TSE-Listed Companies White Paper on Corporate Governance 2015

JPX

TOKYO STOCK EXCHANGE

TSE-Listed Companies
White Paper on Corporate Governance
2015

March 2015
Tokyo Stock Exchange, Inc.

Introduction

Since discussions on corporate governance began in Japan, the Tokyo Stock Exchange (hereinafter "TSE") has taken various initiatives, such as urging listed companies to enhance corporate governance in 1999, formulating the Principles of Corporate Governance for Listed Companies in 2004, institutionalizing the Corporate Governance Report (hereinafter "the Report") in 2006, and introducing the independent directors/*kansayaku* system in 2009. Individual listed companies have also taken action for preventing corporate scandals or increasing corporate value by improving management efficiency, for example, through the adoption of management monitoring by outside parties. Due to these efforts, corporate governance in Japan has been steadily improved and strengthened.

From the perspective of ensuring shareholder protection on par with international standards so that both domestic and foreign investors can participate in the market with confidence as well as enhancing corporate governance based thereon by illustrating corporate governance initiatives of all TSE-listed companies and progress therein, TSE has made comprehensive analysis of the current state of their corporate governance based on data in the Reports, and published White Paper on Corporate Governance in every other year since 2007. This White Paper on Corporate Governance 2015 (hereinafter "this White Paper") is the fifth publication in the series.

Between the publications of White Paper on Corporate Governance 2013 (hereinafter "the previous White Paper") in February 2013 and this White Paper, the Tokyo Stock Exchange experienced the market consolidation through its merger with the Osaka Securities Exchange, marking a historical turning point. As a result, from this White Paper, the universe of the analysis includes companies which used to be listed on the Osaka Securities Exchange before the merger. Accordingly, in some cases, it may not be appropriate to make a simple comparison between figures in the previous White Paper and this White Paper; but time-series comparisons were made, where necessary, to show the progress in the listed companies' actions. Furthermore, a new index named "JPX-Nikkei Index 400" (hereinafter "JPX-Nikkei 400") was launched in January 2014. This index is composed of "companies with high appeal for investors," which meet such requirements as efficient use of capital and investor-focused management. In response, from this White Paper, analysis by market division includes JPX-Nikkei 400 as a new segment.

Soon after the publication of this White Paper, in response to the Government's growth strategy called "Japan Revitalization Strategy" (revised in 2014), the Corporate Governance Code (hereinafter "the Code"), which established fundamental principles for effective corporate governance at listed companies, shall come into effect. When listed companies consider their actions in response to the Code, we hope that this White Paper will help them to fully understand the state of progress of corporate governance in Japan and to work on further enhancing their corporate governance.

Finally, we would like to acknowledge the great assistance rendered by Corporate Practice Partners KK for the preparation of this White Paper.

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Tokyo Stock Exchange, Inc.

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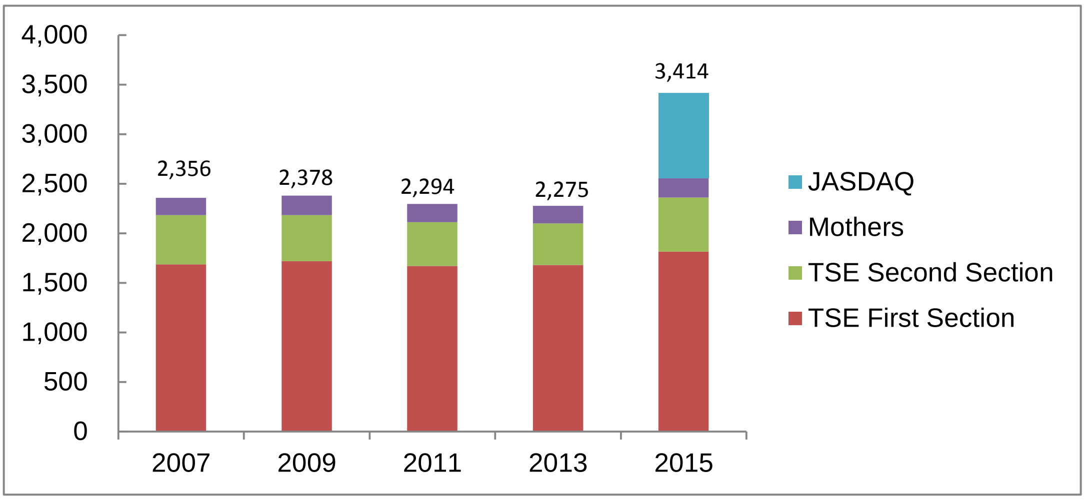
Structure of This Report

In principle, this White Paper is divided into chapters corresponding to the topics in the Report, extracting data from corresponding topical sections in the Report.[1] The actual Reports which listed companies submitted to TSE are available on TSE's website. Furthermore, the Preparation Guidelines for the Corporate Governance Report[2] (hereinafter "the Reporting Guidelines") explains what and how listed companies should write about each topic of the Report. To use this White Paper, please refer to the Reporting Guidelines, as necessary.

Scope of Analysis

This time, we analyzed data from the Reports of all domestic companies listed on the First Section, the Second Section, Mothers and JASDAQ of the Tokyo Stock Exchange ("TSE-listed companies"), totaling 3,414 companies as of July 14, 2014. Furthermore, we also looked at data from the previous surveys, and referred to changes in numbers, where appropriate.[3]

Chart 1 Change in the Number of Companies in Scope of Analysis for "TSE-Listed Companies White Paper on Corporate Governance"



White Paper Vol. (as of)	White Paper 2007 (Oct. 31, 2006)	White Paper 2009 (Aug. 21, 2008)	White Paper 2011 (Sep. 10, 2010)	White Paper 2013 (Sep. 10, 2012)	White Paper 2015 (Jul. 14, 2014)
TSE First Section	1,687	1,717	1,669	1,680	1,814
TSE Second Section	495	466	443	419	545
Mothers	174	195	182	176	194
JASDAQ	-	-	-	-	861
Total	2,356	2,378	2,294	2,275	3,414

1 Matters related to independent directors/*kansayaku* are discussed together in a separate chapter.
2 See TSE's website. http://www.jpx.co.jp/english/equities/listing/cg/02.html
3 On charts in this White Paper, "changes from the last survey" refer to the comparison with data of the previous White Paper (as of Sept. 10, 2012). Some charts also include earlier data for the time-series comparison purpose. As for the time-series comparison with 2006, 2008, 2010 and 2012, the data used was as of Oct. 31, 2006, Aug. 21, 2008, Sept. 10, 2010, and Sept. 10, 2012, respectively. We use "point" (percentage point) for comparisons between percentages.

Methodology for Analysis

Upon submission of the Reports to TSE on or after July 7, 2008, XBRL files are automatically generated. Similarly to the previous analysis, TSE used data in XBRL files for this analysis.

The classification and aggregation of numerical data are based on the quantitative data in the Report, and expressed as percentages (to one decimal place) by dividing the number of companies whose responses fall into certain category by the total number of companies with the attribute which the respondent companies belong to.[4] The data on officers (collectively referring to directors, *kansayaku*, and executive officers such as *shikkoyaku*[5] and *shikkoyakuin*[6]), extracted from the Report in number of persons, is expressed as numbers of persons (to two decimal places).[7]

To analyze the overall trends of topics in free-text description sections, TSE defined several keywords representing directions of corporate governance, as appropriate, and aggregated the number of responses containing such keywords in the descriptions. Furthermore, typical and characteristic examples of such descriptions are also cited in this White Paper.

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4 As numerical data is rounded, aggregate percentages in some charts may not be 100%, or aggregate figures in charts may not be equal to figures in texts.

5 *Shikkoyaku*: According to the Companies Act, Companies with Three Committees (Nomination, Audit and Remuneration) must appoint one or more *shikkoyaku* from directors or non-directors by a resolution of the board and delegate business administration to *shikkoyaku*. Also, authority to make certain kinds of business decisions may be delegated to *shikkoyaku*.

6 *Shikkoyakuin*: There are cases where a Company with Kansayaku Board or a Company with Supervisory Committee creates positions with the title of "*shikkoyakuin*" for persons who are delegated by the board a certain range of discretion regarding business administration. Unlike *shikkoyaku* in Companies with Three Committees (Nomination, Audit and Remuneration), *shikkoyakuin* is not a statutory position.

7 "Attributes of outside directors" and "Relation between outside directors and company" are expressed as ratios to total number of outside directors; "Scheduling general shareholder meetings to avoid peak days" is expressed as ratios to the total number of companies whose fiscal year ends in March; "Eligible persons for stock options" are expressed as ratios to the number of companies which have stock option plans; and "Descriptions about anti-takeover measures" are expressed as ratios to the total number of companies which adopted anti-takeover measures.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes, and Other Basic Information

1. Basic Views

The Report requires companies, as their basic views on corporate governance, to describe basic policies for corporate initiatives (including the background of such policies) and objectives of corporate governance in a specific manner. The Reporting Guidelines suggest that they describe their views on shareholders and other stakeholders, views on the management monitoring function, and the group-wide perceptions, for instance.

We found that 52.8% or the majority of the companies referred to “corporate value” in their descriptions about basic policies for corporate governance initiatives or objectives of corporate governance. In addition, companies with larger consolidated sales[8] and higher foreign shareholding ratio[9] were more likely to refer to “corporate value”. Although discussions on corporate governance have often been triggered by corporate scandals, the result indicates that there is a growing recognition that the corporate governance is intended to increase corporate value. Many companies explained that the objective of corporate governance is to increase corporate value in their specific descriptions: “Our basic principles of corporate governance are to enhance the efficiency and transparency of corporate management, and to maximize the corporate value.”; “To increase corporate value, and to improve the transparency of management to shareholders, we regard corporate governance as an extremely significant management challenge.”; and “In order to constantly increase revenues and enhance corporate value through our business activities, we consider it indispensable to improve corporate governance system, which governs such activities.”

Regarding the management monitoring function, companies which referred to “monitoring” or “supervision” accounted for 36.1%. According to the breakdown by organizational form, while 35.3% of Companies with *Kansayaku* referred to such keywords, the percentage was much higher, namely 82.5%, among Companies with Committees[10], revealing the fact that the latter tends to be conscious of the management monitoring function in the board. Companies which referred to “execution” accounted for 34.4% of all companies, 33.6% of Companies with *Kansayaku*, and 80.7% of Companies with Committees. As a difference between these two organizational forms, a clear separation of business execution and supervision is a distinctive feature of Companies with Committees, and thus the higher percentage reflects the fact that many of them mentioned it in their descriptions. While the concept of “independence” was introduced upon TSE’s implementation of the independent directors/*kansayaku* system, companies which mentioned “independence” in this topical section made up 10.8%. Specific descriptions concerning management monitoring include: “to strengthen the management monitoring function and maintain the appropriate business execution”, and “it is the foundation of corporate governance to ensure that top management maintains high level of corporate ethics and secures soundness and transparency of corporate management, and that the management monitoring mechanism led by *kansayaku* works sufficiently.” A number of companies described that strengthening the function to monitor the

8 For companies which do not prepare consolidated financial statements, we used sales in unconsolidated financial statements.
9 It refers to a ratio of shares held by legal entities established under foreign laws and individual foreign nationals out of total number of outstanding shares (subject to the definition in the Securities Report).
10 According to the revised Companies Act which came into effect on May 1, 2015, conventional “Company with Committees” is to be changed to “Company with Three Committees” (Nomination, Audit and Remuneration). This White Paper, however, uses the name “Company with Committees”.

management is the foundation of corporate governance.

As a significant factor for increasing corporate value, 59.9% of the companies referred to "stakeholders[11]". The result suggests that the companies are aware to a substantial extent that it is essential to establish good relations not only with shareholders, but also with a wide range of interested parties such as employees, customers, business partners including creditors, consumers and communities in order to achieve better corporate governance. While some companies placed greater emphasis on their shareholders, showing certain consideration to their stakeholders, a distinctive trend is that shareholders and other stakeholders are described on an equal basis, as shown in the phrase "aiming at enhancing corporate value through relationship with the stakeholders."

Respect for stakeholders has been represented by growing attention to corporate social responsibility, or CSR. Also in this survey, 25.5% of all companies referred to "social responsibility[12]". We found a distinct trend toward emphasis on activities in consideration of social responsibility as the basic policy of the companies.

Partly because discussions on corporate governance in Japan have been provoked by efforts for prevention of corporate scandals, "legal compliance"[13] was mentioned by 40.5% of the companies from the viewpoint of sound corporate management. Conducting business activities in compliance with laws and regulations as well as social norms is the minimum requirement expected by the entire nation and society. This result shows high level of corporate awareness of this expectation as well as consideration for corporate social responsibility. The related keyword "internal control", however, shows a rather low ratio of 17.7%, even though its significance has been emphasized in the Companies Act and the Financial Instruments and Exchange Act (hereinafter "FIEA"). This may be because the Report has a separate section dedicated to internal control.

As an overall corporate management issue, 70.2% of the companies referred to "transparency", indicating that this element has been widely spread as an important concept of management. Furthermore, 7.9% of the companies mentioned "accountability". Specifically, many companies described that enhancement of or adherence to accountability is recognized as a part of strengthening corporate governance.

With regard to the basic views on corporate governance, 34.0% of the companies referred to "group" and provided descriptions on group-wide initiatives.

Recently, some listed companies have voluntarily established their own corporate governance guidelines, and published them on their websites and elsewhere, referring to such URL in the Report.

[11] Reference to "stakeholders" covers companies which mentioned one of the following keywords: "stakeholders", "employees", "local community", "interested parties", "customers", "consumers", "creditors", "business partners" and "local residents".

[12] Reference to "social responsibility" covers companies which mentioned one of the following keywords: "CSR", "social responsibility" and "corporate ethics".

[13] Reference to "legal compliance" covers companies which mentioned one of the following keywords: "legal compliance", "compliance with laws and regulations" and "compliance".

Chart 2 Basic Views on Corporate Governance

		Corporate Value	Shareholders' Value	Monitoring & supervision	Execution
		Ratio	Ratio	Ratio	Ratio
Total		52.8%	6.0%	36.1%	34.4%
Organizational Form	Companies with Kansayaku	52.6%	5.9%	35.3%	33.6%
	Companies with Committees	63.2%	8.8%	82.5%	80.7%

		Decision Making	Stakeholders	Social Responsibility	Legal Compliance
		Ratio	Ratio	Ratio	Ratio
Total		38.0%	59.9%	25.5%	40.5%
Organizational Form	Companies with Kansayaku	37.8%	60.1%	25.5%	40.8%
	Companies with Committees	50.9%	52.6%	26.3%	26.3%

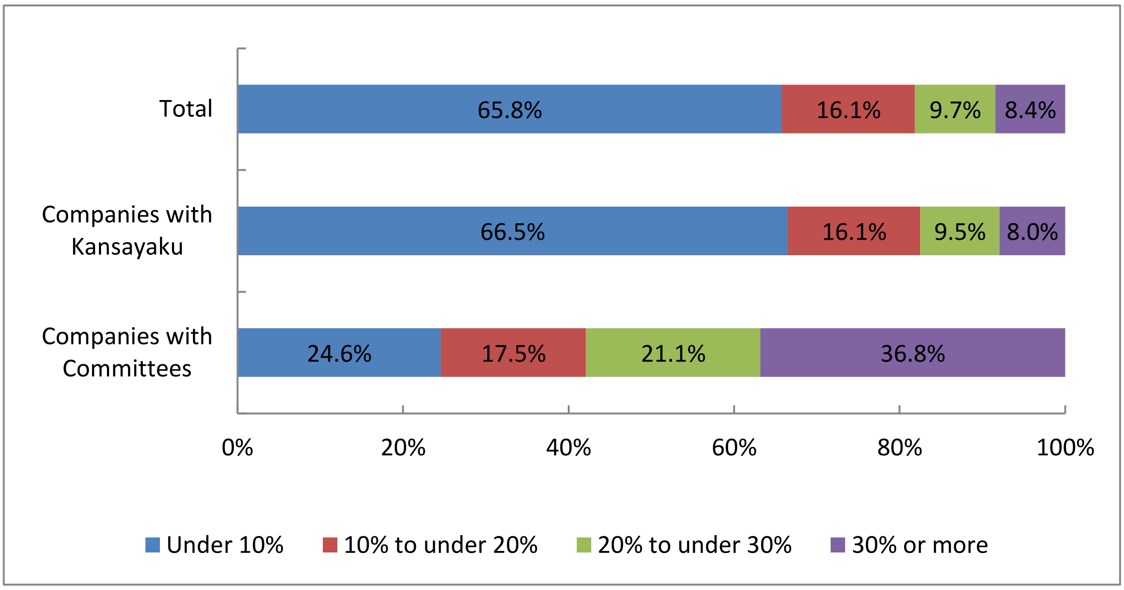
		Internal Control	Transparency	Efficiency	Soundness
		Ratio	Ratio	Ratio	Ratio
Total		17.7%	70.2%	19.5%	25.7%
Organizational Form	Companies with Kansayaku	17.8%	70.2%	19.4%	25.9%
	Companies with Committees	10.5%	73.7%	24.6%	10.5%

2. Capital Structure[14]

(1) Foreign shareholding ratio

Chart 3 shows foreign shareholding ratios among TSE-listed companies. A comparison between Companies with *Kansayaku* and Companies with Committees showed that the trend of Companies with Committees having a higher ratio of foreign shareholdings remains unchanged.

Chart 3 Foreign Shareholding Ratio (by Organizational Form)



As for the relation with market division, the percentage share of companies with higher foreign shareholding ratio tend to be greater among those listed on the TSE First Section, compared to other market divisions. Specifically, companies with 30% or more foreign shareholding constitute 13.6% of companies listed on TSE First Section. This percentage share is higher than that of TSE Second Section (1.8%), Mothers (3.6%), or JASDAQ (2.8%). Among JPX-Nikkei 400 companies, the category of 30% or more foreign shareholding is

[14] In the Report, companies are, in principle, required to report the status as of the end of the most recent fiscal year.

the largest, accounting for 40.8%, while the category of less than 10% foreign shareholding made up only 5.0%. As for the relation with consolidated sales as shown in Chart 5, the larger the consolidated sales are, the higher percentage share of companies with higher foreign shareholding ratio accounted for. The same trend was seen in the last survey.

Chart 4 Foreign Shareholding Ratio (by Market Division)

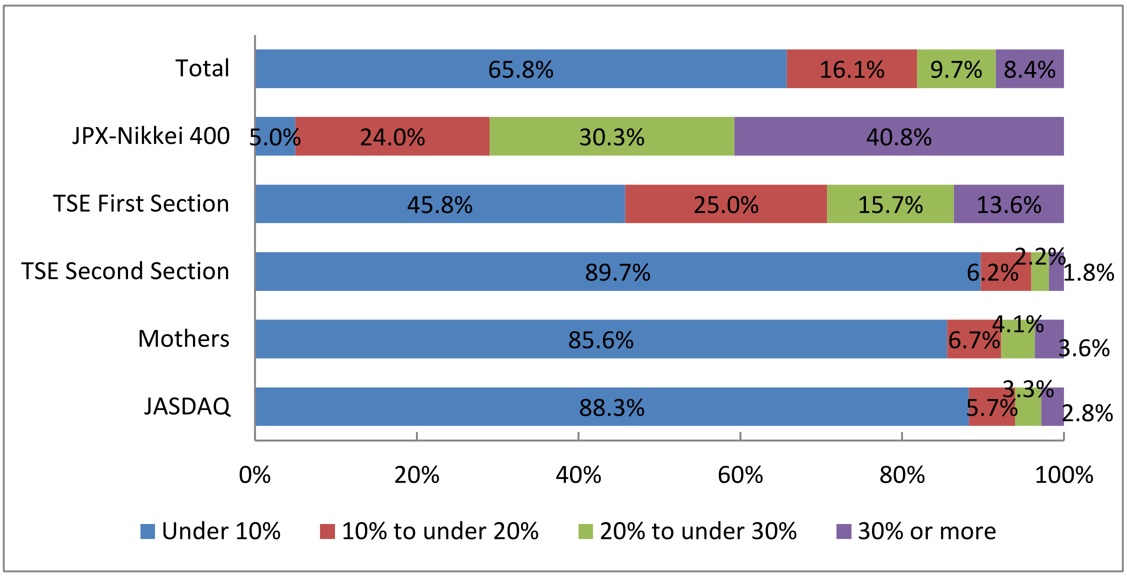
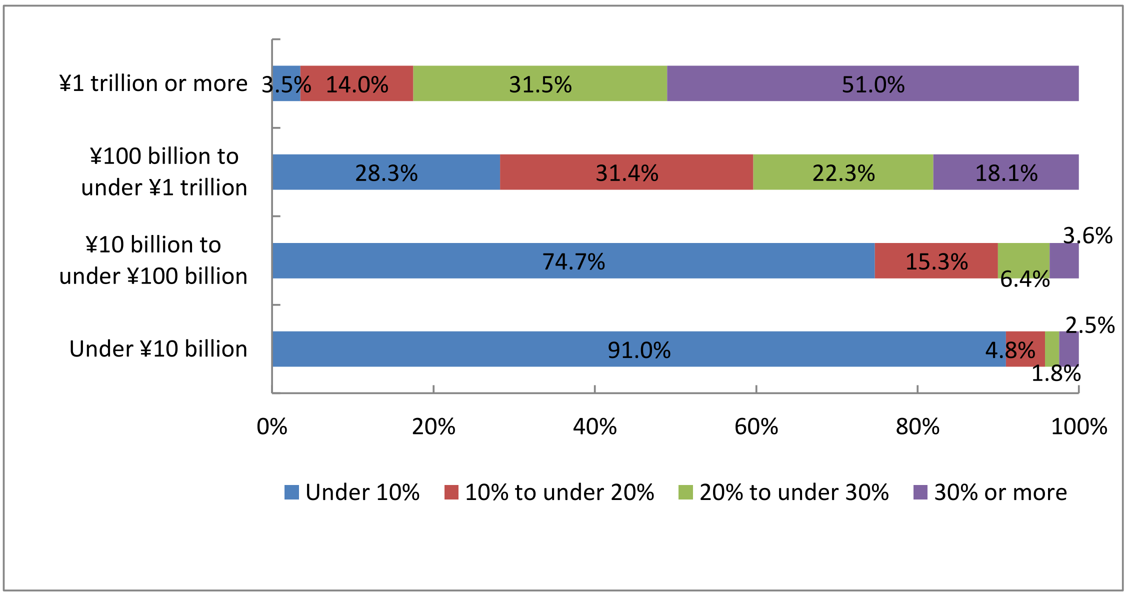


Chart 5 Foreign Shareholding Ratio (by Consolidated Sales)



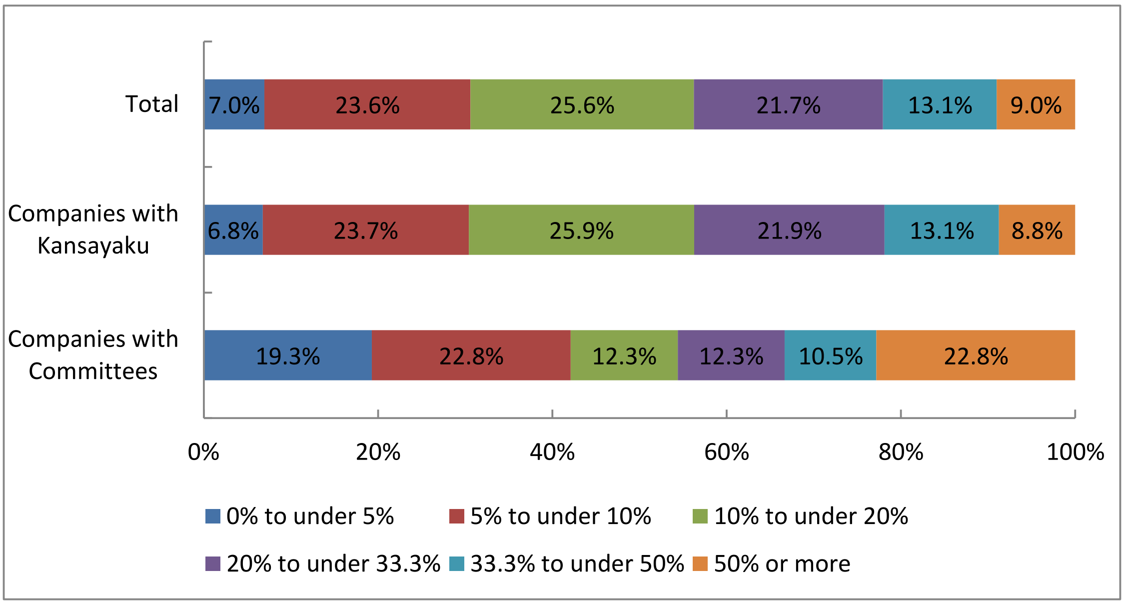
(2) Major shareholders[15]

As for information on major shareholders, the Report requires companies to provide the names of the top ten shareholders, the number of shares held, and the shareholding ratio. Among major shareholders, chart 6 shows shareholding ratios of the largest shareholder of TSE-listed companies.

[15] The Report requires companies to provide this information according to their shareholder registry, similarly to "major shareholders" section in the Securities Report.

Companies falling under the category of between 0% to 5%, indicating a highly dispersed shareholder base, accounted for 7.0% overall, while those between 5% and 10% constituted 23.6%. No major change was seen in both categories.

Chart 6 Shareholding Ratio of the Largest Shareholder (by Organizational Form)



As shown in Chart 7 by market division, companies listed on the TSE First Section, the main board, show lower percentage ownership held by the largest shareholder than that of TSE Second Section for small and medium companies as well as emerging markets, namely Mothers and JASDAQ. Also as shown in Chart 8, the larger consolidated sales are, the lower the percentage of ownership held by the largest shareholder is. It indicates that TSE first companies and companies with large sales tend to show high ownership dispersion. As for JPX-Nikkei 400 companies, the category of 20% or more ownership held by the largest shareholder accounted for 25.1%, which is lower than 32.1% of TSE First Section companies, while the category of less than 10% ownership amounted to 55.3% (vs. 43.8% of TSE First Section companies), similarly showing high ownership dispersion.

Chart 7 Shareholding Ratio of the Largest Shareholder (by Market Division)

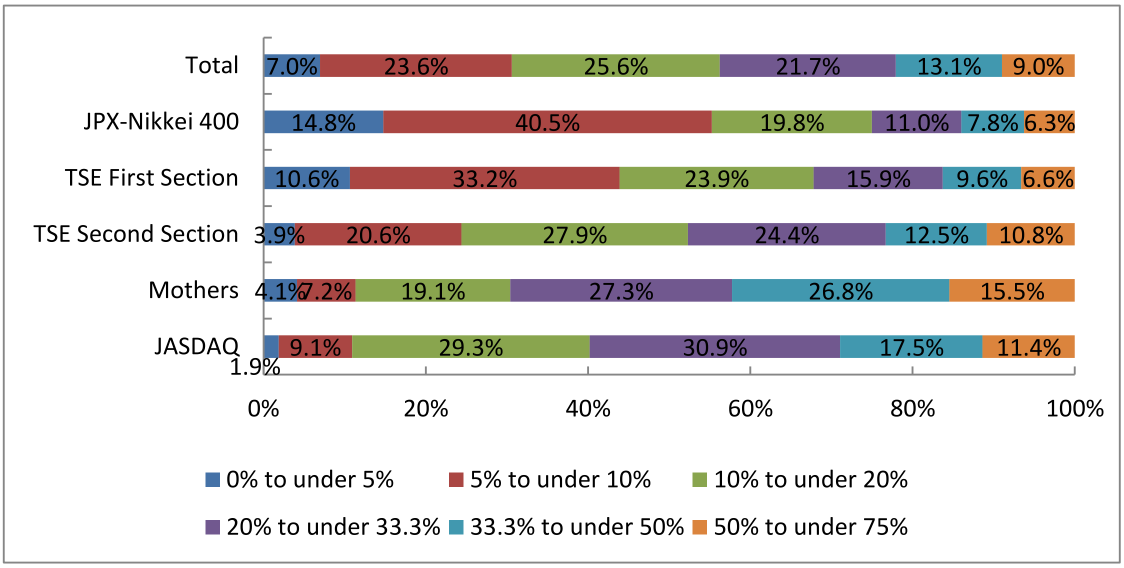
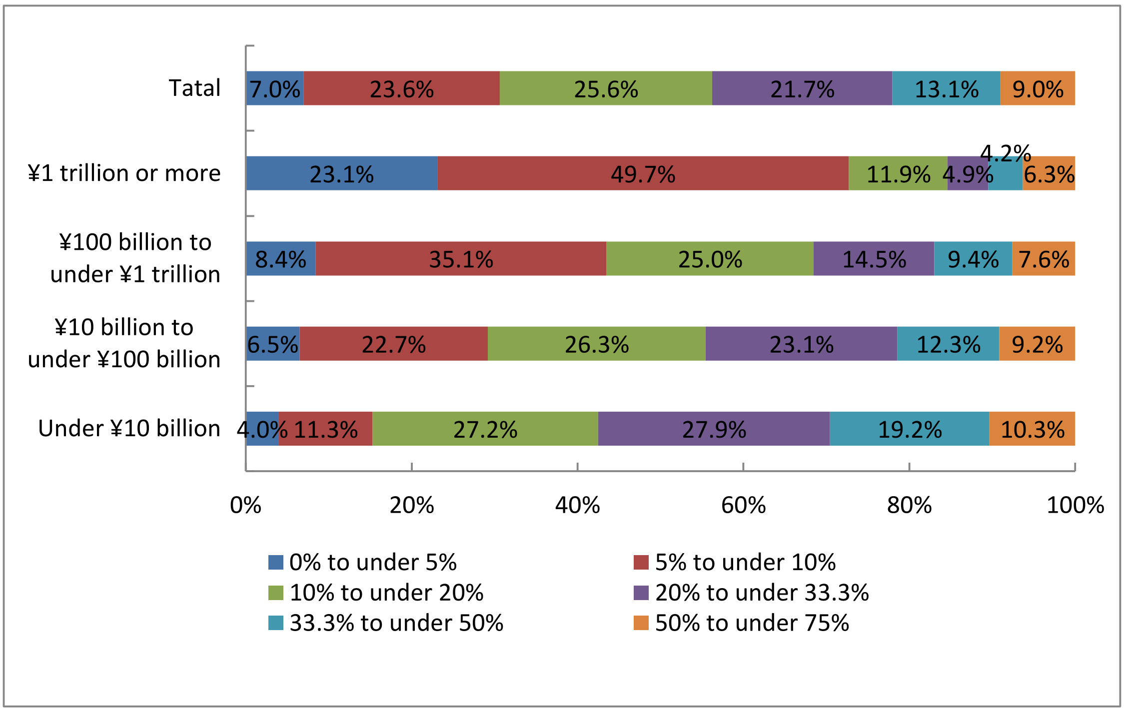


Chart 8 Shareholding Ratio of the Largest Shareholder (by Consolidated Sales)



(3) Existence of controlling shareholder[16]/parent company[17]

The Report requires companies to state whether or not they have any controlling shareholder, and whether or not they have a parent company. As shown in the footnote, a controlling shareholder is the concept which includes a parent company. Among TSE-listed companies, 629 companies have controlling shareholders, accounting for 18.4% of all listed companies. Out of them, 61.8% (11.4% overall) have parent companies, and

[16] It refers to (1) a parent company, or (2) a main shareholder who holds the majority of voting rights of a listed company after combining the voting rights held for its own account and the voting rights held by a close relative, etc. (Section 2, (42)-2 of Securities Listing Regulations, and Rule 3-2 of its Enforcement Rules)

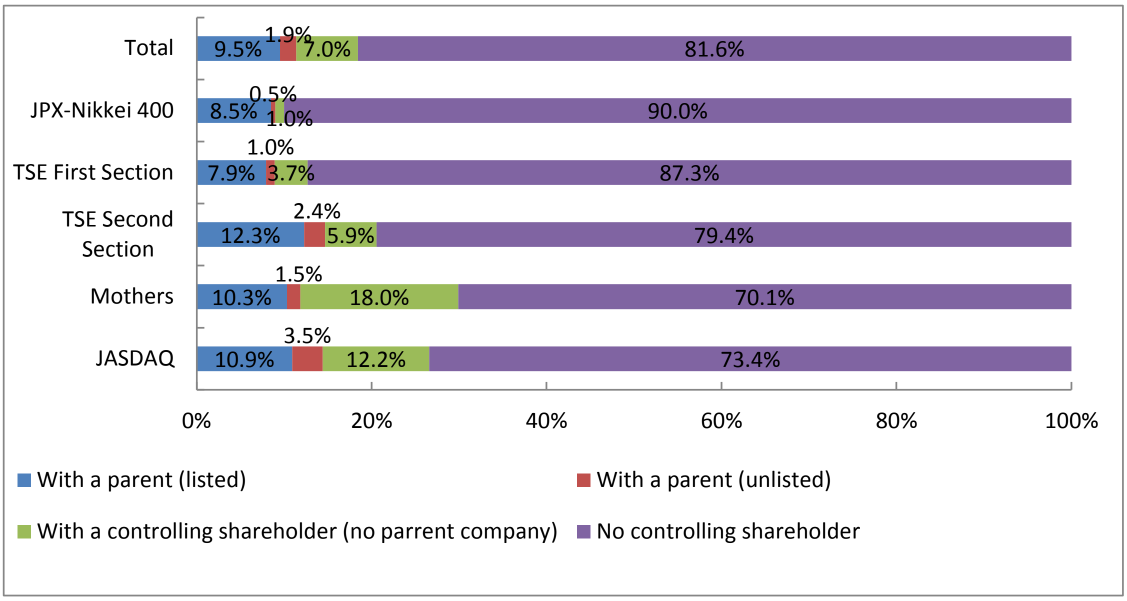
[17] It refers to a parent company defined in Article 8, Paragraph 3 of the Regulation for Terminology, Forms and Preparation of Financial Statements.

38.2% (7.0% overall) have controlling shareholders other than a parent company[18]. 83.5% of companies with parent companies (9.5% overall) have listed parent companies.

In terms of market division, 8.9% of TSE First Section companies have parent companies. This is relatively low compared to high levels shown in the TSE Second Section 14.7%, Mothers 11.9%, and JASDAQ 14.4%. The same trend can be seen when the percentage of companies with controlling shareholders other than a parent company is totaled. In the TSE First Section, the percentage of companies with controlling shareholders is 12.7%, comparatively lower than the higher levels shown in the TSE Second Section 20.6%, Mothers 29.9%, and JASDAQ 26.6%. As for JPX-Nikkei 400 companies, the percentage share of companies without controlling shareholders accounted for 90.0%, 2.7 points higher than 87.3% of TSE First Section.

Out of TSE-listed companies whose largest shareholder's ownership ratio is 50% or above, 293 companies do not have a parent company. By market division, they comprise 117 TSE First Section companies (6.4% of this market division), 56 TSE Second Section companies (11.7%), 28 Mothers companies (14.4%), and 92 JASDAQ companies (10.7%). It indicates that there are many companies having company founders and other individuals as controlling shareholders in the market divisions other than the TSE First Section.

Chart 9 Existence of Controlling Shareholder/Parent Company (by Market Division)



(4) Supplementary explanation regarding capital structure

1,291 companies (37.8% of all listed companies) provided supplementary explanations regarding capital structure. A large part of these is description regarding changes in large shareholders, deduction of treasury shares, and confirmation of large volume possession reports.

[18] Controlling shareholders other than parent companies are generally individuals such as so-called owners.

3. Corporate Attributes[19]

(1) Listed exchange and market division

The numbers of TSE-listed companies by market division are as follows: 1,814 companies listed on TSE First Section, 545 companies on TSE Second Section, 194 companies on Mothers, and 861 companies on JASDAQ (Chart 10). Among TSE-listed companies, 3,134 companies (91.8%) are listed solely on TSE, and 280 companies (8.2%) are cross-listed on other exchanges in Japan.

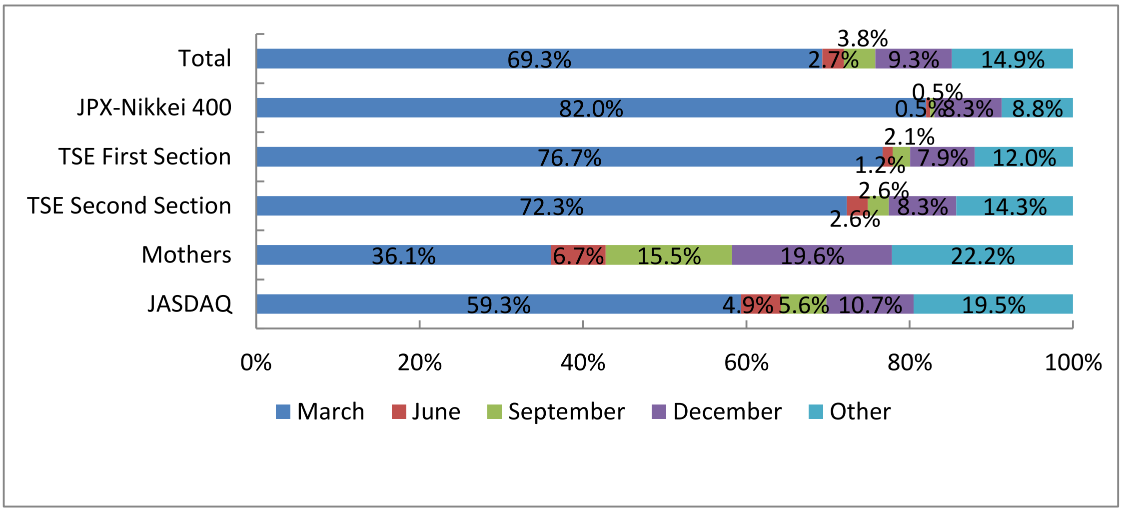
Chart 10 Number of Listed Companies (by Market Division)

Market	Number of companies		Ratio
		Change from 2013	
Total	3,414	+1,139	100.0%
JPX-Nikkei 400	400	-	11.7%
TSE First Section	1,814	+134	53.1%
TSE Second Section	545	+126	16.0%
Mothers	194	+18	5.7%
JASDAQ	861	-	25.2%

(2) Fiscal year-end

Chart 11 shows when a fiscal year of TSE-listed companies ends. The fiscal year of 69.3% of TSE-listed companies ends in March. If you look at each market division in terms of a percentage share of companies with a fiscal year ending in March, the share is large in TSE First Section (76.7%) and TSE Second Section (72.3%), while that of Mothers and JASDAQ is only 36.1% and 59.3% respectively, indicating dispersed fiscal years ending in December or September. Among JPX-Nikkei 400 companies, percentage share of companies with a fiscal year ending in March accounted for 82.0%, which is 5.3 points higher than that in TSE First Section.

