organizations. The number of CPAs working at organizations other than CPA offices and audit companies has been rising in recent years.

4 Outside Directors and Corporate Auditors

Japan's Corporate Governance Code for listed companies was adopted in 2015 and amended in June 2018. The Code states that "Companies should appoint at least two independent directors" and that "persons with appropriate experience and skills as well as necessary knowledge on finance, accounting, and the law should be appointed as *kansayaku* [corporate auditors].* In particular, at least one person who has sufficient expertise in finance and accounting should be appointed as *kansayaku*." In

accordance with these provisions, the number of CPAs serving as outside directors and corporate auditors has been rising. In fiscal 2019, a total of 1,681 CPAs served as outside directors or corporate auditors at 2,101 companies, or approximately 56% of all listed companies (JICPA survey, based on securities reports for the fiscal year ended March 31, 2019).

* Also known as Audit & Supervisory Board Members

To support CPAs working in a variety of fields, the JICPA has established a number of specialized councils. The number of registered members of each council and of the working groups, etc., within each council are as follows (as of March 31, 2020)

Name	Target	Members
Small and Medium-Sized Audit Firm Liaison Council	Small and medium-sized audit firms that audit listed companies	437 corporations and firms
Tax-Related Work Council	CPAs who perform tax-related work	Members: 8,977 Associate members: 6,118
Public Accounting Council	CPAs working in the public and NPO sectors	Social Security Working Group Members: 2,610 Audit corporations on the working group's list: 88 Regional Public Entity Accounting and Auditing Working Group Members: 967 Associate members: 1,970
Internal Accountant Council	CPAs that are employees of corporations	Professional Accountants in Business Network Members: 2,038 Associate members: 463
Council for Accountants Serving as Outside Directors and Corporate Auditors	CPAs serving as outside directors and corporate auditors	CPA Outside Director and Corporate Auditor Network Members: 929 Associate members: 813
Women in Accounting Professional Promotion Council	Female JICPA members/associate members	6,004

Fiscal 2020 Business Plan and Activities

1 Basic Policy and Priority Measures

1 Basic Policy

The JICPA is an expert professional organization of CPAs, who are responsible for ensuring confidence in information while contributing to sound organizational governance. The JICPA contributes to the development of economic society by helping maintain and improve the qualifications of CPAs, performing self-regulatory functions with regard to their work, and providing recommendations about the function of social systems.

To that end, the JICPA maintains transparent operations and proactively communicates the results of such operations. By doing so, we work to better fulfill our accountability to society

and meet its needs. The JICPA will continue such efforts to fulfill its social responsibility as an expert professional organization to help realize a sustainable, international, and diverse society.

In fiscal 2020, the JICPA worked to reinforce its organizational and financial foundations as a self-regulating body. At the same time, we implemented measures to create a foundation enabling CPAs to better adapt to various environmental changes—such as the evolution of technology and ongoing globalization of corporate activities—and play leading roles in Japan and the world far into the future.

2 Priority Measures

Initiatives to improve confidence in auditing and enhance disclosure as part of the infrastructure of capital markets

- Steadily implement measures to enhance audit quality and transparency
- Assess how auditing and the auditing environment will change in light of the effects of evolving technologies and digitalization
- Set up and begin operation of a self-regulatory system for auditing
- Assess how companies can rationally meet society's needs through disclosure and promote constructive dialogue

Contribute to local economies and communities through CPA work and implement initiatives to solve social issues as an organization of professional accountants

- Maintain and improve the quality of audits of social welfare corporations and promote understanding of the efficacy of such audits
- Maintain and improve the quality of audits of medical corporations and agricultural cooperatives
- Enhance support for tax work and members working for small- and medium-sized enterprises in line with society's needs and the actual work of CPAs
- Enhance opportunities to offer materials and information that help improve the accounting literacy of society as a whole

Develop and promote the activity of accounting professionals who can contribute across a broad range of fields and increase the appeal of the CPA profession

- Maintain and improve the qualifications of CPAs who utilize their skills as outside directors and corporate auditors or as in-house accountants and support their work
- Develop professionals who can express professional opinions internationally and provide them opportunities and support to do so
- Secure diverse accounting professionals who can contribute in diverse roles and increase the appeal of the CPA profession by such means as supporting the professional success of female CPAs

Actively promote understanding of the ways CPAs contribute to the public interest and reinforce the JICPA's organizational and financial foundations

- Communicate the ways CPAs contribute to the public interest to promote better understanding
- Promote communication that enhances the JICPA's transparency and dialogue with stakeholders
- Reinforce the JICPA's organization and operational structure nationwide and enhance its financial infrastructure to support CPAs in growing spheres of activity
- Coordinate initiatives being implemented by the institute and members to help realize a sustainable society by solving problems and achieving the Sustainable Development Goals (SDGs)

Fiscal 2020 Business Plan and Activities

2 Fiscal 2020 Activities and Operations

1 Initiatives to improve confidence in auditing and enhance disclosure as part of the infrastructure of capital markets

(1) Steadily implement measures to enhance audit quality and transparency

CPA audits are part of the infrastructure of capital markets. Accordingly, to meet the expectations of shareholders and investors, the direct beneficiaries of such markets, as well as other stakeholders, maintaining and improving confidence in audits is essential. To that end, the JICPA coordinates with relevant government agencies and related organizations to implement a variety of initiatives.

To maintain and improve confidence in audits, it is important to ensure accountability with regard to such matters as the quality of audits conducted, how such audits were carried out and how the resulting judgements were reached.

As needs for information provision related to accounting audits are increasing, audit opinions other than an unqualified opinion (namely, a qualified opinion, an adverse opinion, or a disclaimer of opinion) are particularly attracting attention. In light of these circumstances, the Financial Services Agency established the Advisory Council on Enhancement of Auditing Information Provision, mainly to clarify the accountability of auditors when a modified audit opinion has been issued. On January 22, 2019, this advisory council published a report on enhancing the provision of accounting audit information, focusing mainly on handling modified audit opinions. In response, the JICPA has identified key issues regarding its approach to the duty of confidentiality, including the question of what constitutes just cause for overriding this duty as stipulated in the Code of Ethics. Going forward, based on these key issues, we will advance considerations while listening to the opinions of wide range of related parties by such means as seeking advice from outside experts and holding roundtable meetings with market actors.

Furthermore, audits of listed companies' financial statements for the year ended March 2020 included the early application of the Key Audit Matters (KAMs), which are items (for example, the risk of material misstatements) that auditors examine during audits and write about in their audit reports. As such, we have been working to foster adequate understanding of the KAMs among auditors and encouraging active engagement. For example, on July 12, 2019 we put out a statement from the Chairman & President about applying the KAMs, and we have been publishing newsletters to encourage auditors to assess their readiness to apply the KAMs.

▶ **Chairman & President Statement and newsletters about applying the KAMs (in Japanese)**

<https://jicpa.or.jp/news/information/2016/20160805ide.html>



We have created an explanatory video to promote widespread understanding of the KAMs among the general public.



▶ **“What are the KAMs?” explanatory video (in Japanese)**

<https://jicpa.or.jp/news/information/2019/20190509hbz.html>



In order to secure fresh perspectives when implementing audits, we adopted a team member rotation system and took steps to prepare related rules and provide information to audit firms (for details, please refer to “2 Reinforcing Auditor Independence” on p. 39).

There has also been a problem of companies seeking to make an initial public offering (IPO) not being able to receive the necessary audits due to a mismatch of the demand from companies and the available supply from audit firms. To create an environment in which high-quality auditing is stably provided to companies seeking to IPO, the JICPA consulted with other related parties at the Financial Services Agency's Liaison Meeting on Audit Firms Selection for Initial Public Offering (IPO) Preparation. These discussions resulted in a report outlining initiatives for the participants to implement. Based on this report, the JICPA has advanced concrete steps toward compiling and publishing a list of small- and medium-sized audit firms that could potentially handle the audits of companies seeking to IPO.

In addition, due to the COVID-19 pandemic, there have been cases in which previously scheduled audit procedures could not be carried out. To ensure proper auditing and secure the confidence of capital markets, we have published a series of documents for CPAs titled “Audit Consideration related to COVID-19,” outlining matters to be considered in auditing amid the current conditions of high uncertainty. In addition, we engaged in discussion at the Subcommittee on Corporate Accounting established by the Liberal Democratic Party's Policy

Research Council and Research Commission on the Finance and Banking Systems (for details, including the JICPA's response from April 2020 onward, please refer to “Response to COVID-19” on page 27).

To help maintain the soundness of capital markets as a self-regulatory body of CPAs, the JICPA has been advancing initiatives to improve audit quality under the Audit Reinforcement Council, established in January 2016 and composed of related officers. While we will continue to implement initiatives to reinforce auditing, with the conclusion of the term of the administration of chairman and president Aiko Sekine, we reviewed and published the audit reinforcement measures implemented up until the end of that administration and the outlook for such initiatives going forward.

▶ **Audit Reinforcement Council report on the JICPA's audit reinforcement initiatives (in Japanese)**

https://jicpa.or.jp/specialized_field/20190722bfj.html



(2) Assess how auditing and the auditing environment will change in light of the effects of evolving technologies and digitalization

In recent years, corporate activities have been growing more complex, larger in scale, and increasingly international, while IT continues to achieve revolutionary advances. Given this, realizing efficient, effective auditing that uses sophisticated data analysis techniques based on advanced IT and AI is essential, as is securing human resources who can effectively apply such auditing.

The JICPA co-sponsored the Global Accounting & Auditing Forum: Outlook and Challenges for AI in Business and Auditing, organized by Nikkei, Inc. At this event, we engaged in wide-ranging panel discussions, which included the perspectives of companies and auditing firms, about the challenges to using AI in business and auditing and the related skills that will be necessary in the future.

Event

Global Accounting & Auditing Forum Outlook and Challenges for AI in Business and Auditing

- Date: Monday, June 17, 2019
- Location: Roppongi Academyhills Tower Hall
- Organizer: Nikkei, Inc.
- Co-sponsor: JICPA
- Program: Panel discussions on the topics of the status and outlook of the use of AI in corporate business; leveraging AI at audit firms; and the challenges faced by business and auditing using AI and the skills that will be needed going forward.



Panel discussion

Fiscal 2020 Business Plan and Activities

(3) Set up and begin operation of a self-regulatory system for auditing

As a self-regulatory body, the JICPA must maintain discipline among its members via self-regulation and implement measures necessary to further enhance the audit system and environment in order to meet society's needs and expectations regarding CPA audits.

At the JICPA's July 2019 Annual General Assembly, the JICPA Constitution and rules were amended, establishing the Self-Regulatory Monitoring Conference. Comprising outside experts, the Conference serves to evaluate the operations of the JICPA's overall self-regulation from the outside and provide advice from a broader perspective.

Furthermore, to improve the speed and efficiency of individual case review, we established the new Audit Practice Review and Investigatory Committee, unifying the investigative functions of the former Audit Practice and Review Committee and Investigatory Committee. The new committee began operation from October 2019 (for details, please refer to "Self-Regulation Initiatives" on p. 28).

We also made other changes to the quality control review system to improve its efficacy. These include providing greater flexibility in the frequency of regular reviews and relaxing the special review requirements to facilitate implementation.

(4) Assess how companies can rationally meet society's needs through disclosure and promote constructive dialogue

When a company's accounting auditor changes, the reasons for the change are disclosed via extraordinary reports based on the Financial Instruments and Exchange Act and timely disclosure based on the securities listing regulations of securities exchanges. However, the information these provide to shareholders and other stakeholders has been criticized as inadequate. To enhance the disclosure of such reasons, the JICPA works to constantly maintain an understanding of the concrete reasons within the systems of the Listed Company Audit Firm Subcommittee. We publish the aggregated information thus gathered in the annual report of the Quality Control Committee.

In recent years, reflecting the growth of ESG investment and other factors, society's needs related to corporate disclosure have become more comprehensive, extending beyond financial information. Active discussions, mainly among government bodies and market actors, are ongoing regarding such goals as establishing governance that contributes to sustainable corporate growth and corporate value enhancement, realizing investor stewardship, and enhancing engagement between companies and investors. At the same time, discussions and initiatives aimed at enhancing corporate reporting and disclosure to help achieve these ends are also moving forward.

Given these environmental changes, to find ways to consider financial and non-financial information in a unified manner, the JICPA has established a special committee, including non-CPA outside experts, that has been advancing considerations aimed at furthering high-quality, trusted corporate disclosure (for details, please refer to "1 High-Quality, Trusted Corporate Disclosure" on p. 36).

2

Contribute to local economies and communities through CPA work and implement initiatives to solve social issues as an organization of professional accountants

(1) Maintain and improve the quality of audits of social welfare corporations and promote understanding of the efficacy of such audits / Maintain and improve the quality of audits of medical corporations and agricultural cooperatives

Statutory CPA audits of social welfare corporations over a certain size began from fiscal years commencing on or after April 1, 2017, while those of medical corporations over a certain size began from fiscal years commencing on or after April 2, 2017. Statutory CPA audits were further adopted for agricultural cooperatives over a certain size from October 2019.

To facilitate the ongoing use of these audits, the JICPA has been advancing discussions with related government agencies, preparing policies of practice and research reports, and conducting training. In coordination with the regional chapters (see "2 Regional Chapters" on p. 56), we are implementing ongoing support for CPAs in this area.

(2) Enhance support for tax work and members working for small- and medium-sized enterprises in line with society's needs and the actual work of CPAs

To foster tax experts who can meet society's needs, the JICPA implemented training to improve the tax skills of its members and enhanced the consultation services of its tax support desk.

In addition, the JICPA compiled information on the current status of necessary measures to help CPAs continue to contribute to society in tax-related fields and challenges that remain.

(3) Enhance opportunities to offer materials and information that help improve the accounting literacy of society as a whole

As a group of accounting professionals, we believe that we must contribute to the spread of knowledge about accounting, which is a part of social infrastructure. Accordingly, we have established the Basic Accounting Education Promotion Council and carry out basic accounting education promotion initiatives.

New junior high and high school curriculum guidelines in Japan include "using accounting information," creating a need for educational materials to help teachers understand and learn to teach this material. In light of this, the JICPA has established the Accounting-Literacy-Map and Educational Materials Study Group within the Basic Accounting Education Promotion Council. The Study Group includes academic experts in accounting and education, and considers how such materials should be created (for details, please refer to "2 Basic Accounting Education" on p. 50).

3

Develop and promote the activity of accounting professionals who can contribute across a broad range of fields and increase the appeal of the CPA profession

(1) Maintain and improve the qualifications of CPAs who utilize their skills as outside directors and corporate auditors or as in-house accountants and support their work

As Japan's economy grows more sophisticated, complex, and international, the number of CPAs serving as outside directors and corporate auditors or as in-house accountants is steadily growing. To encourage the expansion of the sphere of CPA activity and the smooth, efficient movement of human resources, the JICPA has set up networks for both these types of CPAs. To maintain and improve the skills of such CPAs, we are holding training and other events for CPAs registered with these networks.