Chart 11 Fiscal Year End (by Market Division)

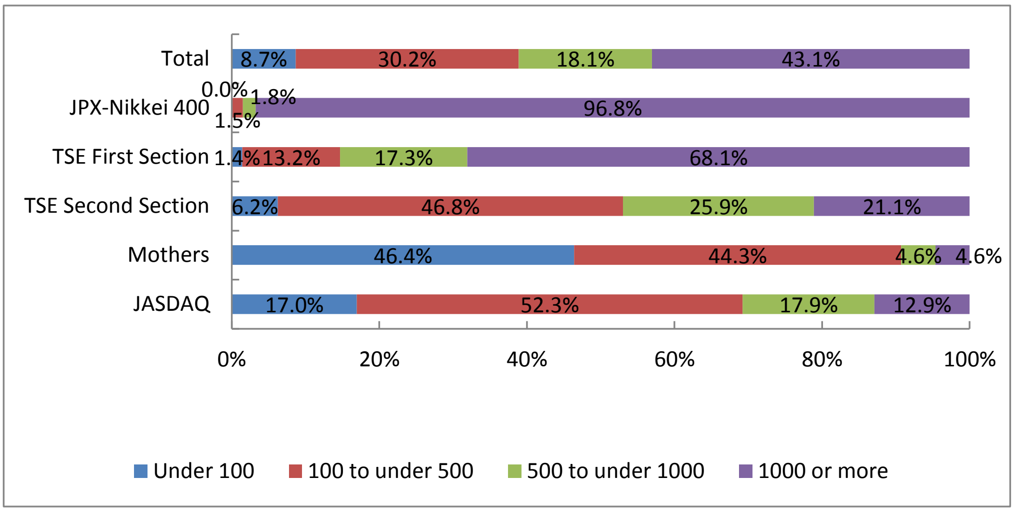


[19] In the Report, companies are, in principle, required to report the status as of the end of the most recent fiscal year.

(3) Number of employees

The distribution of the size of TSE-listed companies in terms of the number of employees (consolidated)[20] is as shown in Chart 12. Although companies with 1,000 or more employees (consolidated) made up 43.1% in the previous survey, the addition of JASDAQ-listed companies to the population lowered the percentage of such companies (down by 13.4 points from the last survey). As for JPX-Nikkei 400 companies, companies with 1000 or more employees is the largest group, accounting for 96.8%.

Chart 12 Number of Employees (Consolidated) (by Market Division)

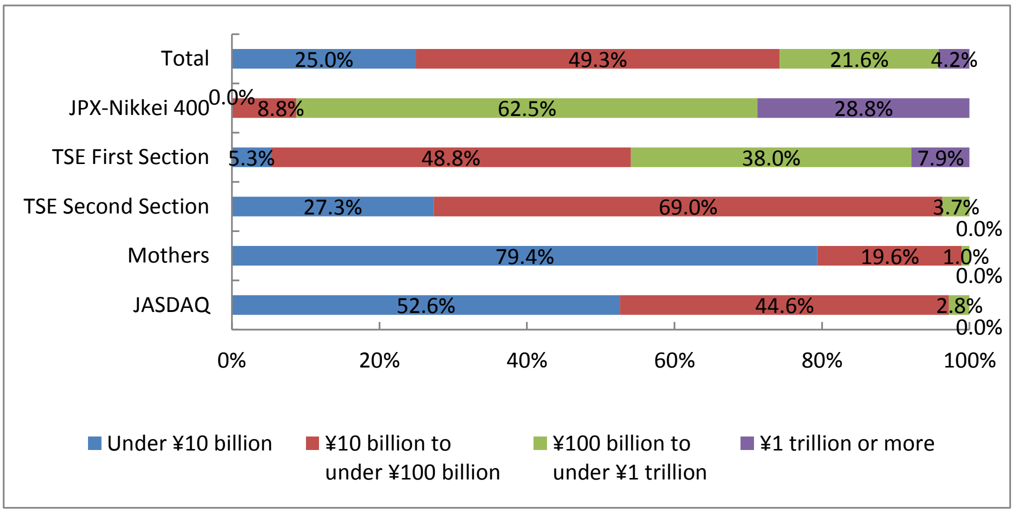


(4) Sales

The distribution of the size of TSE-listed companies in terms of consolidated sales is as shown in Chart 13. Companies with 10 billion yen to 100 billion yen in consolidated sales accounted for the largest share of 49.3%. This trend has remained unchanged from the previous surveys. As for JPX-Nikkei 400 companies, companies with 100 billion yen or more in consolidated sales made up 91.3%, including those with 1 trillion or more which accounted for 28.8%.

Chart 13 Consolidated Sales (by Market Division)

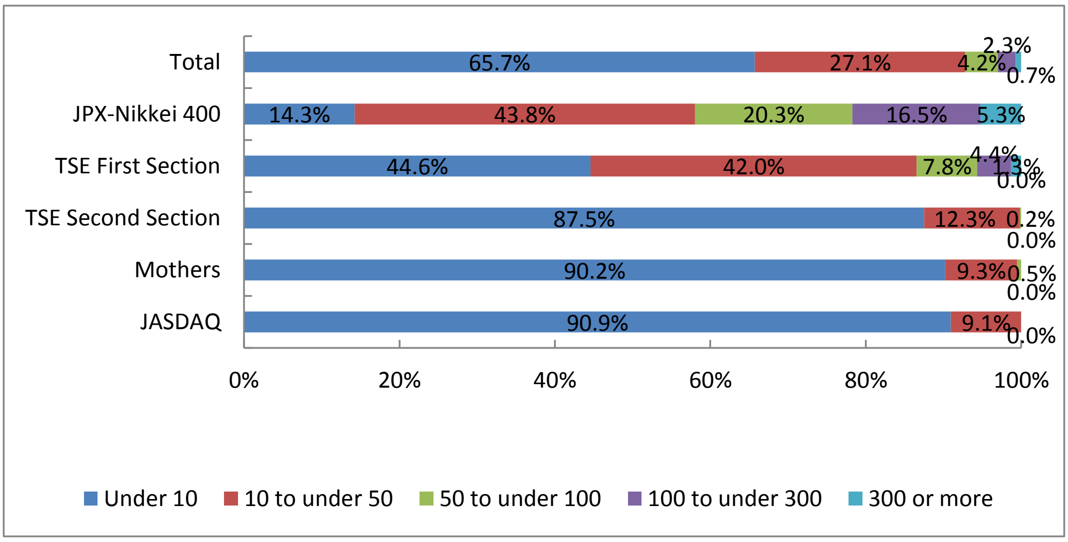
[20] In case of companies which do not prepare consolidated financial statements, we used unconsolidated numbers of employees.



(5) Number of consolidated subsidiaries

The numbers of consolidated subsidiaries of TSE-listed companies are as shown in Chart 14. Companies with less than 10 consolidated subsidiaries accounted for 65.7%. The ratio increased due to the addition of companies listed on JASDAQ to the population (up 10.0 points from the previous survey). As for JPX-Nikkei 400 companies, companies with 10 or more consolidated subsidiaries made up 85.7%.

Chart 14 Number of Consolidated Subsidiaries (by Market Division)



4. Guidelines on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

The Report requires listed companies with a controlling shareholder to provide concrete description on matters such as policies on internal frameworks and systems, the internal decision-making process, and the use of external agencies, with the aim of preventing company and, eventually, minority shareholder interests from being undermined by transactions or other activities which were made to favor such controlling shareholder.

As for criteria of transactions with controlling shareholder subject to the guidelines, in principle it is desirable to consider all transactions with controlling shareholder. Yet as it is assumed that the level of influence may differ by size and structure of companies, in effect to limit to transactions of a size which may affect the minority shareholders to a certain extent, it is considered that each company may establish specific criteria which they find appropriate.

Among TSE-listed companies, 629 companies or 18.4% have controlling shareholders. Of these companies, 389 have parent companies, and 240 have controlling shareholders that are not parent companies (see Chart 9). All of them provided explanations on their guidelines for protecting minority shareholder interests.

Approaches to the specific descriptions are categorized into two types: (i) to describe their policies for transaction conditions; and (ii) to refer to their procedures of transactions with the controlling shareholders.

(i) 268 companies (or 42.6% of TSE-listed companies with a controlling shareholder) described their policies for transaction conditions. They typically referred to their policies that stipulate transactions with the controlling shareholder are to be carried out in a fair and equitable manner as in those with other business partners taking into account the terms of such contacts and market prices, so that they do not conduct any transactions which adversely affect minority shareholder interests (156 companies). Some companies stated that while they do not have business relationship with their controlling shareholders at the moment, they would adopt the above-mentioned policy for future transactions. Other companies referred to the check function of outside directors or *kansayaku*, or putting the contents of transaction up for internal approval and circulating it internally. Furthermore, there are companies which expressed their policies that they do not, in principle, conduct any transactions with their controlling shareholder in the first place.

(ii) 365 companies (58.0%) referred to their procedures for transactions with the controlling shareholders. Specifically, the procedures described include: a company asks for opinions of independent directors/*kansayaku* other than those from the parent company for more objective decision-making in order to prevent any transaction which benefits the parent company and also undermines the interests of minority shareholders; a company makes a decision by consulting with external specialists, when needed, to ensure that transaction conditions in question are reasonable and appropriate; and as a difference from ordinary transactions, a company requires a resolution of the board regardless of transaction amount in question. As guidelines on protecting minority shareholder interests, some companies involve their own (not the parent company's) board having separate discussions and decisions on matters concerning the transaction such as the appropriateness of the conditions and making independent executive decisions. Yet they are expected to explain more about whether directors under the parent companies' influence can make a fair decision. Other descriptions include the stipulation of rules on internal procedures related to decision-making on the transaction conditions to ensure appropriateness of transactions, and appropriate audit by *kansayaku* or the operations audit group, etc.

In addition to the above-mentioned approaches (i) and (ii)[21], in case a controlling shareholder assumes a role of director, company rules such as code of ethics prohibit such a director to conduct conflict of interest transactions, which cause or may cause conflicts between the director's interests and the company's interests. There are certain companies which prohibit unfairly favorable or unfavorable transactions compared with transactions with third parties, or transactions for the purpose of transferring profits or losses/risks, clearly in their rules as policies to protect minority shareholders.

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[21] 137 companies (21.8%) mentioned both (i) and (ii).

5. Other Special Circumstances which may have Material Impact on Corporate Governance

The Report contains a section titled "Other special circumstances which may have material impact on corporate governance" for free-text descriptions of company-specific circumstances which are not directly linked to each section in the Report but may significantly affect corporate governance, or supplementary explanation to other sections. The Reporting Guidelines particularly requires listed companies, which have a parent company and/or listed subsidiaries, to describe their stance (policies) on corporate governance based on such a fact and relations. In this survey, 1,371 companies explained their special circumstances. The matters applicable to optional free-text descriptions in the subject section include the following matters: (i) in case where a company has a parent company - views on, and measures and policies for, maintaining independence from the parent company; (ii) in case where a company has a listed subsidiary - views on, and measures and policies for, maintaining independence of the listed subsidiary.

As for (i), out of 389 listed companies which have a parent company (11.4% of all listed companies; see Chart 9), 214 companies (55.0%) referred to the independence from their parent companies. Specifically, they explained how they maintain their independence from the parent companies by showing such examples as whether or not there are matters for approval in business activities, pricing power with regards to conditions of transactions (sales, procurement, etc.) with enterprise groups including parent companies, and the situation of Companies with Committees where a number of directors sent from the parent companies in each committee must be less than the majority.

As for (ii), out of the listed companies with listed subsidiaries, 76 companies specifically referred to consideration to minority shareholders of subsidiaries. Such companies described that respect for minority shareholder interests are included in the basic internal control policy, that the parent company is committed to respect managerial independence of its listed subsidiary to the maximum extent in the agreements of capital subscription and others, and that transaction conditions are determined in accordance with appropriate procedures or under the same criteria with other companies.

II. Business Management Organization and Other Corporate Governance Systems Regarding Decision-Making, Execution, and Oversight in Management

Regarding matters concerning governing bodies and conduct of organizations, in addition to a section on directors, the Report has a section on *kansayaku* in case of Companies with *Kansayaku*, or *shikkoyaku* and each of statutory committees in case of Companies with Committees. Decision-making procedures and supervising/auditing functions for business execution vary depending on organizational form of a company. Therefore, it is considered that explanations in line with such organizational forms serve as useful information for making investment decisions from the perspective of understanding the status of corporate governance.

1. Organizational Form

Regarding organizational forms of TSE-listed companies, those who adopted Companies with Committees accounted for only 1.7% of the total. An overwhelming majority of the companies (98.3%) are Companies with *Kansayaku*. This trend has remained unchanged since the Report system was launched in 2006.

In analysis of the ratio of Companies with Committees by market division, as shown in Chart 15, the TSE First Section shows a slightly higher ratio (2.5%). With respect to the foreign shareholding ratio, the higher the ratio, the more likely companies are to have adopted Companies with Committees (Chart 16).

Among JPX-Nikkei 400 companies, 25 companies adopted Companies with Committees, accounting for 6.3% of 400 companies, 3.8 points higher than that of the TSE First Section. Out of 57 Companies with Committees among TSE-listed companies, 25 companies (43.9%) are included in JPX-Nikkei 400.

Chart 15 Organizational Form (by Market Division)

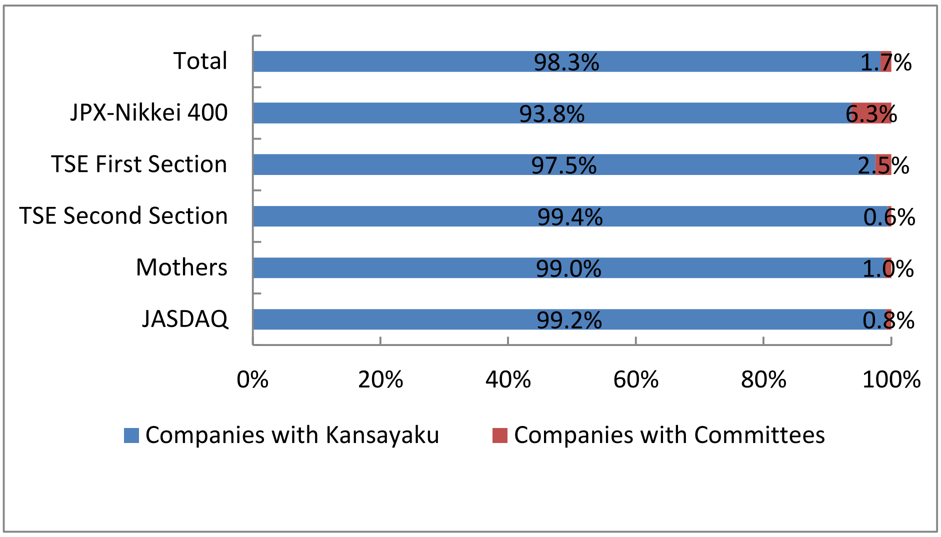
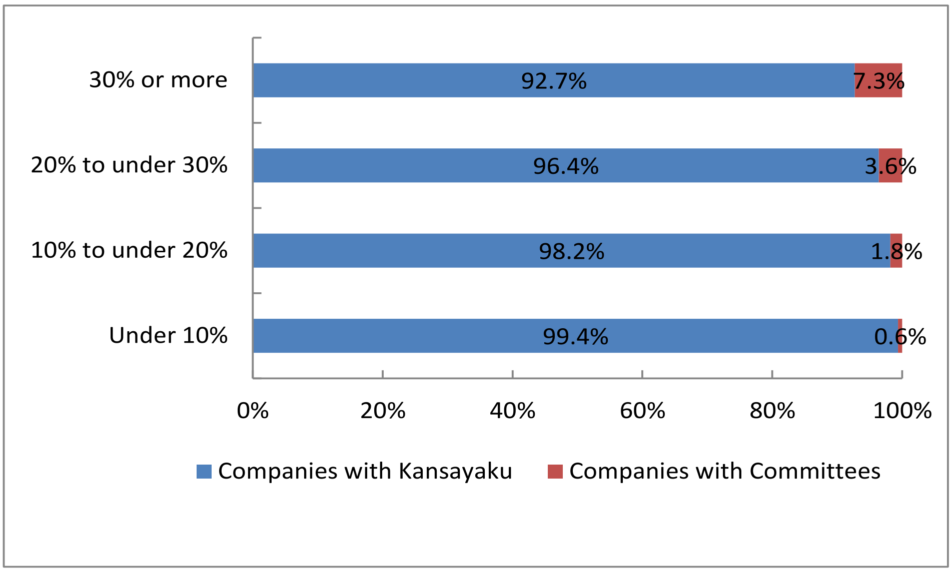


Chart 16 Organizational Form (by Foreign Shareholding Ratio)



2. Directors and the Board

(1) Number of directors in the Articles of Incorporation

The Report requires listed companies to provide information on the number of directors in the Articles of Incorporation and the term of directorships. If a company has appointed close to the maximum number of directors provided for in its Articles of Incorporation, when newly appointing another director for some reason, it will need to put forth an agendum and obtain an extraordinary resolution at a general shareholder meeting to amend the Articles of Incorporation.[22]

Chart 17 shows a comparison between the maximum number of directors in the Articles of Incorporation and the actual number of directors appointed, expressed as a multiplying factor (n).[23]

Chart 17 Number of Directors in the Articles of Incorporation and Actual Number Appointed

No. of Directors allowed for in Articles of Incorporation as Multiple (n) of Actual No. Appointed	Companies with Kansayaku	Companies with Committees	Total
n=1	6.9%	3.5%	6.9%
1<n≤1.2	10.4%	21.1%	10.5%
1.2<n≤1.4	18.2%	17.5%	18.2%
1.4<n≤1.6	14.8%	17.5%	14.8%
1.6<n≤1.8	13.9%	10.5%	13.8%
1.8<n≤2	12.4%	10.5%	12.3%
n>2	20.0%	7.0%	19.8%

[22] Article 309, Paragraph 2, Item 11 of the Companies Act.
[23] As for the number of directors in the articles of incorporation, the total is not equal to 100% because some companies use different methods including setting only the minimum number of directors instead of the maximum number.

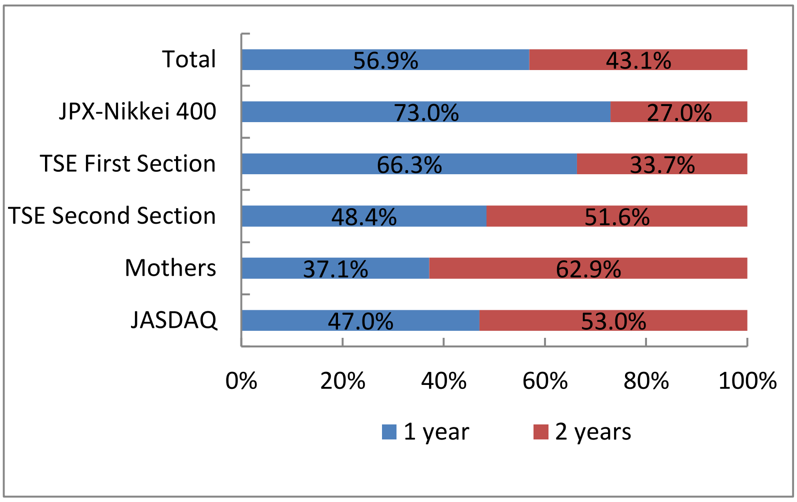
(2) Term of directorships in the Articles of Incorporation

Article 332, Paragraph 1 of the Companies Act stipulates that the term of directorships at a Company with *Kansayaku* shall, in principle, continue within two years from the time of their election. However, it also provides for the shortening the term of directorships by the Articles of Incorporation or by a resolution of a general shareholder meeting.[24] Furthermore, Article 459 of the Companies Act stipulates that in case of specifying the term of directorships to be one year, the company's Articles of Incorporation may provide that the board may decide on matters such as surplus dividend. It is thought that specifying the term of directorships as one year will enhance the authority of the board and work to the benefit of the company. It will also bring a sense of urgency to directors and, through this, contribute to better corporate governance.

Out of TSE-listed Companies with *Kansayaku*, the majority (56.9%) of the companies specifies their terms of directorships at one year. The percentage of such companies in each market division is 66.3% in the TSE First Section, 48.4% in the TSE Second Section, 37.1% in Mothers, and 47.0% in JASDAQ (Chart 18). Out of JPX-Nikkei 400 companies, companies which specify their terms of directorships at one year accounted for 73.0%, 6.7 points higher than that of TSE First Section. In terms of consolidated sales, the top share of 79.0% comes from the 1 trillion yen or more category. Going down the consolidated sales category, there are a declining percentage of companies whose directorships are specified at one year (Chart 19). In terms of foreign shareholding ratio, the 30% or more category accounts for the highest percentage of 69.4%, showing a decreasing proportion of companies with a lower percentage of foreign shareholdings (Chart 20). This seems to indicate a certain correlation between the term of directorships, company size, and foreign shareholding ratio.

Turning to the relationship with the existence of outside directors, 64.2% of companies with outside directors have terms of directorships set at one year, while this was 43.7% among those without outside directors. This shows a tendency in companies with outside directors toward shorter terms of directorships.

Chart 18 Term of Directorships in the Articles of Incorporation (by Market Division)



[24] In case of Companies with Committees, the term of directorships must be one year from the time of their election (Article332, Paragraph 3 of the Companies Act).

Chart 19 Term of Directorships in the Articles of Incorporation (by Consolidated Sales)

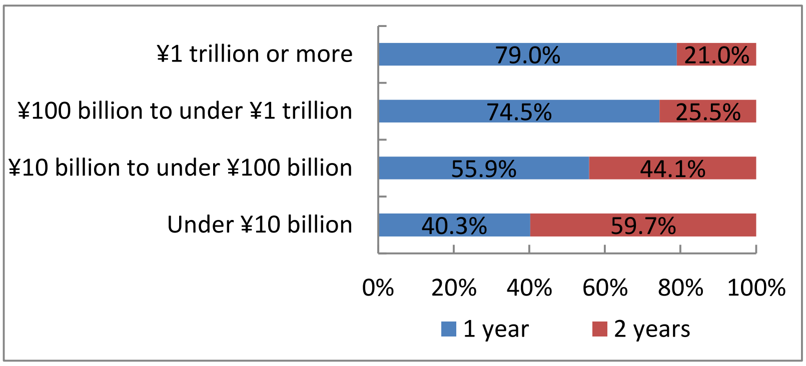


Chart 20 Term of Directorships in the Articles of Incorporation (by Foreign Shareholding Ratio)

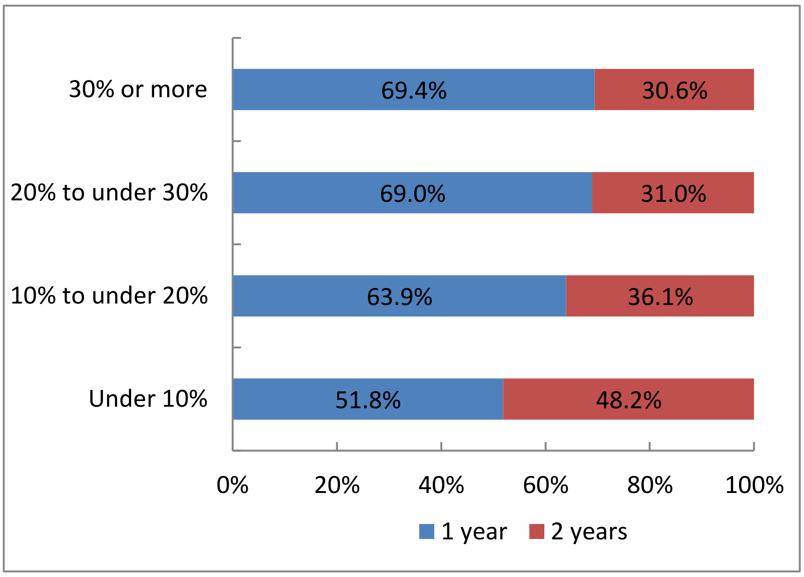
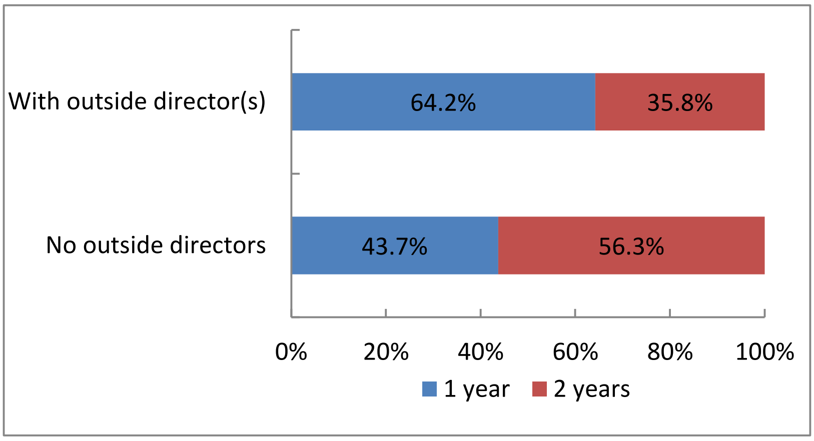


Chart 21 Term of Directorships in the Articles of Incorporation (with/without Outside Director)



(3) Chairperson of the Board

Concerning chairperson of the board, the Report requires each company to inform whether or not a chairperson exists, and an attribute of the chairperson, if any, by choosing one of the following: (1) president (*shacho*), (2) company chairperson [25] (*kaicho*), (3) representative director other than company

[25] Excluding a person who concurrently assumes the position of president

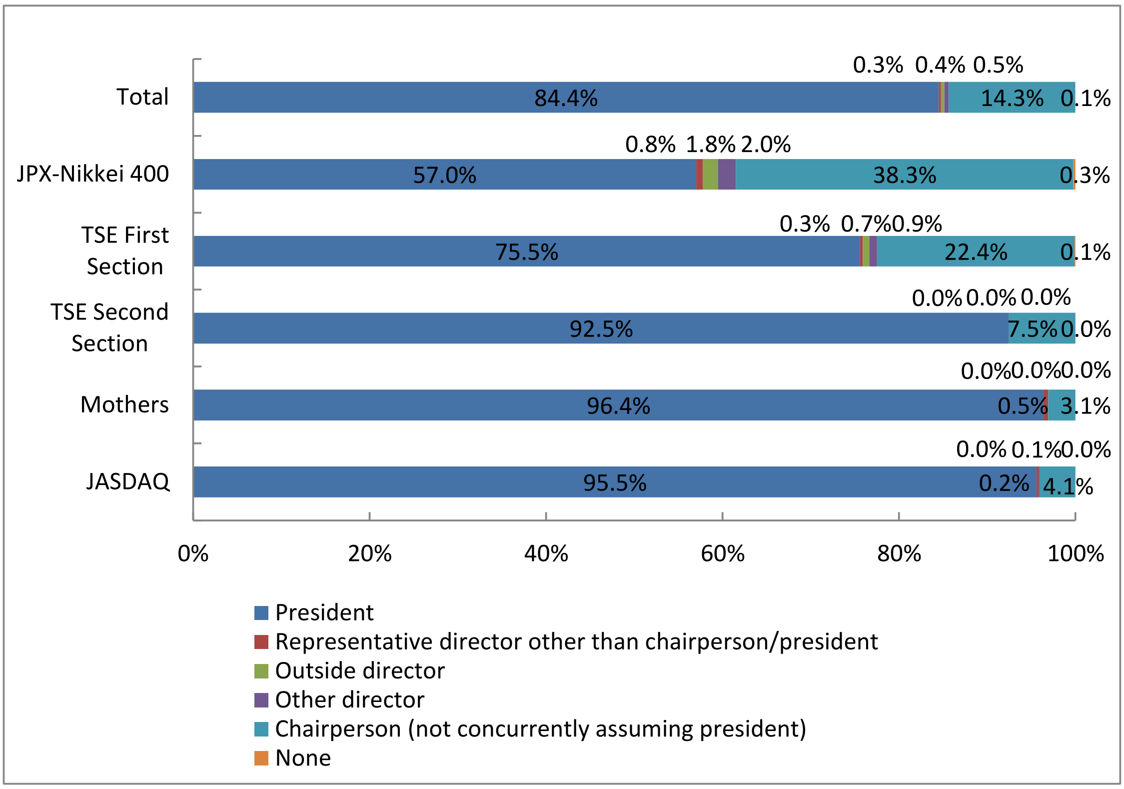
chairperson/president, (4) outside director, (5) other director, or (6) not applicable.

Out of TSE-listed companies, 99.9% have a chairperson of the board and only 0.1% or just two companies do not.[26]

As for attributes of the chairperson of the board, the overall trend is that the board is chaired by president in 84.4% of TSE-listed companies, followed by the company chairperson, accounting for 14.3%. Either president or the company chairperson chairs the board in 98.7% or almost all of the companies (Chart 22).

In analysis by market division, whereas president chairs the board in 75.5% (company chairperson: 22.4%) of companies listed on the TSE First Section, such ratios of the TSE Second Section, Mothers and JASDAQ are 92.5% (company chairperson: 7.5%), 96.4% (3.1%), and 95.5% (4.1%), respectively. As the number of employees (consolidated), consolidated sales, and the number of consolidated subsidiaries increase (in other words, in larger companies), the percentage of the boards chaired by president tends to decline, while percentage of those chaired by the company chairperson tends to increase.

Chart 22 Attributes of Board Chair (by Market Division)



(4) Number of directors

In this survey, the overall average number of directors per TSE-listed company was 7.50 persons. The downward trend has continued since 2008, except for an increase in Mothers this time.

The overall downward trend in the number of directors has also affected the structure of the board. There are 7 companies which have more than 20 directors, and all of these companies have outside directors. On the other hand, 946 companies have up to 5 directors. In 11 companies (0.3% of Companies with *Kansayaku*), the

[26] They have a rotating chair, instead of a fixed chairperson.

number of *kansayaku* exceeds the number of directors; 146 companies (4.3% of Companies with *Kansayaku*) have the equal numbers of directors and *kansayaku*; and, in 425 companies (12.7% of Companies with *Kansayaku*), the number of directors exceeds the number of *kansayaku* by only 1 person. Furthermore, upon dividing the number of directors by the number of *kansayaku*, 1,436 companies (42.3% of Companies with *Kansayaku*) show less than double, including 616 companies (18.3% of Companies with *Kansayaku*) showing no more than 1.5 times.

As for the average number of directors per market division, while the average has declined to 8.61 in TSE First Section and 6.88 in TSE Second Section, Mothers saw an increase to 5.32 after a period of decline. The average number in JASDAQ was 6.05 (Chart 23). JPX-Nikkei 400 companies have, on average, 10.29 directors, 1.68 more than that of TSE First Section (8.61).

As shown in Chart 24, even as the trend of higher consolidated sales with a higher number of directors per company has remained unchanged, the number of directors across all categories has decreased. This broad trend is also seen when analyzed by number of employees (consolidated) and number of consolidated subsidiaries.

Chart 23 Number of Directors (by Market Division)

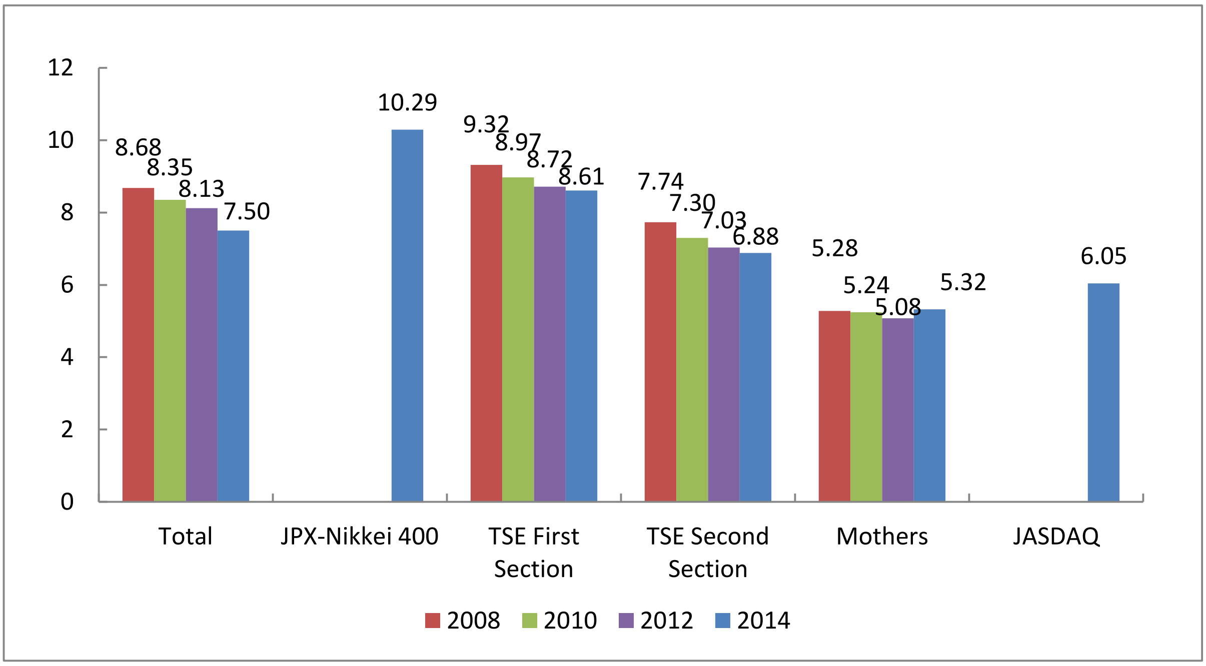
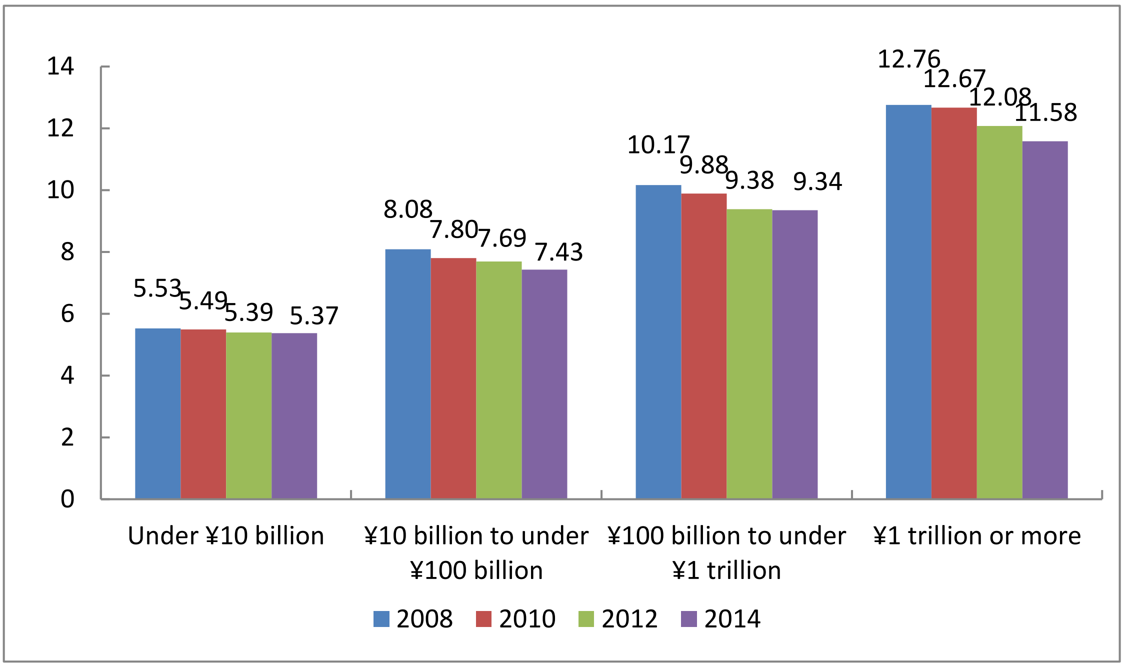


Chart 24 Number of Directors (by Consolidated Sales)



When classified by foreign shareholding ratio, the analysis finds that the higher the ratio, the more directors the companies have. This would be because foreign shareholding ratios tend to be higher in larger companies (see the above 2. (1) Foreign shareholding ratio).

As for largest shareholders, the lower the shareholding ratios of the largest shareholder are, the more directors companies are likely to have, except for companies with the ratio exceeding 50%. This would be due to the trend that in larger companies, the shareholding ratio of the largest shareholder are lower (see the above 2. (2) Major shareholders).