Furthermore, we formulated rules of professional ethics for CPAs serving as outside directors and corporate auditors or as in-house accountants and amended the Code of Ethics at the July 2019 Annual General Assembly accordingly, creating new provisions for how such CPAs should respond in the event that they notice or suspect illegal activity in the company or organization they work for. We also put out a statement from the Chairman & President to promote thoroughgoing compliance

with the new rules (for details, please refer to "3 Ensuring Compliance with the Code of Ethics among CPAs Serving as Outside Directors and Corporate Auditors or as In-House Accountants" on p. 41).

(2) Develop professionals who can express professional opinions internationally and provide them opportunities and support to do so

The JICPA and its members provide opinions to a wide range of international institutions, mainly in the areas of accounting and auditing. For example, the International Federation of Accountants has established independent standard-setting boards in the four areas of auditing and assurance, ethics, public sector accounting, and education. These boards, in which many JICPA members take part, represent accounting professionals on the global stage and provide suggestions and other information related to such issues as setting international standards for accounting professionals and maintaining and improving accounting professionals' qualifications and the quality of their work.

Fiscal 2020 Business Plan and Activities

Japanese CPAs Serving in Major International Institutions (As of March 31, 2020)

Organization, etc.	Position	Name
IFAC Boards and Committees		
Nominating Committee	Member	Aiko Sekine
Board	Member	Shinji Someha
	Technical Advisor	Tadashi Umino
International Auditing and Assurance Standards Board (IAASB)	Member	Sachiko Kai
	Technical Advisor	Kohei Yoshimura
International Ethics Standards Board for Accountants (IESBA)	Member	Hironori Fukukawa
	Technical Advisor	Masahiro Yamada
International Public Sector Accounting Standards Board (IPSASB)	Technical Advisor	Takeo Fukiya
International Panel of Accountancy Education (IPAE)	Member	Yoshinori Kawamura
	Technical Advisor	Shinji Takada
Small and Medium Practices Committee (SMPC)	Member	Naofumi Higuchi
	Technical Advisor	Hironori Okada
The Professional Accountants in Business Committee (PAIBC)	Observer	Ichiro Waki
International Integrated Reporting Council (IIRC)		
Council	Member	Masahiko Tezuka
Framework Panel	Member	Yoichi Mori

Organization, etc.	Position	Name
Confederation of Asian and Pacific Accountants (CAPA)		
Board	Member	Satsuki Miyahara
	Technical Advisor	Mamoru Honda
Member Development Committee (MDC)	Member	Mamoru Honda
ASEAN Federation of Accountants (AFA)		
	Associate Member (Representative)	Masahiko Tezuka
	Associate Member	Tatsuya Arai
Global Accounting Alliance (GAA)		
Board	Member	Tadashi Umino
	Technical Advisor	Shinji Someha
Education Directors Group		Shinji Takada
Tax Directors Group		Takae Akatsuka
Audit Working Group		Sayaka Shimura
Technical Advisory Panel		Shinji Someha
World Business Council for Sustainable Development (WBCSD)		
Assurance Working Group	Member	Hiromasa Niinaya

Names in red are women.

The JICPA continuously works to develop professionals with the international knowledge and experience to represent Japan at such international organizations. These efforts include the establishment of a fund to provide support for members to take part in study abroad programs. In fiscal 2020, the JICPA selected twelve members to receive support for overseas study or work dispatch.

At the same time, to enhance the diversity of globally capable accounting human resources, we are proactively communicating the appeal of global work through such means as our revamped website ("Vision for the future") and seminars.



(3) Secure diverse accounting professionals who can contribute in diverse roles and increase the appeal of the CPA profession by such means as supporting the professional success of female CPAs

To spark the interest of as many students as possible and deepen the knowledge and understanding of those who aim to become CPAs in the future, we hold information sessions about the CPA system and the work of CPAs at high schools, universities, and test prep schools. In addition, we have created an animated short to introduce the work of CPAs to interest students in this work and the CPA qualification.



A poster promoting the CPA examination

Activities in Fiscal 2020

- 29 sessions for high school students, with 1,854 participants
- 77 sessions for university students, with 10,855 participants



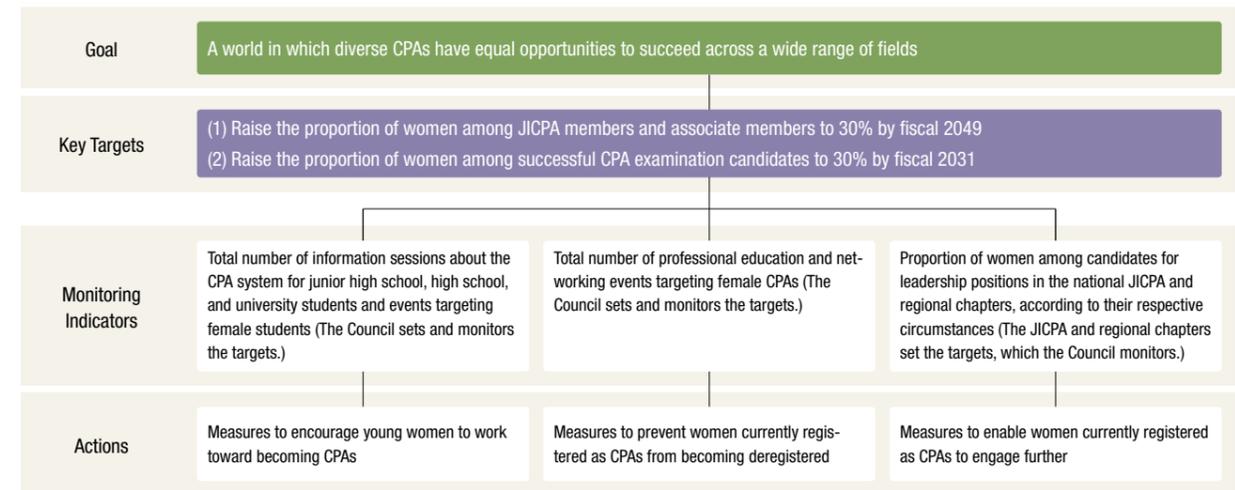
▶ Animated short about the work of CPAs (in Japanese)

<https://jicpa.or.jp/sitemap/prmovie.html>



We believe that the CPA industry should seek to build a society that embraces diversity. Accordingly, the JICPA aims to create a world in which diverse CPAs have equal opportunities to succeed across a wide range of fields. To this end, the JICPA has established key targets regarding the proportion of women

among its members and associate members and among successful CPA examination candidates to better promote the professional engagement of women in accounting, and is examining measures to achieve these targets.



Proportion of Women among JICPA Members and Associate Members	
	Percentage of women
December 2018	14.9%
December 2019	15.1%

Proportion of Women among Successful CPA Examination Candidates	
	Percentage of women
2018	20.4%
2019	23.6%

In line with these efforts, we are holding events for female students to increase the appeal of the CPA profession.

Event

Event for female college students: 10 Colors of CPA 2019

- Date: Wednesday, December 4, 2019
- Location: HELLO, VISITS University of Tokyo
- Program: Sayaka Kobayashi, on whom the popular book *Biri Girl* ["last-in-the-class girl"] is based, gave a talk titled "A biri girl's message to you: everyone has untapped potential." In addition, JICPA members Fuyumi Fujimoto, who runs an independent audit firm, and Kumiko Terai, who obtained CPA certification after working as a cabin attendant, took part in a panel discussion on how there is a workstyle for everyone and the choice of becoming a CPA. A reception then allowed participants to freely discuss a range of topics.



Panel discussion

Fiscal 2020 Business Plan and Activities

4 Actively promote understanding of the ways CPAs contribute to the public interest and reinforce the JICPA's organizational and financial foundations

(1) Communicate the ways CPAs contribute to the public interest to promote better understanding

In addition to holding periodic press conferences and lectures for reporters, we use various media, including newspaper ads and video ads in Tokyo Metro trains promoting awareness of the Key Audit Matters (KAMs), in an effort to communicate about the JICPA to the public.

Press conferences in fiscal 2020

In fiscal 2020, the JICPA held six press conferences: Wednesday, April 17, 2019; Thursday, June 27, 2019; Monday, July 22, 2019; Wednesday, September 18, 2019; Tuesday, November 19, 2019; and Wednesday, March 4, 2020.

An overview of the JICPA's press conferences is available on its website (in Japanese).



Press conference

(2) Promote communication that enhances the JICPA's transparency and dialogue with stakeholders

To enhance transparency and communication with society regarding its activities, the JICPA publishes an *Annual Report*.

Other publications of the JICPA include summaries of the proceedings of the Self-Regulatory Monitoring Conference, which comprises experts and mainly deals with self-regulation initiatives; the annual report of the Quality Control Committee; collections of quality control review case studies; and summaries of the activities of the system for individual case review (for details, please refer to "Self-Regulation Initiatives" on p. 28).

(3) Reinforce the JICPA's organization and operational structure nationwide and enhance its financial infrastructure to support CPAs in growing spheres of activity

In light of the expectations and needs of society regarding CPAs, the JICPA must continue to strengthen its systems of support for the work of its members. Securing a solid financial infrastructure to underpin such efforts is a crucial challenge. To this end, based on medium- and long-term projections, the JICPA reviewed its financial structure, including the possibility of increasing membership fees, in order to build a sustainable financial infrastructure.

(4) Coordinate initiatives being implemented by the institute and members to help realize a sustainable society by solving problems and achieving the Sustainable Development Goals (SDGs)

The realization of a sustainable society is the foundation for the development of the national economy. With this in mind, and in light of the issues facing Japanese society and the goals and targets of the SDGs, the JICPA has established a special committee that examines the roles of the JICPA and CPAs in society as well as the challenges they face in helping solve social issues and the ways they can take action to do so.

In fiscal 2020, the special committee published an interim report on its future vision for society, an aspirational vision for the JICPA and CPAs, and policy for related initiatives. It also held a symposium on the role of specialized experts, exchanging opinions with non-CPA experts, among other activities (for details on specific initiatives, please refer to "1 Initiatives Aimed at Building a Sustainable Society" on p. 48).

Response to COVID-19

The novel coronavirus (COVID-19) pandemic has led to concerns among investors regarding corporate performance amid instability in capital markets as well as a declaration of a state of emergency by the Japanese government. In light of such developments, the JICPA has worked to respond appropriately, in close coordination with related government agencies and other related organizations, to secure confidence in capital markets while giving highest priority to the safety of the public.

Specifically, the JICPA took part in the Networking Group on Corporate Year-End Closing of Accounts and Auditing in Response to the Increasing Impact of COVID-19, established by the Financial Services Agency with market actors as members and observers, sharing and discussing the situation and responses regarding the closing of corporate accounts and auditing amid the impact of the pandemic. Furthermore, in

response to the statement made by the Networking Group as well as the government's state of emergency declaration, the JICPA released a statement from the Chairman & President.

We also discussed auditing and the closing of accounts under the government's state of emergency at the Board of Officer's Meeting of the Federation of Councils on CPA Systems in Emerging Countries of Japan's Liberal Democratic Party.

In addition, there have been cases in which previously scheduled audit procedures could not be carried out. In light of such circumstances, we have taken steps to call attention to matters to be considered in auditing amid the current conditions of high uncertainty. We also set up a dedicated page on the JICPA website about COVID-19 to provide necessary information in a timely manner.



▶ Dedicated page about COVID-19 response on the JICPA website Responses to Coronavirus (COVID-19)

<https://jicpa.or.jp/english/covid-19-updates.html>



Self-Regulation Initiatives

1 Self-Regulation Overview

Role and Function of Self-Regulation

As a self-regulatory body charged with maintaining the credentials of CPAs at a high level, the JICPA conducts activities to guide, connect, and supervise its members; seeks to maintain and improve the quality of the work of CPAs; and implements initiatives to ensure society's confidence in the work of CPAs.

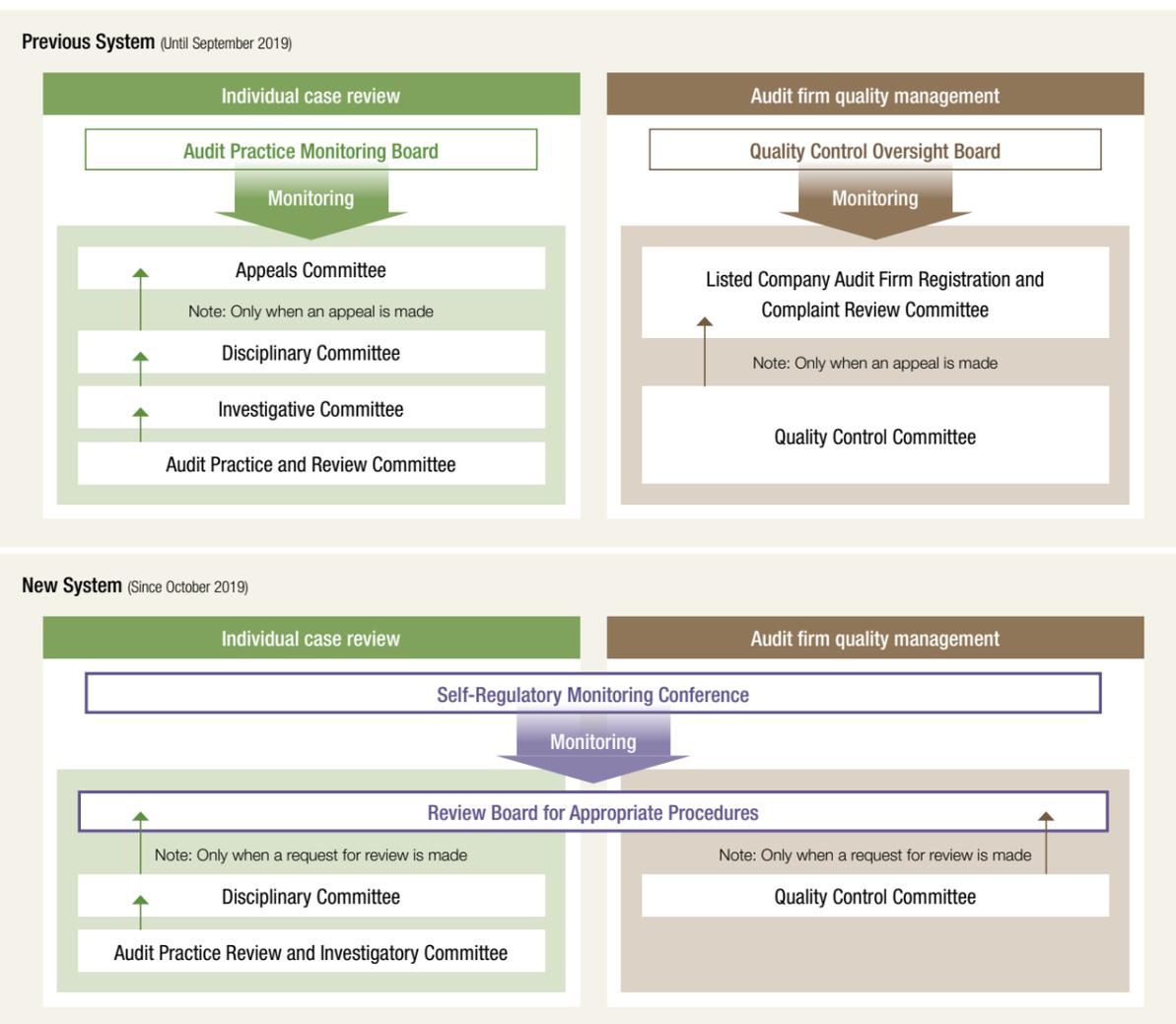
The JICPA's self-regulation comprises two core functions. The

first is individual case review, which examines such matters as the audit implementation status and appropriateness of audit opinions concerning individual audit engagements and issues involving the professional ethics of CPAs. The second is the quality control review system, which provides guidance and supervision regarding the quality control systems of audit firms.