(5) Appointment of outside directors

① Appointment of outside directors and number appointed

(i) Overview

Companies which have appointed outside directors[27] accounted for 64.4% or nearly two-thirds of TSE-listed companies. 85.3% of JPX-Nikkei 400 companies have outside directors, and this percentage is 11.0 points higher than that of TSE First Section. Among Companies with *Kansayaku* alone, the percentage is 63.8% (Chart 33). When we started the survey in 2006, outside directors were appointed by only 40.8% of Companies with *Kansayaku*: it could be said that the trend of appointing outside directors has accelerated. While Companies with Committees are required to have a majority of outside directors in each committee under the Companies Act[28], Companies with *Kansayaku*, which are not subject to such a requirement, are increasingly appointing outside directors or independent directors[29].

Chart 25 to Chart 28 show percentages of companies classified by numbers of outside directors and

[27] The definition of outside director is subject to Article 2, Item15 of the Companies Act.
[28] Article 400, Paragraph 3 of the Companies Act.
[29] In this White Paper, "independent director" is defined as "outside director who is identified to be independent by listed companies and reported (to TSE) as an independent director".

independent directors in Companies with *Kansayaku* and Companies with Committees. 25.9% of Companies with *Kansayaku* (or 40.2% of Companies with *Kansayaku*, which appointed outside directors) have multiple outside directors (Chart 25). On the other hand, companies which appointed multiple independent directors accounted for only 12.0% (Chart 26).

Chart 29 shows percentages of companies whose board have at least one-third as well as the majority of outside directors. The percentages of outside directors tend to be higher in Mothers and JASDAQ, compared to TSE First Section and Second Section. This is probably because companies listed on these new markets appoint outside directors, when they have fewer directors on the board (Chart 23). As for JPX-Nikkei 400 companies, the percentage of companies with at least one-third of outside directors is 7.2 points higher than that of TSE First Section; and the percentage of companies with the majority of outside directors is 3.5 points higher than that of TSE First Section: they are more likely to appoint outside directors. A comparison based on foreign shareholding ratio shows that with a rising shareholding ratio, there is a marked increase in the percentage of companies that have outside directors making up at least one-third or the majority of the board (Chart 31).

The average number of outside directors per company was 1.10 for TSE-listed companies. For Companies with *Kansayaku*, the average number of outside directors was 1.04, exceeding one for the first time. For Companies with Committees, it was 4.70. By limiting the scope to companies which appointed outside directors, the average number was 1.71. Within JPX-Nikkei 400 companies, Companies with *Kansayaku* have, on average, 1.78 outside directors, which is 0.54 more than the average of Companies with *Kansayaku* listed on TSE First Section (Chart 35).

Chart 25 Ratio of Companies by Number of Outside Directors (Companies with *Kansayaku*)

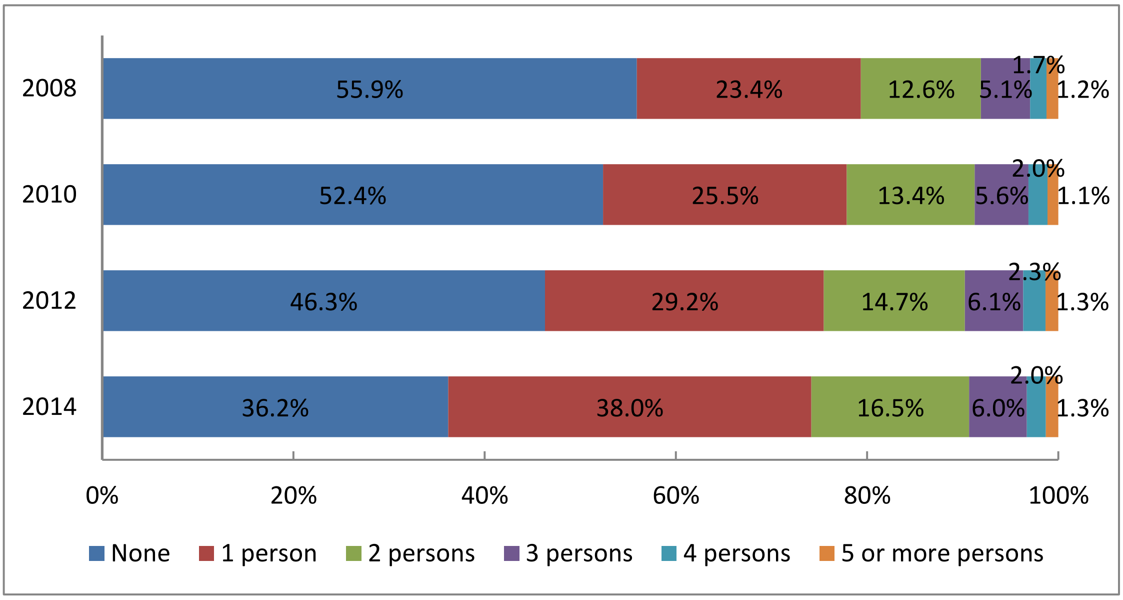


Chart 26 Ratio of Companies by Number of Independent Directors (Companies with *Kansayaku*)

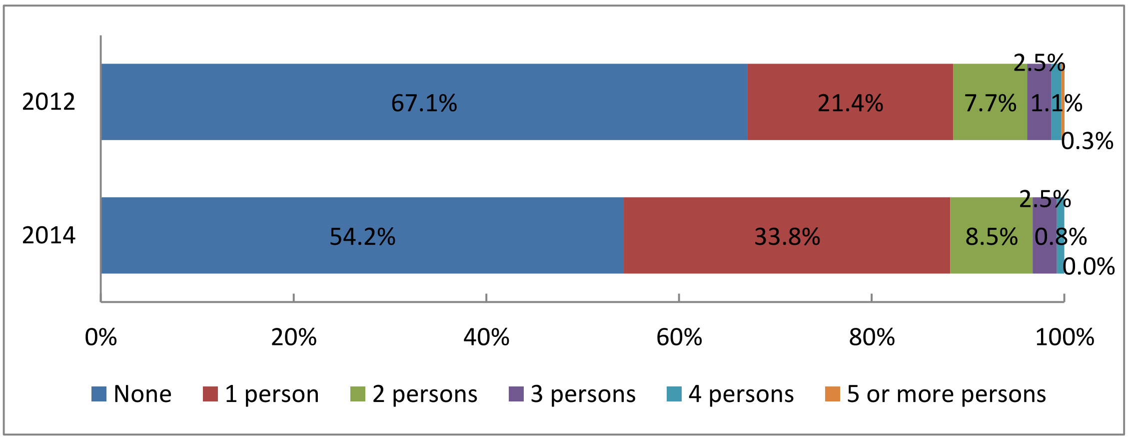


Chart 27 Ratio of Companies by Number of Outside Directors (Companies with Committees)

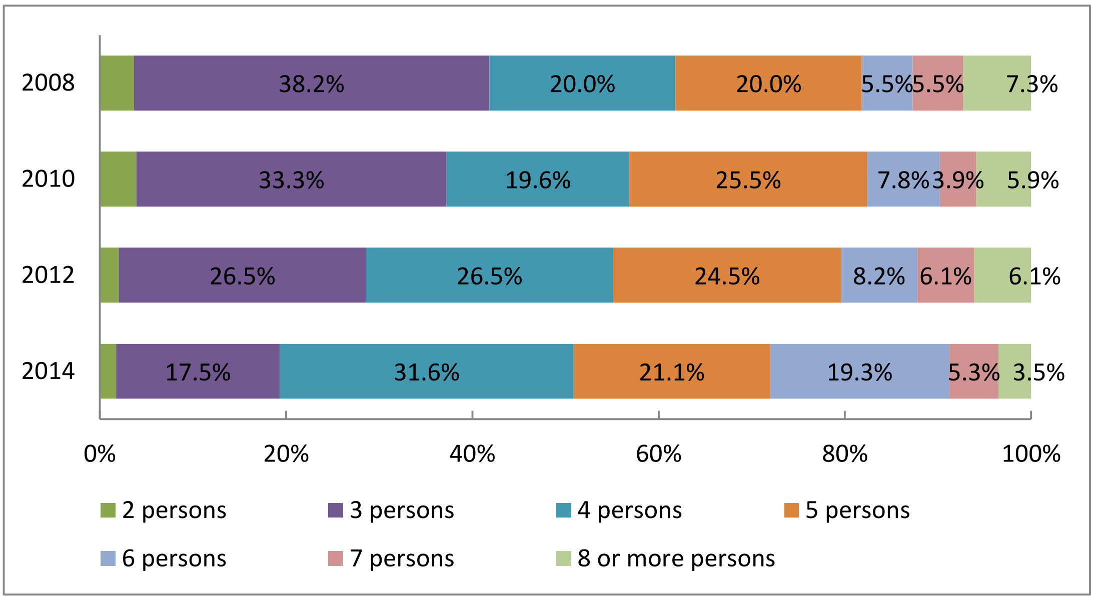


Chart 28 Ratio of Companies by Number of Independent Directors (Companies with Committees)

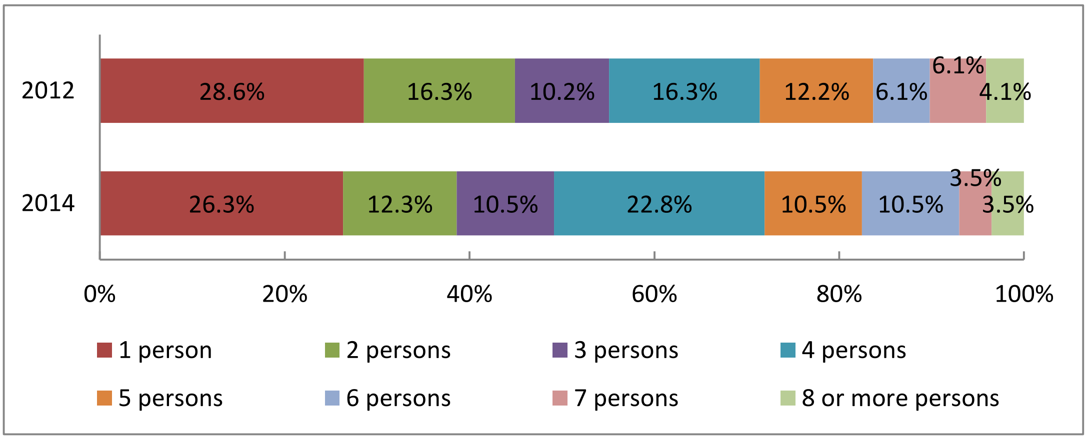


Chart 29 Ratio of Outside Directors on the Board (by Market Division)

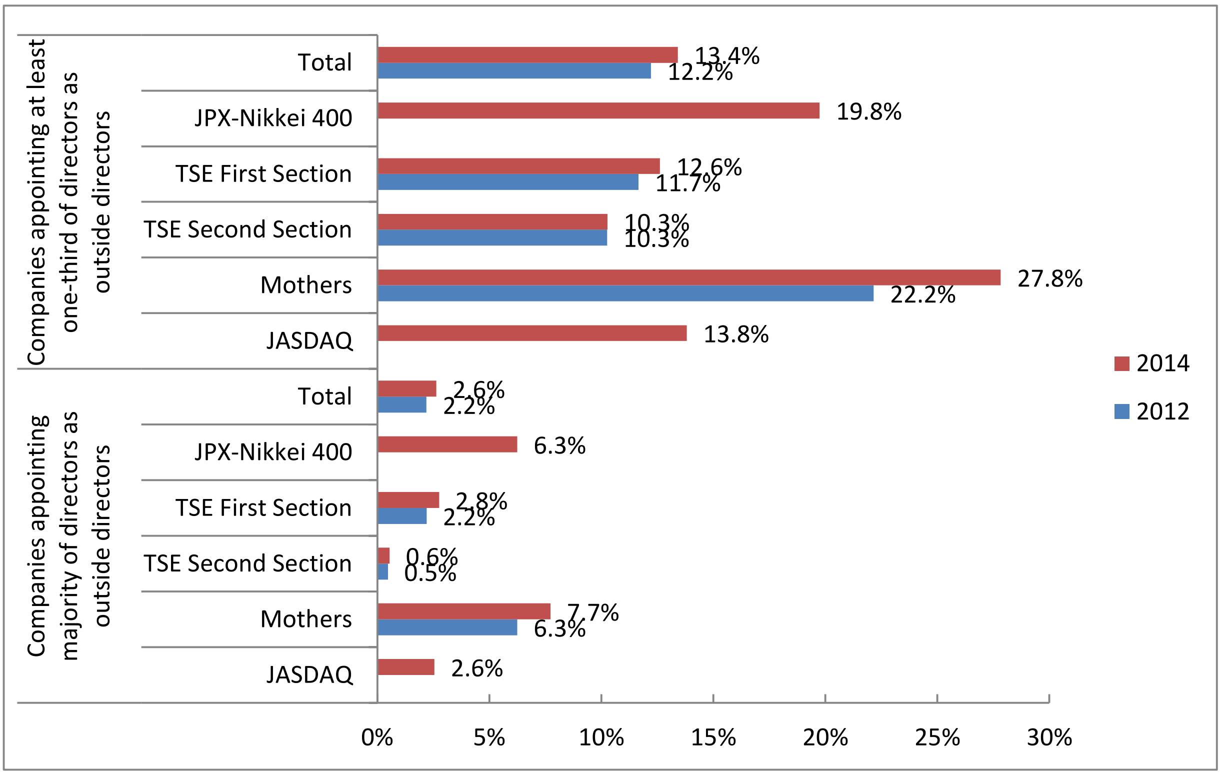


Chart 30 Ratio of Independent Directors on the Board (by Market Division)

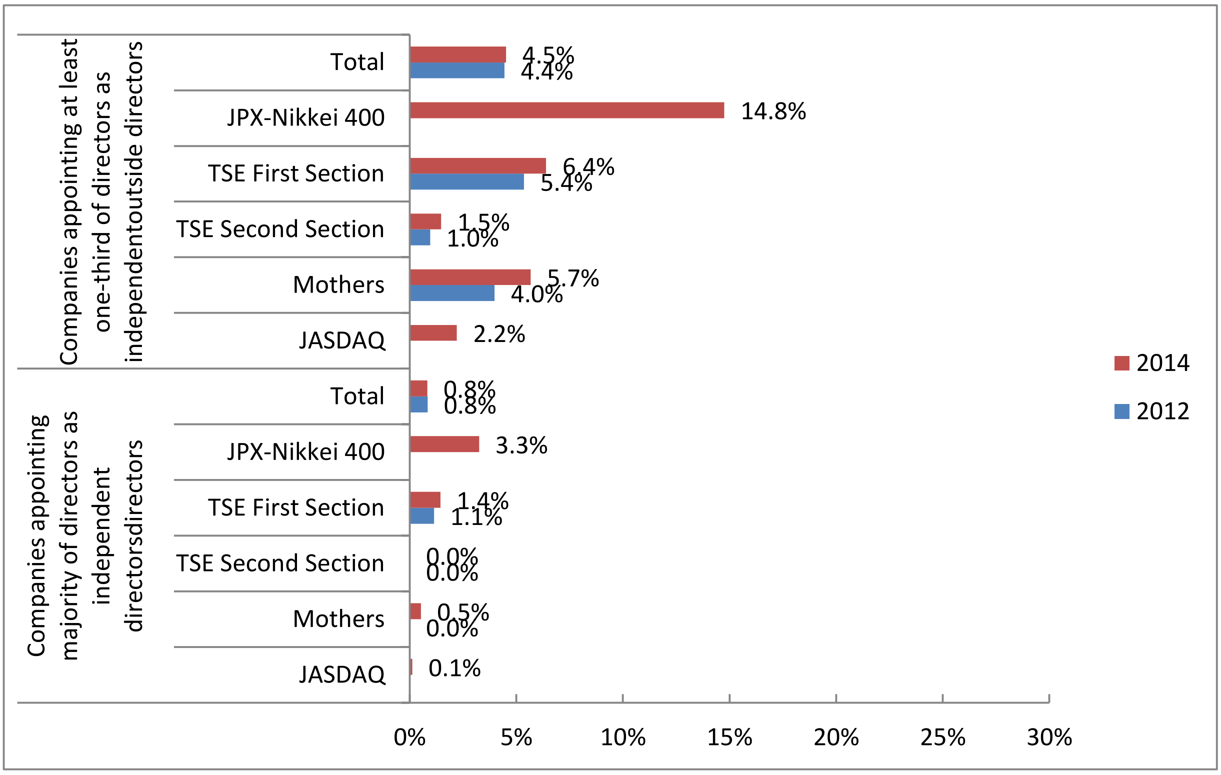


Chart 31 Ratio of Outside Directors on the Board (by Foreign Shareholding Ratio)

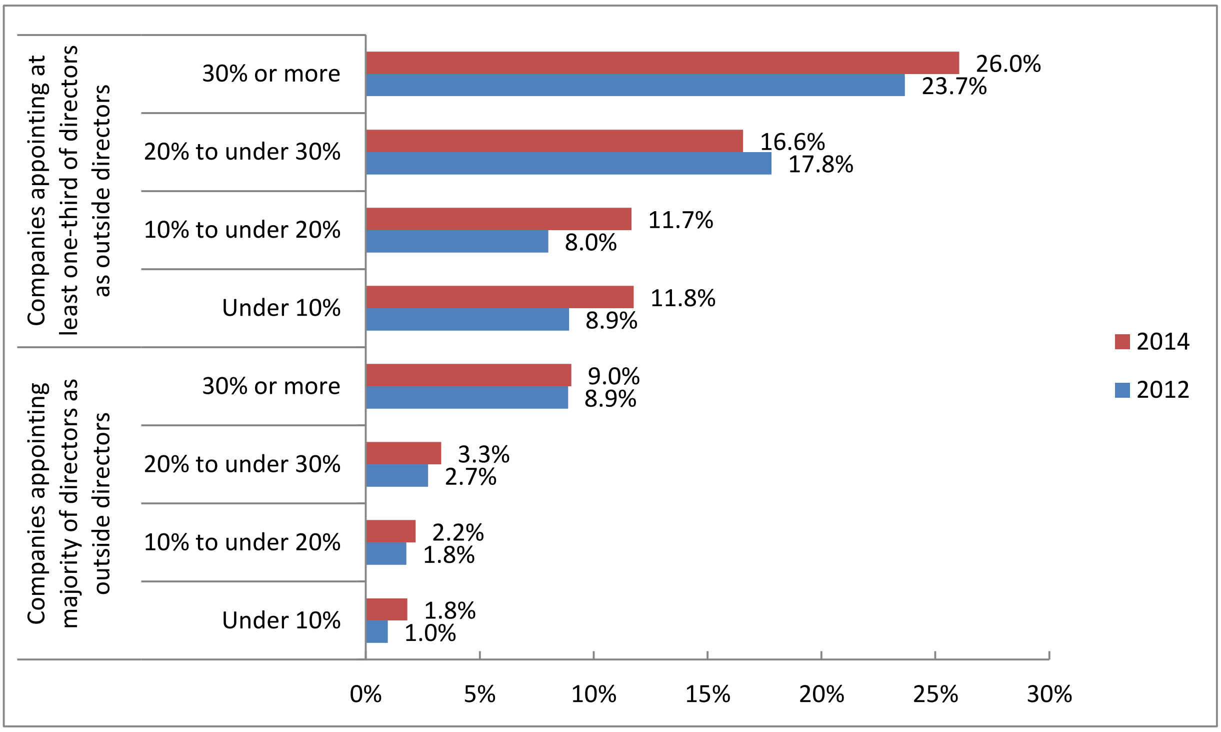
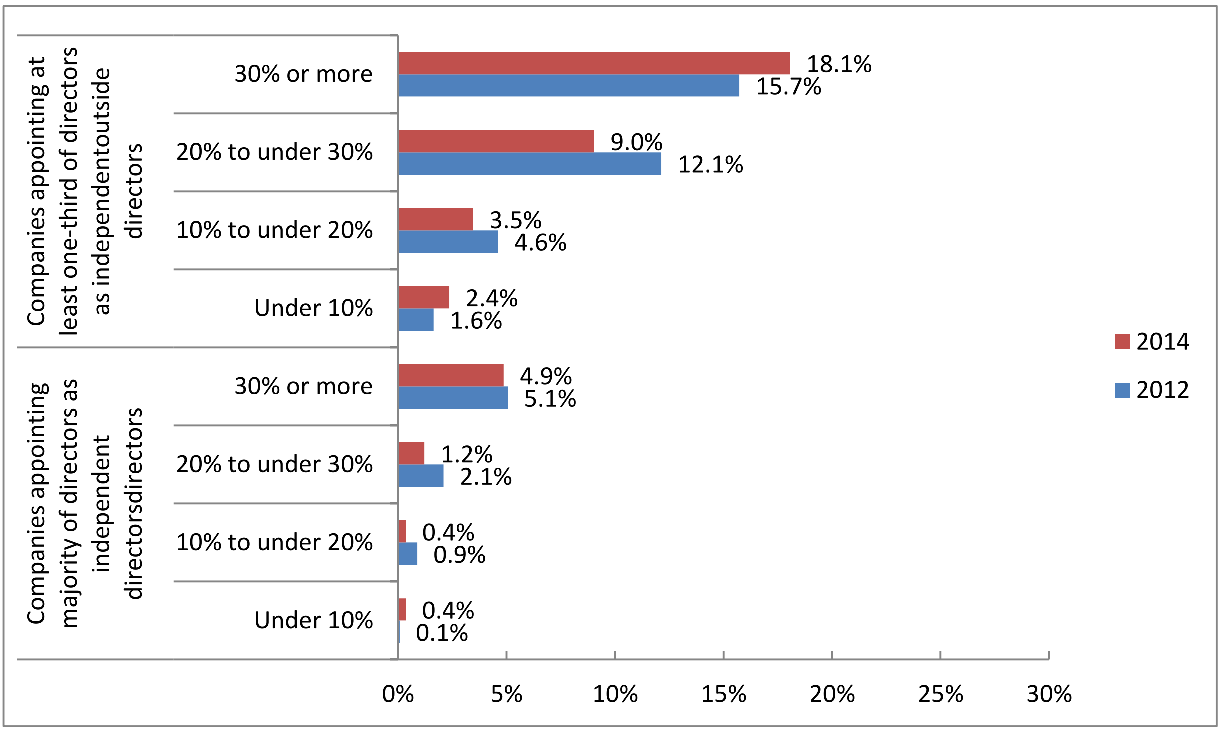


Chart 32 Ratio of Independent Directors on the Board (by Foreign Shareholding Ratio)



(ii) Relation with market division

In analysis by market division, outside directors are appointed in 73.6% of Companies with *Kansayaku* listed on the TSE First Section (Chart 33), with the average number at 1.10 outside directors (1.04 when limited to Companies with *Kansayaku*). Meanwhile, Mothers-listed companies show a higher ratio of appointment of outside directors at 67.2%, compared to TSE Second Section (55.0%) and JASDAQ (48.5%). The ratio of appointment of outside directors is even higher among JPX-Nikkei 400 companies at 84.3%.

As for the percentage of independent directors among outside directors in each market division, Chart 34 shows lower ratios in TSE Second Section, Mothers and JASDAQ.

Chart 33 Appointment of at least one Outside Directors (Companies with *Kansayaku* / by Market Division)

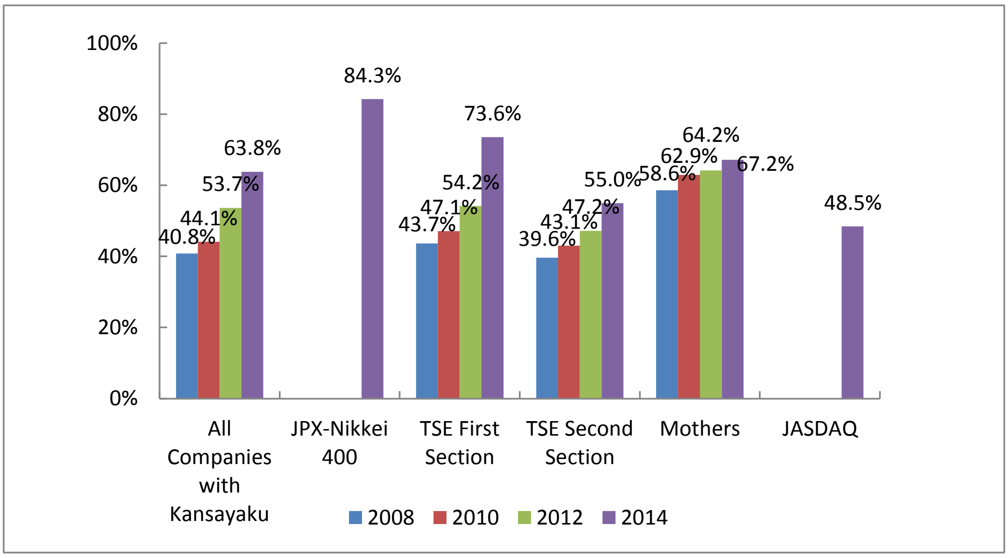


Chart 34 Appointment of at least one Independent Directors (Companies with *Kansayaku* / by Market Division)

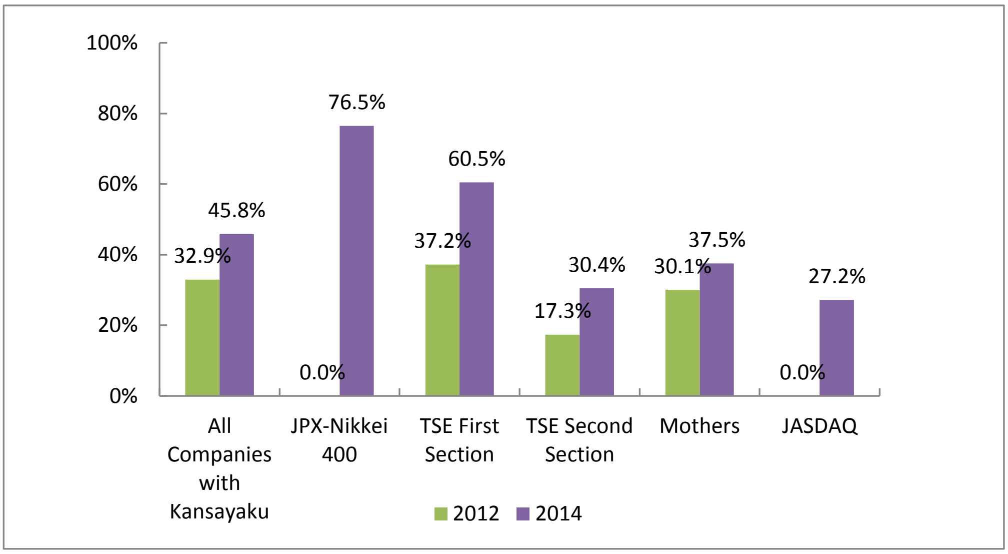


Chart 35 Average Number of Outside Directors (Companies with *Kansayaku* / by Market Division)

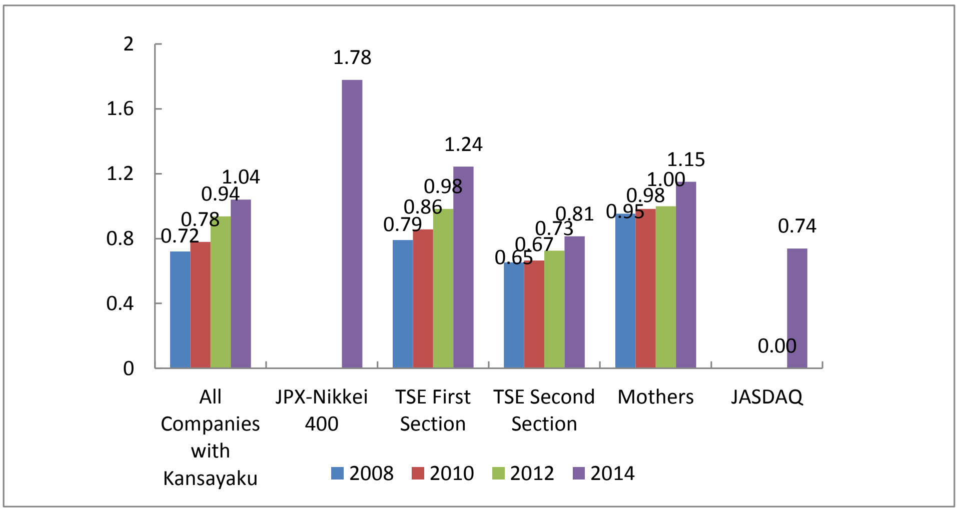


Chart 36 Average Number of Independent Directors (Companies with *Kansayaku* / by Market Division)

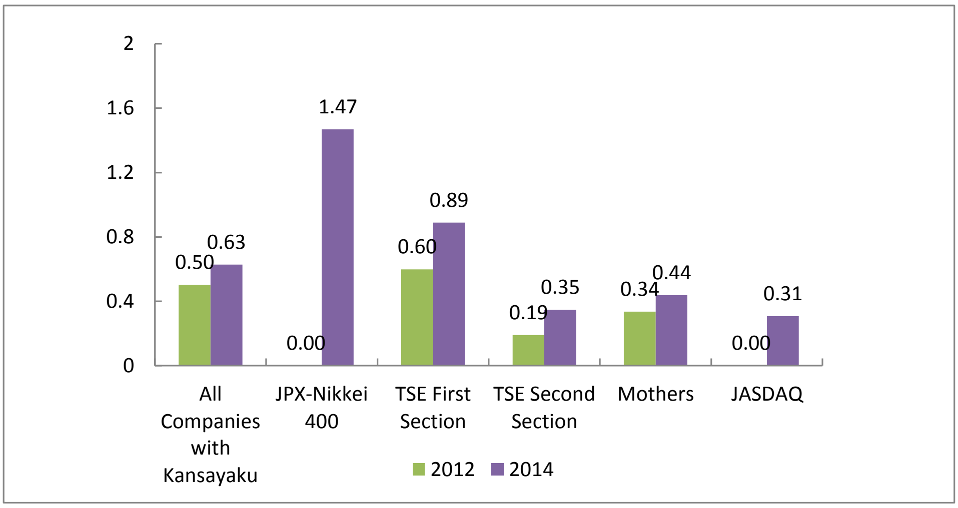


Chart 37 Ratio of Independent Directors in Outside Directors (Companies with *Kansayaku* / by Market Division)

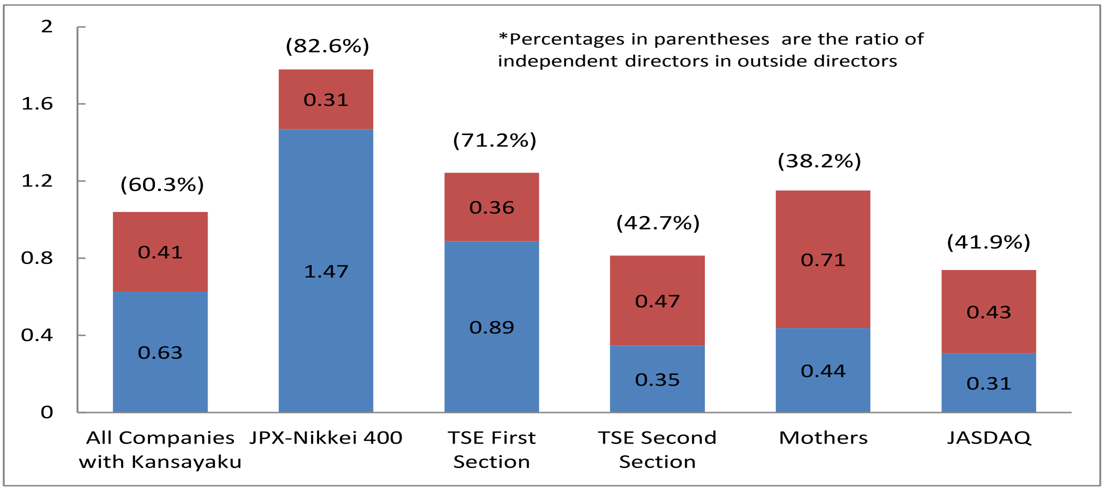


Chart 38 Appointment of at least one Outside Directors (Companies with *Kansayaku* / by Shareholding Ratio of the Largest Shareholder)

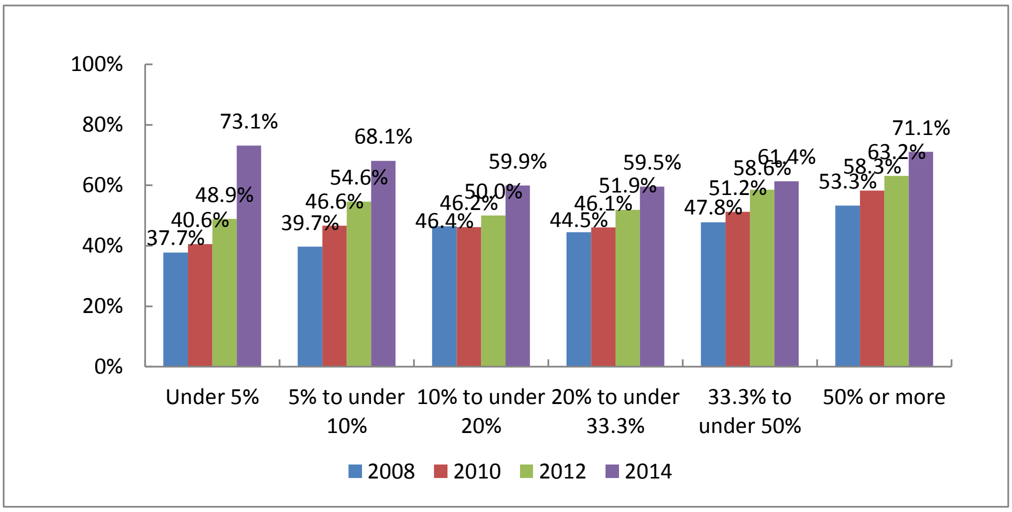


Chart 39 Appointment of at least one Independent Directors (Companies with *Kansayaku* / by Shareholding Ratio of the Largest Shareholder)

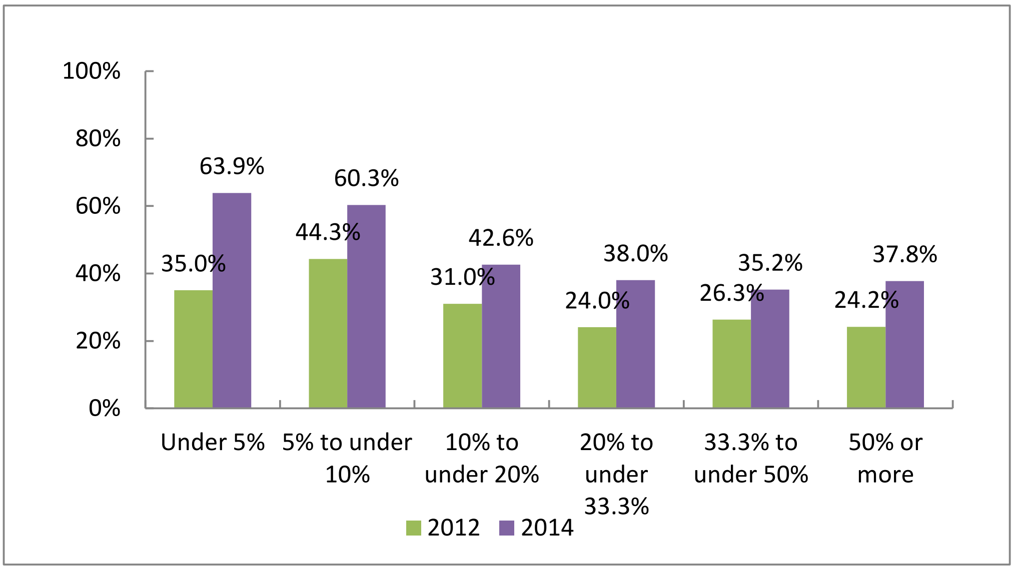


Chart 40 Average Number of Outside Directors (Companies with *Kansayaku* / by Shareholding Ratio of the Largest Shareholder)

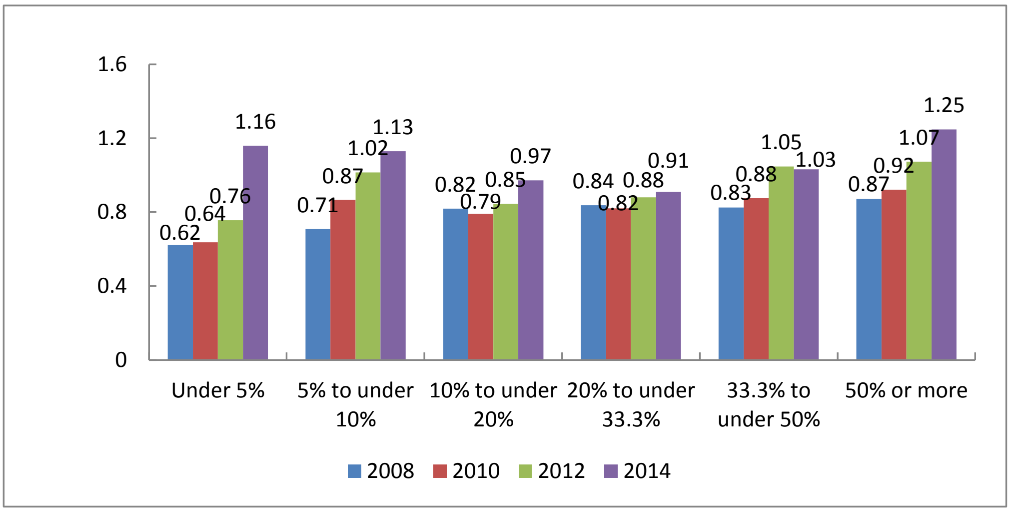
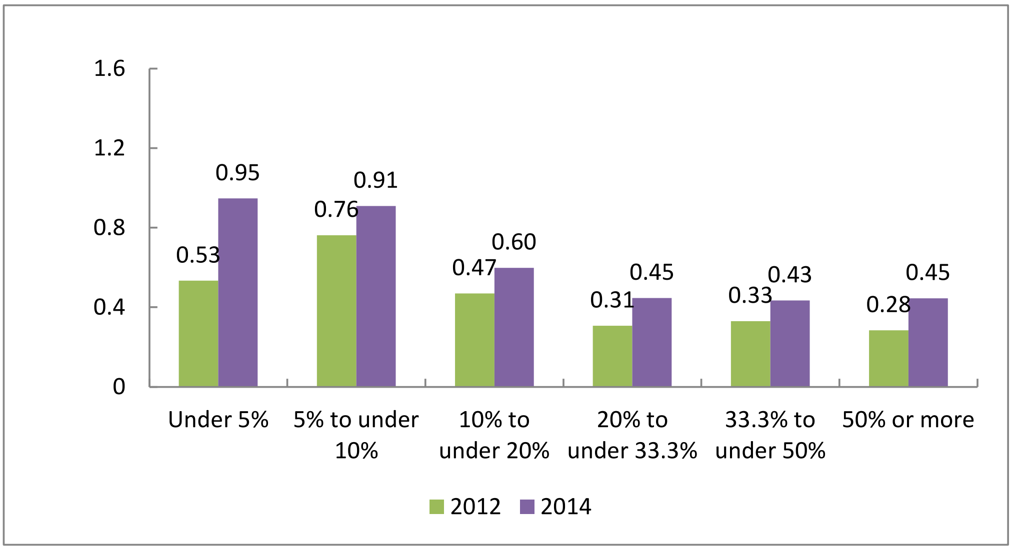


Chart 41 Average Number of Independent Directors (Companies with *Kansayaku* / by Shareholding Ratio of the Largest Shareholder)



(iii) Relation with foreign shareholding ratio

In relation to foreign shareholding ratio, the higher the ratio, the more likely companies are to appoint outside directors, and the more likely the number of outside directors per company is to increase. Among Companies with *Kansayaku* with the foreign shareholding ratio exceeding 30%, companies which appointed outside directors accounted for 86.5%, with the average number of outside directors at 1.86 (Charts 42 and 44).