Improving the System for Self-Regulation

The JICPA has been working to improve its self-regulation system. Increasing transparency, providing society with timely information, and ensuring clear, satisfying explanations have been prioritized as key issues. These efforts culminated in an

amendment to the JICPA Constitution in July 2019, and the JICPA has been operating under the self-regulatory apparatus shown below since October 2019.



Self-Regulatory Monitoring Conference

The Self-Regulatory Monitoring Conference was established to replace the former respective monitoring bodies of the individual audit review system (the Audit Practice Monitoring Board) and the audit firm quality management system (the Quality Control Oversight Board). The purpose of the Conference is to monitor the JICPA's overall self-regulatory operations and cases in which improvement is required to ensure a properly functioning system for self-regulation and secure greater understanding

from society, as well as to provide opinions and advice based on a broader perspective encompassing capital markets and social impact.

The Self-Regulatory Monitoring Conference comprises eight members. In light of the importance of securing independence and transparency, seven of these members are outside members (one of whom is also an outside Council Member of the JICPA).

Self-Regulatory Monitoring Conference Members (As of March 31, 2020)

Hisashi Yamaura*	Outside Council Member, JICPA; Professor Emeritus, Meiji University; former Commissioner, Board of Audit	Yasushi Suzuki*	Managing Governor, Japan Exchange Regulation
Hiroshi Miyake*	Attorney	Mari Sono	Former Commissioner, Securities and Exchange Surveillance Commission
Toshifumi Goto*	Chairperson, Japan Audit & Supervisory Board Members Association	Norihiro Takahashi*	President, Government Pension Investment Fund
Mari Kobayashi*	Professor, Waseda University	Manabu Morimoto*	Vice Chairman, Japan Securities Dealers Association

Names marked with * are outside experts. Names in red are women.

Summaries of the proceedings of the Self-Regulatory Monitoring Conference and the materials used at its meetings are published on the JICPA's website.

▶ Self-Regulatory Monitoring Conference proceedings summaries and meeting materials (in Japanese)

<https://jicpa.or.jp/about/activity/self-regulatory/quality/monitoring.html>



Review Board for Appropriate Procedures

The former Appeals Committee and the former Listed Company Audit Firm Registration and Complaint Review Committee both served as organs for reviewing appeals made by members within their respective systems. They shared many common aspects, including their purpose, the targets of their evaluations, and their members. As such, the two committees were

integrated to form the Review Board for Appropriate Procedures, with the goal of enhancing expertise and ensuring uniform, equitable decisions.

The Review Board for Appropriate Procedures comprises five members, of whom three are outside experts.

Audit Practice Review and Investigatory Committee

The former Audit Practice and Review Committee and Investigatory Committee were integrated to form the Audit Practice Review and Investigatory Committee. This was done to unify and eliminate redundancies in individual audit practice reviews and investigations to improve speed and efficiency, as

well as to meet the expectations of capital markets by better defining the issues in question and conducting more in-depth investigations via a single apparatus (for more information on the committee's role, please refer to "2 Individual Case Review" on page 30).

Self-Regulation Initiatives

2 Individual Case Review

Audit Practice Review and Investigatory Committee

The Audit Practice Review and Investigatory Committee examines and investigates the implementation of audits by JICPA members and the appropriateness of their audit opinions on individual audit engagements, such as those related to companies' timely disclosure, matters reported in the media, and audit hotline reports. Based on its findings, the JICPA chairman then issues recommendations or instructions as necessary.

The committee also reviews and investigates matters concerning issues of ethics related to JICPA members and associate members, as well as other matters referred to it in accordance with the JICPA Constitution. Based on its findings, the JICPA chairman then issues recommendations or instructions to the members or associate members in question as necessary.

Furthermore, when there is concern that a member or associate member may have violated laws, regulations, or the JICPA Constitution or other rules, the committee conducts a review and investigation. If the committee determines that there had been such a violation and that it requires review to determine whether disciplinary action is warranted, the JICPA chairman requests a review by the Disciplinary Committee.

The Audit Practice Review and Investigatory Committee comprises no more than 17 members, of whom two are outside experts.

The committee issues compilations of the suggestions it has made based on its reviews to JICPA members for use as reference in the auditing work of CPAs.

Disciplinary Committee

The Disciplinary Committee accurately and equitably evaluates matters for which it has received a review request from the JICPA chairman based on the Audit Practice Review and Investigatory Committee's disciplinary action proposals. The committee determines the disciplinary actions to be imposed and informs the members or associate members in question.

The Disciplinary Committee comprises seven members, of whom two are outside experts.

The committee issues compilations of cases it has decided to JICPA members as a resource to help them audit appropriately

and to maintain and improve their professional ethics.

JICPA members and associate members who have been sentenced to disciplinary action by the Disciplinary Committee may request a review by the Review Board for Appropriate Procedures if a procedural violation or significant factual error could have affected the outcome of the Disciplinary Committee's review.

The Review Board for Appropriate Procedures reviews such requests and either returns cases to the Disciplinary Committee or dismisses them.

Types of Disciplinary Sanctions

The following five types of disciplinary action may be imposed by the JICPA.

- | | |
|--|---|
| 1. Reprimand | 4. Recommended deregistration from the JICPA |
| 2. Suspension of the membership rights granted by the JICPA Constitution | 5. Request to the Financial Services Agency to impose such sanctions as striking the individual from the CPA registry or issuing a dissolution order to an audit corporation (May be combined with items 1–4) |
| 3. Expulsion from the JICPA (associate members only) | |

When investigations find that matters examined require improvement but do not warrant disciplinary sanctions, the bodies involved issue recommendations or instructions as needed.

Internal and External Disclosure of Disciplinary Sanctions

Disciplinary sanctions imposed by the JICPA are, per the JICPA Constitution, internally disclosed to members via the JICPA website (on a page only accessible to members and associate members), the JICPA newsletter, and postings in the JICPA offices.

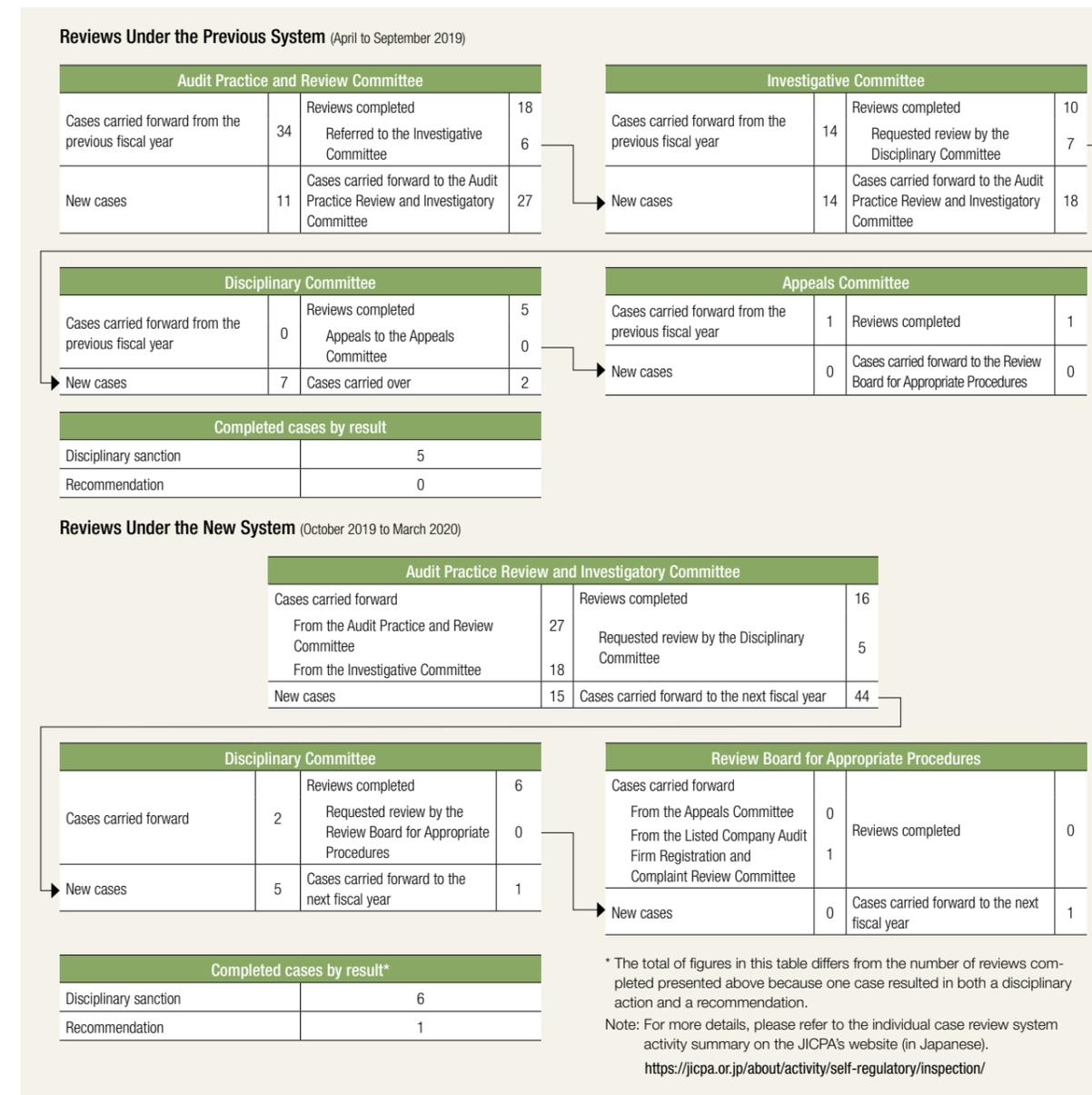
Furthermore, the disciplinary sanctions imposed may be disclosed publicly if the severity of the underlying matter exceeds a certain threshold or the said matter is of great interest or import to society and the JICPA chairman deems doing so necessary in

order to secure the confidence of society in the JICPA and the CPA system.

At the July 2019 Annual General Assembly, the JICPA Constitution was amended to allow the public disclosure of summaries of cases that are still under investigation if the JICPA chairman deems doing so necessary in order to secure the confidence of society in the JICPA and the CPA system.

Data: Individual Case Reviews

Reviews undertaken in fiscal 2020 are summarized in the chart below. Note that an overview of the activities of the individual case review system is published separately (in Japanese).



Disciplinary Sanctions Imposed in Fiscal 2020 (April 1, 2019–March 31, 2020)

	Type of sanction	Actions ¹
Individuals	Reprimand	0
	Suspension of membership rights	33
	Recommended deregistration	0
	Sanction request filed with the FSA	0
	Expulsion	37 ²
Audit Corporations	Reprimand	1
	Suspension of membership rights	0
	Recommended deregistration	0
	Sanction request filed with the FSA	0

- The number of individuals for the individuals category and the number of corporations for the audit corporations category.
- The number of expulsions based on decisions of the Disciplinary Committee was zero. Associate members who are more than one year delinquent in the payment of standard membership fees or chapter fees (see "1 Revenue Structure" on page 58) and remain delinquent after receiving requests for payment are subject to disciplinary action by decision of the Council. The above number of expulsions reflects such decisions.

Self-Regulation Initiatives

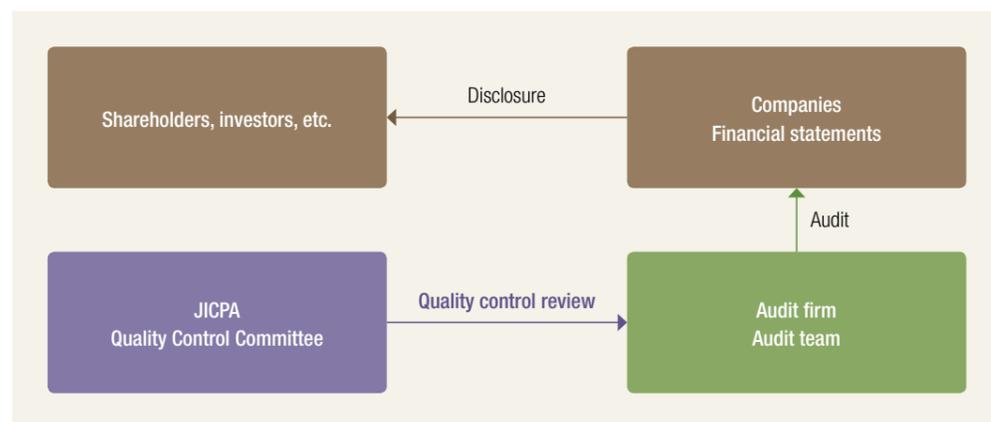
3 Quality Control at Audit Firms

1 Quality Control Reviews

In light of the public significance of auditing, since fiscal 2000, the JICPA has operated a quality control review system for audit firms (audit corporations and CPAs) as a means of self-regulation in line with the Certified Public Accountants Act. The system is aimed at maintaining and improving the quality of auditing as well as securing society's confidence in audits.

Under the quality control review system, the Quality Control

Committee reviews the status and implementation of the quality control systems of audit firms and, as needed, issues recommendations for improvement or imposes appropriate measures. In this way, the system helps maintain and improve the quality of audits conducted by audit firms. The quality control review system is not intended to badger, penalize, or interfere in the formation of audit opinions by audit firms.



The system includes two types of quality control reviews. The first is a regular review, which examines an audit firm's overall quality management. The second is a special review, which is conducted when needed to examine quality management in specific fields of the audit firm involved or the quality management of specific audit engagements.

Based on the results of each regular review, the Quality Control Committee prepares a quality control review report containing its conclusions about the status of the audit firm's quality control system and its operation. This report is issued to the audit firm.

In principle, quality control review reports may not be disclosed to any third party. However, audit firms may disclose to

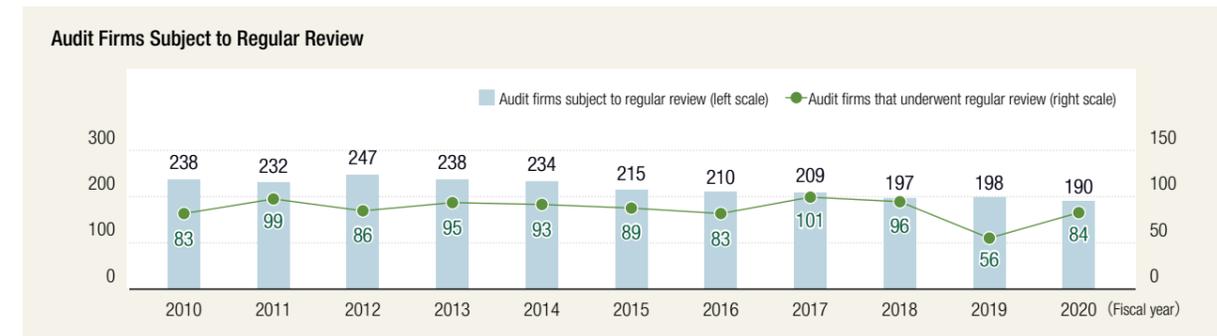
third parties summaries of their most recent quality control review results (such as the quality control review conclusion) in the audit quality reports that they prepare.