Chart 42 Appointment of at least one Outside Directors (Companies with *Kansayaku* / by Foreign Shareholding Ratio)

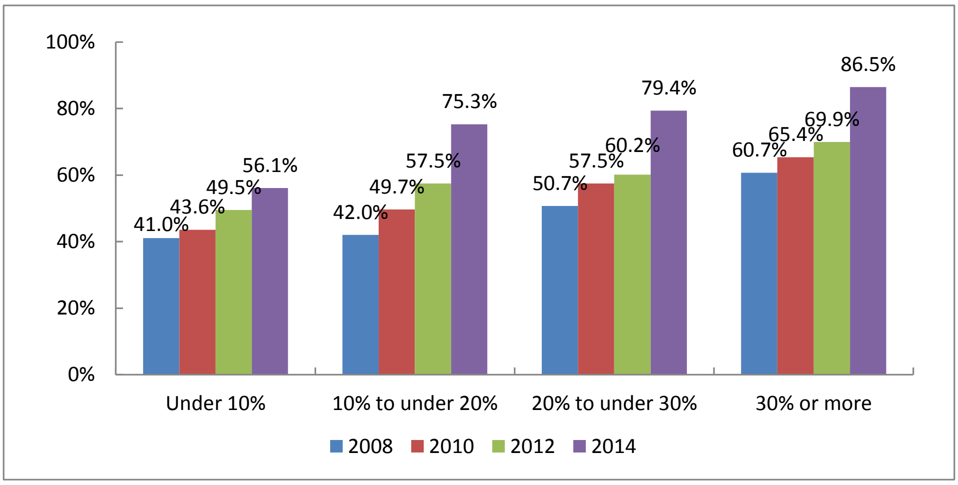


Chart 43 Appointment of at least one Independent Directors (Companies with *Kansayaku* / by Foreign Shareholding Ratio)

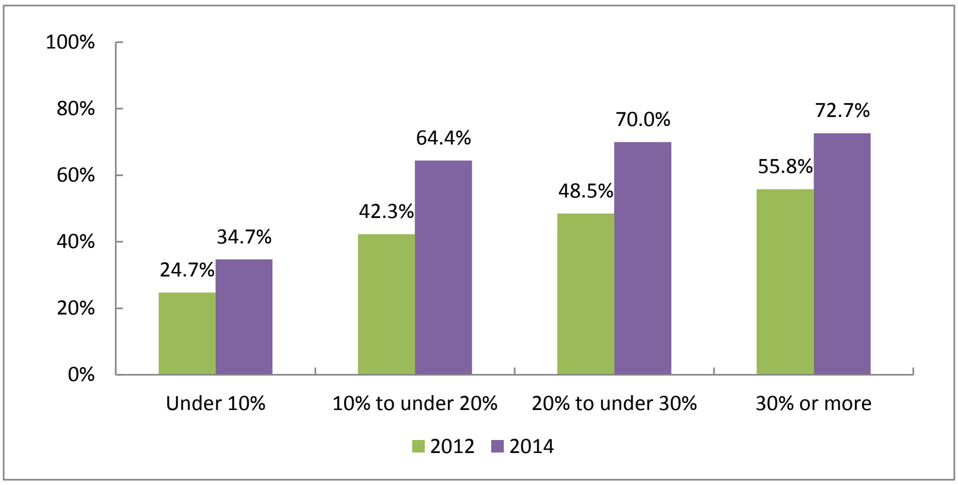


Chart 44 Average Number of Outside Directors (Companies with *Kansayaku* / by Foreign Shareholding Ratio)

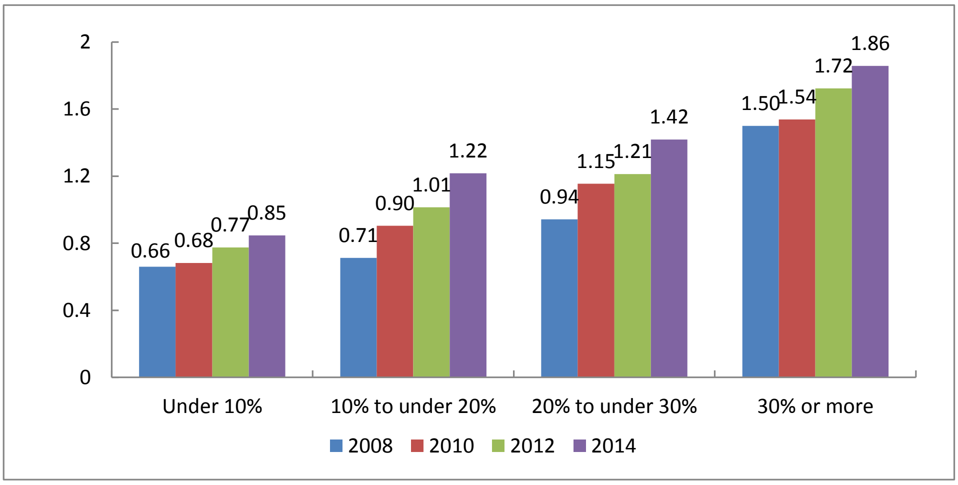
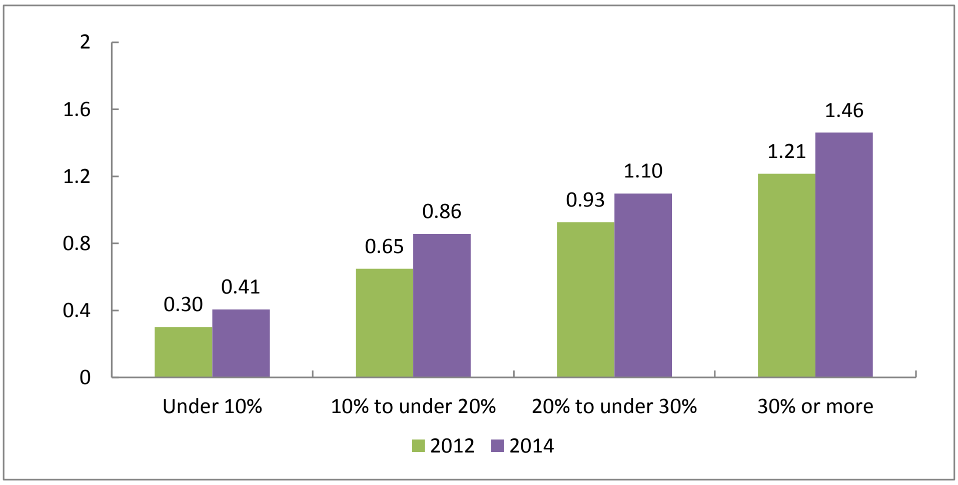


Chart 45 Average Number of Independent Directors (Companies with *Kansayaku* / by Foreign Shareholding Ratio)



② Number of outside directors appointed as independent directors/*kansayaku*

The Report requires listed companies to provide information on the number of outside directors appointed as independent director/*kansayaku*. Of the 3,761 outside directors appointed by 2,200 TSE-listed companies that appointed outside directors, 2,303 (61.2%) outside directors were notified as independent directors.

③ Attributes of outside directors

The Report requires listed companies to specify each outside director's attribute by choosing one of the following: "from other company[30]", "lawyer", "certified public accountant", "tax accountant", "academic" and "other".

In this respect, the overwhelming majority of outside directors of TSE-listed companies are appointed "from other company", making up 73.9%. While Companies with *Kansayaku* show an even higher percentage 74.4% for this category, Companies with Committees show a lower 67.2% for those from other company in contrast to higher percentages for certified public accountants (6.7%) and academics (8.2%)[31] (Charts 46 and 48).

[30] "From other company" refers to a person who works or has experience in working for another company.
[31] See footnote No. 5.

Chart 46 Attributes of Outside Directors (Companies with *Kansayaku*)

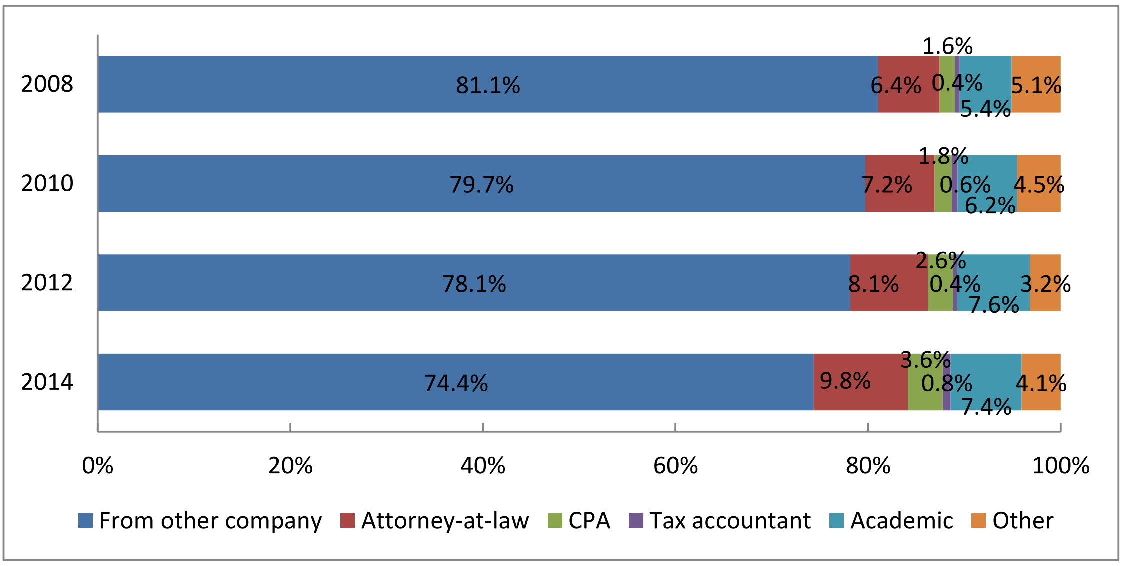


Chart 47 Attributes of Independent Directors (Companies with *Kansayaku*)

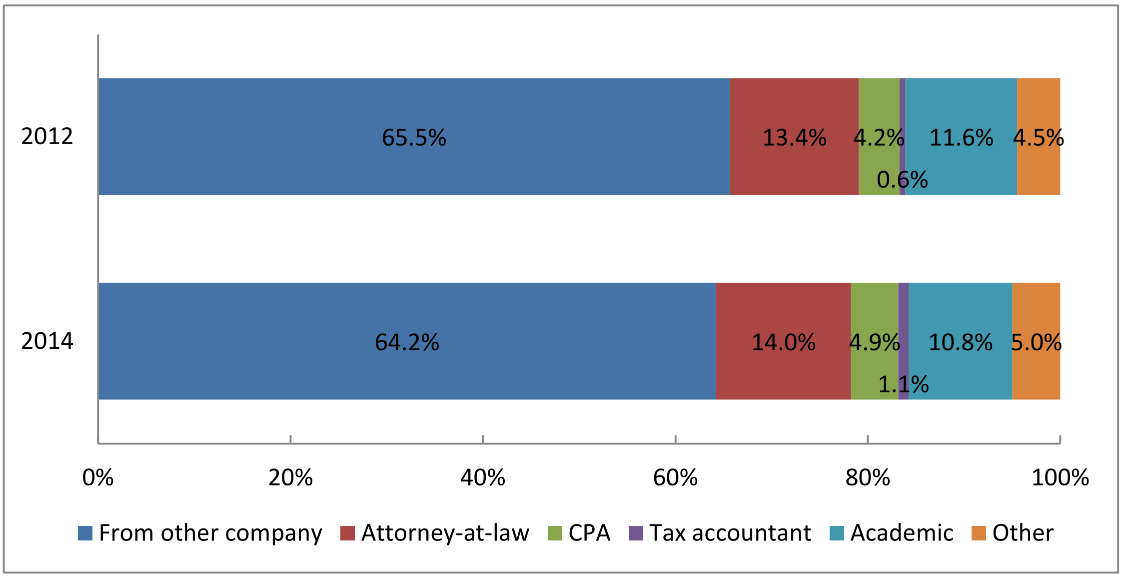


Chart 48 Attributes of Outside Directors (Companies with Committees)

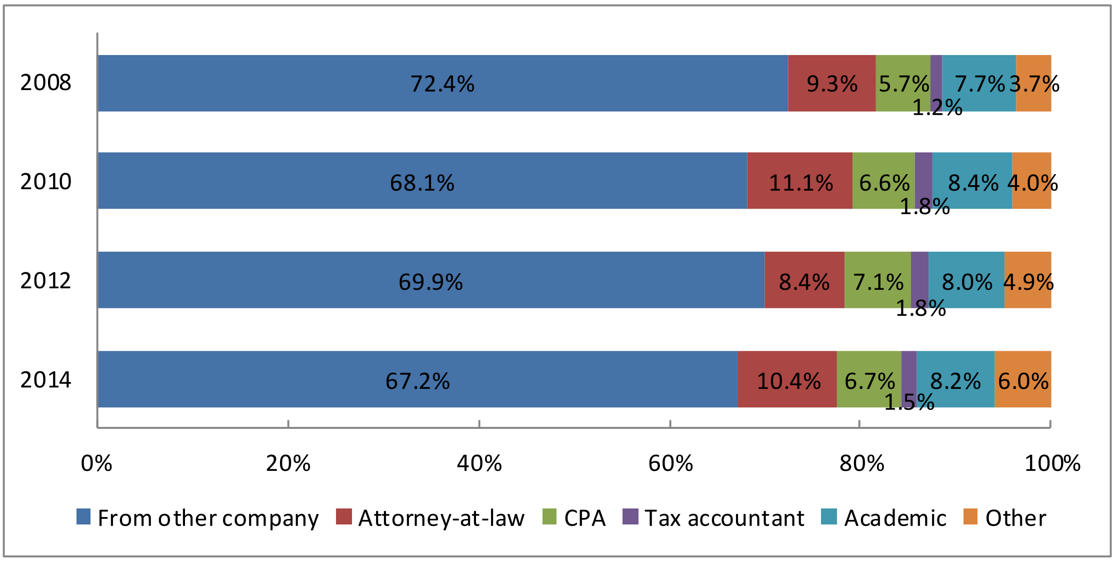
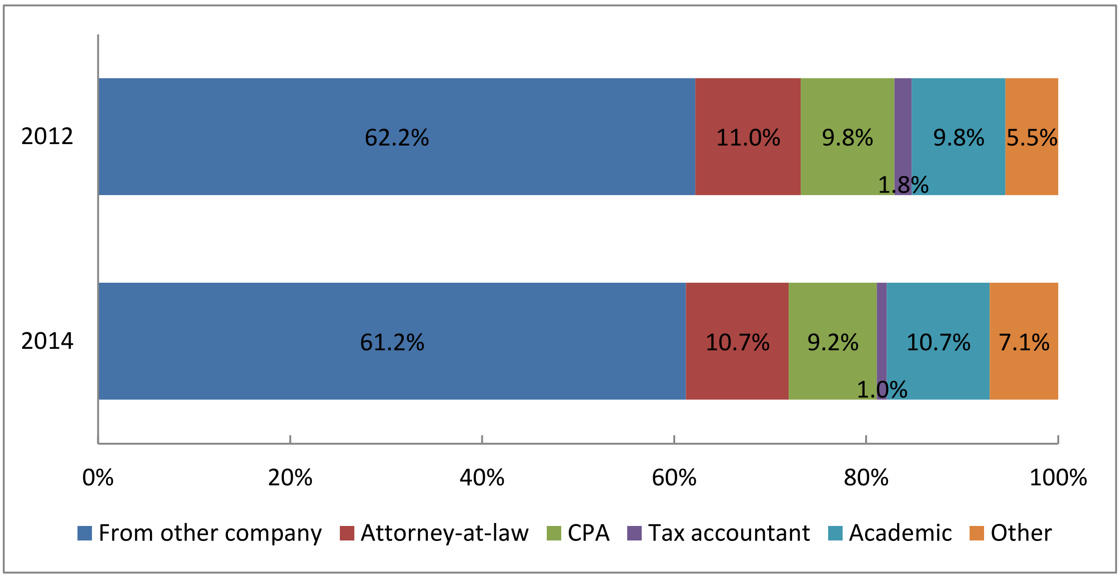


Chart 49 Attributes of Independent Directors (Companies with Committees)



④ Relation between outside directors and company

The Report requires detailed disclosure of relations between outside directors and the company. As important information for judging the independence/neutrality of outside directors, the Companies Act urges companies to enhance disclosures in their reference materials for general shareholder' meetings where outside directors in question are to be elected. Under these circumstances, the Report provides the following list of relations, among which the respondents make a choice (multiple answers allowed), so that readers of the Reports can understand relations between outside directors and companies at a glance, unlike judging the same from statutory documents, and also comprehend whether outside directors meet certain independence criteria. The following list of relations is also used for “Relation between outside *kansayaku* and company” in this chapter.

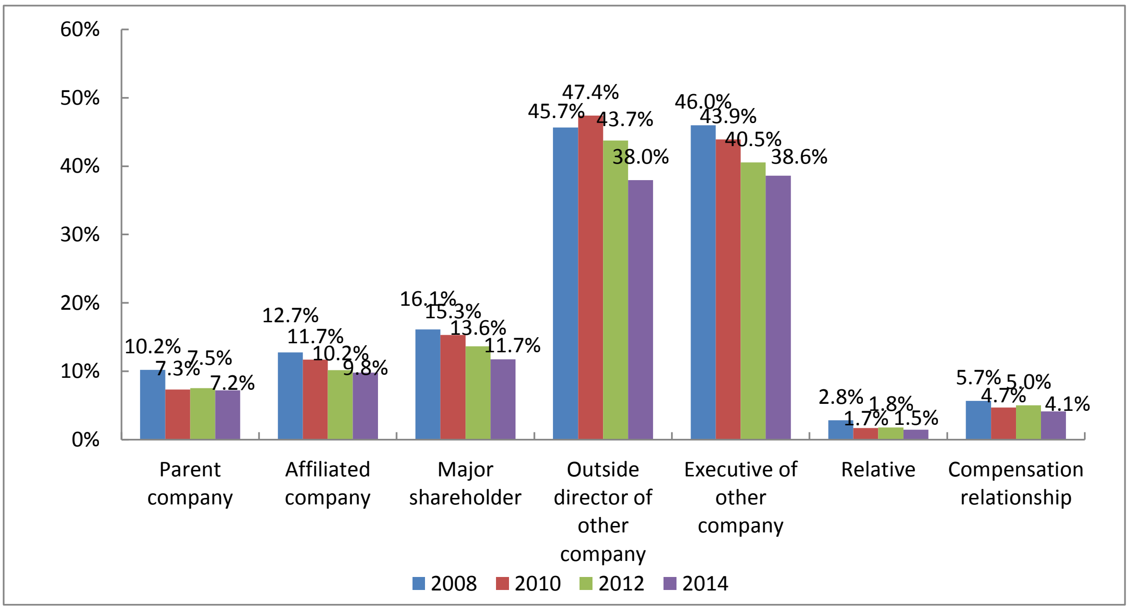
a. Appointed from the parent company; b. Appointed from other affiliated company[32]; c. Major shareholder[33] of the company; d. Concurrently assumes a position of outside director or outside *kansayaku* of other company; e. Assumes executive director, or *shikkoyaku* etc.[34] of other company; f. Spouse or relative within the third degree or their equivalent of an executive director and/or *shikkoyaku* etc. of the company or a specified related business operator[35] of the company; g. Receives remuneration, etc.[36] as an officer from the parent company, or a subsidiary of the parent company; h. Has entered into a limited liability agreement[37] with the company; or i. Other

(i) Overview

Charts 50 and 52 show which of the above-mentioned categories the outside directors of TSE-listed companies belong to (As multiple answers are allowed, an outside director may be included in multiple categories).

According to this classification, outside directors of TSE-listed companies, who concurrently assume executive directors, *shikkoyaku* etc. of other companies, accounted for 38.6% of Companies with *Kansayaku*, and 31.0% of Companies with Committees. Outside directors, who concurrently assume outside directors or outside *kansayaku* of other companies decreased both in Companies with *Kansayaku* (38.0%) and Companies with Committees (57.1%).

Chart 50 Relation between Outside Directors and Company (Companies with *Kansayaku*)



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32 "Other affiliated company" refers to "other affiliated company" defined in Article8, Paragraph 17, Item 4 of the Regulation of Financial Statements.

33 "Major shareholder" refers to a shareholder who holds at least 10% of a company's outstanding common shares (excluding treasury shares). This category also includes the case where an outside director currently works for a company that is a major shareholder.

34 "*Shikkoyaku* etc." refers to *shikkoyaku* as managing member or employee who performs the duties stipulated in Article 598, Paragraph 1 of the Companies Act) (pursuant to Article 124, Item 1 or 3 of the Ordinance for Enforcement of the Companies Act).

35 "Specified related business operator" refers to an operator stipulated in Article 2, Paragraph 3, Item 19 of the Ordinance for Enforcement of the Companies Act.

36 "Remuneration, etc." refers to financial benefits received from a stock company as a consideration for the execution of the duties, such as remunerations, bonuses, etc.

37 "Limited liability agreement" refers to an arrangement for limiting the liability of an outside director to a certain amount by concluding a contract between the company and the outside director pursuant to the Articles of Incorporation (a contract set forth in Article 427, Paragraph 1 of the Companies Act).

Chart 51 Relation between Independent Directors and Company (Companies with *Kansayaku*)

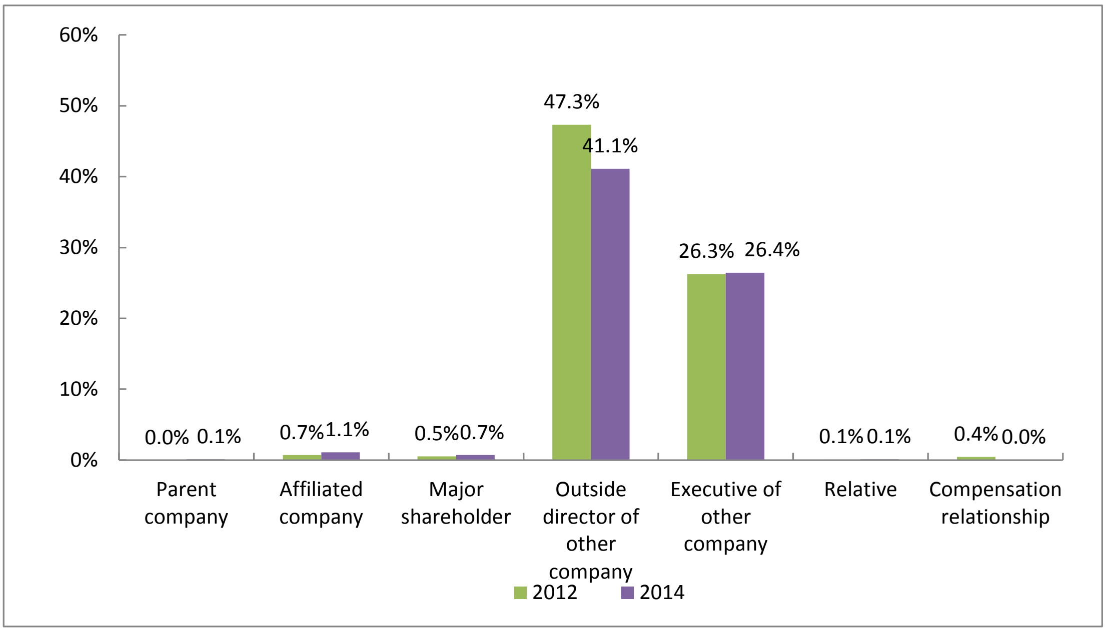


Chart 52 Relation between Outside Directors and Company (Companies with Committees)

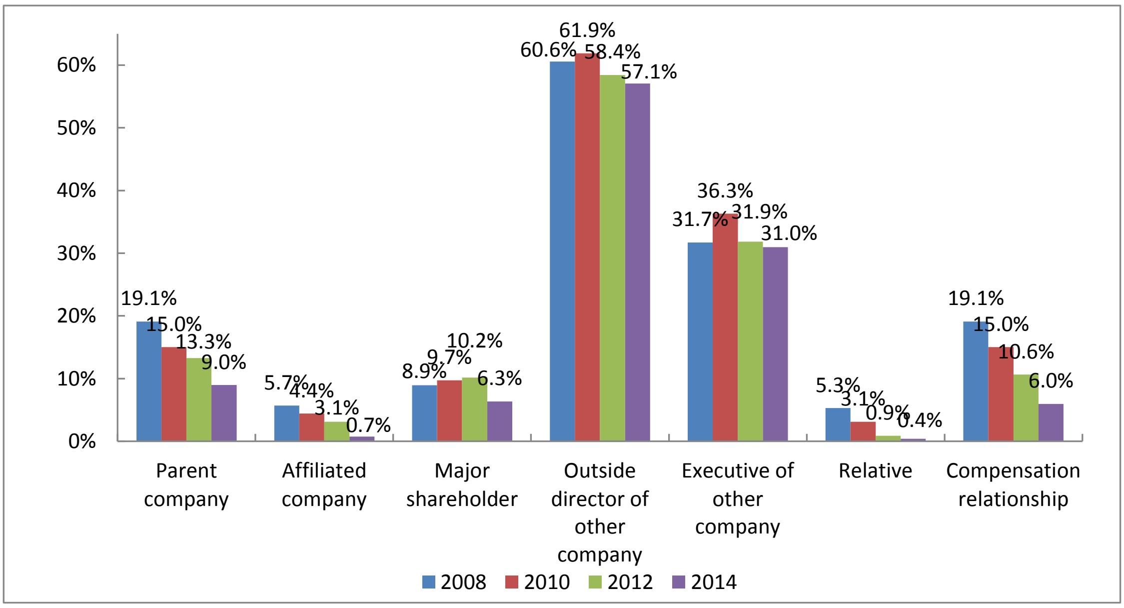
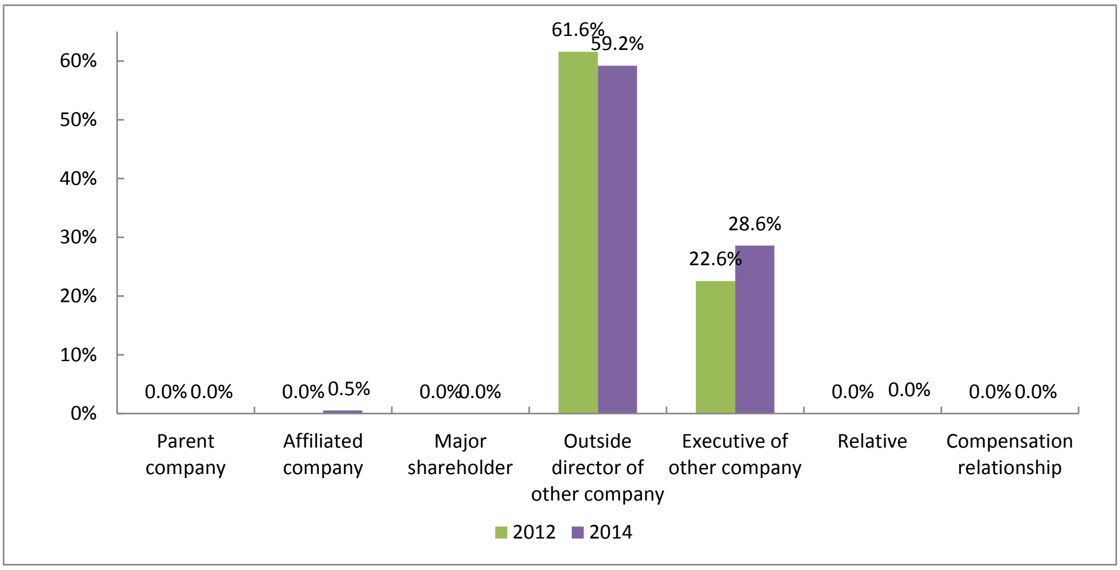


Chart 53 Relation between Independent Directors and Company (Companies with Committees)



(ii) Outside directors from parent or affiliated company

In Companies with *Kansayaku*, outside directors from parent companies and "other affiliated companies" accounted for 7.2% and 9.8%, respectively, of all outside directors. As for outside directors who are major shareholders or are from companies which are major shareholders, the ratio decreased to 11.7% from the previous survey (Chart 50). Also in Companies with Committees, the similar trend was observed, with a decline in outside directors from major shareholders since 2014 (Chart 52).

For analysis of companies with parent companies, Chart 54 shows the number of outside directors per company and the number of outside directors from parent companies per company. According to this data, out of outside directors of TSE-listed companies with parent companies, those from parent companies decreased to 49.5%, even after adding JASDAQ companies. Out of such outside directors of listed companies with parent companies, those who receive remuneration, etc. from parent companies or their subsidiaries as officers accounted for 57.7%, still maintaining a high level despite of a decline from the last survey.

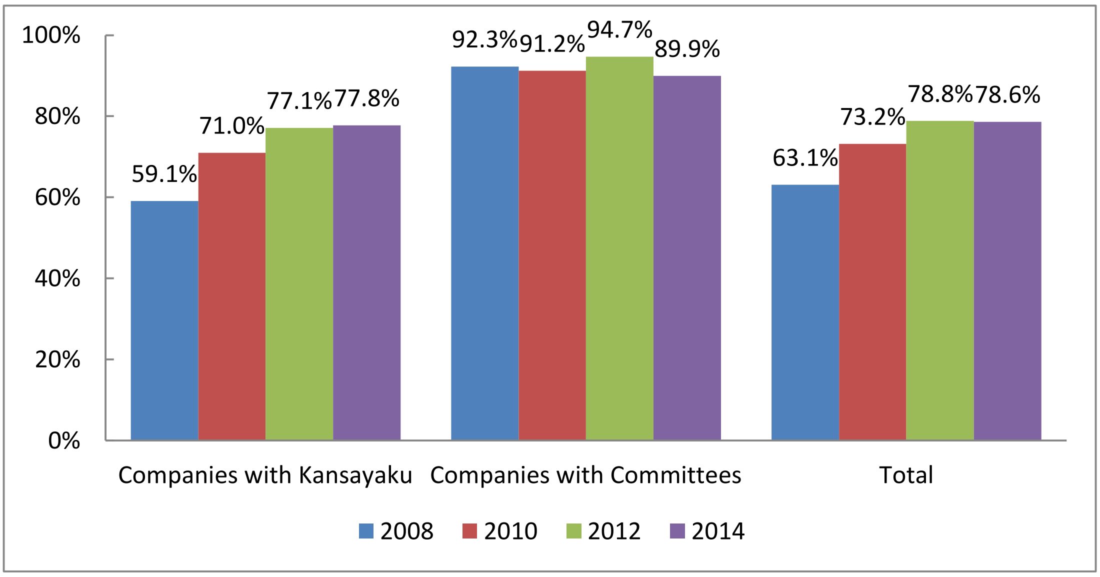
Chart 54 Relation between Company with a Parent Company and Outside Directors

		Number of listed companies with parent companies	Ratio to listed companies	Number of outside directors, per company	Ratio to directors	Number of independent directors, per company	Ratio to directors	Number of outside directors from parent companies, per company	Ratio to outside directors	Number of paid outside directors from parent companies, per company	Ratio to outside directors from parent company
Companies with Kansayaku	2008	286	12.3%	0.93	11.9%	--	--	0.63	67.5%	0.34	54.2%
	2010	249	11.1%	0.89	11.3%	--	--	0.54	61.1%	0.34	62.2%
	2012	227	10.2%	1.22	15.8%	0.28	3.6%	0.69	56.3%	0.44	64.1%
	2014	375	11.2%	1.32	17.9%	0.42	5.8%	0.66	51.0%	0.40	56.9%
Companies with Committees	2008	13	23.6%	3.77	51.0%	--	--	2.54	67.3%	2.23	87.9%
	2010	16	31.4%	4.00	53.3%	--	--	2.13	53.1%	2.20	97.1%
	2012	14	28.6%	4.00	55.4%	1.50	20.8%	2.14	53.6%	1.71	80.0%
	2014	14	24.6%	4.50	60.6%	2.14	28.8%	1.71	38.1%	1.14	66.7%
Total	2008	299	12.6%	1.05	13.5%	--	--	0.71	67.5%	0.42	59.4%
	2010	265	11.6%	1.08	13.8%	--	--	0.64	59.3%	0.44	69.2%
	2012	241	10.6%	1.38	17.9%	0.35	4.5%	0.77	55.9%	0.51	66.7%
	2014	389	11.4%	1.41	19.4%	0.49	6.7%	0.70	49.5%	0.40	57.7%

(iii) Limited liability agreement with outside directors

Outside directors who concluded limited liability agreements with the companies account for 78.6% of all outside directors of TSE-listed companies. It could be said that such practice has taken root, although the ratio of conclusion may have levelled off. While the ratio of conclusion is 77.8% in Companies with *Kansayaku*, Companies with Committees shows a higher ratio of 89.9%.

Chart 55 Conclusion of Limited Liability Agreement with Outside Directors



3. Kansayaku and Kansayaku Board

(1) Existence of *Kansayaku* Board

The Report requires TSE-listed companies to specify whether or not they have *Kansayaku* Board. Under the Companies Act, the establishment of either *Kansayaku* Board or committee is required only for large companies (companies whose amount of the stated capital in the balance sheet is 500 million yen or more or whose total sum of the amounts in the liabilities section of the balance sheet is 20 billion yen or more). Accordingly, there used to be listed Companies with *Kansayaku*, which do not have *Kansayaku* Board. However, TSE's Listing Rules required all listed companies, even if they do not fall under the category of large companies under the Companies Act, to establish *Kansayaku* Board or committee[38]. Consequently, all Companies with *Kansayaku* already established *Kansayaku* Board.

(2) Number of *Kansayaku* in the Articles of Incorporation

The Report requires listed companies to provide information on the number of *kansayaku* in the Articles of Incorporation. Chart 56 shows a comparison between the maximum number of *kansayaku* allowed in the Articles of Incorporation and the actual numbers of *kansayaku* appointed, expressed as a multiplying factor (n).

[38] Article 437 of the Securities Listing Regulations.

According to the Chart, unlike the similar survey concerning directors[39], most companies fell under either the category “1.2<n≤1.4” where the maximum number stipulated in the articles of incorporation is above 1.2 to 1.4 times greater than the actual number, or the category “n=1” where a company actually appointed the maximum number of *kansayaku* in the articles of incorporation, making up 45.8%[40] and 30.0% of all Companies with *Kansayaku*, respectively[41].

Chart 56 Number of *Kansayaku* in the Articles of Incorporation and Actual Number Appointed

No. of Kansayaku allowed in Articles of Incorporation as Multiple (n) of Actual No. Appointed	Ration in Companies with Kansayaku
n=1	30.0%
1<n≤1.2	1.1%
1.2<n≤1.4	45.8%
1.4<n≤1.6	1.0%
1.6<n≤1.8	14.9%
1.8<n≤2	0.4%
n>2	0.3%

(3) Appointment of outside *kansayaku*

① Appointment of outside *kansayaku*

In Companies with *Kansayaku*, the average number of *kansayaku* per company was 3.59, including 2.47 outside *kansayaku*[42], making up 68.8% (Chart 57). 20 companies have 6 or more *kansayaku.*

The average number of *kansayaku* per company in each market division was as follows: 3.86 (including 2.50 outside *kansayaku*) in TSE First Section, 3.40 (including 2.37 outside *kansayaku*) in TSE Second Section, 3.13 (including 2.59 outside *kansayaku*) in Mothers, and 3.25 (including 2.42 outside *kansayaku*) in JASDAQ. Among JPX-Nikkei 400 companies, the average number of *kansayaku* in Companies with *Kansayaku* was 4.31, including 2.72 outside *kansayaku*.

As for relation with company size, the larger the consolidated sales, the more *kansayaku* are appointed per company (Chart 59). The same trend can be seen in relation to the number of employees (consolidated) and the number of consolidated subsidiaries. Such trend can also be observed with regard to outside *kansayaku*, although not so noticeable compared to that of *kansayaku*. These trends are similar to those for directors (see the above 2. (5) ①Appointment of outside directors and number appointed).

With respect to the shareholding ratio of the largest shareholder, the lower the shareholding ratio of the largest shareholder, the more *kansayaku* tend to be appointed, except for companies with the ratio at 50% or

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39 See Chart 17. In case of directors, multiplying factors are dispersed across categories, without any concentration on certain categories.

40 1,033 companies appointed 3 *kansayaku*, while the maximum number in the articles of incorporation is 4 (n=1.33). This was the most common case (30.8% of Companies with *Kansayaku*).

41 As for the number of *kansayaku* in the articles of incorporation, the total does not equal to 100% because some companies use different methods including setting only the minimum number of *kansayaku* instead of the maximum number.

42 Regarding the definition of outside *kansayaku*, refer to Article 2, Item 16 of the Companies Act.

higher (Chart 60). In contrast, there is no such trend in the case of outside *kansayaku*.

When classified by foreign shareholding ratio, there is correlation with the number of outside directors (see the above 2.(5) ① Appointment of outside directors and number appointed), but no distinct correlation with the number of *kansayaku* or outside *kansayaku*.

Chart 57 Average Number of *Kansayaku* and Outside *Kansayaku* (Companies with *Kansayaku*)

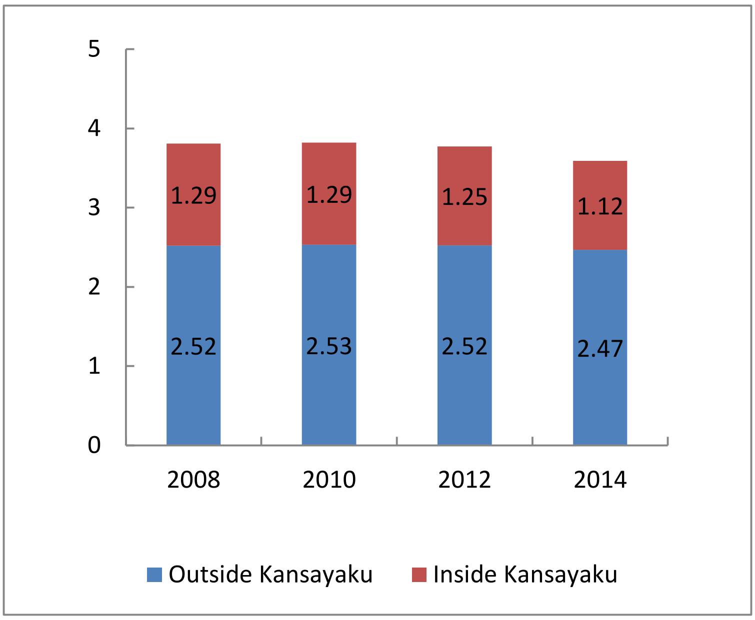


Chart 58 Average Number of *Kansayaku* and Outside *Kansayaku* (Companies with *Kansayaku* / by Market Division)

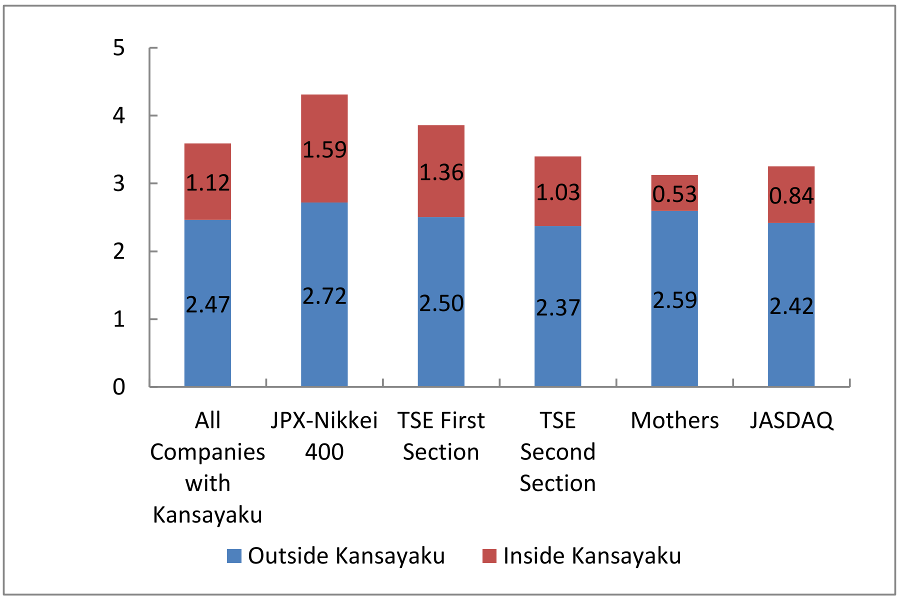


Chart 59 Average Number of *Kansayaku* and Outside *Kansayaku* (Companies with *Kansayaku* / by Consolidated Sales)

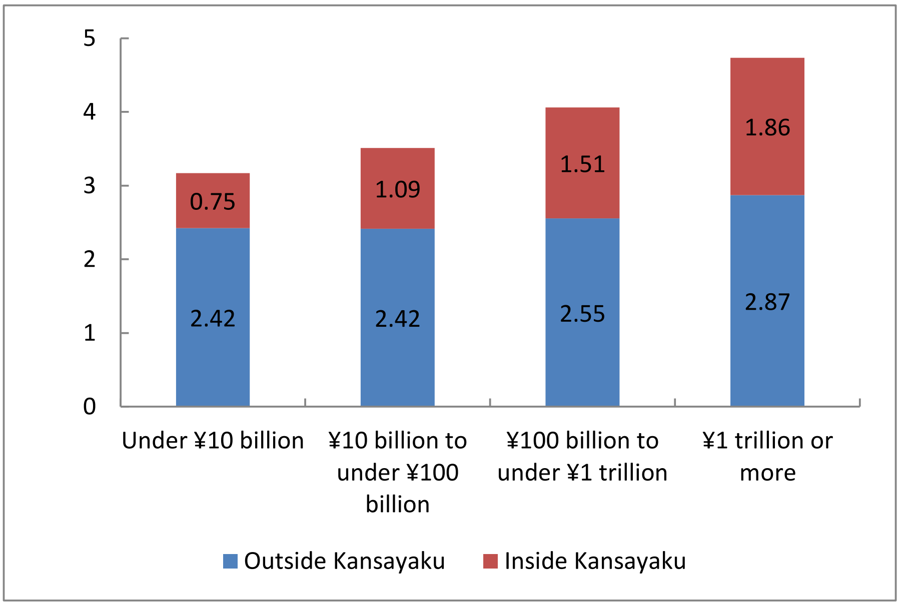
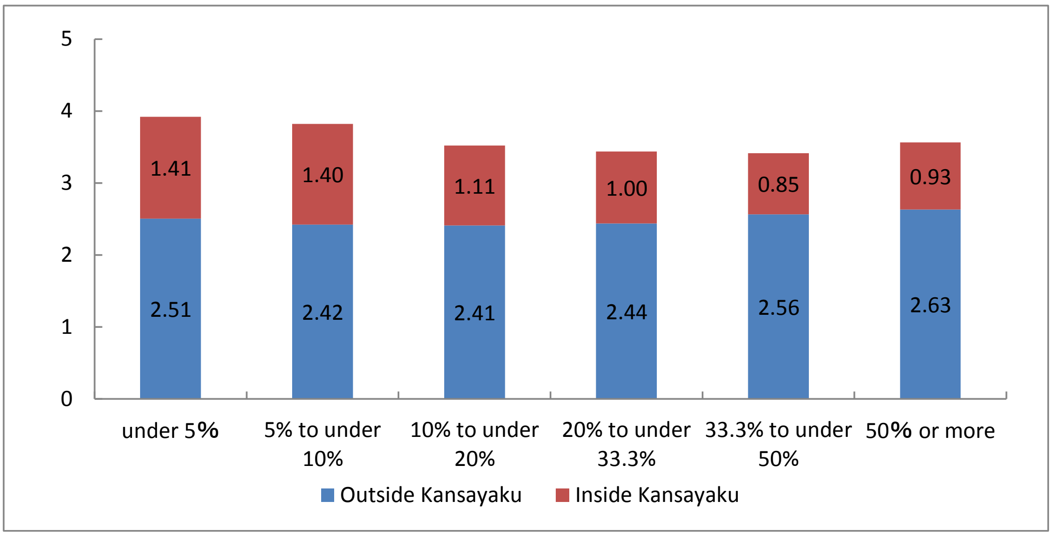


Chart 60 Average Number of *Kansayaku* and Outside *Kansayaku* (Companies with *Kansayaku* / by Shareholding Ratio of the Largest Shareholder)



② Number of outside *kansayaku* appointed as independent directors/*kansayaku*

The Report requires information on the number of outside *kansayaku* appointed as independent directors/*kansayaku*. Of the 8,277 outside *kansayaku* appointed at 3,357 Companies with *Kansayaku* listed on TSE, 5,223 *kansayaku* (63.1%) were notified as independent directors/*kansayaku*.

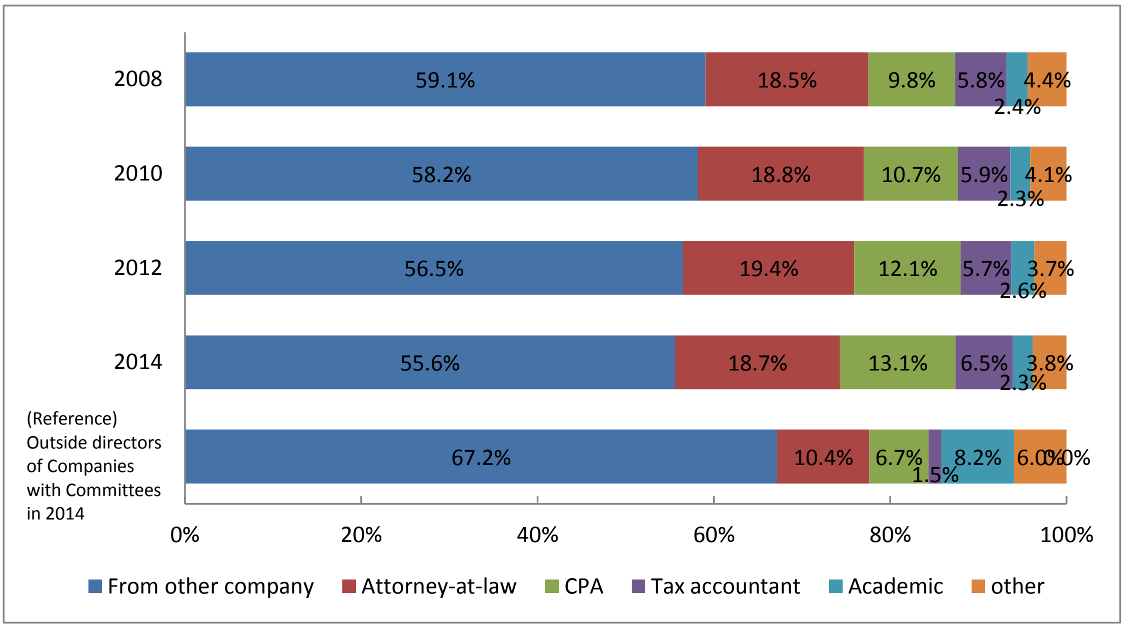
③ Attributes of outside *kansayaku*

Similarly to the attributes of outside directors (see the above 2.(5) ③ Attributes of outside directors), the Report is designed to select each outside *kansayaku*'s attribute from the following categories: “from other company”, “lawyer”, “certified public accountant”, “tax accountant”, “academic” and “other”.

In this regard, among all *kansayaku* of TSE-listed Companies with *Kansayaku*, those “from other company” accounted for 55.6%, followed by lawyers (18.7%), certified public accountants (13.1%), tax accountants (6.5%), and academics (2.3%)[43].

Compared to outside directors of Companies with Committees, outside *kansayaku* of Companies with *Kansayaku* show lower percentages of those from other companies or academics, and higher percentages of lawyers, certified public accountants and tax accountants. This trend has remained unchanged from the previous survey.

Chart 61 Attributes of Outside *Kansayaku*



④ Relation between outside *kansayaku* and company

(i) Overview

Concerning the relation between each outside *kansayaku* and a company, the Report requires each company to select applicable relation(s) (multiple answers allowed) from the list of relations introduced in the section of relation between outside directors and company (see the above 2.(5) ④ Relation between outside directors and company).

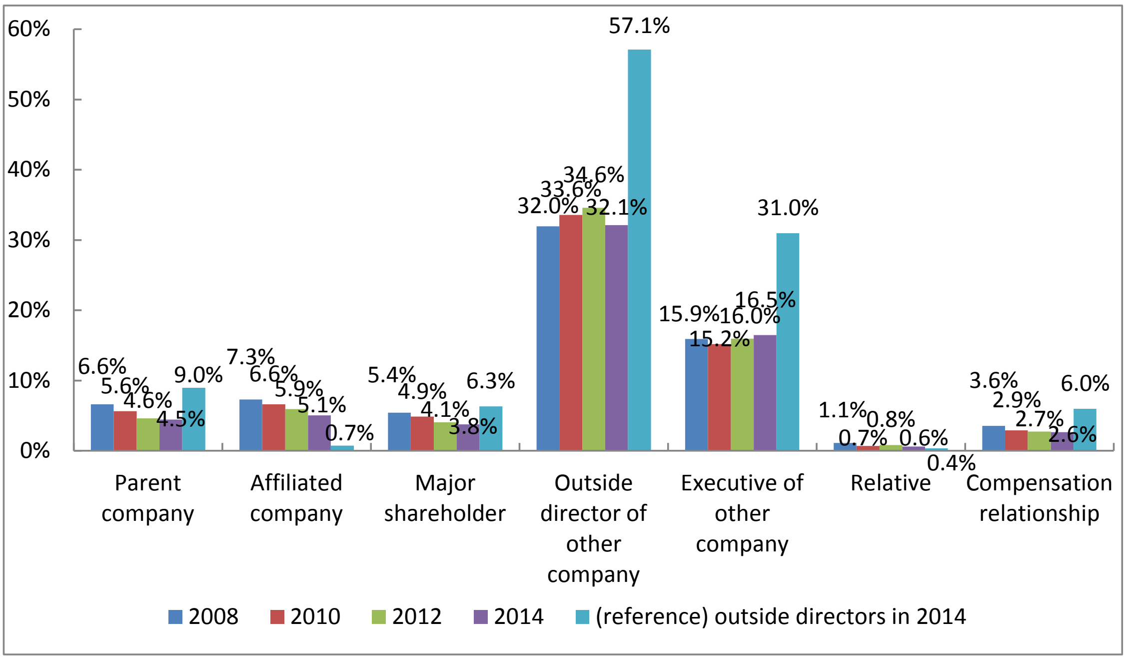
Chart 62 shows which categories of relations outside *kansayaku* of TSE-listed companies falls under. As multiple answers are allowed, an outside *kansayaku* may be included in multiple categories.

Compared with the results of the relations between outside directors and companies, each category shows a lower percentage, except for affiliated companies and relatives. One reason would be that higher percentages of outside *kansayaku* are lawyers and certified public accountants, who have generally not worked for other companies, compared with outside directors.

Out of outside *kansayaku* of TSE-listed companies, those who concurrently assume the positions of outside directors or outside *kansayaku* of other companies accounted for 32.1%, and those who concurrently assume positions as executive directors, or *shikkoyaku* etc. account for 16.5%.

[43] See footnote No. 7

Chart 62 Relation between Outside *Kansayaku* and the Company



(ii) Outside *kansayaku* from parent or affiliated company

In Companies with *Kansayaku*, outside *kansayaku* from parent companies accounted for 4.5%, and those from "other affiliated companies" accounted for 5.1%. The cases where outside *kansayaku* are either major shareholders or work for companies which are the major shareholders show 3.8%. The percentages of these categories are decreasing. Limited to Companies with *Kansayaku* which have parent companies, Chart 63 shows the number of outside *kansayaku* per company, as well as the number of outside *kansayaku* from parent companies per company. According to the Chart, in Companies with *Kansayaku* which have parent companies, 37.2% of outside *kansayaku* are from parent companies. As mentioned earlier, the majority of outside directors of companies with parent companies come from the parent companies (see the above 2. (5) ④ Relation between outside directors and company). These results illustrate that a high percentage of outside directors/*kansayaku* are appointed from parent companies, when the companies have parent companies. Out of such outside *kansayaku* of Companies with *Kansayaku* with parent companies, those who receive remuneration, etc. from parent companies or their subsidiaries as officers accounted for 51.8%.

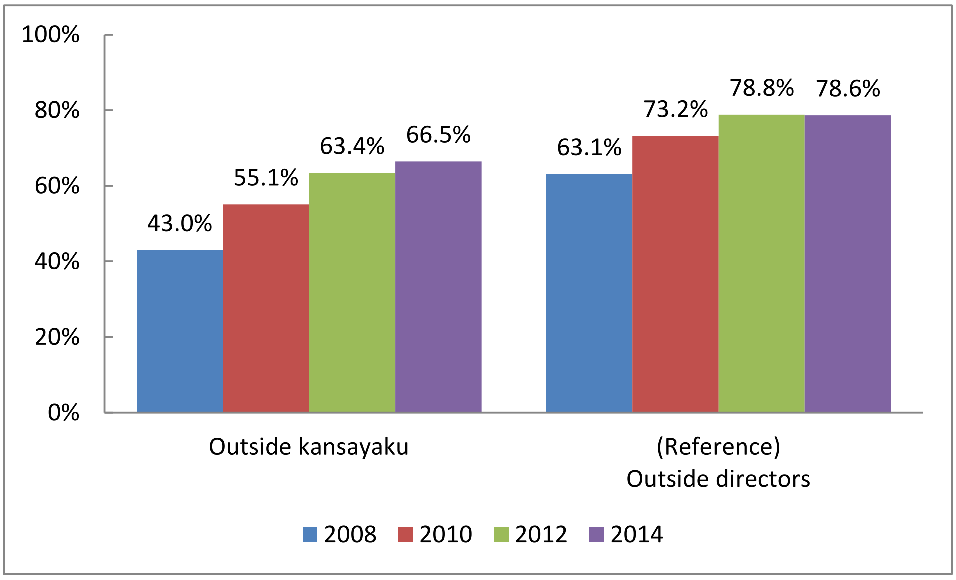
Chart 63 Relation between Outside *Kansayaku* and Company that Has a Parent Company

		Number of listed companies with parent companies	Ratio to listed companies	Number of outside kansayaku, per company	Ratio to kansayaku	Number of outside kansayaku from parent companies, per company	Ratio to outside kansayaku	Number of paid outside kansayaku from parent companies, per company	Ratio to outside kansayaku from parent company
Companies with Kansayaku	2008	286	12.3%	2.60	69.9%	1.35	51.7%	0.64	47.3%
	2010	249	11.1%	2.67	70.1%	1.29	48.2%	0.61	47.2%
	2012	227	10.2%	2.67	71.4%	1.14	42.6%	0.57	50.0%
	2014	375	11.2%	2.65	73.5%	0.98	37.2%	0.51	51.8%

(iii) Limited liability agreement with outside *kansayaku*

Outside *kansayaku* who concluded limited liability agreements with the listed companies account for 66.5%, which is rather low compared to outside directors, 78.6% of who concluded the same.

Chart 64 Limited Liability Agreement with Outside *Kansayaku*



(4) Cooperation among *kansayaku*, accounting auditors and internal audit departments

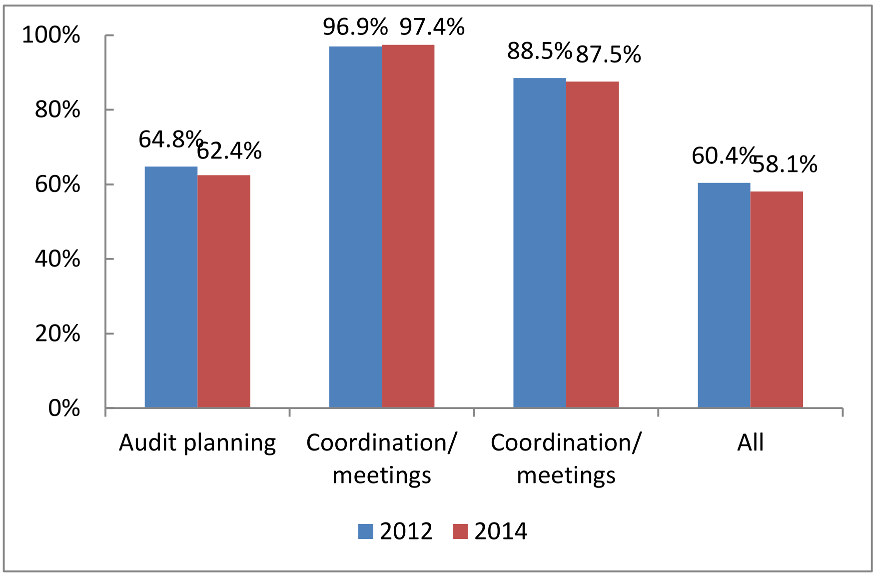
The Report requires Companies with *Kansayaku* to describe existing cooperation among their *kansayaku*, accounting auditors and internal audit departments. As the Reporting Guidelines suggest descriptions of frequency and details of meetings among them, if any, the majority of descriptions were about exchanges of opinions and information through such regular meetings. Specific descriptions include *kansayaku*'s attendance to accounting audits, and accounting auditors' reporting to *kansayaku* on outline audit plans, focus of audits, progress of audits, internal control systems, risk management, etc.

Furthermore, some referred to involvement of internal audit departments for enhanced exchange of information. Some also referred to *kansayaku*'s capacities in evaluation of accounting auditors through verification of accounting audit qualities by *kansayaku* or *Kansayaku* Board, or requests for submission of a proposal to dismiss accounting auditors.

Analyzing keywords included in the above descriptions (Chart 65), 62.4% of the companies referred to "audit planning[44]", 97.4% referred to "cooperation[45]", and 87.5% referred to "reporting[46]". Companies which used all three keywords accounted for 58.1%.

[44] Reference to "audit planning" covers companies which mentioned one of the following keywords: "plan", "policy" or "regulation".
[45] Reference to "cooperation" covers companies which mentioned one of the following keywords: "cooperation", "gathering", "regular", "exchange", "consultation" or "meeting".
[46] Reference to "report" covers companies which mentioned one of the following keywords: "report", "result", "explanation", "verification" or "control".

Chart 65 Cooperation among *Kansayaku*, Accounting Auditors and Internal Audit Departments



4. Committees and *Shikkoyaku*

Companies with Committees are required to have three committees: Nomination committee, Audit committee and Remuneration committee[47]. Each committee must consist of at least 3 directors, while the majority of the committee members must be outside directors[48]. In addition, in Companies with Committees, the board may delegate decision-making on business execution substantially to *shikkoyaku* whom the board appointed[49]. The Report requires Companies with Committees to provide the relevant information such as the composition of each committee and *shikkoyaku*'s other capacities such as directors or employees, from the perspective of finding out the current status related to such distinctive features.

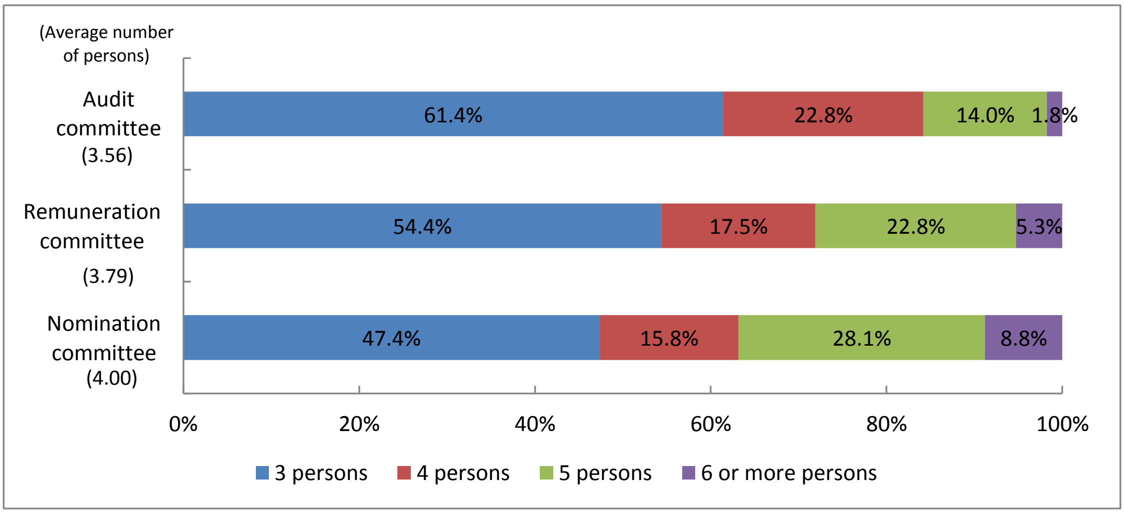
(1) Committees[50]

① Number of committee members

Chart 66 shows the number of directors in each committee. In most cases, each committee comprises of 3 to 5 members. As for the average number of committee members, it is 4.00 in nomination committees, which is the largest, followed by 3.79 in remuneration committees, and 3.56 in audit committees. As an overall trend, each committee most commonly consists of 3 directors.

[47] Article 2, Item 12 of the Companies Act.
[48] Article 400, Paragraphs 1 and 3 of the Companies Act.
[49] Article 416, Paragraph 4 of the Companies Act.
[50] Committees refer to three statutory committees of Companies with Committees, namely, Audit committee, Remuneration committee, and Nomination committee. Regarding the composition of the committee members, the Report requires companies to classify the members into full-time members ("full-time member" defined in the Report refer to a person who does not have another full-time job, and, in principle, works solely for the committee during office hours of the company), inside directors, or outside directors.

Chart 66 Number of Committee Members

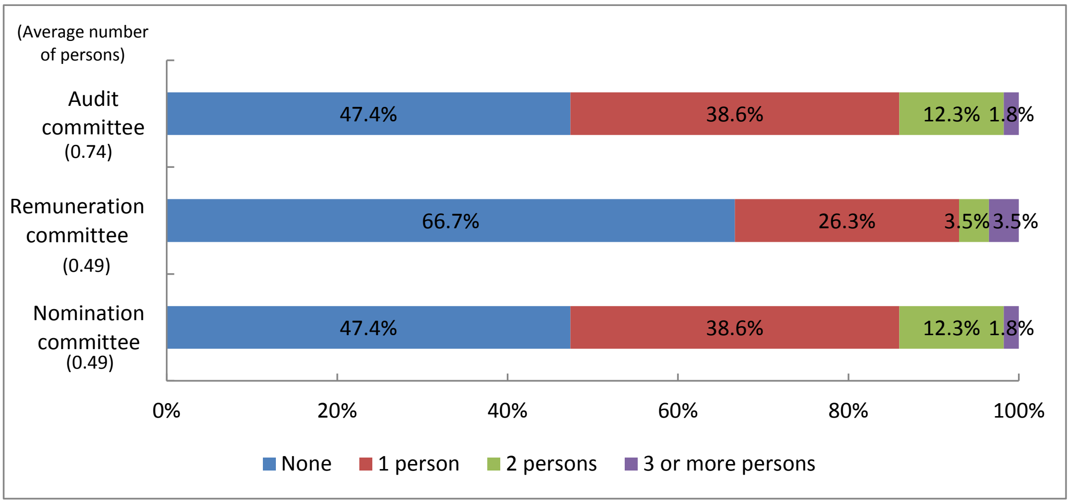


② Ratio of full-time members

Regarding the ratio of full-time members in each committee, audit committees have the highest ratio of 20.7% (up 0.4 points from the previous survey) among three committees. On the contrary, nomination committees and remuneration committees show relatively low ratios at 12.3% (down 2.3 points) and 13.0% (down 2.1 points), respectively.

Unlike full-time *kansayaku* of Companies with *Kansayaku*, it is not mandatory for Companies with Committees to have full-time committee members. Nonetheless, as shown in Chart 67, the majority of audit committees have at least 1 full-time member. On average per company, an audit committee has 0.74 full-time member, showing a greater number than nomination committees (0.49) and remuneration committees (0.49). This trend has also remained unchanged from the previous survey.

Chart 67 Number of Full-Time Members in Each Committee



③ Composition of directors in each committee

Chart 68, 69 and 70 show numbers of outside directors and inside directors as well as their percentage shares in each committee of Companies with Committees. As for the percentage shares of outside directors in each committee, audit committees show the highest percentage of 82.8%, compared to 72.4% in nomination committees and 74.1% in remuneration committees. The results remain almost unchanged from the last survey. Furthermore, there are 28 companies which have audit committees without any inside directors, accounting for 49.1% of the total (up 6.2 points).

Regarding the attribute of chairperson of each committee[51] as shown in Chart 71, outside directors appointed as chairperson of a committee accounted for 68.4% in audit committees, 61.4% in remuneration committees and 54.4% in nomination committees. These percentages are higher than the previous survey.

Chart 68 Ratio of Inside Directors and Outside Directors in Each Committee

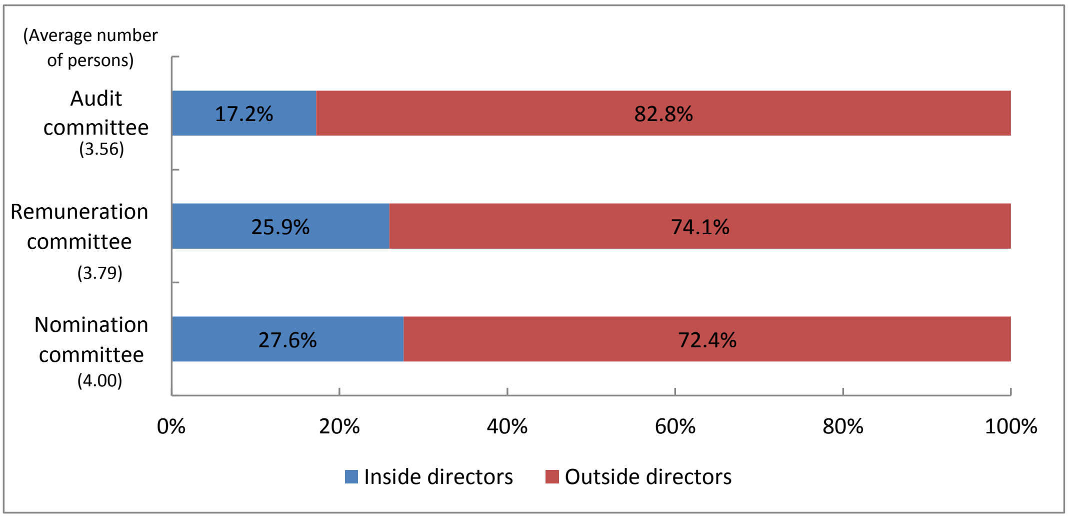
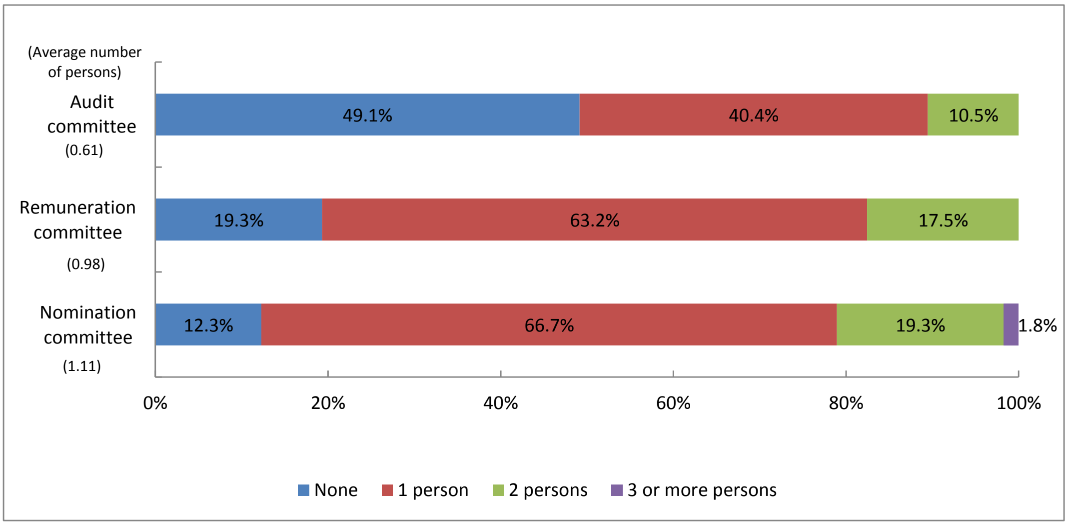


Chart 69 Number of Inside Directors in Each Committee



[51] The Report requires companies to select the attribute from “inside director”, “outside director” or “none”.

Chart 70 Number of Outside Directors in Each Committee

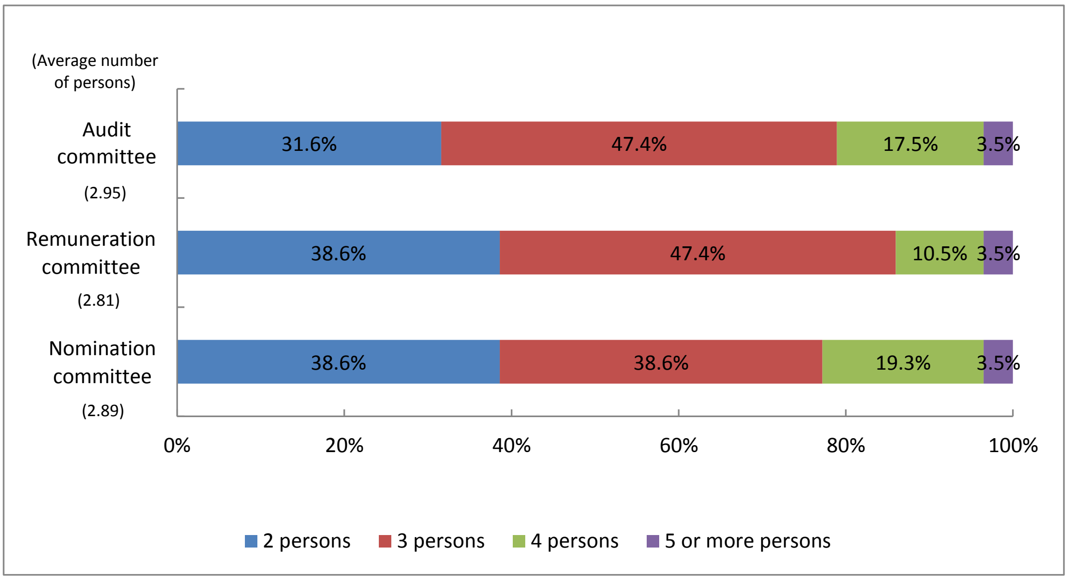
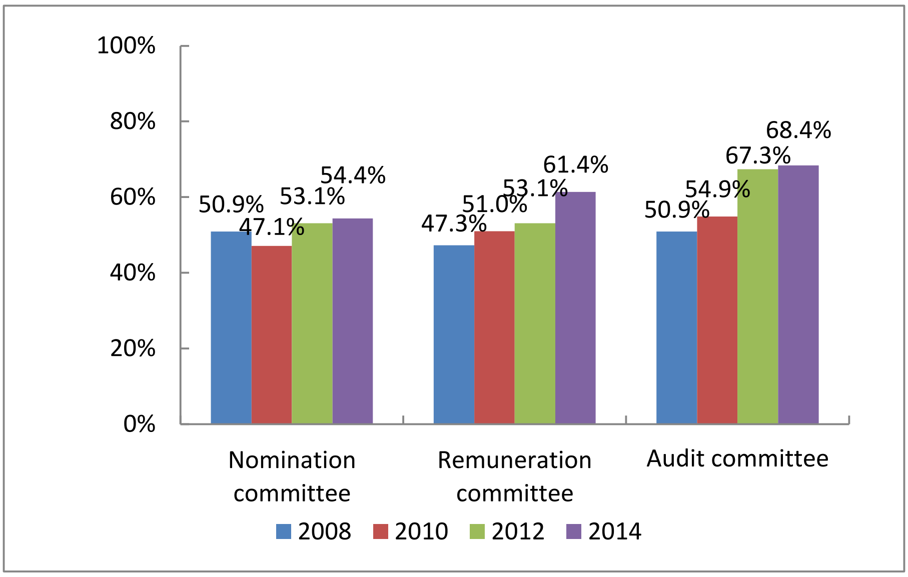


Chart 71 Attribute of Chairperson of Each Committee (Ratio of Outside Directors Appointed as Chairperson)



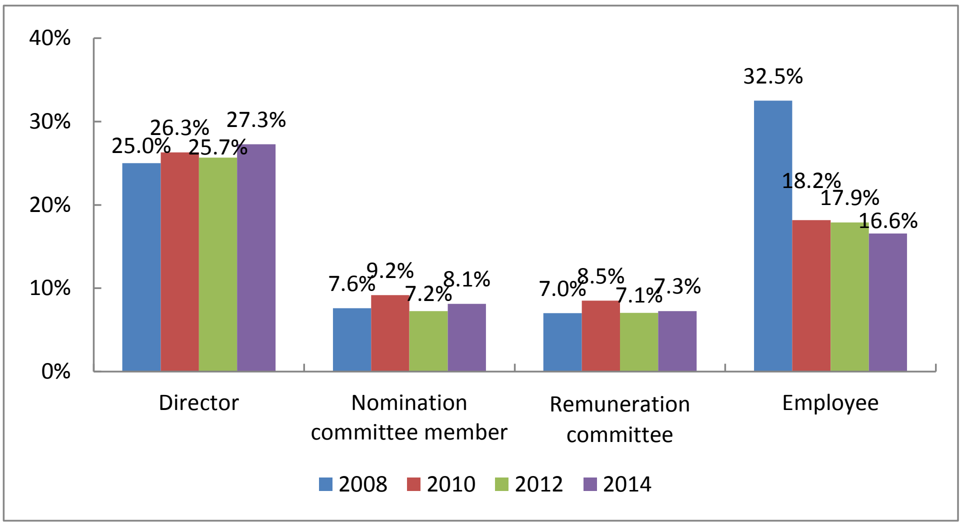
(2) Shikkoyaku

Among TSE-listed Companies with Committees, the average number of *shikkoyaku* per company was 10.16 persons. The average number of *shikkoyaku* with representative authority was 1.93 persons per company, accounting for 19.0% of all *shikkoyaku*.