Furthermore, audit firms are required to, at a minimum, communicate quality control review results to the client's corporate auditors when the engagement involves companies that are legally bound to retain an accounting auditor (such as large companies defined in the Certified Public Accountants Act) or shinkin banks.

The results of quality control reviews are compiled in the annual report of the Quality Control Committee, which is published separately (in Japanese).

Data: Regular Quality Control Reviews

The number of audit firms undergoing regular reviews each fiscal year and a summary of the fiscal 2020 regular review results are presented below.



Fiscal 2020 Regular Review Results



Note: In addition to the above, the quality control review reports (one unqualified conclusion and one qualified conclusion) for two audit firms that underwent regular reviews in fiscal 2019 were issued in fiscal 2020. As a result, a total of 77 audit firms were issued quality control review reports with unqualified conclusions, and seven audit firms were issued quality control review reports with qualified conclusions in fiscal 2020.

Type of regular review conclusion	Description
Unqualified conclusion	Presented when a regular review finds that the conditions of both 1. and 2., below, are met. 1. No significant non-conformities with quality management standards were found in the quality control system established by the audit firm 2. No significant non-conformities with the audit firm's quality control system were found in the auditing related to audit reports dated in the period covered by the review
Qualified conclusion	Presented when, as a result of a regular review, significant matters were observed that were deemed cause for considerable concern about the possibility of material non-compliance with professional standards or applicable laws and regulations in the auditing performed by the audit firm.
Negative conclusion	Presented when, as a result of a regular review, significant matters were observed that were deemed cause for serious concern about the possibility of material non-compliance with professional standards or applicable laws and regulations in the auditing performed by the audit firm and extremely significant violations of professional standards or applicable laws and regulations were observed in the individual engagements subject to normal review.

Note: The types of regular review conclusions have changed for quality control reviews commenced on or after July 1, 2020.

Self-Regulation Initiatives

Measures Based on Quality Control Review Results

Based on the results of a quality control review, the Quality Control Committee may decide to impose one of three types of measures on the audit firm subject to the review. These are warning, stern warning, and admonishment that the audit firm withdraw from all or part of its auditing work.

If the audit firm in question is registered on the roster of audit firms that engage in audits of listed companies or the roster of associate registered audit firms (see page 35), depending on the type of measure imposed, one of the following steps will be taken regarding said firm's registration on such roster.

- | | |
|--|---|
| <p>1. Publication of a summary of the qualifications or other related contents of the quality control review conclusion.</p> | <p>2. Removal from the roster of audit firms that engage in audits of listed companies and publication of the removal and reasons for it, or removal from the roster of associate registered audit firms.</p> |
|--|---|

Monitoring by the Certified Public Accountants and Auditing Oversight Board

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) is a government organ established within the Financial Services Agency based on the Certified Public Accountants Act and Act for Establishment of the Financial Services Agency. The main operations of the CPAAOB are administering the CPA examinations, reviewing and examining

audit firms, and investigations and deliberations related to disciplinary sanctions for CPAs.

Based on the Certified Public Accountants Act, since fiscal 2005, the JICPA has reported on the status of quality control reviews to the CPAAOB, and the CPAAOB monitors such reviews.

2 Registration System for Audit Firms that Engage in Audits of Listed Companies

To further strengthen quality control of the audits performed by audit firms that have audit agreements with listed companies, in 2007, the JICPA introduced a registration system for such audit firms. This system is operated as a component of the quality control review system. The Listed Company Audit Firm Subcommittee, established within the Quality Control Committee, maintains an official roster of audit firms that engage in audits of listed companies as well as a roster of associate registered audit firms* that it makes broadly available to the public. The subcommittee also makes decisions on allowing firms to be registered and registration-related measures.

requests and either returns cases to the Quality Control Committee or dismisses them.

The roster of audit firms that engage in audits of listed companies and roster of associate registered audit firms are available on the JICPA's website (in Japanese). The securities listing regulations of securities exchanges in Japan require listed companies to engage auditors that are registered on the roster of audit firms that engage in audits of listed companies or the roster of associate registered audit firms.

Audit firms that have been denied registration or been removed from these rosters may request a review by the Review Board for Appropriate Procedures if a procedural violation or significant factual error could have affected the outcome of the Quality Control Committee's review.

The Review Board for Appropriate Procedures reviews such

▶ Roster of audit firms that engage in audits of listed companies and roster of associate registered audit firms (in Japanese)
<http://tms.jicpa.or.jp/offios/pub/>



* Audit firms that have specific plans to form audit engagements with a listed company or those without specific engagement plans that currently audit a company deemed equivalent to a listed company and aim to form future audit engagements with listed companies.

Firms Registered on the Roster of Audit Firms That Engage in Audits of Listed Companies

	March 31, 2019	March 31, 2020
Audit firms that engage in audits of listed companies	118	118
Associate registered audit firms	13	18
Total	131	136

Building Confidence in CPAs

1 High-Quality, Trusted Corporate Disclosure

Interview with the Executive Board Member in Charge of Corporate Accounting and Disclosure

In recent years, society's needs related to corporate disclosure have become more comprehensive, extending beyond the disclosure of financial information. Against this backdrop, corporate disclosure is in the midst of major changes, including an increased focus on dialogue between companies and investors.

The JICPA regards increasing the quality of and confidence in overall disclosure—encompassing both required and voluntary disclosure materials, as well as financial and non-financial information—as the mission of CPAs in capital

markets and an area in which CPAs can contribute.

Accordingly, to better consider overall corporate disclosure in an integrated manner, in September 2019 we established a special committee, including non-CPA outside experts, that has been advancing considerations aimed at furthering high-quality, trusted corporate disclosure. We sat down with JICPA Executive Board Member Takako Fujimoto (in charge of corporate accounting and disclosure) to hear her thoughts about the role of CPAs and the JICPA's initiatives amid the changing landscape of corporate disclosure.



Takako Fujimoto
Executive Board Member
JICPA

Q1 What are your thoughts on the major changes in the environment surrounding corporate disclosure in recent years?

From Disclosure as Mere Compliance to Disclosure as Communication

As corporate governance reforms have progressed over the past several years, it seems to me that investors, especially in Europe, have come to clearly expect more from corporate

disclosure. In Japan, too, there are burgeoning efforts to create frameworks that hold up internationally, based in part on governance in Europe and the United States, and awareness

and attitudes toward corporate governance and disclosure are beginning to change. Conventionally, corporate disclosure was focused on following the rules, as part of compliance, but recently, I think there is a greater emphasis on using it as a tool for communication.

In addition, the growing importance of sustainability and ESG perspectives in corporate management is greatly impacting the changes to corporate disclosure. Until now, companies have disclosed the social contribution activities they carried out voluntarily, but recently, such initiatives are increasingly being made a matter of corporate accountability and built into the management strategy to which executives are expected to firmly commit. Further encouraging this shift, investors are including ESG considerations in their dialogue

with companies and investments.

In line with such changes, there are growing calls for content that until now has been disclosed voluntarily in integrated reports and sustainability reports to become required disclosure. At the same time, the importance of non-financial disclosure (descriptive information) has increased tremendously. Right now, disclosure is divided amongst required disclosure systems and voluntary disclosure. A variety of entities are exploring forms of disclosure that can break through this paradigm and improve dialogue between companies and investors. Each entity can only do so much alone, so it will be important to bring all the different actors to the table.

Q2

What do you see as the role of CPAs amid these major changes in the environment surrounding corporate disclosure?

Changing Mindsets to More Proactively Explain Audits

I think CPAs have a major role to play in corporate disclosure. CPAs necessarily have an ample understanding of the companies whose financial statements they audit. I think that the role expected of CPAs is to use that understanding to encourage appropriate corporate disclosure that will help inform the decisions of the users of financial statements.

Over the past several years, as a result of the need for deeper auditing as business activities grow increasingly complex, sophisticated and international, I think that audit procedures have become more narrowly focused on financial statements.

At the same time, more and more investors are engaging in dialogue and investing from a longer-term perspective,

utilizing all aspects of corporate disclosure, including non-financial information. Accordingly, needs regarding audits of corporate disclosure are shifting. I think this may be a moment for us to take another look at the purpose of such audits.

The Key Audit Matters (KAMs) have been introduced from the fiscal year ending March 2021 (with early application from the year ended March 2020 also permitted). With this change, auditors will have to explain what they focused on in an audit. That is, they will need to shift their mindsets from simply focusing on auditing effectively to auditing in a way that they can explain to the users of financial statements.

Growing Importance of Management Knowledge and Dialogue with Companies

Explaining the KAMs in words that are comprehensible to all users of financial statements will require greater dialogue and mutual understanding with a wide range of actors. I think this will bring about significant change. Until now, the focus in auditing has been deepening knowledge of the audited companies' industries, understanding their business activities and building trust with companies. The recent changes further highlight how important these are.

For example, I think that deepening one's understanding of a company's industry and business activities is useful in terms of dialogue with outside directors (which are increasingly common in recent years) and understanding how corporate executives explain their company to and interact with investors at results presentations and in IR communications. By doing so, I think that auditors will gain new insights into the circumstances and perspective of each company, which

Building Confidence in CPAs

will be useful in enhancing the effectiveness of their audits.

In terms of building trust with companies, dialogue with executives, and especially understanding their points of view and thinking, is essential. To that end, I think that not only a

mere academic knowledge of management, but a more practical, broader management knowledge is increasingly important for auditors.

Q3

What initiatives is the JICPA advancing with regard to corporate disclosure?

Identifying Key Issues to Increase the Quality of Corporate Disclosure

Currently, the JICPA has set up a special committee to advance discussions aimed at identifying the key issues for increasing the quality of corporate disclosure. We plan to publish the key issues identified as a result and hope that doing so will contribute to the improvement of corporate disclosure quality.

I think that CPAs are called upon to utilize their expertise to secure confidence in capital markets, not only in auditing financial statements, but as internal auditors within organizations and as outside directors and corporate auditors.

Corporate disclosure is part of the infrastructure that supports the value creation cycle in capital markets. By bolstering its effectiveness from within and outside companies, I think that CPAs can help enhance governance, in turn helping to secure confidence in capital markets. The qualities and skills needed to carry out that role have much in common with those of a CPA. As such, I think that providing training systems and educational programs that foster such qualities and skills is a crucial initiative for the JICPA in this area.

2 Reinforcing Auditor Independence

In March 2016, in the wake of incidents of accounting fraud that threw confidence in accounting audits into question, the Advisory Council on the Systems of Accounting and Auditing, established within the Financial Services Agency, formulated and issued recommendations for securing the reliability of accounting audits.

Based on these recommendations, the Financial Services Agency published its first survey report on audit firm rotation in July 2017. This report found that, in past cases of accounting fraud, the system of partner rotation¹ had not adequately realized the effects expected when the system was introduced.

After considering changes in circumstances following the first report, the Financial Services Agency issued a second survey report on audit firm rotation in October 2019. The second report was based on surveys of the operational status of the partner rotation system and changes of audit firms. It found that even when partner rotation was strictly adhered to, there were cases in which it was not practiced properly in terms of bringing fresh perspectives to accounting audits. As such, the report found, the system might not necessarily produce the effects expected

when it was introduced, and that the proper operation of the system, in line with its objectives, was crucial.

1. A system that limits the duration that an executive employee (a partner) of an audit firm may continuously be involved in an audit engagement for a given company. After this period, it requires that the partner assigned to the engagement be changed in order to secure the independence of auditors from their client companies. A specified interval must elapse before the partner may again be involved in auditing the same client company.

In response to the Financial Services Agency's second survey report on audit firm rotation, on October 25, 2019, the JICPA published a statement from the Chairman & President titled "Reinforcing Auditor Independence—Response to the Second Survey Report on Audit Firm Rotation."²

This statement urged CPAs to ensure compliance with the revisions to the JICPA's Independence Guidelines, which are applied from fiscal years commencing on or after April 1, 2020, and outlined the concept of team member rotation, in which not only audit partners, but also auditing assistants, are rotated as needed.

2. **▶ October 25, 2019. Chairman & President Statement: Reinforcing Auditor Independence—Response to the Second Survey Report on Audit Firm Rotation (in Japanese)**
https://jicpa.or.jp/specialized_field/20191025vrz.html

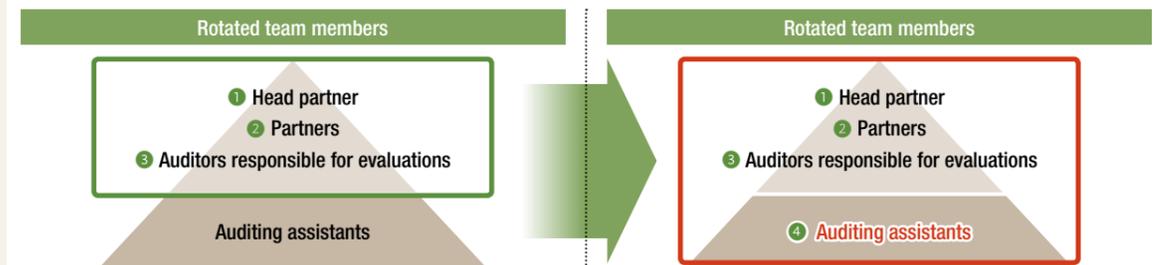


Statement from the Chairman & President (October 25, 2019)

Message About Reinforcing Auditor Independence

- Apply team member rotation, rotating not only partners, but also auditing assistants as needed, from fiscal years beginning on or after April 1, 2020
- The proper operation of these rules will secure fresh perspectives and independence in auditing while enabling high-quality audits leveraging the necessary knowledge and experience, thereby contributing to the public interest

Team Member Rotation (Applies to All Auditing)



	Maximum auditing period	Interval
①	7 years	2 years
②	7 years	2 years
③	7 years	2 years

The maximum auditing period and interval length requirements apply to members 1–3 for the auditing of large companies and other entities deemed public interest entities (PIEs). For other audit engagements, these members, like auditing assistants, are rotated on an as-needed basis.

	Maximum auditing period	Interval
①	7 years	5 years
②	7 years	2 years
③	7 years	3 years
④	Rotated as needed in light of their level of influence on audit results, etc.	

Notes: 1. For members 1 and 3, in the case of audits of listed companies by large audit firms, the maximum auditing period and interval are both five years.
 2. Changes are indicated in red.

Building Confidence in CPAs

This team member rotation system was actively discussed not only by stakeholders directly involved in capital markets, but also by the Japanese Diet and within political parties.³

3. The system was discussed four times by the Subcommittee on Corporate Accounting established by the Liberal Democratic Party's Policy Research Council and Research Commission on the Finance and Banking Systems.

In light of the discussions at the Diet and within political parties, on February 20, 2020, the JICPA issued a notice from the President & Chairman titled "Handling of the Long-Term Involvement of Team Members and Their Rotation,"⁴ providing concrete details about team member rotation.

The amendments to the Independence Guidelines, applied from fiscal years commencing on or after April 1, 2020, require

the rotation, as needed, of auditing staff involved in the auditing of a particular company for long periods (team member rotation). This rule applies to all auditing. Furthermore, on top of this rule, for audits of companies that have an especially large social impact, the amendments establish additional rules from the perspective of protecting the public interest.

Additional Rules for Audits of Companies with an Especially Large Social Impact

Scope	<ul style="list-style-type: none"> Companies with a market capitalization of approximately ¥500 billion or greater (Established from the perspective of the public interest in consideration of the company's degree of impact on capital markets) 			
	Market capitalization	Number of companies	Total market capitalization (millions of yen)	Market coverage
	¥1,000 billion or greater	143	422,715,372	60.5%
	¥500 billion or greater	271	512,642,437	73.4%
	¥300 billion or greater	395	561,184,795	80.4%
	¥100 billion or greater	802	631,729,614	90.5%
Total, including those less than ¥100 billion		3,834	698,286,420	100.0%
(Market capitalization as of December 30, 2019)				
Content Summary	<ul style="list-style-type: none"> The period of long-term involvement that presents the risk of overfamiliarity that could affect fairness and professional skepticism is defined as 10 years Handling of cases in which audit assistants remain involved in auditing a company after transitioning to a partner role <ul style="list-style-type: none"> Decisions about long-term involvement to be made in light of the length of their involvement as auditing assistants Rotation is an effective means of safeguarding against overfamiliarity 			
Transitional measures	<ul style="list-style-type: none"> Necessary practical transitional measures in light of the impact on audit firms' audit quality and personnel planning, etc. <ul style="list-style-type: none"> Period of application (from fiscal years commencing on or after April 1, 2021) Treatment of partners who have already begun assignments in conflict with the new rules 			

As of December 31, 2019, companies defined as having especially large social impact account for more than 70% of the market on a market capitalization basis.

The JICPA believes that the compliance of its members with

the practices laid out in this notice will be sufficient to address the concerns that stakeholders have regarding the long-term involvement of auditors in the auditing of specific companies.

4. **February 20, 2020. Notice from the Chairman & President: Handling of the Long-Term Involvement of Team Members and Their Rotation (in Japanese)**
https://jicpa.or.jp/specialized_field/20200226jfe.html



3 Ensuring Compliance with the Code of Ethics among CPAs Serving as Outside Directors and Corporate Auditors or as In-House Accountants

On December 4, 2019, an amendment to the Companies Act that will require listed companies and certain other organization to maintain outside directors passed in the Upper House of the Diet. In response, on December 5, 2019, the JICPA issued a statement from the Chairman & President titled "Ensuring Compliance with the Code of Ethics among CPAs Serving as External Directors and Corporate Auditors." The purpose of this statement was to once again urge its members who serve as outside directors and corporate auditors to ensure compliance with the new provisions, which were designed to clarify response to illegal activity and established by the June 2019 amendment to the JICPA's Code of Ethics.

This statement reminded CPAs serving as outside directors and corporate auditors that, as officers charged with implementing governance, they are called upon to maintain an especially high level of professional ethics to properly fulfill their duties and the responsibility of stewarding the sustainable growth of the company they serve and strengthening its corporate value, in addition to actively exercising their respective authority. It further urged that they fully understand and comply with the Code of Ethics in order to fulfill their social responsibility.

► **December 5, 2019. Chairman & President Message: Ensuring Compliance with the Code of Ethics among CPAs Serving as External Directors and Corporate Auditors (in Japanese)**
https://jicpa.or.jp/specialized_field/20191205gci.html



The amendment to the JICPA's Code of Ethics¹ was also made to reflect the amendment of the Code of Ethics for Professional Accountants established in 2016 by the International Ethics Standards Board for Accountants (IESBA).²

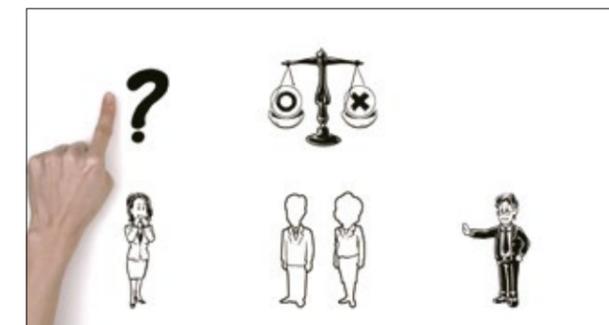
Today, in many countries, professional accountants working within companies play an important role in securing the chain of financial reporting. While auditors help secure reliability by auditing financial statements, in-house accountants handle the preparation of such statements and, further up the chain, the information used as the basis for such preparation. As such, taking steps to enhance the ethical conduct not only of auditors but of in-house accountants can help secure the reliability of financial information and thereby contribute to the public interest. Against this backdrop, the IESBA's Code of Ethics was

amended to reinforce provisions pertaining to accounting professionals working inside companies.

- In addition to stipulating responses to illegal activity, the Code of Ethics was amended to enhance guidance regarding actions that CPAs working in-house at companies and other organizations should take when preparing and providing information, and to enhance guidance for handling pressure to commit ethics violations.
- Organizations belonging to the International Federation of Accountants (IFAC) may not, in principle, apply standards less strict than those of the IESBA. As such, the JICPA (which is a member of the IFAC) maintains a Code of Ethics that is similar to the IESBA's Code of Ethics and considers amending its Code of Ethics whenever the IESBA's Code of Ethics is amended.

In Japan, CPAs often serve as corporate officers, such as CFOs or external directors and corporate auditors. In addition to leveraging their expertise within the company, their importance as experts in implementing governance is especially increasing.

Accordingly, to promote awareness of the amended Code of Ethics among CPAs, in addition to issuing the statement from the Chairman & President, we held a training for in-house accountants titled "Leveraging the Code of Ethics Amendments to Increase the Value of In-House Accountants: Responding to Illegal Activity and Ethics Reinforcement Going Forward." Furthermore, we have created an explanatory video to promote widespread understanding among the general public.



► **"CPA Ethics Necessary for In-House Accountants and Outside Directors and Corporate Auditors Who Are Accountants" explanatory video (in Japanese)**
<https://jicpa.or.jp/news/information/2020/20200325jzv.html>



Event

Leveraging the Code of Ethics Amendments to Increase the Value of In-House Accountants: Responding to Illegal Activity and Ethics Reinforcement Going Forward

- Date: Thursday, September 19, 2019
- Location: CPA Building Event Hall
- Program: Executive Board Member Ichiro Waki (in charge of diversity & inclusion) explained the factors behind ethics reinforcement efforts for in-house accountants and the new provisions regarding responding to illegal activity, as well as an overview of the international discussion regarding ethics reinforcement going forward.



Training session

Contributing to a Robust Accounting Infrastructure in Wide-Ranging Fields

1 Model Accounting Standards for Non-Profit Organizations

1 The Current Non-Profit Organization Accounting Infrastructure

Non-profit organizations (NPOs) can be incorporated in various forms, such as public interest corporations, social welfare corporations, medical corporations, incorporated schools, or specified non-profit corporations. The accounting standards applied to such organizations and the bodies that set such standards are different for each type.

NPOs already play important roles, but these roles are expanding further as they become the direct providers of diverse value by, for example, providing social services through autonomous, creative private initiatives or making policy proposals. Going forward, NPOs will need to enhance their independence and management capacity to meet society's expectations.

The funding sources of NPOs include donations as well as subsidies and grants. Previously, these accounted for a large portion of their funding, but as this portion has been declining, securing increased funding from private sources has become an important challenge. As such, the executives who run NPOs need to fulfill their duty of accountability to their funders (such as donors and creditors) regarding how their funds were used. They must also secure public trust by providing useful information to meet the needs of such funders.

In terms of operations and stakeholders, the distinctions that exist between organizations incorporated in different forms have recently been narrowing. At the same time, there is a growing

need for coordination between organizations with different forms. Accounting approaches must also evolve to better reflect the activities of such organizations today. Moreover, the NPO sector needs an accounting framework that can extend beyond specific corporate forms in order to meet the needs of such stakeholders as donors and creditors. To meet the needs of general users of financial information, there is a need to build a consistent, easy-to-understand financial reporting model under a common framework for all forms of NPOs. To this end, accounting standards must be established based on the fundamental questions of for whom and what purposes accounting is designed and what kind of information is required. In addition, such efforts must reflect the basic characteristics that are common across NPOs.

At the same time, the accounting of NPOs that provide a particularly important public utility must go beyond simply disclosing the necessary information for government authorities to carry out legally required guidance and supervision. This accounting must also fulfill a role as social infrastructure by guaranteeing the financial soundness of such organizations. Meeting specific specialized needs like these while simultaneously meeting the needs of general users is another important lens through which to consider the accounting of NPOs.

2 The JICPA's Initiatives

(1) Formulating Model Accounting Standards for NPOs

Given these circumstances, the JICPA established the Non-Profit Organization Accounting Review Council to work under a long-term plan to increase the commonality of financial reporting across corporate forms with the goal of developing accounting standards (that is, model accounting standards) in line with the fundamental concept of making reporting easy to understand. In July 2019, the Review Council published a report on its review of the financial reporting of NPOs, proposing Basic Principles of Financial Reporting and Model Accounting Standards.

▶ Report of the Non-Profit Organization Accounting Review Council (in Japanese)

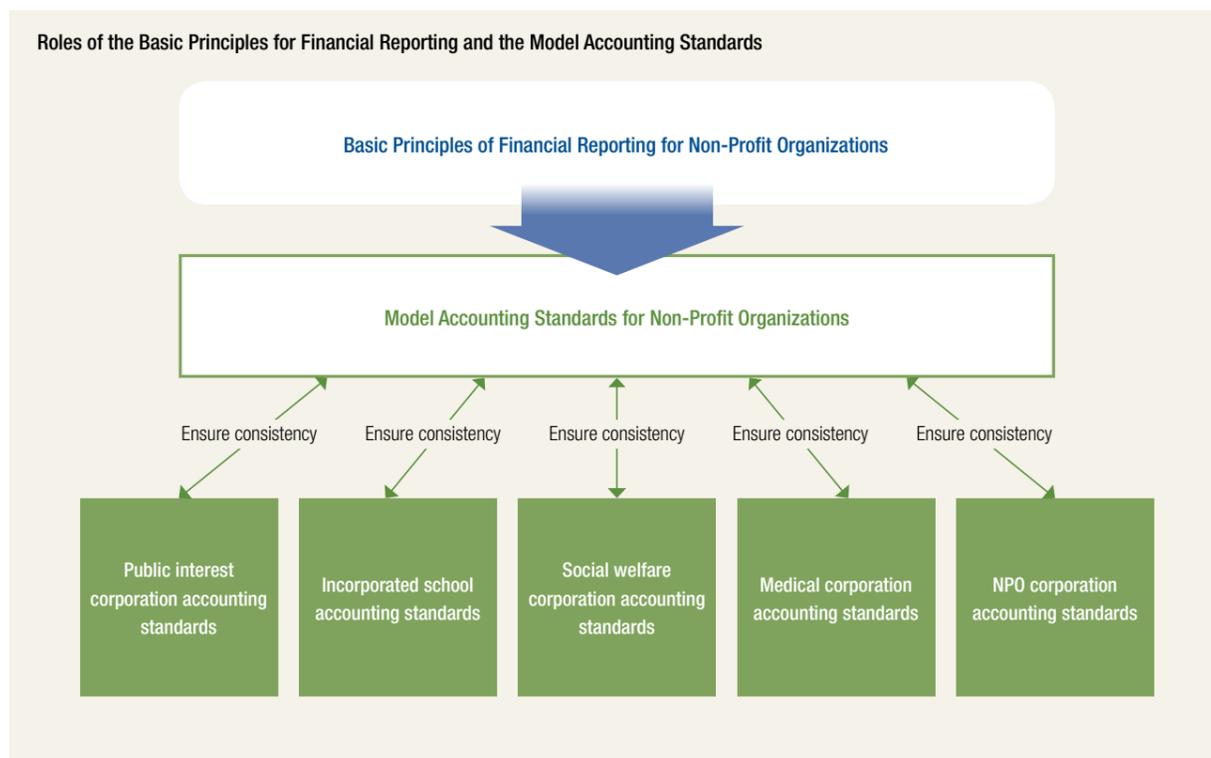
https://jicpa.or.jp/specialized_field/20190731iub.html



The Model Accounting Standards were published with a document titled "Basic Principles of Financial Reporting" for use as supplementary materials while considering the financial reporting of NPOs. The Model Accounting Standards are intended as a reference for developing or amending actual accounting standards for NPOs and are not themselves binding. We hope that referencing the model standards in the process of amending the respective accounting standards for individual corporate forms will yield greater consistency between such standards.

The Basic Principles of Financial Reporting underlie the development of the Model Accounting Standards, covering such topics as the organizational characteristics of NPOs, the objectives of financial reporting, the qualitative characteristics of useful financial information, the components of financial statements, and such accounting concepts as recognition and measurement. By putting these basic principles in writing, indicating our assumptions about the ways those preparing and using financial statements understand accounting, we provided a basic reference for developing accounting principles under a clear framework, based on a consistent approach, in the event circumstances are not expressly covered by accounting standards.

Contributing to a Robust Accounting Infrastructure in Wide-Ranging Fields



Common accounting standards for NPOs have been a topic of academic research for some time, but never before led to the creation of realistic accounting standards. The JICPA's establishment of the Non-Profit Organization Accounting Review Council and the development and publishing of the Model Accounting Standards in cooperation with academic experts was therefore a major step forward in NPO sector accounting, and this initiative has received widespread praise.

(2) Outlook

Comparing and considering the accounting standards for each corporate form and the accounting treatments of individual cases as well as promoting, to the greatest extent possible, the use of the Model Accounting Standards as a reference will continue to constitute the JICPA's main activities in the NPO sector. If, in the process of working with and adjusting current accounting standards, the need arises to reexamine the policies or accounting treatments of the Model Accounting Standards, we will revise them as necessary. These activities will continue over the medium- to long-term, but eventually, as the accounting infrastructure of the NPO sector improves, based in part on the Model Accounting Standards, information will be provided to stakeholders in the form of financial statements prepared based on common accounting treatments.

2 Tax System Reform Requests

1 Tax System Opinions and Requests

Since 2000, the JICPA has prepared and published an annual document titled "Tax System Opinions and Requests," detailing its opinions and desired actions mainly regarding the current tax system.

In 2019, this document included 9 opinions and requests in

the category "Policy Requests," related to structural problems in Japan's tax system, as well as 62 opinions and requests in the category "Individual Requests," related to specific tax system rules, for a total of 71 opinions and requests.

Policy Requests

1. Calculation of taxable income and adjustments to corporate accounting under the Corporation Tax Act

- Amendment to the Corporation Tax Act in line with corporate accounting standards, while keeping in mind the objectives of such calculation
- Increased flexibility in permitted methods of confirmation of intent, including relaxation of filing requirements to formally fix obligations and loss accounting requirements, for listed companies and other organizations with reliable tax compliance measures

2. Tax system for supporting business succession

- Revisions to the special requirements of the succession planning tax system in light of their applications

3. Preferential tax systems for venture capital investment

- Further enhancing the preferential tax system to encourage venture capital investment

4. Reduced consumption tax rate system and invoice system

- Preventing new exempted consumption tax
- Design of an invoice system that will not be confusing to adopt for business operators
- Establish safe harbor rules for cases when invoices are found to be fraudulent or invalid

5. The tax payment environment, etc.

- Organizing and unifying numbers used in tax procedures
- Ensuring adequate discussion and awareness of tax system revisions

2 Recommendations Regarding the Tax System

In addition to the "Tax System Opinions and Requests," since 2016, we have worked to identify problems in Japan's changing social conditions, both preparing and publishing recommendations

on the tax system as a policy tool to address these issues.