Shikkoyaku may concurrently assume the position of director[52], and 27.3% of *shikkoyaku* concurrently assume directors. Furthermore, 8.1% of *shikkoyaku* concurrently assume the position as nomination committee members, and 7.3% as remuneration committee members, both in the capacity of directors. As for audit committees, *shikkoyaku* are prohibited to concurrently assume the position as the committee members[53]. 16.6% of *shikkoyaku* also hold positions as employees.

52 Article 402, Paragraph 6 of the Companies Act.
53 Article 400, Paragraph 4 of the Companies Act.

Chart 72 Positions held by *Shikkoyaku*



(3) Audit structure

① Existence of directors and employees that provide assistance for audit committee duties

Unlike Companies with *Kansayaku* Board, Companies with Committees are not required to appoint full-time members in their audit committees. Consequently, in addition to cooperation with the internal audit department, it is essential to have the structure for collaboration with directors, etc. who have duties to help the committee gather information. This section was designed to provide insight on such structures under which outside directors fulfill their roles in the company. As for departments specialized in internal audit, all companies reported that they have such structures in place: specifically, many companies make use of existing departments such as secretary's offices, business management departments, and management control groups; and some companies appoint dedicated staff members in the form of the boards' offices, audit committee offices, and corporate governance offices. There was also description explaining operational aspects such as using e-mails to enhance information sharing among directors, or launching directors-only websites. In terms of how to support audit committees, 14.6% of companies mentioned “information dissemination, correspondence, and collaboration”, while 80.7% mentioned “prior distribution of materials, etc. and explanation”.

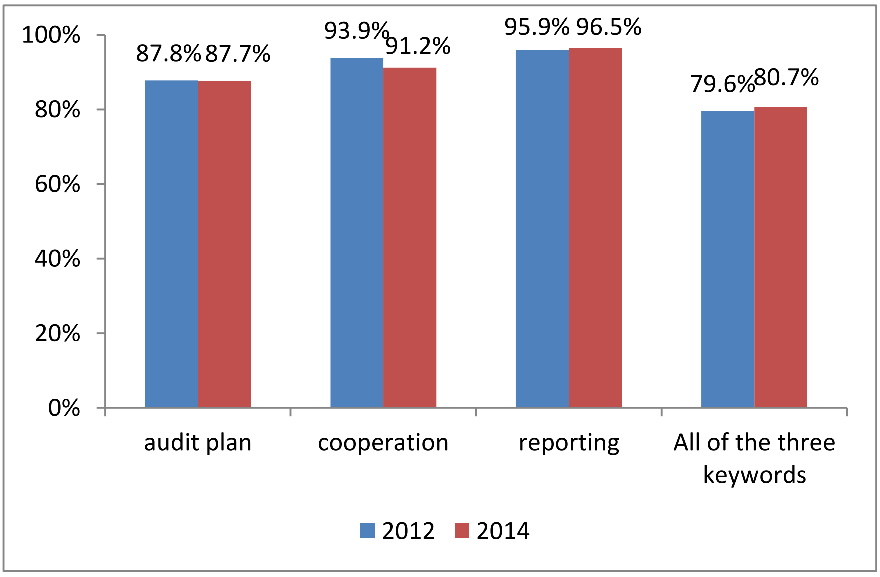
② Cooperation among audit committee members, accounting auditors, and internal audit department

In the Report, Companies with Committees are required to describe cooperation among the audit committee members, accounting auditors, and the internal audit department, similarly to those related to *kansayaku* at Companies with *Kansayaku*. The Reporting Guidelines also require description on meetings, where applicable, as well as such matters as the frequency and content of the meetings. Companies mentioned efforts toward sharing opinions and information, and receiving reports from accounting auditors on such matters as outlines of their audit plans, focus and progress of audit, as well as internal control systems and risk management.

In addition, companies also referred to the cooperation with the internal audit department to improve information sharing, audit committee members or the audit committee being responsible for checking the quality management of accounting audit, possible removal or non-reappointment of accounting auditor, and the appraisal of accounting auditors. These are also seen among Companies with *Kansayaku*.

Analyzing the keywords in the above paragraphs, 87.7% of companies mentioned "audit plan[54]", 91.2% "cooperation[55]" and 96.5% "reporting[56]". Companies which mentioned all three keywords accounted for 80.7% (Chart 73).

Chart 73 Cooperation among Audit Committee Members, Accounting Auditors and Internal Audit Department



5. Independent Directors/*Kansayaku*

(1) Appointment of independent directors/*kansayaku*

TSE stipulates, as "Matters to be Observed" in the Code of Corporate Conduct, that a listed company must secure at least one independent director/*kansayaku*[57] for the purpose of protecting general investors.[58] As of the period included in this survey, all 3,414 companies listed on TSE secured at least one independent director/*kansayaku.*

The Report requires companies to provide the number of independent directors/*kansayaku*. Chart 74 shows the distribution of such numbers. 2,058 companies, or 60.3% of all listed companies, have at least 2 independent directors/*kansayaku.* The independent directors/*kansayaku* system (formerly known as "independent directors/auditors (ID/A) system") requires companies to designate at least one person among outside directors or outside *kansayaku* as independent, and notify TSE of such designation. In case a company

[54] Reference to "audit plan" covers companies which mentioned one of the following keywords: "plan", "policy" or "regulation".
[55] Reference to "cooperation" covers companies which mentioned one of the following keywords: "cooperation", "gathering", "regular", "exchange", "consultation" or "meeting".
[56] Reference to "reporting" covers companies which mentioned one of the following keywords: "report", "result", "explanation", "verification" or "control".
[57] Independent director/*kansayaku* refers to an outside director or outside *kansayaku* who is unlikely to have conflicts of interest with general investors.
[58] Rule 436-2 of the Securities Listing Regulations.

has multiple outside directors/*kansayaku* who satisfy the independence criteria, it is at the company's discretion whether to notify TSE of all of them or selected ones who are considered appropriate. Therefore, in terms of complying with the rule, a company may notify of only one independent director/*kansayaku*, but there actually are a significant number of companies which notified TSE of multiple persons.

The aggregate number of persons notified as independent directors/*kansayaku* is 7,526 persons, of which 7,330 persons are notified by Companies with *Kansayaku*, and 196 persons by Companies with Committees. The average number of independent directors/*kansayaku* secured per listed company is 2.20 persons: 2.18 persons in Companies with *Kansayaku* and 3.44 persons in Companies with Committees.

An analysis of the average number of independent directors/*kansayaku* by market division, as shown in Chart 75, reveals the greatest number of designation by TSE First Section companies (average 2.62 persons), followed by Mothers (1.95 persons), TSE Second Section (1.70 persons), and JASDAQ companies (1.70 persons). JPX-Nikkei 400 companies notified of, on average, 3.63 independent directors/*kansayaku*, which is 1.01 persons more than TSE First Section (2.62 persons). Notifications as seen by the shareholding ratios of the largest shareholder show the highest average number of 2.86 persons for the "less than 5%" category. The same could be said to Companies with *Kansayaku* (2.80 persons). As for the categories exceeding 5%, the higher the ratio, the less number of persons companies notified of. This trend is also seen among Companies with *Kansayaku*. Notifications as seen by foreign shareholding ratio show the highest average number of 3.64 persons for the "30% or more" category. The lower the ratio, the less number of persons companies notified of. This trend is common in both Companies with *Kansayaku* and Companies with Committees.

Of the listed companies which secured independent directors/*kansayaku*, 329 companies (9.6%) only notified of outside directors, of which 272 companies are Companies with *Kansayaku*. On the other hand, 1,818 companies (53.1%) only notified of outside *kansayaku*, while 1,267 companies (37.1%) notified of at least 1 outside director and 1 outside *kansayaku*.

Out of all independent directors/*kansayaku*, 2,303 persons (30.6% of all independent directors/*kansayaku*) are outside directors, and 5,223 persons (69.4%) are outside *kansayaku* (Chart 78). Out of all outside directors, those notified as independent directors accounted for 61.2%. Similarly, out of all outside *kansayaku*, those notified as independent *kansayaku* accounted for 63.1%. In terms of the total numbers and ratios, these results show that the majority of outside directors and outside *kansayaku* are designated as independent directors/*kansayaku*. However, as we discuss later, most of outside directors or outside *kansayaku* from major shareholders or business partners are not designated as independent directors/*kansayaku*.

Chart 74 Number of Independent Directors/*Kansayaku*

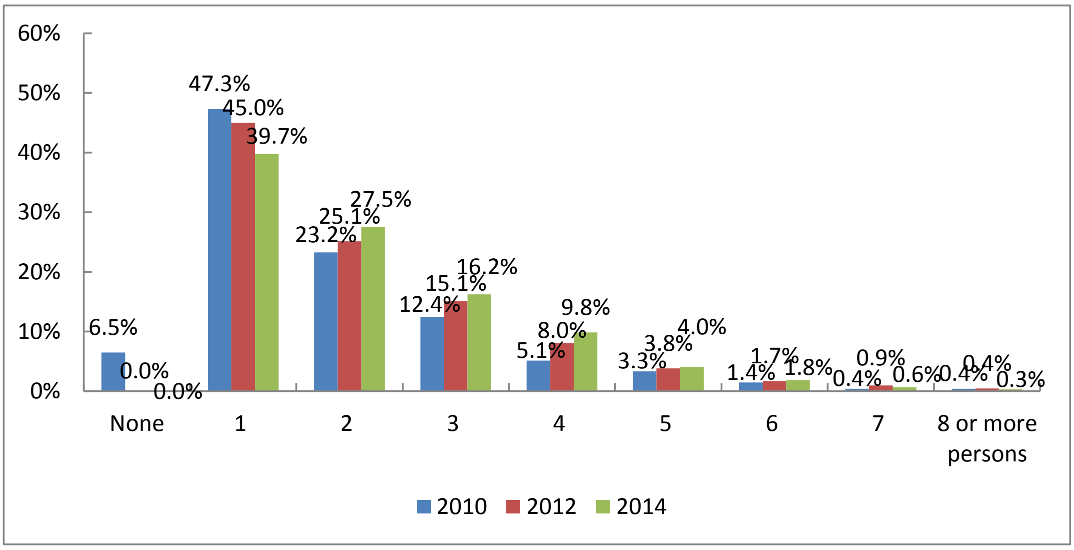


Chart 75 Average Number of Independent Directors/*Kansayaku* (by Market Division)

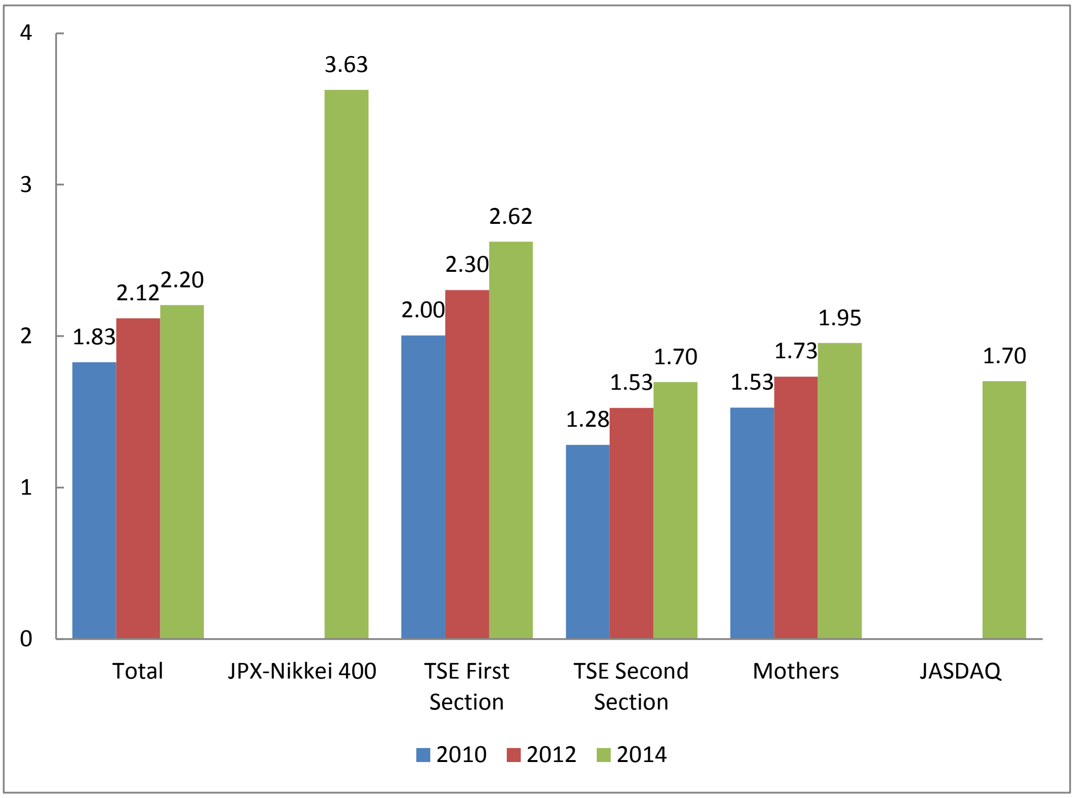


Chart 76 Average Number of Independent Directors/*Kansayaku* (by Shareholding Ratio of the Largest Shareholder)

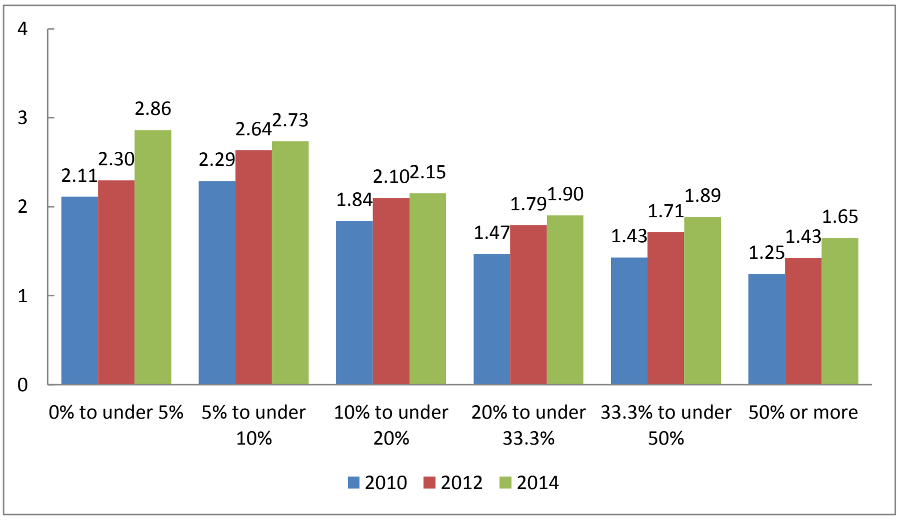


Chart 77 Average Number of Independent Directors/*Kansayaku* (by Foreign Shareholding Ratio)

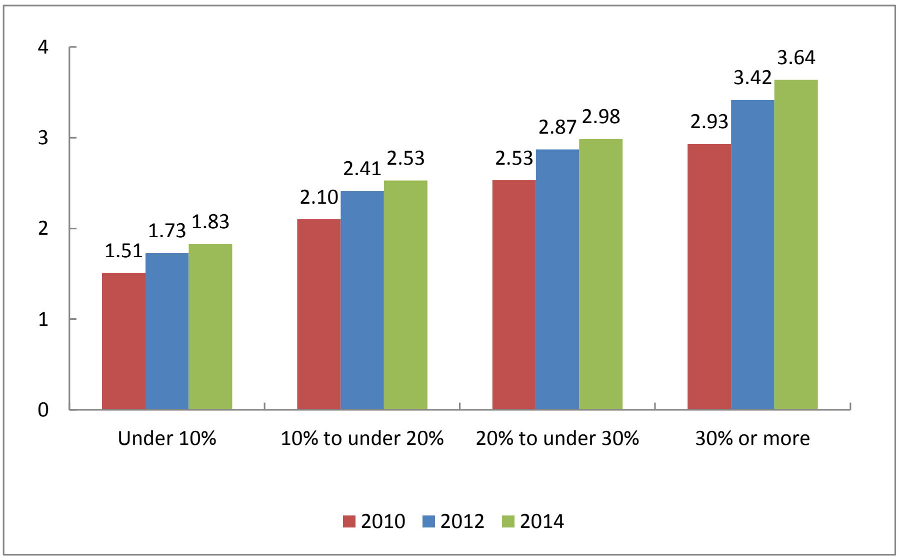
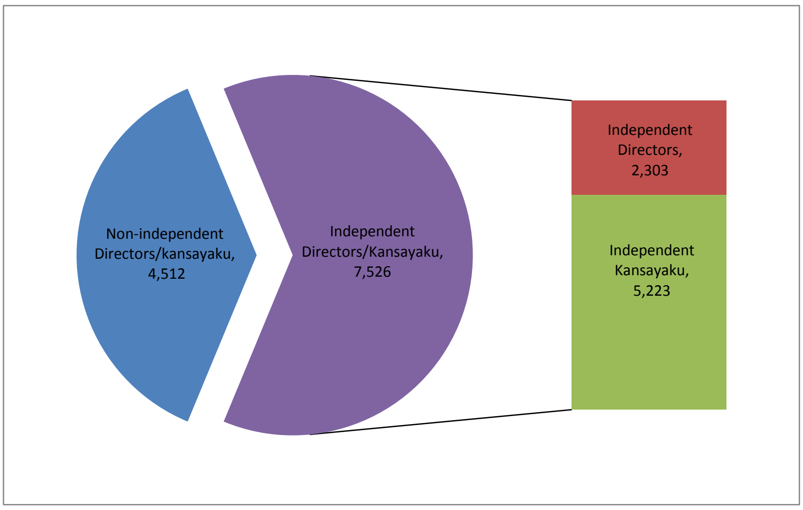


Chart 78 Ratio of Independent Directors/*Kansayaku*



(2) Attributes of independent directors/*kansayaku*

Chart 79 summarizes attributes of independent directors/*kansayaku*, and compares them with attributes of outside directors/*kansayaku*[59].

As for the attributes of independent directors/*kansayaku*, out of 2.20 independent directors/*kansayaku* on average per company, 1.16 persons (52.4%) are from other companies, followed by lawyers (0.43 persons, 19.5%), certified public accountants (0.28 persons, 12.9%), academics (0.12 persons, 5.4%), tax accountants (0.12 persons, 5.3%), and other (0.10 persons, 4.5%).

On the other hand, as for the attributes of all outside directors/*kansayaku*, out of 3.53 persons per company, 2.16 persons (61.3%) are from other companies, followed by lawyers (0.56 persons, 15.9%), certified public accountants (0.36 persons, 10.2%), tax accountants (0.17 persons, 4.7%), academics (0.14 persons, 3.9%), and other (0.14 persons, 4.0%). Among independent directors/*kansayaku*, in comparison with other outside directors/*kansayaku*, there is a lower percentage of persons from other companies, showing a clear tendency toward appointing professionals such as lawyers and accountants. As for the attributes of independent directors/*kansayaku* in JPX-Nikkei 400 companies, the percentage shares of academics and others are higher than those of all TSE-listed companies, illustrating the tendency toward the diversification, similar to the trend seen in outside directors/*kansayaku*.

We also looked at each attribute to find the percentage of outside directors/*kansayaku* who were designated as independent directors/*kansayaku*. While the overall ratio is 62.5%, outside directors from academic marked the highest percentage (87.6%) of designation as independent directors/*kansayaku*, followed by certified public accountants (78.9%) and lawyers (76.3%), whereas the lowest percentage was recorded by those from other companies (53.5%) (Chart 80).

Among companies with parent companies, 74.3% of independent directors/*kansayaku* are from other companies, marking a much higher percentage compared to all listed-companies. However, outside directors/*kansayaku* from other companies who were designated as independent accounted for only 27.7%, a lower percentage than that for all TSE-listed companies (53.5%). This indicates that there are many outside directors/*kansayaku* in listed subsidiaries who do not satisfy independence criteria.

59 It refers to outside directors and outside *kansayaku*.

Chart 79 Attributes of Independent Directors/*Kansayaku*

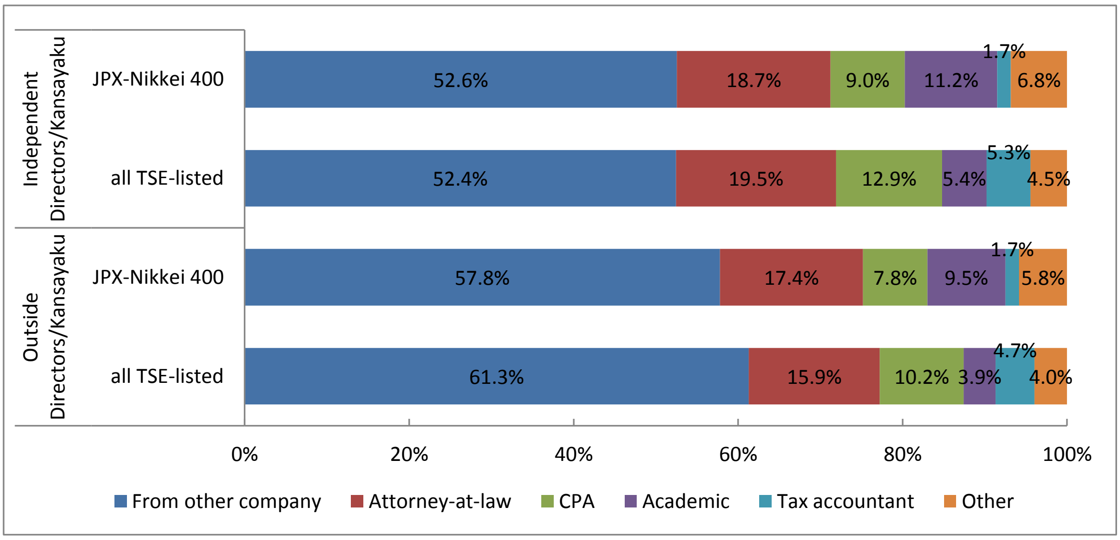
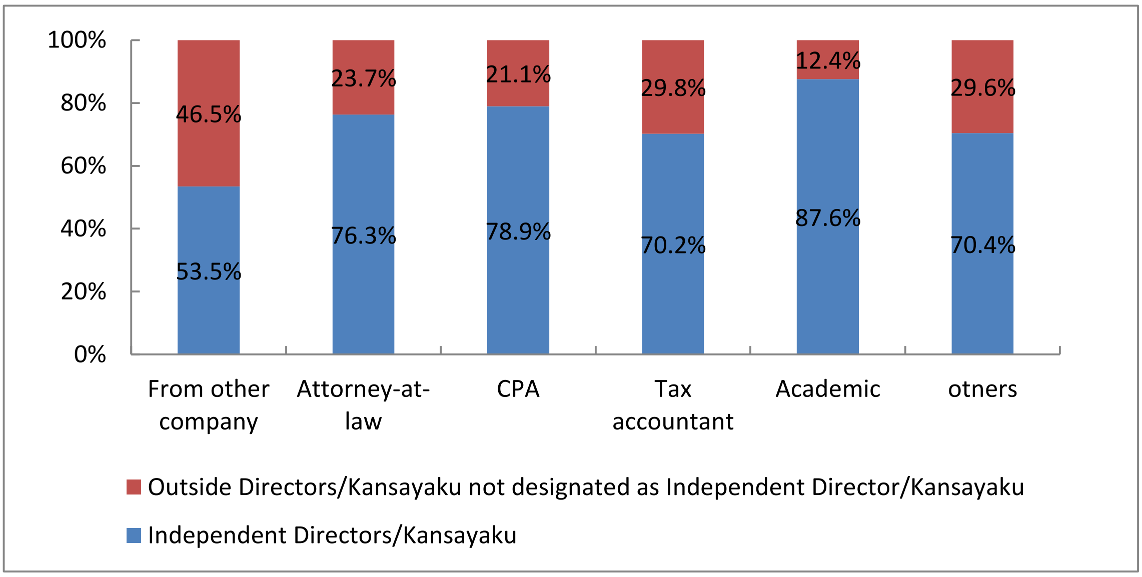


Chart 80 Ratio of Independent Directors/*Kansayaku* to All Outside Directors/*Kansayaku* (by Attribute)



(3) Relation between independent directors/*kansayaku* and company

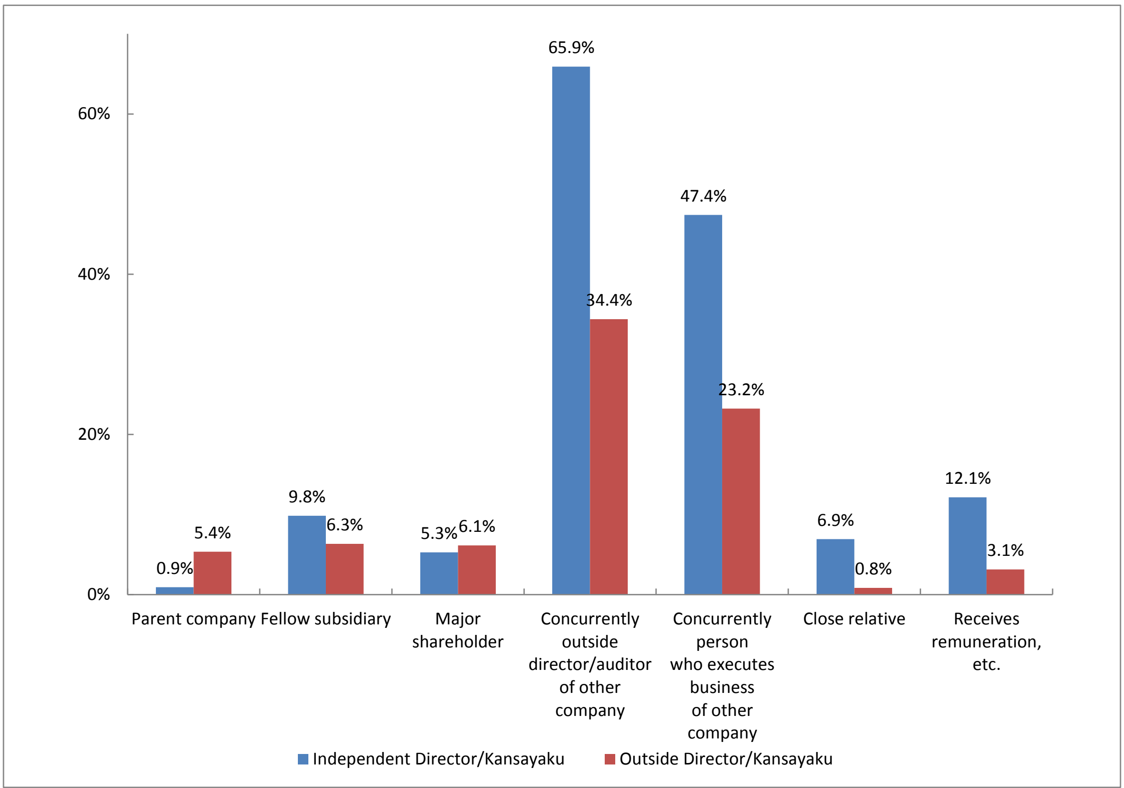
Regarding the relation between independent directors/*kansayaku* and companies, the percentages of those from parent companies and major shareholders are lower, compared to the case of outside directors/*kansayaku*. This shows that the independent directors/*kansayaku* system is being adopted in line with its original intent (Chart 81).

The Report requires companies to provide supplementary description on the relation between outside directors/*kansayaku* and the company. Based on such descriptions, there are 995 outside directors/*kansayaku* from financial institutions[60] (8.3% of all outside directors/*kansayaku*), of which 665 are notified as independent (66.8% of those from financial institutions) with the following breakdown: 173 independent

[60] Those "from financial institutions" refer to persons from banks and insurance companies, excluding government-controlled financial institutions.

directors and 492 independent *kansayaku*. There are 381 outside directors/*kansayaku* from government agencies[61] (3.2% of all outside directors/*kansayaku*), of which 309 are notified as indepenent (81.1% of those from government agencies) with the following breakdown: 135 independent directors and 174 independent *kansayaku.*

Chart 81 Relation between Independent Directors/*Kansayaku* and Company



(4) Description of reason for appointment of independent directors/*kansayaku*

① Reasons for appointment of independent directors/*kansayaku*

The Report requires companies to describe reasons for appointment of outside directors or outside *kansayaku.* If they are designated as independent directors/*kansayaku*, companies are required to provide reasons for such designation. First, in descriptions of reasons for appointing outside directors/*kansayaku*, the keywords that appeared often are experience (72.8%), expertise (30.6%), and knowledge (34.1%), which highlighted the person's attributes and career. Companies also frequently mentioned avoidance of conflict of interests (46.7%), consideration to general shareholders (47.7%), objectivity (19.2%), and having no interests (21.8%), which shows intent to secure neutrality.

In terms of expected functions, outside directors/*kansayaku* were expected to offer counsel (17.1%) and advice (2.9%) in an advisory role, and provide supervision (15.2%) and oversight (11.9%) in a monitoring role (Chart 82).

An analysis of the percentage of ths use of various keywords for outside directors/auditors designated as

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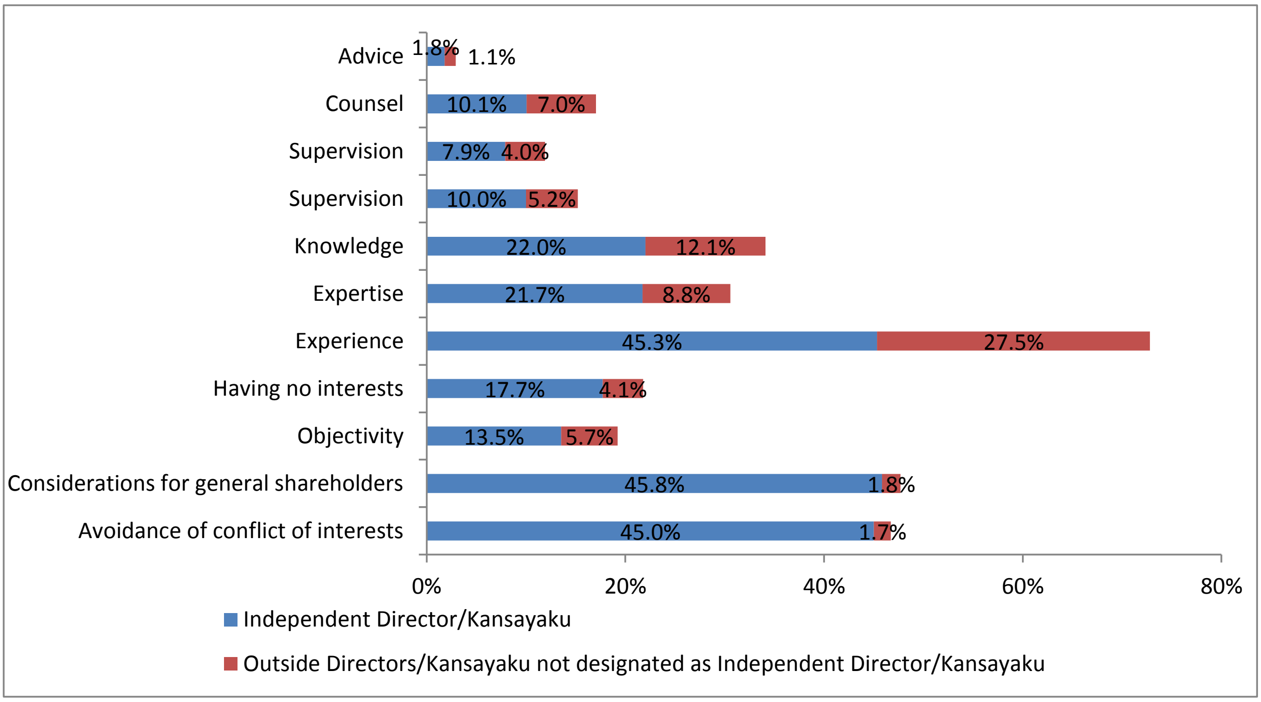
61 Those “from government agencies” refer to former national or local government employees. Former government employees who went to work for financial institutions were classified as those from government agencies.

independent revealed frequent reference to avoidance of conflict of interests (96.4%), consideration to general shareholders (96.1%), objectivity (70.5%), and having no interests (81.4%). This clearly shows that the reasons behind designating independent directors/*kansayaku* were to secure neutrality. In comparison, percentages of reference to experience (62.3%), expertise (71.1%), and knowledge (64.5%) related to the person's attributes and career, as well as monitoring-related keywords such as supervision (65.8%) and oversight (66.4%), and advisory-related keywords such as counsel (58.9%) and advice (61.4%) are relatively low.

Chart 82 Reason for Appointment of Outside Directors/*Kansayaku* and Reason for Designation as Independent Directors/*Kansayaku*



III. Incentives and Remuneration

1. Implementation of Initiatives to Offer Incentives

The Report requires disclosure of the state of implementation of initiatives to offer incentives to directors. In connection with their functions to motivate the management to maximize the corporate value by aligning interests of the management and general shareholders, information on incentives to directors is naturally considered to have a significant weight from the perspective of corporate governance. Specifically, the companies are requested to select applicable incentives (multiple answers allowed) from such categories as “introduced stock option plan”, “introduced performance-linked remuneration system” or “other” in the case of offering such incentives, or select “none” in the case of not offering any. In either case, companies are requested to provide supplementary explanations as far as possible.

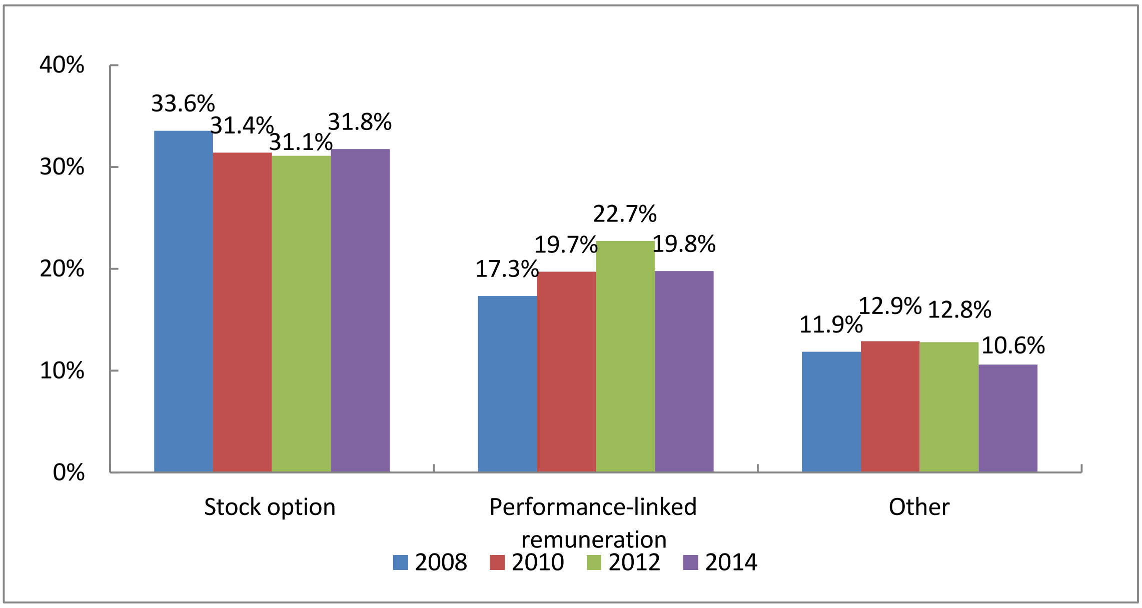
(1) Overview of incentives

Companies which implemented certain initiatives to offer incentives accounted for 53.7% of TSE-listed companies.

Regarding each category of initiatives to offer incentives, stock option plans are introduced in 31.8% of TSE-listed companies, while performance-linked remuneration system and other initiatives are introduced in 19.8% and 10.6%, respectively, of companies (Chart 83).

3,377 companies (98.9% overall) provided supplementary explanations on implementing initiatives to offer incentives.

Chart 83 Implementation of Initiatives to Offer Incentives



(2) Introduction of stock option plans

In analysis of companies adopting stock option plans by market division as shown in Chart 84, companies listed on Mothers showed an outstandingly higher ratio, 77.8%, than those listed on TSE First Section (32.1%), Second Section (15.8%), and JASDAQ (30.7%). Among JPX-Nikkei 400 companies, those adopting stock option plans accounted for 45.8%, 13.7 points higher than that of TSE First Section. Furthermore, Chart 85 shows the relation with consolidated sales: percentages of the adoption of stock option plans are higher among companies in the smallest sales category and the largest sales category. As for the relation with foreign shareholding ratios (Chart 86), the higher the ratio, the more likely companies are to adopt stock option plans.

Chart 84 Implementation of Initiatives to Offer Incentives (by Market Division)

	Stock option	Performance-linked remuneration	Other
Total	31.8%	19.8%	10.6%
JPX-Nikkei 400	45.8%	41.8%	16.0%
TSE First Section	32.1%	27.6%	13.7%
TSE Second Section	15.8%	11.9%	9.7%
Mothers	77.8%	7.2%	3.1%
JASDAQ	30.7%	11.1%	6.4%

Chart 85 Implementation of Initiatives to Offer Incentives (by Consolidated Sales)

	Stock option	Performance-linked remuneration	Other
Under ¥10 billion	41.2%	9.7%	6.2%
¥10 billion to under ¥100 billion	25.8%	16.8%	9.9%
¥100 billion to under ¥1 trillion	32.9%	32.9%	15.1%
¥1 trillion or more	39.9%	47.6%	21.7%

Chart 86 Implementation of Initiatives to Offer Incentives (by Foreign Shareholding Ratio)

	Stock option	Performance-linked remuneration	Other
Under 10%	28.5%	13.6%	9.1%
10% to under 20%	34.2%	27.7%	13.7%
20% to under 30%	32.2%	28.6%	13.0%
30% or more	52.1%	42.7%	13.5%

In the supplementary explanations regarding their stock option plans, the majority simply described the background of stock options, some expressed such effects that the plans contribute to securing human resources, and encouraging employees to have a higher level of awareness and morale. Speaking of advantages of the stock option plans, some referred to effects not only in motivating their employees but also in promoting shareholder interests.

While 68.2% of the companies have not adopted such stock option plans, they stated reasons for non-adoption from various angles. Specifically, some companies are currently preparing for introducing the plans, while there are companies which had once adopted but then terminated the plans, finding it inappropriate as incentives due to such factors as low stock prices and varied strike prices. Some companies consider that their current remuneration structures are sufficient, and some question the idea of stock option plans on the grounds that remuneration should not be offered from a short-term perspective. As a reason for judging it inappropriate as incentives, there was an explanation that the stock option plan is a program to receive capital gains without taking downside risks, and therefore is in conflict with shareholder interests.

(3) Implementation of performance-linked remuneration system

In analysis of implementation of performance-linked remuneration system by market division, TSE First Section clearly shows a higher ratio of adoption at 27.6% than TSE Second Section (11.9%), Mothers (7.2%) and JASDAQ (11.1%), similarly to the last survey (see Chart 84). Among JPX-Nikkei 400 companies, companies which adopted performance-linked remuneration system accounted for 41.8%, 14.2 points higher than TSE First Section.

In terms of a relation with company size, as shown in Chart 85, companies with larger consolidated sales tend to show a higher ratio of implementing a performance-linked remuneration system. [62] In addition, the higher the foreign shareholding ratio, the more likely companies are to have implemented a performance-linked remuneration system (Chart 86).

In the meantime, an increasing number of companies decided to abolish their retirement benefit systems. In the Reports, 280 companies referred to the abolition of such systems. In addition, some clearly stated that they would cut executive pay in the event of deteriorating business performance.

(4) Other

Companies which selected "other" as their initiatives to offer incentives mostly described in their supplementary explanations that when deciding on executive pay or bonuses, they consider business performance and officers' contributions/efforts, or link them with stock prices, or set goals. In fact, out of 362 companies which selected "other", 26 companies referred to "performance result"; 29 companies mentioned "contributions/efforts"; and 18 companies used the word "goals". Furthermore, 160 companies mentioned "stock price" and 60 companies mentioned "employee shareholding association", indicating the wide use of stock price-linked incentives.

(5) Eligible persons for stock options

The Report requires companies implementing stock option plans to specify the eligible persons by selecting the applicable categories from "inside directors", "outside directors", "inside *kansayaku*", "outside *kansayaku*", "*shikkoyaku*", "employees", "officers of the parent company", "employees of the parent company", "officers of subsidiaries", "employees of subsidiaries" or "other" (multiple answers allowed).

Charts 87 and 88 show the composition of eligible persons, when the sample is limited to TSE-listed companies with stock option plans. It is found that the companies offer their stock option plans mostly to inside directors (97.4% of Companies with *Kansayaku*, and 77.8% of Companies with Committees) and employees (66.8% of Companies with *Kansayaku*, and 74.1% of Companies with Committees). In addition, companies which offer stock option plans to outside directors or outside *kansayaku* accounted for 32.5%.

In supplementary explanations on persons eligible for stock option plans, 400 companies described their

[62] The same could be said to the numbers of employees (consolidated) and consolidated subsidiaries, although not included in the chart.

intent to contribute to the morale and ambition of such eligible persons, while 327 companies mentioned the basis for selecting those eligible for such plans so as to secure talented persons, and also contribute to better corporate performance and improved corporate value. There were also instances of descriptions on expanding the scope of eligible persons from directors to *kansayaku*, employees, employees of subsidiaries, and others. With regard to the eligibility of outside directors/*kansayaku*, while some companies include them in the scope, other argued that stock options are not appropriate for persons who have an auditory role.

Chart 87 Eligible Persons for Stock Options (Companies with *Kansayaku;* with Stock Option Plans)

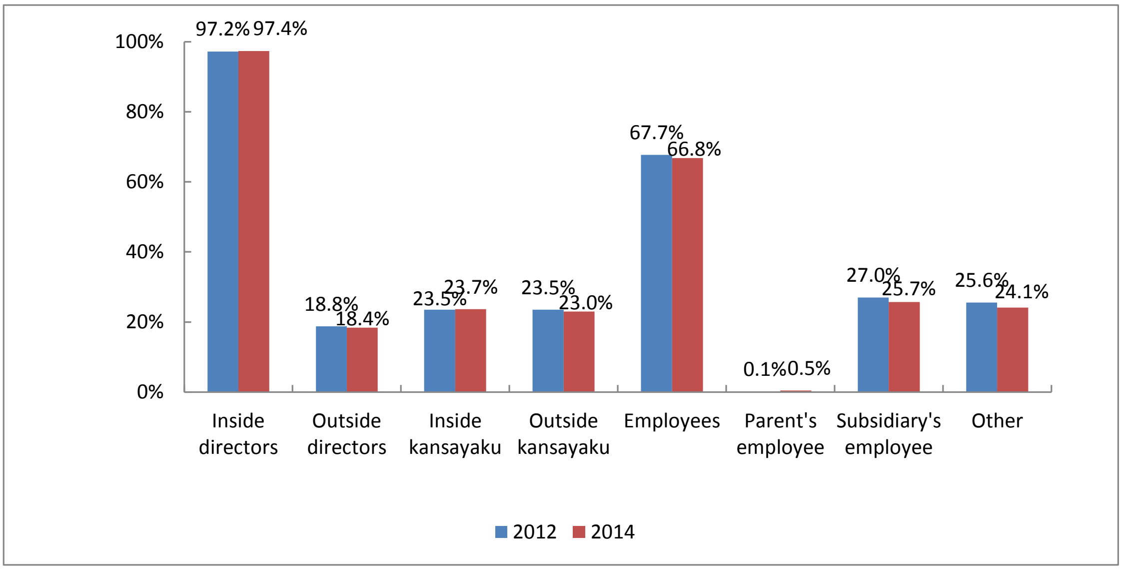
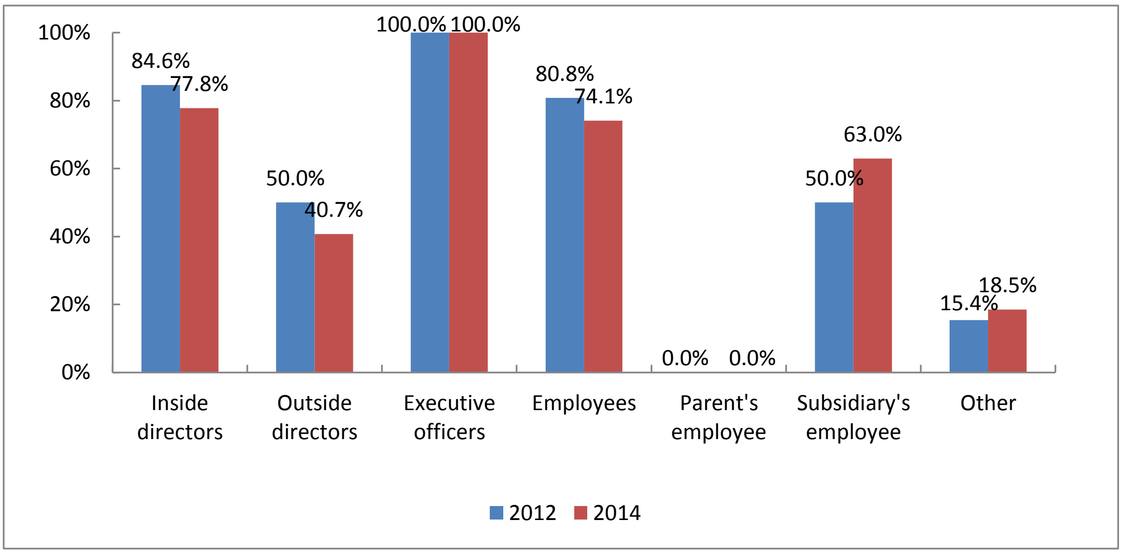


Chart 88 Eligible Persons for Stock Options (Companies with Committees; with Stock Option Plans)



2. Disclosure of Director Remuneration

(1) Disclosure of individual director remuneration

Listed companies are required to disclose, in their annual securities reports, the total amount of officer remuneration and the subtotals by category, the total amount of remuneration, etc. of an officer who receives 100 million yen or more, and the policy for determining officer remuneration. Regarding disclosure of individual director remuneration, the Report requires listed companies to select one of the following: "full disclosure of all individuals", "partial disclosure" or "no individual disclosure on remuneration". In case where disclosure on individual director remuneration is made, including the case where it is made for only directors who received higher amounts, listed companies are also required to provide an overview as supplementary explanations.

As we can see from Chart 89 for Companies with *Kansayaku*, companies which do not disclose the remuneration of individual directors reaches 93.1%, while only 0.2% make full disclosure of such information on all directors. 6.7% disclose information on selected directors. Of these companies, there were many that disclose the individual remuneration only of directors who received 100 million yen or more. As for the ratio of companies which disclose remuneration for selected directors, we can see a distinct relationship with larger consolidated sales and higher foreign shareholding ratio.

Chart 90 shows the situation of Companies with Committees. Companies which disclose remuneration for selected directors accounted for 17.5%, while companies which disclose remuneration for selected *shikkoyaku* accounted for 28.1%.

With regard to supplementary explanation related director remuneration, 3,019 companies or 88.4% provided such description. As for officer remuneration, since it is mandatory to provide such description in annual securities reports, there were many instances of companies providing similar content.

Chart 89 Disclosure of Director Remuneration (Companies with *Kansayaku*)

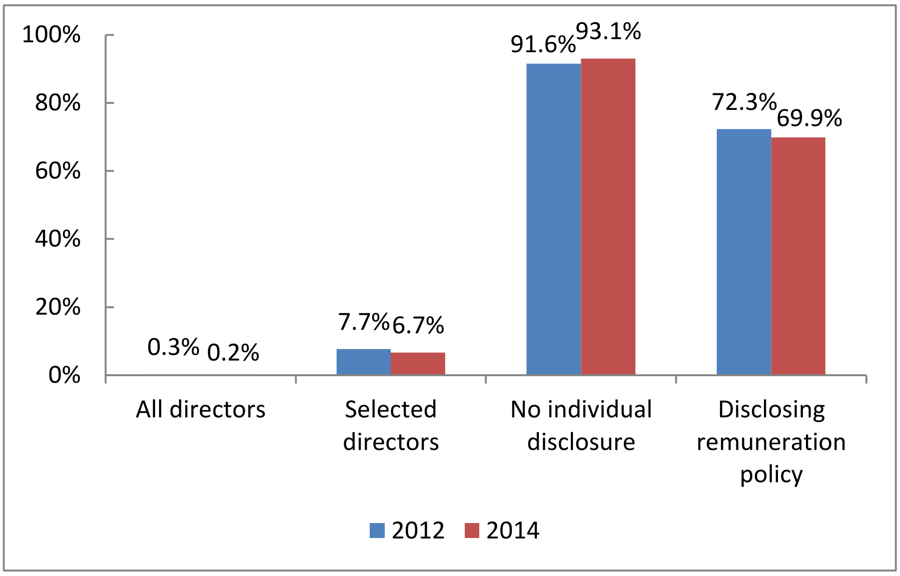
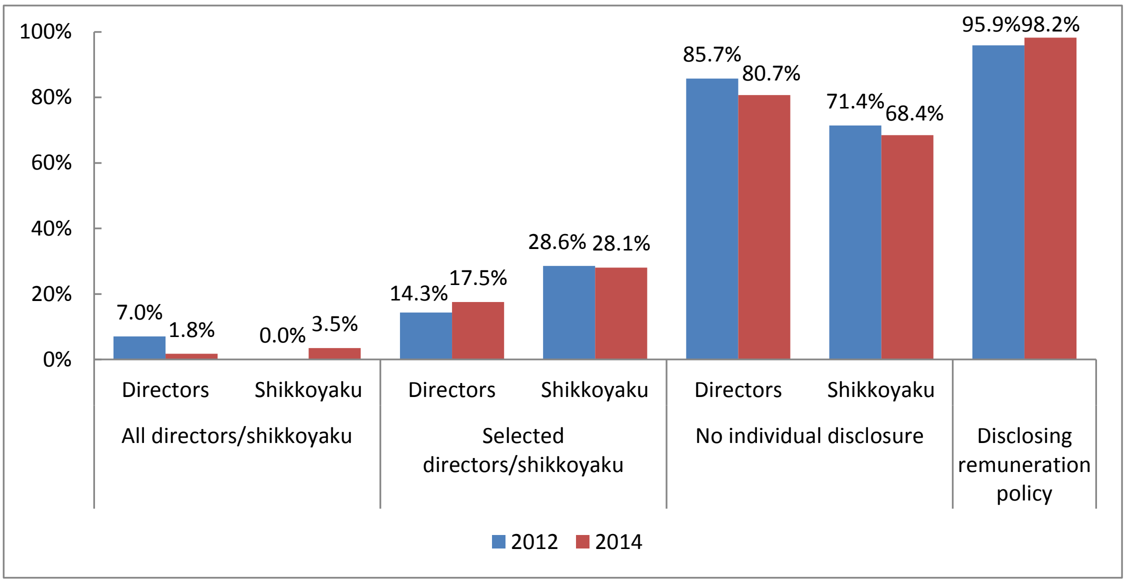


Chart 90 Disclosure of Director/*Shikkoyaku* Remuneration (Companies with Committees)



(2) Policy for determining remuneration amounts and calculation method

In annual securities reports, in case where a company has a policy on officer remuneration amounts, etc. or its calculation method, the company is required to provide description on the content of such policy and method of determination. The Report requires companies to describe their policy for determining director remuneration amounts and its calculation method, where such policies are in place. Companies which reported that a policy on director remuneration amounts, etc. and its calculation method are in place accounted for 69.9%. There is a clear positive correlation between this ratio and company size, with higher percentages accompanying higher sales (95.8% for the "1 trillion yen or more" category), employee numbers (79.9% for the "1,000 persons or more" category), and foreign shareholding ratio (84.7% for the "30% or more" category).

In supplementary explanations on the policy on determining the method for calculating remuneration, other than keywords describing measures toward increasing transparency, such as "involvement of outside directors/*kansayaku*" (481 companies), "ensuring objectivity" (107 companies), and "medium- to long-term perspectives" (200 companies), there were also keywords like "considering the management environment" (120 companies) and "balance with employee remuneration, etc." (92 companies).

IV. Matters on Functions of Business Execution, Auditing, Oversight, Nomination, and Remuneration Decisions[63]

1. Overview of Current Corporate Governance System

(1) Overview of Current Corporate Governance System

In the Overview of the Current Corporate Governance System, listed companies are required by the Reporting Guidelines to provide a detailed overview of the current system of governance including the board, such as business execution, method of audit and oversight. The Reporting Guidelines also requests companies to provide description on processes to enhance business execution, oversight, or other functions, where they are implemented. Among Companies with *Kansayaku*, a significant number included descriptions on systems for quick decision-making other than the board, referring to important decision-making organs such as management meetings. The ratio of companies which mentioned management meetings and managing officer meetings, distinctive features of Japanese corporations, accounted for 46.6% and 8.43%, respectively. Such organs seem to be more common with larger companies. They also seem to be introduced from the perspective of facilitating smooth business execution and positioned at the stage prior to discussion at the board meetings.

Companies which mentioned the adoption of *shikkoyakuin* (See footnote 6) system from the perspective of facilitating swift decision-making by company management, raising the efficiency of business execution, and clarifying the scope of responsibility given that companies become larger accounted for 48.4%. This indicates a move toward clear separation between oversight and business execution. There is a trend of larger companies being more likely to mention *shikkoyakuin*. They also tend to mention streamlining the board by reducing the number of directors and clearly segregating the management decision-making functions of the board and business execution functions. These trends were also seen in the last survey.

Companies which mentioned third party advisory committees, etc.[64] accounted for 10.4%. The tendency to invite external experts and management professionals to establish organs for the purpose of obtaining advice or evaluation on overall management was seen to a certain degree, as in the last survey, and increased with larger company size.

There are some Companies with *Kansayaku*, which adopted an almost similar organizational structure to Companies with Committees by voluntarily establishing nomination, audit and/or remuneration committee(s). Out of Companies with *Kansayaku*, 28 companies have audit committees and provided explanation on its role, 130 companies mentioned remuneration committees, and 53 companies referred to nomination and human resource committees. 951 companies referred to various panels for discussion in the name of “committee”, which are generally positioned as advisory bodies for the board on special issues such as internal control.

With regard to auditing by *kansayaku* or audit committees, 436 companies mentioned “audit system”, 574 companies “audit policy”, and 226 companies “audit standard”. In descriptions on audit systems, many companies explained that their audit policies and audit plans were developed based on established audit

[63] In the Report, this free-form section is designed to obtain qualitative information especially about decision-making processes of companies. For example, if a Company with *Kansayaku* has its own initiative to enhance functions of business execution and oversight, the company is required to specifically describe the content of such an initiative.
[64] Reference to “advisory committee, etc.” covers companies which mentioned one of the following keywords: “advisory”, “consultative”, “advisory group” or “council”.

standards for auditing the execution of duties by directors. Furthermore, in descriptions on *kansayaku* and *Kansayaku* Board, some companies referred to the frequency of *Kansayaku* Board meetings and matters to be decided by *Kansayaku* Board, as well as individual *kansayaku*'s activities such as attendance at important meetings, document review, and visits to subsidiaries for auditing. Regarding internal audits, companies mentioned staff assignment, relevant activities, reporting lines pertaining to audit results, and authority to recommend corrective action. Regarding accounting audits, companies typically just provided names of auditing firms and certified public accountants in charge, noting that there were no special relations with them. Yet some companies referred to cooperation between the companies and accounting auditors.

Description on the selection of candidates for directors and *kansayaku* was provided by 311 companies. 1,936 companies provided description on certified public accountants. Most of it comprised of names of auditing firms, names of the certified public accountants, and the number of consecutive years of conducting audits.

Chart 91 Matters on Functions of Business Execution, Auditing, Oversight, Nomination, and Remuneration Decisions (by Consolidated Sales)

	Management Committee	Executive Officer	Executive Committee	Advisory Committee
Under ¥10 billion	38.7%	27.7%	3.3%	4.3%
¥10 billion to under ¥100 billion	47.3%	49.2%	10.9%	7.1%
¥100 billion to under ¥1 trillion	52.3%	64.9%	9.5%	19.0%
¥1 trillion or more	56.6%	76.2%	4.9%	40.6%

(2) Efforts for reinforcement of *kansayaku*'s functions

In the Overview of the Current Corporate Governance System, listed companies are also required to describe the state of securing personnel and systems to support audits by *kansayaku*, the state of appointing outside *kansayaku* who are highly independent, and the state of appointing *kansayaku* with knowledge of finance and accounting.[65]

Regarding the state of securing personnel and systems to support audits by *kansayaku*, 247 companies (10.9%) mentioned that they have *Kansayaku* Office. Furthermore, in order to secure the independence of *kansayaku* and *Kansayaku* Office, some companies referred to special treatments concerning staff members of the Office: for example, the Office comprises employees who are not directed or controlled by directors; and human resources department consults in advance with full-time *kansayaku* regarding personnel transfers and performance appraisals of such employees. Descriptions concerning specific support methods include coordination for productive on-site audits and inspections by facilitating cooperation with site managers and attending on-site inspections, and providing full-time *kansayaku* with explanations on the company's financial condition, audit status, discussions in management meetings, activities of management audit department, and activities of corporate ethics/CSR committees.

[65] Companies, however, may just make reference to their explanations rendered in other sections (e.g. "Support System for Outside Directors and Outside *Kansayaku*", "Reasons for Appointing Outside *Kansayaku*", etc.), if any.

Other descriptions include appointing highly-independent outside *kansayaku*, strengthening cooperation among the board, accounting auditors, and internal audit department, and conducting regular audits. Additionally, the contents of the descriptions do not only cover measures to secure the appropriateness of internal control or financial reports, but also legality audit and even validity audit.

2. Reasons for Adoption of Current Corporate Governance System

The Report classifies companies by organizational form into either Companies with Committees or Companies with *Kansayaku*, and whether they have outside directors, and requires companies to describe reasons for adopting the current governance structure, including the board.

(1) Companies with Committees

As specific reasons for adopting the form of Company with Committees, the Reporting Guidelines provide the following examples: comparative advantage over Company with *Kansayaku* in terms of speeding up the decision-making process, increasing the transparency of management and gaining support from foreign investors, overviews of measures being considered to enhance governance functions, and the roles and functions of outside directors.

In analysis of reasons why Companies with Committees (57 companies) adopted this form based on keywords, common reasons include clear separation of oversight and business execution (43 companies mentioned “separation”), strengthening execution function (42 companies mentioned “function”), quick and speedy decision-making by *shikkoyaku* as top management (27 companies mentioned “decision”), delegation of authority to execution function (17 companies mentioned “authority”), strengthening check function by outside directors (36 companies mentioned “outside”) and ensuring management transparency as a consequence.

(2) Companies with *Kansayaku* and with outside directors

The Report requires Companies with *Kansayaku*, which appointed outside directors, to explain reasons for adopting such a governance structure in the context of their current situations. The Reporting Guidelines suggest that companies describe such matters as roles and functions of outside directors.

Explanations on the significance of appointing outside directors were either it is the best way to oversee and monitor business execution, or that their roles were to provide opinion and advice to the management. Even as discussions are being carried out on the advisory and oversight functions expected of outside directors, it is also evident from the descriptions that companies are already considering both functions.

As examples of expertise necessary for performing the advisory function, companies mentioned that their outside directors have professional background as lawyers and certified public accountants, or they have profound knowledge of their business sectors. As for the relevance to the companies’ businesses, many referred to the fact that their outside directors are officers of parent companies, major shareholders or business partners. For example, in case an outside director is from the parent company, information sharing with the parent company, and adequate advice and guidance from the viewpoint of the parent company were mentioned. In case an outside director is from a major shareholder, companies referred to their expectation that such a director performs the check function as a representative of shareholders.

(3) Companies with *Kansayaku* and without outside directors

The Report also requires Companies with *Kansayaku*, which do NOT have outside directors, to explain reasons for adopting such a governance structure in the context of their current situations. In particular, such companies are required to specifically describe establishment and implementation of their own corporate governance systems, which substitute expected roles of outside directors. For example, the Reporting Guidelines suggest that companies which rely on audits by outside *kansayaku* in place of outside directors could present the content of alternate frameworks that bridge the gap between directors and *kansayaku* which have different roles under law. Other examples include concrete descriptions on systems to enhance management oversight and their state of implementation, and their stance toward securing objectivity and neutrality of management oversight. The Reporting Guidelines also suggest that companies that had previously considered appointing outside directors describe reasons for not adopting such a system.

Among companies without outside directors, a significant number explained that *kansayaku* conducted audit of the appropriateness, efficiency, and legal compliance of business through auditing internal control systems such as audits of execution of director duties and financial reporting, thereby ensuring the effectiveness of *kansayaku* and enhancing their functions.

In terms of keywords, even though these companies did not appoint outside directors, terms like oversight (448 companies), execution (687 companies), enhanced cooperation (157 companies), shortening the term of directorships (34 companies), and description on *shikkoyakuin* (139 companies) indicated efforts toward enriching the functions of the board.

As for specific descriptions, the majority of companies mentioned that mutual check-and-balance of *Kansayaku* Board centered on outside *kansayaku* or the boards, separation of oversight and execution by adopting *shikkoyakuin* system, and the governance system with an advisory board or other organ are functioning sufficiently. Some referred to a better check by shareholders as a result of a reduction in the term of directorships to 1 year, and also mentioned the 4-year tenure of *kansayaku* allows them to offer advice and highlight issues based on the big picture without being swayed by short-term perspectives, bringing about effective systems. Moreover, 160 companies mentioned that the presence of independent *kansayaku* is likely to lead to more effective management oversight.

Among Companies with *Kansayaku* which do not have outside directors, 82.1% mentioned the keyword "outside *kansayaku*" and many companies mentioned management oversight by outside *kansayaku* as the reason for not appointing outside directors. However, there is strong opinion among, in particular, foreign investors that outside *kansayaku* do not have voting rights on the board or rights to elect or dismiss the representative director, and cannot possibly be substitutes for outside directors. Therefore, they need to sufficiently explain the effectiveness of corporate governance with the best use of outside *kansayaku*. Under the revised Companies Act which came into effect in May 2015, if companies do not have any outside directors, they are required to explain the reason why appointing outside directors is not suitable for them, and it is stipulated that the presence of 2 outside *kansayaku* does not constitute the reason.

Among those companies which referred to their governance system based on checks-and-balances among directors, some companies stated that by bringing in persons from outside entities, such as financial institutions, which did not satisfy the criteria for outside directors under the Companies Act, they were still able to incorporate an external perspective into business execution.

Other than these, while some descriptions remained in support of the outside directors system, they also mentioned currently leaving these functions to external advisory bodies such as advisory boards like remuneration advisory committees and compliance committees, which had outside members. Others also highlighted the issue of an insufficient pool of eligible persons.

Negative opinions on the outside director system questioned the system itself based on the argument that the board is a body that decides business execution and is required to lead the company and its employees with a thorough knowledge of its business as its highest executive organ.

3. Support System for Outside Directors and Outside *Kansayaku*

The Report requires listed companies to provide the overview of the support system for communicating information to outside directors and outside *kansayaku* including those who are independent. To enable independent directors/*kansayaku* to appropriately fulfill their responsibilities, as described in "Expected Role of independent Directors/Auditors (*Kansayaku*)" published in March 2010, it is indispensable to develop means of appropriate and timely communication with independent directors/*kansayaku*, collaborate with related departments, and secure the support personnel.

Explanations on support systems included many descriptions of enhancing operational aspects such as establishing a framework that provides even more detailed support, placing emphasis on explanations of important matters, and facilitating smooth communications.

The majority of the companies reported that they have a department in charge. Regarding actual means of support, "distribution of information, communication, and cooperation related to information" were mentioned by 24.5%, and "prior distribution of and/or briefing on board materials" were mentioned by 51.6% of the companies.[66]

As a specific department for the support, in addition to Corporate Secretariat, core departments such as corporate planning department, general administration department, legal department and internal audit office are named by a number of companies. Their specific supports include prior distribution of related documents, prior submission of reference materials via e-mail and briefing on the contents, and distribution of meeting minutes.

[66] Reference to "distribution of information, communication, and cooperation related to information" covers companies which mentioned either "information", "distribution", "communication" or "cooperation". Reference to "prior distribution of and/or briefing on reference materials" covers companies which mentioned either "prior", "distribution" or "briefing".

V. Implementation of Measures for Shareholders and Other Stakeholders

1. Efforts for Active General Shareholder Meetings and Smooth Exercise of Voting Rights

It is fundamental for the stock corporation system that shareholders proactively exercise their rights pertaining to proposals for resolution at general shareholder meetings. TSE has requested each listed company to create an environment to facilitate the exercise of shareholders' voting rights at general meetings, through scheduling of the meetings avoiding the peak day, early notification of general shareholder meeting, English translation of convening notices, and exercise of voting rights by electronic means.[67] [68]

Creation of a better environment for the exercise of shareholders' voting rights is considered essential also from the perspective of making corporate governance work more effectively. In particular, achieving better corporate governance through the exercise of voting rights by shareholders and investors has recently become an important issue for companies, and we can expect better two-way communications between listed companies and investors. This section in the Report is designed to assess the progress of the efforts to create an environment conducive to shareholders' active participation in general meetings and proper exercise of their voting rights, assessing how the listed companies communicate with their shareholders and investors on a regular basis, and ensuring that the shareholders and investors have fair and easy access to information.

(1) Early notification of general shareholder meeting

41.6% of listed companies dispatch convening notices for general shareholder meetings well in advance (early notification)[69]. As for the timing of dispatching convening notices, 319 companies stated approximately 3 weeks prior to the general shareholder meeting, and 5 companies stated about 4 weeks in advance. As reasons for such early notification, companies referred to securing sufficient time for shareholders to make decisions and increasing the convenience for exercising voting rights. In addition, some mentioned that the company tries to make sure the convening notices are sent as soon as possible in consideration of the high ratio of foreign shareholding.

In analysis by market division as shown in Chart 92, companies providing early notification accounted for 56.6% of companies listed on TSE First Section, showing a much higher ratio compared with TSE Second Section (27.9%), Mothers (41.2%), and JASDAQ (18.8%). As for JPX-Nikkei 400 companies, 73.0% of them dispatch the notices well in advance. This is 16.4 points higher than that of TSE First Section (56.6%). As shown in Chart 93, companies with higher consolidated sales are more likely to provide early notification. In terms of number of employees (consolidated) and number of consolidated subsidiaries, the larger the company, the more likely it is to send out convening notices early. These trends indicate that larger companies tend to send convening notices well in advance. Another notable feature is, as shown in Chart 94, that companies with

[67] TSE “Request for Creating Environment to Facilitate Shareholders’ Exercise of Voting Rights at General Shareholder Meetings” TSE *Jo/Sa* (listing company support) No. 255 (March 18, 2003).
[68] Rule 446 of Securities Listing Regulations, and Rule 437 of Enforcement Rules for Securities Listing Regulations.
[69] In the Report, for convenience sake, “early notification” refers to the cases where companies dispatched convening notices of the most recent ordinary general meeting of shareholders 3 or more business days earlier than the statutory notification deadline.

higher foreign shareholding ratios are more likely to provide early notification. With respect to early notification of notices for convening, both domestic and overseas investors responding to the TSE questionnaires in 2008 and 2010 continued to show a demand for early notification.

Chart 92 Efforts for Encouraging Shareholders' Participation in General Meetings (by Market Division)

	Early notification of general shareholders meeting	Scheduling general shareholders meetings avoiding peak day (Companies with FY end: March)	Exercise of voting rights by electronic means	Participation in electronic voting platform	Preparation of convocation notice in English
Total	41.6%	47.4%	21.7%	13.3%	12.4%
JPX-Nikkei 400	73.0%	56.7%	71.0%	61.5%	56.3%
TSE First Section	56.6%	50.3%	34.0%	24.1%	21.6%
TSE Second Section	27.9%	34.8%	3.5%	0.0%	0.9%
Mothers	41.2%	71.4%	23.7%	5.7%	6.7%
JASDAQ	18.8%	46.0%	6.9%	0.8%	1.7%

Chart 93 Efforts for Encouraging Shareholders' Participation in General Meetings (by Consolidated Sales)

	Early notification of general shareholders meeting	Scheduling general shareholders meetings avoiding peak day (FY end: March)	Exercise of voting rights by electronic means	Participation in electronic voting platform	Preparation of convocation notice in English
Under ¥10 billion	25.2%	46.8%	10.6%	2.1%	2.0%
¥10 billion to under ¥100 billion	36.5%	44.2%	10.8%	3.4%	4.2%
¥100 billion to under ¥1 trillion	63.6%	50.3%	45.9%	34.9%	29.9%
¥1 trillion or more	86.0%	65.9%	92.3%	85.3%	81.1%

Chart 94 Efforts for Encouraging Shareholders' Participation in General Meetings (by Foreign Shareholding Ratio)

	Early notification of general shareholders meeting	Scheduling general shareholders meetings avoiding peak day (FY end: March)	Exercise of voting rights by electronic means	Participation in electronic voting platform	Preparation of convocation notice in English
Under 10%	31.8%	43.5%	10.4%	2.4%	2.3%
10% to under 20%	54.6%	49.5%	31.9%	20.6%	13.8%
20% to under 30%	63.9%	57.5%	45.5%	37.7%	36.7%
30% or more	68.1%	57.4%	62.8%	56.6%	60.8%

(2) Avoidance of peak day

Companies with a fiscal year ending in March accounted for 69.3% of all TSE-listed companies (Chart 11), still showing a high ratio. Partly because shareholders' rights may be exercised only within 3 months from the record date[70], most companies hold their ordinary general shareholder meetings around the end of June. Consequently, setting the ordinary general shareholder meeting on such a "peak day" - the date most other listed companies also hold ordinary general shareholder meetings - is considered to hinder shareholders'

70 Article 124, Paragraph 2 of the Companies Act.

participation, and TSE stipulated an obligation to make efforts to diversify the dates of general shareholder meetings[71].

Out of all companies with a fiscal year ending in March, 47.4% stated in the Reports that they schedule such meetings on days other than the peak day. [72] One of the reasons for avoiding the peak day is so that many shareholders can attend the meeting (297 companies). Moreover, there were also descriptions on holding general shareholders meetings on Saturdays for shareholders' convenience.

Analyzing companies with a fiscal year ending in March by market division, companies avoiding the peak day accounted for 71.4% in Mothers, showing the higher ratio than those of TSE First Section (50.3%), TSE Second Section (34.8%) and JASDAQ (46.0%) (Chart 92). As for JPX-Nikkei 400 companies, 56.7% avoided the peak day. This is 6.4 points higher than TSE First Section. Looking at the relation with foreign shareholding ratios, the higher the ratio, the more likely the companies are to avoid the peak day (Chart 94). This trend has remained unchanged from the previous survey. On the contrary, no major correlation was found between consolidated sales and avoidance of the peak day (Chart 93)[73].

(3) Exercise of voting rights by electronic means

The exercise of voting rights by electronic means has been permitted, subject to a resolution by the board[74]. Companies which have established infrastructure for the exercise of voting rights by electronic means account for 21.72% of TSE-listed companies. Despite of an increase from the last survey, most companies are still in the process of developing such infrastructure. Yet it can be also interpreted that development efforts are gradually going ahead led by large companies as mentioned below.

In analysis by market division, companies allowing the exercise of voting rights by electronic means accounted for 34.0% in TSE First Section, higher than those of TSE Second Section (3.5%), Mothers (23.7%) and JASDAQ (6.9%) (Chart 92). In case of JPX-Nikkei 400 companies, 71.0% allowed electronic voting rights exercise, marking a much higher ratio than that of TSE First Section (34.0%). Companies with higher consolidated sales (meaning larger companies) show a much higher ratio of allowing electronic voting rights exercise (Chart 93). For example, among companies with consolidated sales exceeding 1 trillion yen, 92.3% of them allow the exercise of voting rights by electronic means. This trend is also seen in terms of number of employees (consolidated) and number of consolidated subsidiaries.

Furthermore, with respect to relation with the foreign shareholding ratio, similarly to the previous survey, the higher the ratios, the more likely companies are to allow the electronic voting rights exercise (Chart 94).

(4) Use of electronic voting platform for institutional investors

TSE has striven to foster an environment where institutional investors may exercise their rights in an appropriate manner via ICJ[75], which operates an Electronic Voting Platform for Institutional Investors. The

[71] Rule 446 of Securities Listing Regulations, and Rule 437-1 of Enforcement Rules for Securities Listing Regulations.
[72] "Peak day" refers to the date when an extremely large number of listed companies held their ordinary general shareholder meetings (usually the highest peak day), based on the dates of the most recent ordinary general shareholder meetings.
[73] The same could be said to the numbers of employees (consolidated) and consolidated subsidiaries, although not included in the chart.
[74] Article 298, Paragraph 1, Item 4 and Paragraph 4 of the Companies Act.
[75] "ICJ" stands for Investor Communications Japan. For more details, please visit their website.
http://www.icj.co.jp/english/introduction.html

Report requires listed companies to place a check mark in the box, if they use electronic voting platforms, such as those operated by ICJ, as an initiative toward raising participation in general shareholder meetings and facilitating voting rights exercise.