In 2019, we published the following six recommendations in three areas.

I Strengthening the International Competitiveness of Companies and of Japan as a Place of Business	II Responding to Changes in Socioeconomic Structures, Demographic Graying and Other Issues	III Correcting Uneven Asset Distribution between Generations
<p>1. Taxing the digital economy Properly tax the income entering Japan of overseas multinational companies and design more practical tax systems that are not overly complex while not impeding the international business activities of Japanese companies</p> <p>2. Tax systems that encourage the growth of small and medium-sized companies, especially startups Improve tax systems to foster conditions that will facilitate the creation of new businesses</p>	<p>1. Improve the tax payment environment of the sharing economy Create a balanced tax payment environment for the sharing economy and gig economy and ensure fair taxation</p> <p>2. Introducing household-level taxation Consider the unit of taxation, including revising exemptions for spouses, in light of changing and diversifying work styles</p>	<p>1. Inheritance and gift taxes Reform inheritance and gift tax structures to encourage the smooth transfer of assets from elderly households to younger generations where consumption is brisk</p> <p>2. Income taxes Include not only income (flow approach), but also assets (stock approach) in preferential income tax system standards to realize a fairer tax system</p>

Continuing Professional Education System

1 Overview

To maintain and enhance the qualifications of CPAs as specialized professionals and ensure that they adapt to changes in the audit environment, CPAs are required to take courses through the continuing professional education (CPE) system.

The CPE system comprises mainly a curriculum designed to help enhance professional ethics and specialized knowledge and skills. CPAs must earn at least 120 credits (equivalent to 120 hours of education) every three fiscal years, including certain mandatory training.

Mandatory Training under the CPE System

- Professional ethics training
- Audit quality and fraud risk training (for CPAs engaged in statutory audits)
- Tax-related training

Members who fail to meet their CPE obligations are subject to sanctions, which may include the publication of their names, suspension of member privileges, the filing of requests for disciplinary action by the Financial Services Agency, and prohibition from engaging in auditing.

Information on the training and education of individual CPAs (indicating either that their CPE obligations were fulfilled, not fulfilled, or exempted) is available through the CPA search system on the JICPA's website (in Japanese).

▶ CPA Search System (in Japanese)

https://www.jicpa.or.jp/cpa_search/ms.php



2 Implementation Status

CPE credits can be earned in several ways, including attending group seminars, taking e-learning courses, and reading specified journal articles and submitting reports.

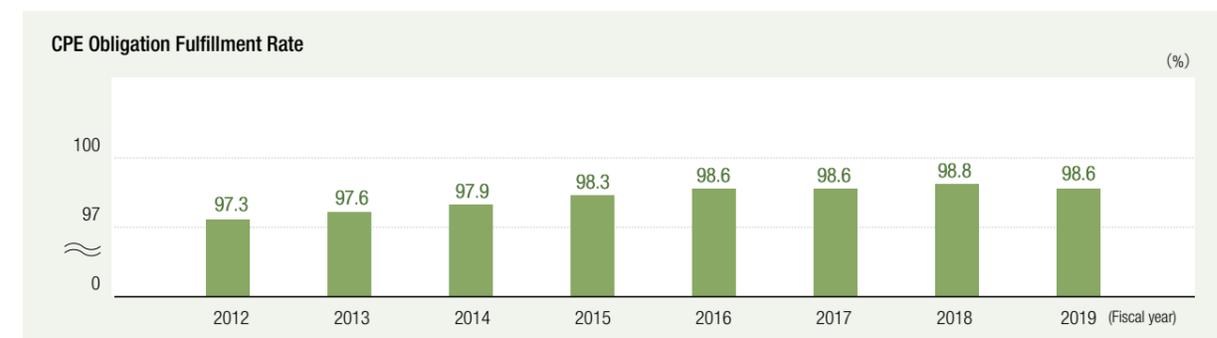
A breakdown of group seminars held in fiscal 2020 by field covered is provided in the table at right.

Seminars cover a wide range of topics. In addition to sessions aimed at honing professional and expert knowledge in such areas as auditing and ethics, they include training on business rules for use in international meetings and training to help realize diversity at audit firms.

Field	Seminars held
Ethics and related topics	279
Accounting	151
Auditing (including fraud case study)	460
Taxes	429
Consulting	153
Organizational environments	108
Skills	48
Total	1,628

3 CPE Obligation Fulfillment

The percentage of CPAs who have fulfilled their CPE obligations in each fiscal year is shown below. In fiscal 2019, more than 98% completed their annual CPE obligations.



4 Annual Conference

Since 1979, the JICPA has held an annual conference in which CPAs, outside experts, and business professionals from across the country present their research. This conference is aimed at sharing knowledge, enhancing the capabilities of participants, and communicating with the public.

The 40th annual conference was held on September 18, 2019, at Makuhari Messe International Exhibition Hall 7 in Chiba City, Chiba.

This year marked the first time the conference was organized by the JICPA's Chiba Chapter, which was established in April 2016. The conference's main theme was "A new era in accounting and auditing—co-creation by CPAs and

municipalities." It featured 10 research presentations on topics related to helping CPAs utilize their knowledge and leverage support and other systems offered by the national and local governments to build new relationships with communities and contribute to further development. Approximately 1,500 people attended the conference.

Before the research presentations, the conferences feature a commemorative lecture by an outside instructor with deep ties to the area where the conference is held. In 2019, Noriaki Horikiri (President and CEO of Kikkoman Corporation) gave a lecture titled "Kikkoman's growth strategy—Seasoning the world with Kikkoman soy sauce."



Noriaki Horikiri
(President and CEO of Kikkoman Corporation)



40th annual conference on September 18, 2019



A research presentation

Social Contribution Activities

The JICPA aims to contribute to society through the professional activities of CPAs and its support for such activities as well as a wide range of other contribution efforts.

1 Initiatives Aimed at Building a Sustainable Society

1 Initiatives of the Committee for the JICPA's Challenges and Initiatives for Building a Sustainable Society

Initiatives aimed at building a sustainable society are spreading rapidly in Japan and around the world. Notably, the September 2015 United Nations Sustainable Development Summit adopted the 2030 Agenda for Sustainable Development, including the Sustainable Development Goals (SDGs), a set of 17 goals and 169 targets for 2030. Building on this, the Japanese government has established the Sustainable Development Goals Promotion Headquarters.

The realization of a sustainable society is the foundation for the development of the national economy. With this in mind, the JICPA established the Committee for the JICPA's Challenges and Initiatives for Building a Sustainable Society. Based on an understanding of the goals and targets of the SDGs as well as the issues facing Japanese society, this committee examines the roles of the JICPA and CPAs in society as well as the challenges they face in helping build a sustainable society and the ways they can take action to do so.

In June 2019, the committee published an interim report on its future vision for society, an aspirational vision for the JICPA and CPAs, and policy for related initiatives.

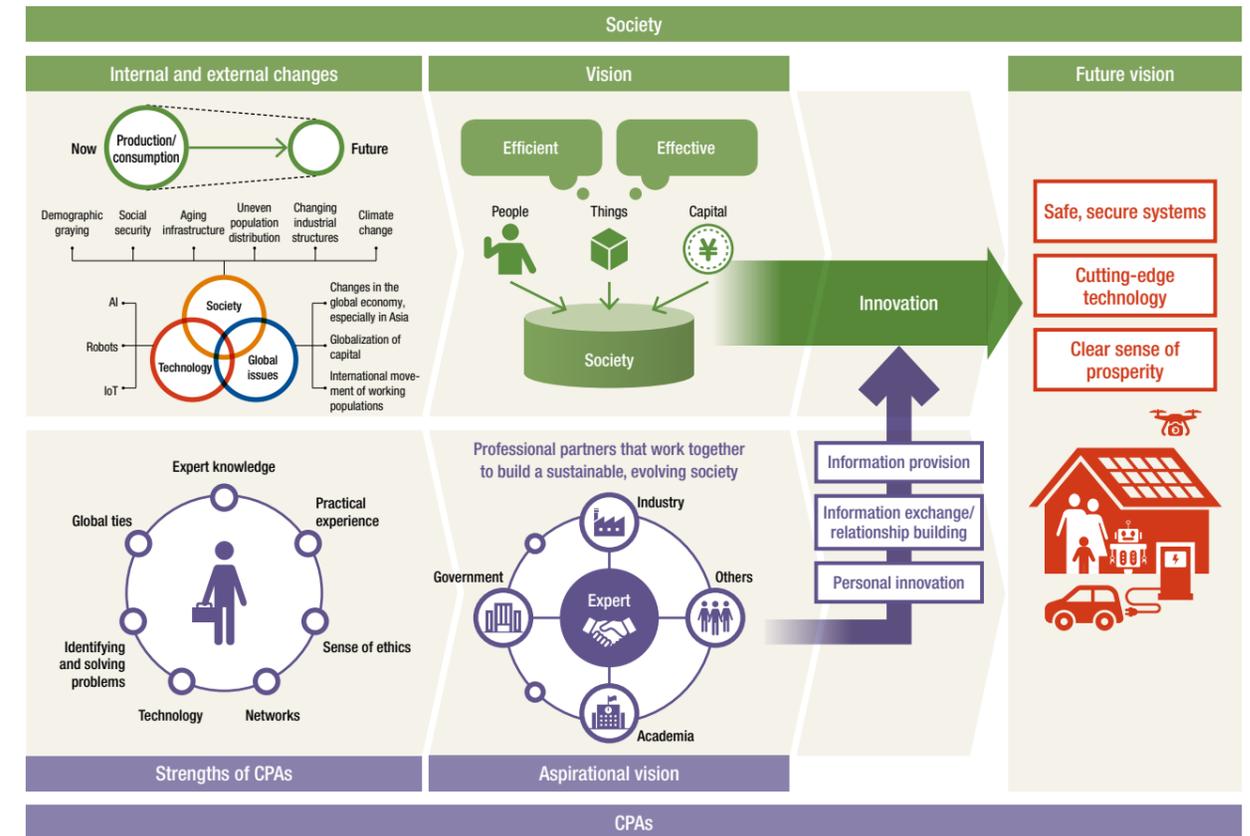
The interim report considers a wide range of social issues and, in particular, identifies population decline, demographic graying, natural disasters and aging infrastructure as potential hurdles to building a sustainable society. The report lays out its

future vision for "a society that, while undergoing population decline and slow economic growth, invests resources efficiently, effectively, and speedily to address wide-ranging social issues, simultaneously achieving both economic development and the resolution of social issues." It also defines the committee's aspirational vision for the JICPA and CPAs, so that they will leverage their strengths—such as wide-ranging expert knowledge and practical experience, a strong sense of ethics, and ability to identify and solve issues—to contribute to the realization of this future vision for society. This aspirational vision is "professional partners that work together to build a sustainable, evolving society." It further lists three areas for the JICPA and its members to focus their efforts: Providing information to society, proactively building relationships, and inspiring personal innovation (changing mindsets).

Based on this interim report, the JICPA will deepen dialogue with various parties within and outside its ranks, further clarify its direction and specific initiatives, and consider and implement measures to move closer to its vision.

▶ Interim report, "The Contribution of CPAs to Building a Sustainable Society" (in Japanese)

https://jicpa.or.jp/specialized_field/20190619jiz.html



Moreover, the committee held a symposium in Kyoto titled "The Role of Experts in Building a Sustainable Society from the Perspective of Kyoto, a Leading City in SDG Measures."

In addition, the committee provided opinions based on the

JICPA's position as an expert professional organization regarding the summary version of the SDGs Implementation Guiding Principles Revised Edition, Japan's national medium- to long-term strategy for achieving the SDGs.

Event

The Role of Experts in Building a Sustainable Society from the Perspective of Kyoto, a Leading City in SDG Measures

- Date: Friday, June 21, 2019
- Location: Kyoto Hotel Okura
- Organizer: JICPA
- Sponsors: Kyoto City, Kansai SDGs Platform, Kyoto Shimbun, Financial Services Agency
- Program: How can experts contribute to addressing the challenges facing Japan, such as population decline, increasing social security costs, and weakening regional cities, as well as the achievement of the SDGs adopted by the United Nations? Kyoto City ranked first in a nationwide survey of the sustainability and progress toward the SDGs of Japan's municipalities (published in *Nikkei Global*) and is famous as the site of negotiations on an international protocol related to climate change. Gathered here, four experts engaged in a panel discussion on the role of expert professionals.



The symposium

The panelists and a summary of the main views expressed are as follows. (Note: Professional titles are as of the date of the event.)

- Tetsuo Kawakatsu (Senior Managing Director, Kyoto Chuo Shinkin Bank)
- Junichi Sawada (Executive Steering Committee Member, Japan Productivity Center)
- Hiroyuki Fujita (Director, Resilient Kyoto)
- Toru Morotomi (Professor, Kyoto University Graduate School of Economics and Graduate School of Global Environmental Studies)

- ▶ Kawakatsu: Solving the issues faced by companies is a matter of top priority to revitalize regional areas. Support tailored to each corporate life stage, from founding to growth and revitalization, is needed. Reinforcing coordination with experts in such areas as finance, taxes, consulting, and succession planning will be essential.
- ▶ Sawada: One idea out there is a focus on locally developing the human resources to solve local problems. I think that experts should work to understand the local situation and work with local residents to find solutions.

- ▶ Fujita: Many small and medium-sized companies are rooted in and act in coordination with their local communities. From their expert standpoint, I hope CPAs consulting for small and medium-sized companies will point out that locally rooted initiatives can be just as important as the SDGs.
- ▶ Morotomi: In a time of population decline, the insight and involvement of experts will be more crucial to city management than ever. Expert knowledge will be necessary to, for example, evaluate where to focus investment as we enter this era in which effective prioritization is essential.

Social Contribution Activities

2 Responding to Climate Change

Of the 17 goals of the SDGs, climate change (Goal 13) is attracting an extremely great deal of attention. Climate change has the potential to directly and indirectly exert wide-ranging impacts on companies and their business activities. This will happen on various levels—at individual business, across industry sectors, and even throughout entire economies. As such, there are concerns that climate change will compromise the stability of financial systems. In light of such concerns, in June 2017, the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) published its final report on suggestions regarding the disclosure of climate-change related financial information. Companies and investors now have great expectations regarding the role of CPAs in achieving disclosure in line with the TCFD recommendations.

Against this backdrop, 13 chief executives (for a total of 14 organizations) of global professional accountancy bodies that are members of The Prince of Wales’s Accounting for Sustainability Project (A4S),* including the JICPA, have issued

the “CALL TO ACTION IN RESPONSE TO CLIMATE CHANGE” to the accounting professionals who are the members of their respective organizations.

This statement calls upon the accounting professionals to “act now to help the organizations they work with respond to climate change with the urgency and scale required.” It further states that professional accountants should commit to helping address climate change in a wide range of ways, and that the accountancy profession can play a significant role in both climate change mitigation and adaptation.

▶ **CALL TO ACTION IN RESPONSE TO CLIMATE CHANGE**
<https://jicpa.or.jp/news/information/0-99-0-0a-20200226.pdf>



* Established in 2004 with the support of the UK’s Prince Charles, the A4S project works to help build sustainability into corporate reporting and decision making. The JICPA has been part of the project since its annual summit in December 2009.

2 Basic Accounting Education

At its 2016 Annual General Assembly, the JICPA reached a resolution to engage in basic accounting education by promoting accounting literacy in society and increasing awareness of the usefulness of accounting.

Accounting literacy is not only important for accounting experts, such as CPAs, or people who work in corporate finance or accounting, but necessary and useful in a wide range of settings and life stages. As an organization of expert accounting professionals, the JICPA seeks to fulfill the role of promoting accounting literacy.

New junior high and high school curriculum guidelines to be implemented from fiscal 2022 and 2023 in Japan include “using accounting information,” creating a need for educational materials to help teachers understand and learn to teach this material. In light of this, in February 2019 the JICPA established the Accounting Literacy, Map and Educational Materials Study Group, which includes accounting practitioners (CPAs) as well as academic experts. The study group is advancing concrete considerations regarding such materials, including drafting

materials and visiting textbook publishers to exchange views.

In addition, JICPA researcher Ayako Kuriki gave a lecture titled “What I Want to Tell Students About Corporate Accounting” at the August 1, 2019 Securities and Economics Seminar organized by the National Civics and Social Studies Educators Association with support from the Japan Securities Dealers Association. This seminar is held for social studies and other teachers at the junior high and high school levels nationwide.



Lecture at the Securities and Economics Seminar

Accounting Literacy, Map and Educational Materials Study Group Members (as of March 31, 2020)

- Yuki Sato
- Shintaro Abe* Professor, Josai International University
- Naohiro Urasaki* Professor, Kindai University
- Mariko Katsura

- Hisashi Kurihara* Professor, Toyo University
- Makie Suzuki
- Kei Hiraki
- Ryoko Fukaya

Names marked with * are outside experts. Names in red are women.

3 Hello! Accounting

“Hello! Accounting” is a free accounting class for elementary and junior high school students. Launched in 2005, it is part of the JICPA’s efforts to promote basic accounting education. The easy-to-follow lesson, which makes use of examples using familiar foods, such as cake and *takoyaki* octopus treats, has been well received. Implemented mainly by JICPA’s regional chapters, lessons at schools and lessons open to the public

have been held at more than 200 locations to date.

Please refer to the link below for a schedule of upcoming classes open to the public.

In fiscal 2020, classes were held at schools 39 times, and classes open to the public held 23 times, for a total of 4,855 participants.



A “Hello! Accounting” lesson



Poster for “Hello! Accounting” lessons

▶ **Nationwide “Hello! Accounting” event schedule (in Japanese)**
https://jicpa.or.jp/news/jicpa_pr/2019/hello_schedule.html



4 Support for Emerging Countries

In 2016, the JICPA, the Myanmar Institute of Certified Public Accountants (MICPA), and the Daiwa Myanmar Japan Foundation signed a memorandum of understanding to support the development of CPAs in Myanmar and the reinforcement of the MICPA. Based on this memorandum, the three organizations are advancing joint initiatives to develop accounting professionals in Myanmar and reinforce the country’s accounting and auditing systems on an ongoing basis.

Japan’s accounting and auditing systems, fraud case studies, and Japan’s quality control review system.

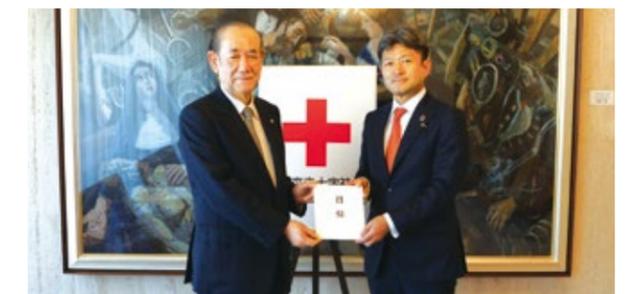
In fiscal 2020, three CPAs of the MICPA as well as one representative each from the Myanmar’s Office of the Auditor General of the Union and a private company in Myanmar came to Japan to take part in training implemented by the JICPA on



Visitors from Myanmar with Chairman Tezuka

5 Disaster Recovery Support

In fiscal 2020, in response to major natural disasters, the JICPA solicited donations from members and donated a total of ¥11,455,215 to the Japanese Red Cross Society to support recovery from domestic flooding in August 2019, damage caused by Typhoon Faxai in Chiba, and damage caused by Typhoon Hagabis.



Donation of disaster support funds

In addition, based on the Guidelines for Consolidation of Debt Caused by Natural Disasters (published December 25, 2015), we have created a register of experts who assist debtors.

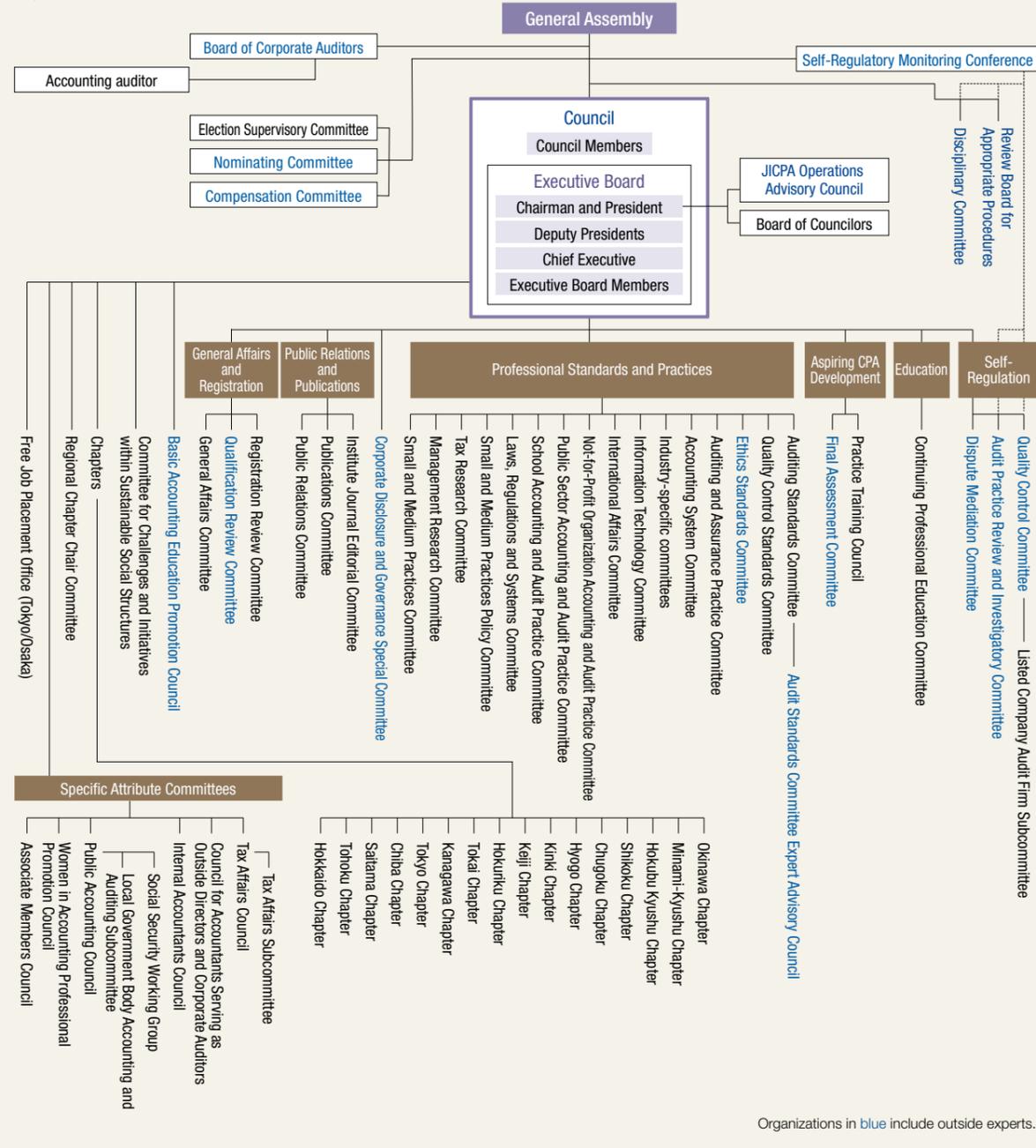
Organization

1 Governance System

The JICPA's governance system comprises the General Assembly, which serves as the topmost decision-making body; the Executive Board and Council, which are responsible for the execution and oversight of institute operations; a range of

advisory committees; and the Board of Corporate Auditors and Self-Regulatory Monitoring Conference, which provide monitoring. JICPA organs that particularly require transparency or expertise other than that of CPAs include outside experts.

Organization (As of March 31, 2020)



Organizations in blue include outside experts.

Officers

The JICPA's officers comprise the chairman and president, deputy presidents, chief executive, executive board members, council members, and corporate auditors. The total number of officers is capped at 90.

However, to ensure the transparency of JICPA operations, two council members and one corporate auditor are non-CPA outside experts. In addition, the chief executive may be either a CPA or an outside expert.

Officers are mainly CPAs elected by the JICPA's members.



- ① Masahiko Tezuka
- ② Tatsuya Kato
- ③ **Kanako Ogura**
- ④ Giichi Yanagisawa
- ⑤ Kazutoshi Kogure
- ⑥ **Hisae Kitayama**
- ⑦ Kiyonobu Takeuch
- ⑧ Yoshiyuki Minegishi
- ⑨ Hisashi Sato
- ⑩ Tadashi Umino* (Note)

Note: Tadashi Umino completed his term as chief executive on March 31, 2020. JICPA member Hisashi Sato took office as chief executive on April 1, 2020. Names marked with * are outside experts. Names in red are women.

Organization

JICPA Officers (As of March 31, 2020)

Chairman and President	Masahiko Tezuka						
Deputy Presidents (7)	Giichi Yanagisawa	Kazutoshi Kogure	Tatsuya Kato	Kiyonobu Takeuchi	Kanako Ogura	Yoshiyuki Minegishi	Hisae Kitayama
Chief Executive	Tadashi Umino* (Note)						
Executive Board Members (32)	Shuichiro Akiyama	Tatsuya Arai	Toru Kajikawa	Yoshito Kaneyama	Hiroki Kitagata	Kazuya Kitazumi	Shintaro Goto
	Naoaki Kobayashi	Toshio Sato	Hiroshi Shiina	Kiyohiko Shinokawa	Sayaka Shimura	Motoharu Shoji	Keiko Sugaya
	Makie Suzuki	Hideki Chijimatsu	Mitsuo Tsuruta	Minoru Tobar	Toshiyuki Nishida	Keiko Hayashi	Tadashi Hisamatsu
	Hisatoshi Hirota	Takako Fujimoto	Mitsujiro Fuseya	Naruhito Minami	Satsuki Miyahara	Tetsuya Mogi	Toru Yasuhara
	Hidehiko Yuki	Yoshio Yukawa	Ichiro Waki	Yoshiki Watanabe			
Council Members (44)	Ikuko Akamatsu	Kosuke Araki	Yuichi Ishizawa	Yasushi Inagaki	Koichi Inoue	Shinji Inoue	Kazuki Iwashita
	Kuniyoshi Iwata	Noriko Umeki	Masaharu Ota	Yoshitsugu Ogawa	Noriyuki Kakazu	Shigeru Kajita	Shin Kato
	Yasushi Kaneko	Yasuo Kameoka	Yoichi Kubo	Seigo Ko	Ryoichi Komatsu	Akira Koyama	Hirofumi Sakai
	Seiji Sakashita	Toshihiko Shibusa	Yuko Suzuki	Mitsuhiro Takemura	Masao Tanaka	Yoshitaka Tanaka	Emi Chujo
	Satoe Tsuge	Kenichi Tsutsumi	Yusuke Nakano	Masazumi Nishikawa	Takao Furusho	Akihiko Masuda	Hitomi Masuda
	Hayato Miyata	Yoshizo Miyamoto	Shigeki Yagi	Yasuhisa Yajima	Koji Yasui	Yoko Yamada	Osamu Yoshii
	Akiyoshi Oba* (Chairman, Japan Investment Advisors Association)		Hisashi Yamaura* (Professor Emeritus, Meiji University/former Commissioner, Board of Audit)				
Corporate Auditors (4)	Kazutomi Asai	Katsuhiko Ogata	Hitoshi Hori	Muneharu Otsuka* (Professor Emeritus, Waseda University/former Commissioner, Board of Audit)			

Note: Tadashi Umino completed his term as chief executive on March 31, 2020. JICPA member Hisashi Sato took office as chief executive on April 1, 2020. Names marked with * are outside experts. Names in red are women.

Officer Responsibilities (as of March 31, 2020)

Division	Deputy Presidents/Chief Executive	Role	Executive Board Members
General Strategy, Planning, and Communication	Tatsuya Kato Kiyonobu Takeuchi (International affairs) Tadashi Umino	General strategy and planning	
		Public relations	Tatsuya Arai
		Spokesperson	
		International affairs	Tatsuya Arai
		External affairs	Tetsuya Mogi
		JICPA Vision (SDGs)	
		Rulemaking and operational development	Kazuya Kitazumi
Self-Regulation	Kazutoshi Kogure	Research and publishing	Keiko Sugaya
		Quality control	Mitsujiro Fuseya
		Audit practice review and investigation	Keiko Hayashi
Auditing, Corporate Accounting and Corporate Disclosure	Kanako Ogura	Disciplinary review (facilitator)	Hitatoshi Hirota
		Ethics	Toshiyuki Nishida
		Auditing and quality control standards	Sayaka Shimura
		Auditing, assurance and IT	Hidehiko Yuki
		Industry-specific accounting and auditing	Naoaki Kobayashi
Social Support	Giichi Yanagisawa	Corporate accounting and disclosure	Takako Fujimoto
		Diversity and inclusion	Ichiro Waki
		Taxes	Yoshiki Watanabe
		Management	Kazuya Kitazumi
		Support for small- and medium-sized companies	Toru Yasuhara
	Kiyonobu Takeuchi	Regional revitalization	Tetsuya Mogi
		Support for small- and medium-sized practices	Naruhito Minami
		Basic accounting education	Makie Suzuki
		CPA system and laws	Yoshio Yukawa
		Public sector accounting and auditing	Hiroshi Shiina
Human Resource Development	Giichi Yanagisawa	Not-for-profit organizations	Shuichiro Akiyama
		Incorporated schools	Minoru Tobar
		CPE	Yoshito Kaneyama
General Affairs	Kiyonobu Takeuchi Tadashi Umino	Aspiring CPA development	Mitsuo Tsuruta
		General affairs (general affairs management)	Shintaro Goto
		General affairs (operational management)	Tetsuya Mogi
Regional Chapters	Yoshiyuki Minegishi (Chairman) Hisae Kitayama (Vice Chairman)	Financial management and information management	Hiroki Kitagata
		Regional chapters	Keiko Sugaya
			Tetsuya Mogi

Nominating Committee

Candidates for the position of chairman and president are solicited from among the officers elected by JICPA members. The Nominating Committee then selects the candidate it views as best suited, whom it recommends to an assembly of the newly elected officers and, by receiving their confidence, the chairman and president is selected.

The Nominating Committee comprises 16 members, two of

whom are non-CPA outside experts. The committee selects candidates to recommend for chairman and president based on dispassionate, objective considerations of important factors, including candidates' understanding and awareness of the mission of CPAs and the JICPA's operations, as well as the individual's eagerness to concentrate on said operations.

Nominating Committee Members (As of March 31, 2020)

Aiko Sekine	Kazuo Takahashi	Haruhiko Yamada
Atsushi Takada	Hitomi Takahashi	Husahiro Yamamoto
Naohide Endo	Tadafumi Torisu	Atsushi Shimizu* Attorney/Chief Justice, Hiroshima High Court
Keiko Kishigami	Tsunetoshi Harada	Kazuhiko Fushiya* Chairman, The Institute of Internal Auditors – Japan
Yuki Sato	Hitoshi Hori	
Akira Takashina	Koichi Mori	

Names marked with * are outside experts. Names in red are women.

Compensation Committee

The Compensation Committee comprises five members, of whom two are non-CPA outside experts. The committee is charged with deciding the compensation paid to officers (the chairman and president and chief executive) and policy for deciding such compensation, and making recommendations to the Council.

Compensation Committee (As of March 31, 2020)

Aiko Sekine	Haruhiko Yamada	Noriaki Shimazaki* Outside Director, Nomura Holdings, Inc./Former Trustee, IFRS Foundation
Atsushi Takada		Riichiro Takahashi* Attorney/Former Vice President, Japan Federation of Bar Associations

Names marked with * are outside experts. Names in red are women.

JICPA Operations Advisory Council

The JICPA Operations Advisory Council is made up of non-CPA outside experts and meets three times a year to provide advice as needed regarding improvements to the work of CPAs.

Advisors (As of March 31, 2020)

Naoki Izumiya*	Chairman, Japan Investor Relations Association/Chairman, Asahi Group Holdings, Ltd.
Akira Kiyota*	Director & Representative Executive Officer, Group CEO, Japan Exchange Group, Inc.
Ryuko Sakurai*	Former Justice of the Supreme Court of Japan
Noriaki Shimazaki*	Outside Director, Nomura Holdings, Inc./Former Trustee, IFRS Foundation
Kosei Shindo*	Representative Director and Chairman, NIPPON STEEL CORPORATION/Vice Chair, Japan Business Federation
Mariko Bando*	Chancellor, Showa Women's University/Former Director General, Gender Equality Bureau Cabinet Office
Kazuhiko Fushiya*	Chairman, The Institute of Internal Auditors – Japan

Names marked with * are outside experts. Names in red are women.

Board of Councilors

The JICPA's former chairmen and deputy presidents serve as councilors. The Board of Councilors meets three times a year and provides advice as needed regarding improvements to the work of CPAs.

Councilors (As of March 31, 2020)

Hiroshi Nakachi (former chairman)	Koichi Masuda (former chairman)	Aiko Sekine (former chairman)	Shigeru Takahama (former deputy president)
Akio Okuyama (former chairman)	Shozo Yamazaki (former chairman)	Masaji Suzuki (former deputy president)	Atsushi Takada (former deputy president)
Tsuguo Fujinuma (former chairman)	Kimitaka Mori (former chairman)	Haruhiko Yamada (former deputy president)	

Names in red are women.

Organization

2 Regional Chapters

The JICPA maintains 16 regional chapters covering all of Japan to guide, connect, and supervise CPAs across the country and help ensure that they provide consistent, high-quality services.

Chairmen and Members of the Regional Chapters (As of March 31, 2020)

Chapter	Chairman	Members	Female Members
Hokkaido Chapter	Kiyohiko Shinokawa	388	48
Tohoku Chapter	Yuichi Ishizawa	414	43
Saitama Chapter	Masazumi Nishikawa	745	81
Tokyo Chapter	Yoshiyuki Minegishi	18,850	2,826
Hokuriku Chapter	Seiji Sakashita	297	28
Keiji Chapter	Yusuke Nakano	675	93
Hokubu Kyushu Chapter	Hideki Chijimatsu	796	112
Chugoku Chapter	Shigeru Kajita	477	50
Hyogo Chapter	Hayato Miyata	795	122
Minami-Kyushu Chapter	Kosuke Araki	216	16
Shikoku Chapter	Osamu Yoshii	243	22
Kinki Chapter	Hisae Kitayama	3,633	562
Tokai Chapter	Tadashi Hisamatsu	2,114	293
Kanagawa Chapter	Masaharu Ota	1,572	185
Chiba Chapter	Motoharu Shoji	741	82
Okinawa Chapter	Noriyuki Kakazu	84	10

Note: Numbers in parenthesis indicate the number of female members.

3 Administrative Offices

The JICPA's administrative offices comprise 21 groups within five divisions and the offices of the 16 regional chapters. These administrative offices support the Group's operations.

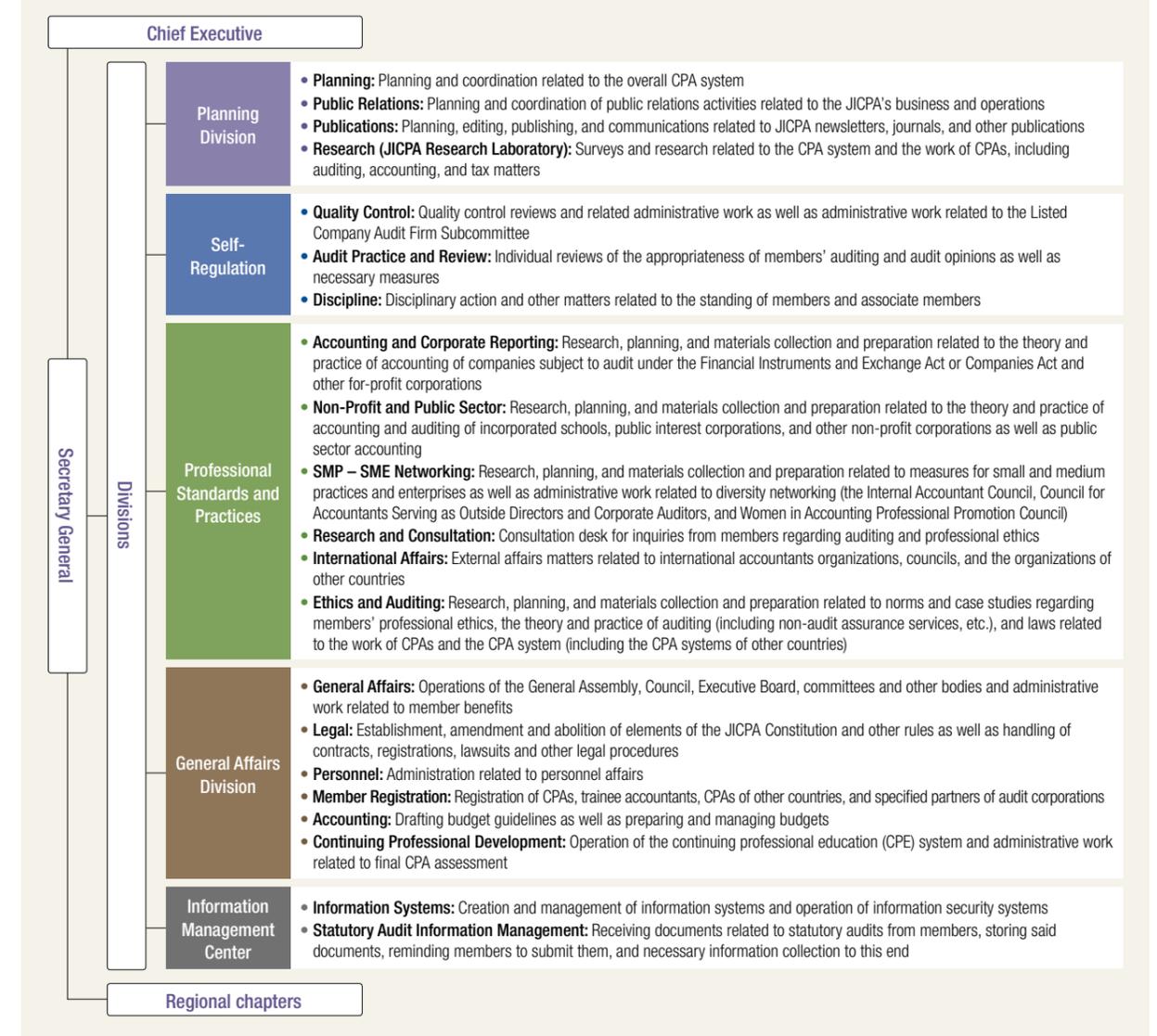
As of March 31, 2020, the divisions have a staff of 199 (140 men and 59 women), and the regional chapters a total staff of 108 (56 men and 52 women). Of these, a total of 66 (52 men and 14 women) are qualified as CPAs.

In light of the growing number of CPAs and diversification of their work, reinforcing institute operations is essential to ensure that CPAs can continue to contribute to the sound development of the national economy as experts in auditing and accounting.

To reinforce the JICPA's administrative functions, the JICPA resolved to create the new position of Secretary General at its July 2019 Annual General Assembly.

In addition, as numerous laws related to work style reforms take effect, many companies are implementing initiatives to increase labor productivity. Similarly, in order to develop administrative staff and promote work style reforms, since April 1, 2019, the JICPA has maintained a project team, headed by the Chief Executive and comprising mainly administrative staff, under which it has begun work to strengthen its administrative framework.

Administrative Organization (As of March 31, 2020)



Financial Summary

1 Revenue Structure

The JICPA's main sources of revenue comprise the following three categories.

<p>Membership fees borne equally by members Standard fee / Chapter fee</p>	<p>Standard memberships are ¥5,000 per month, while associate memberships are ¥1,250 per month.¹ Chapter fees are distinct from standard membership fees. Chapter fees support the specific operations of each regional chapter and are borne by the respective chapter's members. These fees, ranging from ¥3,500 to ¥5,000 per month, depend on such factors as the size and number of members of the regional chapter.²</p>
<p>Membership fees borne by members who engage in auditing that is the exclusive purview of CPAs Auditing membership fee</p>	<p>Members who form agreements pertaining to the services described in Article 2-1 of the Certified Public Accountants Act or the services specified in the membership fee rules (commonly referred to as audit agreements) are required to pay the JICPA a certain percentage of the audit fees they receive for the fiscal years pertaining to such agreements. The rates applied vary slightly by audit type.³</p>
<p>Business revenue</p>	<p>Revenues from the book sales of publishing operations, final CPA assessment fees, educational seminar fees, etc.</p>

1. From April 2020, the standard membership fee has been raised to ¥6,000 per month and the associate membership fee to ¥1,500 per month.
 2. From April 2020, the range of chapter fees has been changed to ¥3,500 to ¥4,500 per month.
 3. For audits pertaining to fiscal years beginning on or after December 1, 2020, a flat rate of 1% is applied.

In the year ended March 31, 2020 (fiscal 2020), the JICPA collected standard membership fees of ¥1,940 million, regional chapter fees of ¥1,466 million, and auditing membership fees of ¥2,915 million. The total of these fees, ¥6,322 million, represented approximately 90% of the JICPA's ¥6,837 million in ordinary revenues for the year.

2 Fiscal 2020 Financial Results and Financial Structure Revisions

In fiscal 2020, the JICPA recorded a positive net change, amounting to ¥181 million, on its statements of changes in net assets.

Compared with fiscal 2019, ordinary revenues increased, reflecting growth in standard and chapter membership fee revenues due to membership growth during the year as well as an increase in auditing membership fee revenue as a result of increased statutory audit fees. While ordinary expenses in fiscal 2019 included one-off costs related to commemorating the JICPA's 70th anniversary, ordinary expenses in fiscal 2020 were curbed in part due to the cancellation and postponement of various measures in line with efforts to prevent the spread of the novel coronavirus.

Personnel costs increased year on year. This was due to the need to secure administrative staff with the necessary

qualifications to handle the expansion in the scope of auditing, including the introduction of statutory audits in the non-profit sector; the expansion of the JICPA's operations in light of the diversifying work of CPAs, including work as internal accountants and outside directors and corporate auditors; the improvement and operation of the self-regulation system; and international developments related to accounting audits. To ensure that CPAs will be able to continue meeting society's expectations and needs going forward, it will be crucial for the JICPA to continue to reinforce systems to support CPAs in providing increasingly diverse services. To reinforce our foundations to that end, we revised our financial structure, including membership fees (implemented in April 2020).

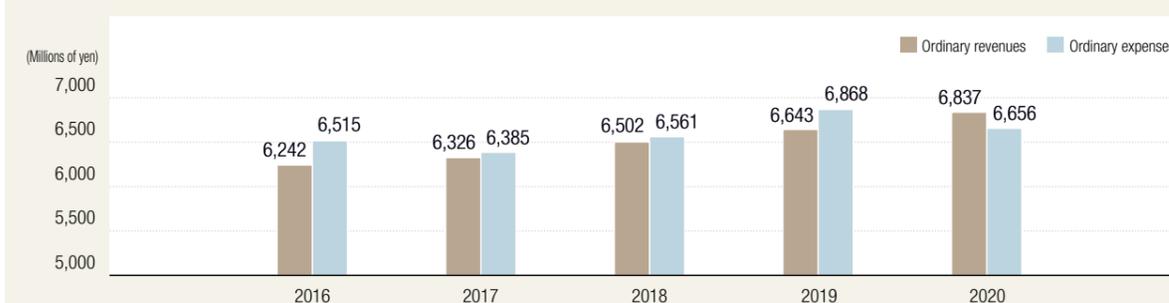
Key Financial Indicators (Year ended March 31)

(Millions of yen)

	2016	2017	2018	2019	2020
Ordinary revenues	6,242	6,326	6,502	6,643	6,837
Ordinary expenses	6,515	6,385	6,561	6,868	6,656
Net ordinary changes	(273)	(59)	(59)	(225)	181
Total changes of unrestricted net assets	(276)	(55)	(60)	175	855
Unrestricted net assets at end of year	11,497	11,441	11,381	11,557	12,412
Restricted net assets at end of year	930	919	903	879	849
Cash flows from operating activities	148	221	219	(112)	139
Cash flows from investing activities	455	(1,974)	753	(50)	90
Cash flows from financing activities	—	—	—	—	—
Cash and cash equivalents at end of year	4,070	2,318	3,291	3,128	3,358

* Since the year ended March 31, 2017, the JICPA has applied the Accounting Standard for Public Interest Corporations issued April 11, 2008 (amended October 16, 2009) by the Public Interest Corporation Commission of the Cabinet Office, replacing the previous Accounting Standard for Public Interest Corporations issued October 14, 2004 by agreement of the liaison council of relevant agencies concerning the guidance, supervision, etc. of public interest corporations and other organizations.

Ordinary Revenues and Ordinary Expenses



Net Ordinary Changes and Breakdown of Ordinary Expenses





Engage in the Public Interest

社会に貢献する公認会計士



JICPA

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