According to the Reports, 13.3% of all listed companies use electronic voting platforms for institutional investors. Although the ratio has declined due to the merger of the markets, the number of such companies has increased from 382 to 454 since the last survey. Looking at the use of electronic voting platforms in each market division, the ratio in TSE First Section companies was 24.1%, higher than other market divisions. In addition, the higher the foreign shareholding ratios, the higher the utilization ratio: the “30% or more” category leads other categories with 56.6%. Among JPX-Nikkei 400 companies, 61.5% of companies utilize electronic voting platforms (Chart 92).

(5) Preparation of convening notice, etc. in English

In light of the increase in foreign shareholdings in recent years, there are a growing number of companies that prepare convening notices in English and release them on their websites. The Report requires listed companies to enter a check mark in the box if they prepare convening notices of ordinary general shareholder meetings, etc. or summaries of such notices, etc. in English as an initiative toward raising participation in general shareholder meetings and facilitating voting rights exercise.

Based on descriptions in the Reports, the ratio of companies that prepared convening notices for ordinary general shareholder meetings, etc. (including their summaries) in English was 12.4%. By market division, this is 21.6% of TSE First Section companies, 0.9% of TSE Second Section companies, 6.7% of Mothers companies, and 1.7% of JASDAQ companies (Chart 92). As for the relation with foreign shareholding ratios, the “30% or more” category (60.8%) leads other categories, and a decreasing likelihood of preparation was seen with decreasing foreign shareholdings (Chart 94). JPX-Nikkei 400 companies showed a much higher ratio of 56.3% than that of TSE First Section (21.6%). The same trends were seen in terms of company size indicated by consolidated sales or employee numbers (consolidated) (Chart 93).

(6) Other

In cases where companies make efforts for facilitating shareholders’ active participation in general shareholder meetings and smooth exercise of voting rights in addition to the above-mentioned measures, they are supposed to check the category “other” and provide supplementary explanations on such efforts. Specifically, these include posting convening notices on company websites, and measures taken in terms of venue or scheduling. The Reporting Guidelines stipulate that in cases where the companies have implemented measures for energizing general shareholder meetings and smooth exercise of voting rights, such companies are supposed to provide description on such measures[76].

In a review of the supplementary explanations in the Reports, we found that 25.7% of TSE-listed companies referred to the use of company websites, etc. [77] Descriptions related to visual presentation accounted for 11.3%.

[76] Rule 446 of Securities Listing Regulations, and Rule 437-6 of Enforcement Rules for Securities Listing Regulations.
[77] Reference to “website” covers companies which mentioned one of the following keywords: “website”, “homepage”, “HP” or ”www”.

Analyzing the ratios of using keywords related to the use of the company website, visual presentation and English translation by market division as well as consolidated sales, the number of employees (consolidated) and the number of consolidated subsidiaries, TSE First Section showed higher ratios. Larger companies tend to show higher ratios.

As for efforts to facilitate communications with shareholders, some companies hold events such as receptions, briefings or factory tours after the general shareholders meetings in the presence of representative directors and/or other management (111 companies); or hold exhibitions for and provide unique services or entertainment to the participants of the general shareholder meetings, taking advantage of their own products or services (28 companies). For the convenience of shareholders to attend the general meetings, various explanations were presented including: setting the dates on weekends, location selection criteria such as convenient access and large capacity (37 companies); and preparing a satellite room by making the best use of communication tools.

2. Investor Relations (IR) Activities

From the perspective of enhanced communications between listed companies and their shareholders and investors, in addition to efforts for promoting more active participation in shareholders' meetings and facilitating voting rights exercise, emphasis should be placed on 'dialogue' with the market through IR activities.

Amidst rapid changes in the environment surrounding companies in recent years, corporate management faces an unprecedented need to find more appropriate methods for helping their shareholders and investors understand and evaluate their actual corporate conditions, as well as to fulfill their public responsibility of explaining management decision-making processes. TSE asserts that it is essential to enhance such accountability in promoting corporate governance.

There are all sorts of IR activities, and individual companies' approaches vary. Therefore, in order to capture the overall trend, this section of the Report is designed to look at the following aspects, focusing on contacts with investors: "regular seminars for individual investors", "regular seminars for analysts and institutional investors", "regular seminars for foreign investors", "posting of IR materials on the company website" and "establishment of a department (or appointment of a person) in charge of IR".

Furthermore, the Report requires listed companies to place a check mark in the box, in case they developed and published their disclosure policies. 737 companies (21.6% overall) indicated that they prepared/published disclosure policies. Detailed explanations on policies included fundamental concepts such as "transparency" and "fairness", and general policies toward proactively disclosing incidents and facts that would influence investment decisions while stopping short of mentioning laws and regulations.

(1) Regular investor briefings

Investor briefings or seminars are an important means for establishing direct contact between listed companies and investors. TSE has required companies listed on Mothers to hold investor briefings at least twice a year[78] and thereby contributed to improving their communications with investors.

[78] Rule 421-2 of Securities Listing Regulations.

① For individual investors

Companies which hold regular briefing sessions[79] for individual investors accounted for 25.9% of TSE-listed companies. In 74.5% of these companies, or 19.3% of all TSE-listed companies, company representatives make presentations. Among JPX-Nikkei 400 companies, 45.8% hold such briefing sessions. This is 16.5 points higher than TSE First Section (29.3%) (Chart 95).

In the supplementary explanations, a number of companies referred to presentations by their representative directors, officers, or persons in charge of IR, and reported the number of participants, locations, and the number of seminars held. As for the formats of the sessions, some reported that they have held IR seminars after general shareholder meetings, and some described their active efforts for enhancing investors' understanding on their businesses by combining IR meetings with factory visits. With respect to the organization of such meetings, in addition to sessions hosted by the companies themselves, a number of companies reported on participation in joint seminars organized by securities companies, media or IR organizations, or participation in "Tokyo Stock Exchange IR Festa" held by TSE for information dissemination to individual investors. Some also reported that IR meetings targeting analysts and investors are broadcast live or available on their website.

In the case of targeting individual investors, while some companies have held sessions associated with the corporate characteristics by focusing on certain regions or female investors for example, some companies expressed their concerns about unfair information dissemination to a limited number of individuals and emphasized their policies not to carry out selective disclosures where only certain investors take advantage of receiving corporate information including business conditions prior to full public disclosure.

Chart 95 Regular Investor Briefings (by Market Division)

	For individual investors	For analysts and institutional investors	For foreign investors
Total	25.9%	67.2%	10.8%
JPX-Nikkei 400	45.8%	97.8%	51.5%
TSE First Section	29.3%	79.8%	18.4%
TSE Second Section	14.1%	31.2%	1.3%
Mothers	47.9%	92.8%	7.2%
JASDAQ	21.1%	57.6%	1.6%

Chart 96 Regular Investor Briefings (by Foreign Shareholding Ratio)

	For individual investors	For analysts and institutional investors	For foreign investors
Under 10%	21.3%	55.9%	2.2%
10% to under 20%	29.9%	85.4%	14.9%
20% to under 30%	36.1%	93.4%	29.8%
30% or more	42.0%	90.3%	48.3%

[79] "Regular briefing sessions" refer to the case where a company holds briefing sessions with certain frequency throughout a year (at least once a year).

② For analysts and institutional investors

Companies which hold regular briefing sessions for analysts and institutional investors accounted for 67.2% of TSE-listed companies. In 93.8% of these companies, or 63.0% of all TSE-listed companies, CEOs make presentations.

In analysis by market division (Chart 95), ratios of companies which hold regular briefings are higher in Mothers: 47.9% hold briefings for individual investors and 92.8% hold briefings for analysts and institutional investors, in contrast with TSE First Section (29.3% for individual investors; and 79.8% for analysts and institutional investors), TSE Second Section (14.1% for individual investors; and 31.2% for analysts and institutional investors), and JASDAQ (21.1% for individual investors; and 57.6% for analysts and institutional investors). Among JPX-Nikkei 400 companies, 97.8% of them hold regular briefings, 18.0 points higher than TSE First Section (79.8%).

When limited to the companies listed on TSE First Section, companies with a larger number of employees (consolidated), consolidated sales and number of consolidated subsidiaries (meaning larger companies) were more likely to hold regular briefing sessions for both individual and institutional investors.

2,288 companies provided supplementary explanations, and they mainly provided dates and attributes of institutional investors. As for dates of holding briefing sessions for institutional investors, while an overwhelming majority stated that they meet after announcements of the final financial results, 1,093 companies stated that they have quarterly briefings[80]. Efforts for enhancing investors' understanding on their companies through factory tours, etc. are also observed.

With respect to how such briefings are organized for professional institutional investors, arrangements of conference calls via the Internet or telephone network were reported. Unlike the case with individual investors, ad-hoc individual meetings were also mentioned. Again, issues arising from information dissemination to a limited number of investors are raised, and based on such recognition, some companies reported that they deliver the contents of such sessions held for institutional investors to public via the Internet or other means.

③ For foreign investors

Companies which hold regular briefing sessions for foreign investors accounted for 10.8% of TSE-listed companies. In 78.7% of these companies, or 8.5% of all TSE-listed companies, company representatives make presentations.

In analysis by market division, the TSE First Section shows the highest ratio of 18.4%, followed by Mothers at 7.2%, JASDAQ at 1.6%, and TSE Second Section at 1.3% (Chart 95). Companies with higher foreign shareholding ratio are more likely to hold regular briefings for foreign investors. As for JPX-Nikkei 400 companies, 51.5% hold briefings for foreign investors, showing 33.1 points higher than TSE First Section (Chart 96).

When limited to companies listed on TSE First Section, there is a distinct trend that companies with a larger number of employees (consolidated), consolidated sales and the number of consolidated subsidiaries (meaning the larger companies) being more likely to hold regular briefings for foreign investors.

80 Including companies which reported that they have 4 sessions in a year.

In addition, 367 companies provided supplementary explanations on briefing sessions for foreign investors. A common method reported is that executives go abroad to speak at such briefings or individual meetings. Destinations are mainly the US and Europe, but 88 companies reported that they also held such sessions in Asian countries such as Hong Kong and Singapore. The frequency is generally reported to be once a year. Similarly to briefings held in Japan, some companies described that they have held factory orientation sessions at local factories, or events or fairs abroad, to enhance investors' understanding of the companies. Such measures as Internet-based briefings and improvement of annual reports were also reported.

(2) Posting on the company website

The disclosure of IR materials[81] via company websites is a very convenient and useful tool for providing information to investors and market participants. Therefore, the Report requires companies to state whether they post IR materials on their own websites and to explain the types of information for investors they post on their URLs or company websites as supplemental explanations on IR activities, if they do post such data (e.g., information on earnings results, timely disclosure materials other than earnings results, annual securities reports or semi-annual reports, materials relating to company briefings, status of corporate governance, convening notices of general shareholder meetings, etc.).

TSE-listed companies which post IR information on company websites reached 96.5%. This high ratio proves that they have striven to improve their activities using any channel easily and widely available to general investors. In case of JPX-Nikkei 400 companies, 99.3% post such information on their websites (Chart 97).

In supplementary explanations regarding the types of IR materials posted on company websites, many companies mentioned those related to financial results: 43.4% stated "annual securities reports", 24.3% listed "earnings reports", and 13.4% referred to "convening notices" for general shareholder meetings. Almost all of the companies which provided supplementary explanations reported that they post annual securities reports, timely disclosure materials, and annual reports. There were also descriptions containing instances of corporate governance information, CSR reports, environment reports, intellectual property reports, fact books, and sustainability reports. It is assumed that this trend is also shared by most of the companies which did not provide supplementary explanations this time, and that company websites are widely used. Furthermore, cases of posting slides and videos on the websites in addition to documents were reported as efforts in visualization.

(3) Department (or person) responsible for IR

In total, 80.4% of TSE-listed companies mentioned that they have a department responsible for IR activities (including responsible persons). In terms of market division, 88.7% of Mothers-listed companies have such a department. This is only slightly higher than that of TSE First Section at 85.1%, TSE Second Section at 62.8%, and JASDAQ at 79.9% (Chart 97). Furthermore, 93.0% of JPX-Nikkei 400 companies have such a department.

Among the companies which have a department responsible for IR, the majority have a department solely for the purpose of investor relations. In terms of organizational structure, such a department is reported to be

[81] "IR materials" refer to paper-based documents or electronic files prepared by a company for the purpose of enabling investors, etc. (investors, security analysts, business partners or shareholders) to appropriately understand and evaluate the company's situations.

under the direct control of Executive Secretary's Office, or under a Business Planning Division or Corporate Strategy Division.

Chart 97 IR Materials Posted on Company Websites and IR Department (by Market Division)

	Posting of IR Data on the Company Websites	Formation of IR Department
Total	96.5%	80.4%
JPX-Nikkei 400	99.3%	93.0%
TSE First Section	97.5%	85.1%
TSE Second Section	93.0%	62.8%
Mothers	97.9%	88.7%
JASDAQ	96.2%	79.9%

Chart 98 IR Materials Posted on Company Websites and IR Department (by Foreign Shareholding Ratio)

	Posting of IR Data on the Company Websites	Formation of IR Department
Under 10%	95.4%	75.9%
10% to under 20%	98.7%	89.1%
20% to under 30%	98.2%	89.5%
30% or more	99.0%	88.9%

3. Measures to Ensure Due Respect for Stakeholders

Corporate governance of listed companies is expected to create corporate value, create jobs, and promote the maintenance of sound corporate management through stable relationships established between companies and other stakeholders. For the purpose of the Report, TSE addressed issues to be tackled by listed companies as they strive to establish stable relationships with stakeholders other than shareholders. In this regard, TSE has presented the following keyword themes focused on the development of corporate culture and the improvement of internal systems for respecting the positions of stakeholders: (1) Rules on Respect for the Positions of Stakeholders under Internal Regulations; (2) Environmental Preservation Activities and CSR Activities; and (3) Development of Policies in Relation to the Provision of Information to Stakeholders. Based on these categories, TSE is to analyze the trend.

(1) Rules on respect for the positions of stakeholders under internal regulations

60.1% of TSE-listed companies responded that they have provisions on respect for the positions of stakeholders in their internal regulations, etc. By market division, TSE First Section leads other divisions with 72.0%, followed by TSE Second Section (52.3%), JASDAQ (44.4%) and Mothers (41.2%) (Chart 99). Among JPX-Nikkei 400 companies, 83.8% reported that they have such provisions. As for the relation with foreign shareholding ratios, companies with higher foreign shareholdings are more likely to have such provisions (Chart 100). The same trend can also be seen with larger company size in terms of the number of employees (consolidated) and consolidated sales.

2,053 companies provided supplementary explanations on provisions in internal regulations. Among the stakeholders that were mentioned, there were many explanations that included shareholders (563 companies), employees (706 companies), business partners (310 companies), local communities (205 companies), and consumers and customers (261 companies). There were also reference to suppliers (11 companies) and banks (21 companies). Companies stated respect for position (575 companies), contribution to society (242 companies), trust (310 companies), expectations (81 companies), and ethics (423 companies), among other purposes. In addition, there was also description that mentioned specific measures such as distributing booklets to group company employees worldwide.

Chart 99 Measures to Ensure Due Respect for Stakeholders (by Market Division)

	Stipulation in Internal Regulations	Environmental Preservation and CSR Activities	Development of Policies on Information Provision
Total	60.1%	62.7%	45.2%
JPX-Nikkei 400	83.8%	92.8%	68.8%
TSE First Section	72.0%	78.2%	54.1%
TSE Second Section	52.3%	59.8%	30.6%
Mothers	41.2%	21.1%	54.6%
JASDAQ	44.4%	41.1%	33.7%

Chart 100 Measures to Ensure Due Respect for Stakeholders (by Foreign Shareholding Ratio)

	Stipulation in Internal Regulations	Environmental Preservation and CSR Activities	Development of Policies on Information Provision
Under ¥10 billion	41.0%	34.7%	36.7%
¥10 billion to under ¥100 billion	59.1%	62.2%	41.2%
¥100 billion to under ¥1 trillion	78.1%	89.3%	56.5%
¥1 trillion or more	94.4%	97.9%	84.6%

(2) Environmental Preservation Activities and CSR Activities

62.7% of TSE-listed companies responded that they carry out environment preservation activities, CSR activities, etc. In terms of market division, TSE First Section accounted for the largest share with 78.2%, followed by TSE Second Section (59.8%), JASDAQ (41.1%) and Mothers (21.1%) (Chart 99). Among JPX-Nikkei 400 companies, 92.8% implement such activities. This is 14.6 points higher than TSE First Section (78.2%). In relation to foreign shareholdings, in general, the proportion of companies conducting such activities increased with higher ratios (Chart 100). Also the higher the consolidated number of employees and consolidated sales, the more likely companies are to conduct such activities.

2,140 companies provided supplementary explanations concerning environmental protection and CSR activities. Of these, 237 companies reported that they obtained ISO14000 or ISO14001 certification, which is international standards for establishing an environment management system, while 237 companies published environment or CSR reports. There were also many companies providing explanations that emphasized initiatives aimed at tackling environmental issues such as the personal involvement of president (48 companies), global warming countermeasures (119 companies), and CO_2 emission figures (77 companies). Furthermore, in response to the 2011 Great Japan Earthquake disaster, many companies referred to direct actions such as disaster support (48 companies), reconstruction support (33 companies), and volunteering (90 companies). In addition, companies also explained their initiatives for disaster prevention and contingency measures (70 companies), power saving/energy saving (211 companies), solar power generation (54 companies), recycling (182 companies), and reducing use of natural resources (101 companies).

(3) Development of policies to provide information to stakeholders

1,545 or 48.6% of TSE-listed companies responded that they developed policies, etc. for providing information to stakeholders. In terms of market division, Mothers led other divisions with 54.6%, followed by TSE First Section (54.1%), JASDAQ (33.7%) and TSE Second Section (30.6%) (Chart 99). As for the relation with foreign shareholding ratios, the higher the ratio, generally the more companies are likely to establish such policies (Chart 100). In case of JPX-Nikkei 400 companies, those with such policies accounted for 68.8%, which is higher than TSE First Section (54.1%). In relation to company size, analysis based on the number of employees (consolidated) and consolidated sales show a general tendency toward higher likelihood of such policies with larger size, even though this trend is not as obvious as that seen in the previous two items.

1,542 companies provided supplementary explanation regarding providing information to stakeholders. Many of them mentioned incorporating the policies or rules described in the previous item into their stance or policy on corporate governance by means such as including them in the charter, regulations, codes of conduct, rules or policies, and disclosing them in a timely manner to external parties or including such matters in their disclosure policy.

(4) Descriptions regarding "visualization" of women's active participation in the capital market[82]

While the productive age population has been decreasing in Japan due to declining population as well as aging population combined with declining birth, the Japanese Government has recognized women as a driving force to revitalize the Japanese economy and has been promoting women's active participation in the economy. As a part of such efforts, the Cabinet Office issued a report of the Commission on "Visualization" of Women's Active Participation in the Capital Market in December 2012. This report recognized information on women's active participation as one of the "invisible value" which cannot be found in financial information, and asserted that it is important to "visualize" women's active participation in order to ensure that the corporate viability and mid- to long-term growth potential are appropriately judged in the capital market, and to gain an advantage in fundraising from investors and in other activities. The Japan Revitalization Strategy (approved by the Cabinet on June 14, 2013) also recognized the promotion of women's active participation as the core of growth strategies, and stated the Government is going "to support company initiatives that promote women's active participation and enhance companies' workplace environment, urge companies to employ more women in managerial positions and as officers and promote disclosure of information."

[82] Cabinet Office, Daiwa Institute of Research "Report on Research concerning Promoting 'Visualization' of Women's Active Participation in the Capital Market" March 28, 2014.

In this connection, the Cabinet Office requested companies to include information on women's active participation voluntarily in the Corporate Governance Report as part of disclosing their proactive stances toward it. In response, TSE revised the Reporting Guidelines for the Corporate Governance Report (effective on April 18, 2013) concerning disclosure of the state of women's active participation, and required listed companies to provide information, if applicable, in the section "Measures to Ensure Due Respect for Stakeholders" (as "other" measures). The content of such descriptions is at discretion of each company, so the analysis on this matter was made based on keywords used in the texts in terms of the frequency of the use.

First of all, we identified keywords[83] such as "women", "gender" and "gender difference" to confirm whether disclosures by the companies referred to women's active participation. 201 companies (5.9% overall) used such keywords. By market division, such keywords were used by 8.6% of companies listed on TSE First Section, 1.8% in TSE Second Section, 3.1% in Mothers, and 5.6% in JASDAQ (Chart 101). As for JPX-Nikkei 400 companies, 18.8% of them, which is twice as many compared to those in TSE First Section, referred to women's active participation. In relation with the number of employees (consolidated) and consolidated sales, the larger the number or sales, the more likely companies are to describe the state of women's active participation (Charts 102 and 103).

In order for women to play active roles in corporations, it is necessary to improve the environment in terms of work-life balance including child rearing and female roles in a family. As corporate efforts for improving the environment, 332 companies (9.7%) provided explanations using such keywords[84] as "work-life balance", "child rearing", or "(maternal/childcare) leave". Looking at each market division, the ratio was 14.2% in TSE First Section, 3.7% in TSE Second Section, 1.5% in Mothers, and 7.8% in JASDAQ (Chart 101). As for JPX-Nikkei 400 companies, 27.0% of them, which is again almost twice as many compared to those in TSE First Section, referred to women's active participation. Furthermore, in relation with the number of employees (consolidated) and (consolidated) sales, similarly to explanations on women's active participation, the larger the number or sales, the more likely companies are to refer to the state of women's active participation (Charts 102 and 103).

It is expected that women's active participation will draw more attention in the future, and companies are expected to describe more about this matter accordingly.

[83] It includes companies which mentioned one of the following keywords: "women", "gender", "gender difference" and "diversity".
[84] We counted descriptions which include one of the following keywords: "diverse human resources", "equal treatment", "work-life balance", "child rearing", "child raising" or "(maternal/childcare) leave".

Chart 101 "Visualization" of Women's Active Participation (by Market Division)

	Women's Active Participation	Improving the Environment for Women's Active Participation
Total	5.9%	9.7%
JPX-Nikkei 400	18.8%	27.0%
TSE First Section	8.6%	14.2%
TSE Second Section	1.8%	3.7%
Mothers	3.1%	1.5%
JASDAQ	5.6%	7.8%

Chart 102 "Visualization" of Women's Active Participation (By Number of Employees (Consolidated))

	Women's Active Participation	Improving the Environment for Women's Active Participation
under 100	1.0%	2.4%
100 to under 500	2.9%	5.2%
500 to under 1000	3.2%	6.5%
1000 or more	10.1%	15.7%

Chart 103 "Visualization" of Women's Active Participation (by Consolidated Sales)

	Women's Active Participation	Improving the Environment for Women's Active Participation
Under ¥10 billion	3.2%	4.2%
¥10 billion to under ¥100 billion	3.4%	7.4%
¥100 billion to under ¥1 trillion	9.2%	15.4%
¥1 trillion or more	34.3%	40.6%

VI. Basic Views on Internal Control System and the Progress of System Development

1. Basic Views on Internal Control System and the Progress of System Development

Under the Companies Act, large companies[85] or Companies with Committees[86] are required to develop a "system to ensure appropriate company operations" (a so-called internal control system). In light of this situation, recognizing that companies need to inform general investors of their basic views on internal control systems, TSE requires listed companies to describe relevant items in the Report. TSE also requires companies to describe their approach and basic policies from the perspective of ensuring the appropriate fulfillment of operations. [87] These concepts should illustrate how a company can manage organizations to attain management strategies or business objectives, and how a company can comply with laws, regulations, and Articles of Incorporation.

With respect to the basic views on internal control systems and the development of the systems themselves, many companies provided descriptions according to the items prescribed in the Companies Act and the Ordinance for Enforcement of the Companies Act[88].

Specifically, 27.4% of TSE-listed companies referred to the term "the Companies Act". [89] In total, 78.6% of the companies referred to "risk management" and more companies, reaching 94.3%, referred to "legal compliance[90]". This analysis was based on keywords used in their texts, and there were no major differences across market divisions (Chart 104).

As for "system to store and manage the information related to the operations of directors/*shikkoyaku*[91]", 80.3% of TSE-listed companies referred to their documentation rules.

Concerning "rules and system for management of risk of loss[92]", 96.6% of TSE-Listed companies reported that rules on risk management have been adopted. Specific descriptions include establishment of individual rules addressing each specific risk, and preparation of measures to be taken when risk situations arise including establishment of a risk management committee.

Regarding "system to ensure proper execution of duties by directors/*shikkoyaku*[93]", 90.9% of TSE-listed companies provided a wide variety of descriptions. Generally, such descriptions focused on management system taking corporate governance into account, and management procedures with management cycle in mind.

"System to ensure that employees' execution of duties comply with relevant laws and regulations as well as

[85] Article 362, Paragraph 4, Item 6 and Paragraph 5 of the Companies Act.
[86] Article 416, Paragraph 1, Item 1(e) and Paragraph 2 of the Companies Act.
[87] In addition, the Report requires companies to describe the state of compliance system, risk management system, information management system.
[88] Article 100 and Article 112 of the Ordinance for Enforcement of the Companies Act.
[89] Although not directly referred to the Companies Act, the large majority of companies described their basic views in accordance with the provisions of the Companies Act.
[90] Reference to "legal compliance" covers companies which mentioned one of the following keywords: "legal compliance", "compliance with laws and regulations" and "compliance".
[91] Article 100, Paragraph 1, Item 1 and Article 112, Paragraph 2, Item 1 of the Ordinance for Enforcement of the Companies Act.
[92] Article 100, Paragraph 1, Item 2 and Article 112, Paragraph 2, Item 2 of the Ordinance for Enforcement of the Companies Act.
[93] Article 100, Paragraph 1, Item 3 and Article 112, Paragraph 2, Item 3 of the Ordinance for Enforcement of the Companies Act.

the Articles of Incorporation[94]" was mentioned by 96.6% of TSE-listed companies. Most frequently observed descriptions are formulation of guidelines including codes of conduct and compliance rules. To enhance effectiveness of such rules, some companies further referred to the establishment of responsible committees and implementation of related training, as well as consultation services for employees and whistleblowing programs. Furthermore, some described that internal audit office or the like conducts internal audits to judge effectiveness of the subject system and provide feedback to management. In that connection, some made reference to the roles of *kansayaku* and outside directors, and outside lawyers' check of legal compliance as well as compliance with the articles of incorporation.

"System to ensure proper business operations of the stock company and the business group consisting of its parent company and subsidiaries[95]" was referred to by 87.8% of TSE-listed companies. While being generally the same as descriptions concerning the headquarters, the descriptions include formulation of group management rules, formation of compliance department responsible for managing affiliated companies, internal control system overseeing subsidiaries and overseas business, and consultative meetings of *kansayaku* across the group. With respect to control over subsidiaries, two different policy directions are observed: some expressed that it is necessary to strengthen control over their subsidiaries and appoint outside directors and outside *kansayaku* of such subsidiaries from the parent company; and others emphasized the independence of subsidiaries from parent companies.

As for "matters concerning employees who assist *kansayaku* when requested[96]" and "matters concerning independence of the employee from directors set forth in the preceding item[97]", descriptions were generally in line with the Act. The companies made due consideration of their independence in terms of appointment and discharge, performance evaluation, and personnel transfer. Similar explanations were made concerning audit committee member of the Companies with Committees[98].

Regarding "system for reporting from directors, employees and others to *kansayaku*[99]" and "other system to ensure that *kansayaku* conduct audits effectively[100]", companies referred to rules concerning *kansayaku*'s rights to participate in certain significant meetings, and rights to review material documents. In addition, there was a case of allowing employees to report directly to *kansayaku*.

As for descriptions provided by JPX-Nikkei 400 companies, the trend was not so different from that of other TSE-listed companies, yet a higher percentage of companies mentioned such keywords as "the Companies Act", "information management" and "ethics".

[94] Article 100, Paragraph 1, Item 4 and Article 112, Paragraph 2, Item 4 of the Ordinance for Enforcement of the Companies Act.
[95] Article 100, Paragraph 1, Item 5 and Article 112, Paragraph 2, Item 5 of the Ordinance for Enforcement of the Companies Act.
[96] Article 100, Paragraph 3, Item 1 of the Ordinance for Enforcement of the Companies Act.
[97] Article 100, Paragraph 3, Item 2 of the Ordinance for Enforcement of the Companies Act.
[98] Article 112, Paragraph 1, Items 1 and 2 of the Ordinance for Enforcement of the Companies Act.
[99] Article 100, Paragraph 3, Item 3 of the Ordinance for Enforcement of the Companies Act.
[100] Article 100, Paragraph 3 Item 4 of the Ordinance for Enforcement of the Companies Act.

Chart 104 Basic Views on and State of Internal Control System

		Companies Act	Risk Management	Legal Compliance	Information Management	Ethics	Decision Making
		Ratio	Ratio	Ratio	Ratio	Ratio	Ratio
All the data		27.4%	78.6%	94.3%	18.3%	53.7%	62.1%
Organizational form	Companies with Kansayaku	27.3%	78.7%	94.4%	18.4%	53.8%	62.4%
	Companies with Committees	28.1%	73.7%	89.5%	15.8%	47.4%	43.9%
Market section	TSE First Section	28.9%	80.4%	95.6%	20.8%	56.4%	62.3%
	TSE Second Section	24.6%	73.8%	93.0%	16.0%	50.6%	58.7%
	Mothers	24.7%	78.4%	91.8%	19.6%	49.0%	69.1%
	JASDAQ	26.8%	80.4%	93.6%	17.7%	53.2%	62.8%
	JPX-Nikkei 400	34.5%	80.0%	96.5%	24.5%	64.3%	60.8%

2. Matters concerning Establishment of System for Eliminating Anti-Social Forces

The Report requires listed companies to describe their approaches to prevent involvement of anti-social forces in business activities or damages caused by such forces; and status of creating an environment for the above prevention, including establishment of a code of ethics, code of conduct, internal regulations, etc. as well as a corporate structure which enables a company-wide response.

Concerning approaches to eliminate anti-social forces, companies generally described that they have no relationship with such anti-social forces as corporate extortionists or organized crime syndicates, and stand firmly against them. Concerning systems for eliminating anti-social forces, 2,278 companies[101] mentioned cooperation with police agencies. In addition to police agencies, a number of companies referred to the exchange of information with organizations against such special crimes (i.e., crimes against corporations) and consultation with corporate lawyers. Furthermore, development of basic policies and manuals, implementation of employee trainings, and appointment of responsible persons were also mentioned.

[101] This figure represents an aggregated total of the companies which mentioned it specifically in this section. There are some other companies, which referred to it in other sections such as “I. Basic Views on Corporate Governance” together with their approaches toward compliance, legal compliance, etc.

VII. Matters Concerning Anti-Takeover Measures

The Report requires companies to indicate whether any anti-takeover measures[102] have been adopted[103]. Companies which adopted such measures are required to describe objectives of the adoption and an overview of the scheme. While not a few companies put anti-takeover measures in place, such measures may create a large impact on the rights of shareholders and investors, and have the potential to be abused to serve the interests of officers. In this respect, the Report requires companies with such measures to provide explanations including the rationality of such adoption.

1. Number of Companies which Adopt Anti-Takeover Measures

According to the Reports, companies which adopted anti-takeover measures accounted for 14.6% of TSE-listed companies, or 497 companies. Since the start of the survey for this White Paper in 2006, the number of companies with anti-takeover measures has increased from 132 to 461 in 2008, and then remained unchanged at the 2008 level. Although the population of the survey significantly increased due to the merger between TSE and Osaka Securities Exchange, the number of companies adopting such measures has not yet exceeded 500.

The adoption ratios by market division were as follows: 21.6% in TSE First Section, 9.9% in TSE Second Section, 4.6% in Mothers, and 5.0% in JASDAQ (Chart 105). In relation to company size, generally, larger companies are more likely to have introduced anti-takeover measures (in terms of the relation with consolidated sales; see Chart 106), although decreasing tendency was seen in “1 trillion yen or more” category. As for the relation with foreign shareholding ratios, the highest adoption ratio was observed among companies in the range of “20% to under 30%”, which accounted for 26.2%, followed by companies in the range of “10% to under 20%”, which account for 23.7% (Chart 107).

In relation to the shareholding ratio of the largest shareholder, the overall trend is that companies with lower shareholding ratio are more likely to have adopted such measures. With the shareholding range from 5% to less than 10% seeming to be a threshold to consider anti-takeover measures, the adoption ratio in this range is the highest 30.6%. This trend has remained unchanged from the last survey (Chart 108).

As for the relation with parent companies, no company which has a parent company has adopted anti-takeover measures, because unsurprisingly there is a low risk for takeover. Meanwhile, 6 companies which have controlling shareholders have anti-takeover measures.

As to the industrial sectors, the rate of adoption is high among glass & ceramic products (33.9%), iron & steel (38.3%), and land transportation (35.1%). On the other hand, companies in the air transportation, banking, insurance, and other financial business sectors have not adopted anti-takeover measures, while the rate of adoption is low among the electric power & gas (4.5%), real estate (6.7%), and construction (6.2%) sectors.

[102] “Anti-takeover measure” refers to a measure which a listed company adopts prior to the commencement of a takeover by a person who is not desirable to the managements, out of measures to make it difficult to realize the acquisition of the listed company (meaning an act to acquire as many shares as necessary to exercise influence on the company) by issuing new stocks or new share subscription rights mainly for the purpose other than fundraising and other business reasons.

[103] “Adoption” here refers to an act where a company made decision on specific details of anti-takeover measures, such as a resolution on issuance of new stocks or new share subscription rights for takeover defense.

Chart 105 Adoption of Anti-Takeover Measures (by Market Division)

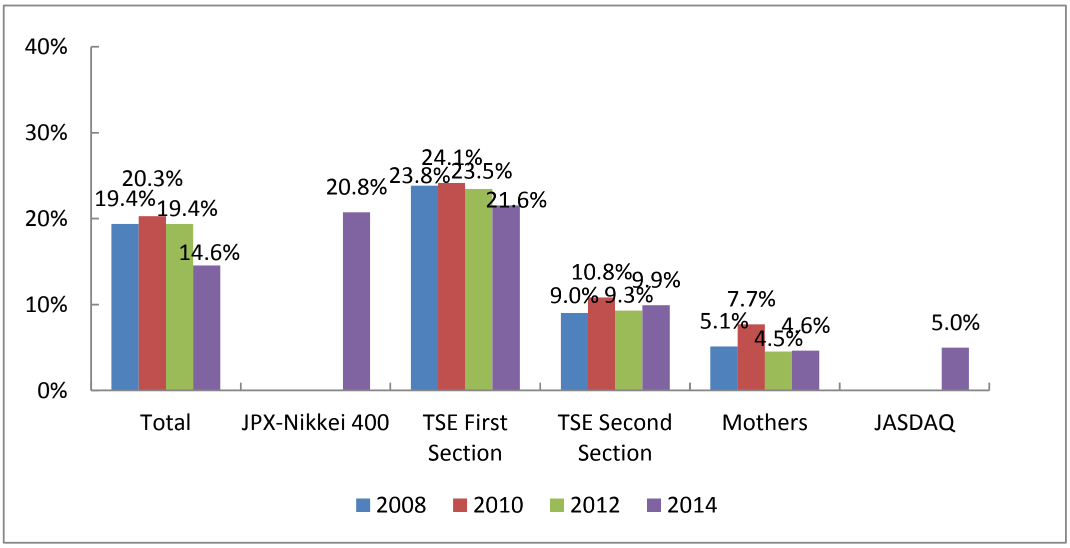


Chart 106 Adoption of Anti-Takeover Measures (by Consolidated Sales)

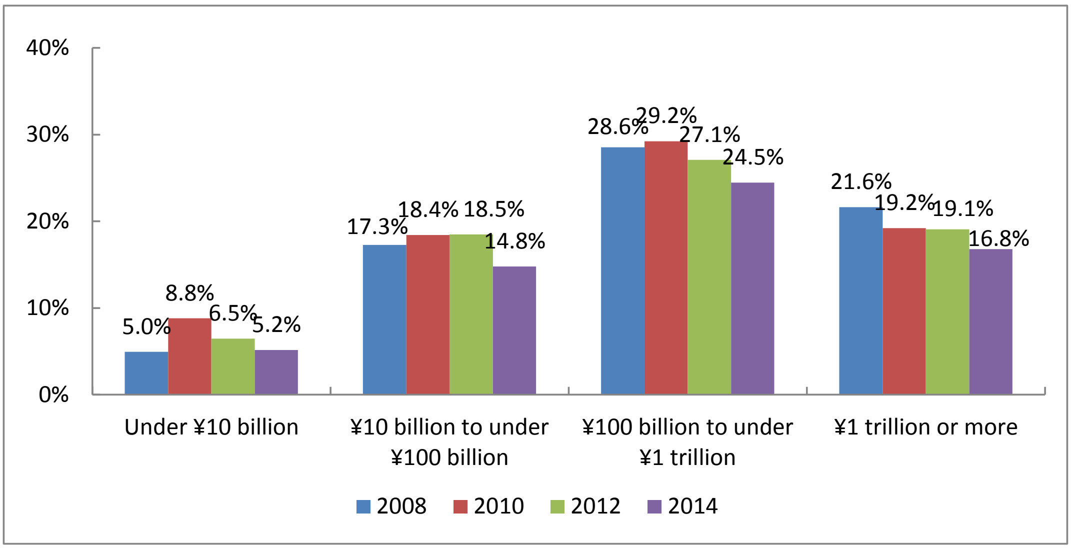


Chart 107 Adoption of Anti-Takeover Measures (by Foreign Shareholding Ratio)

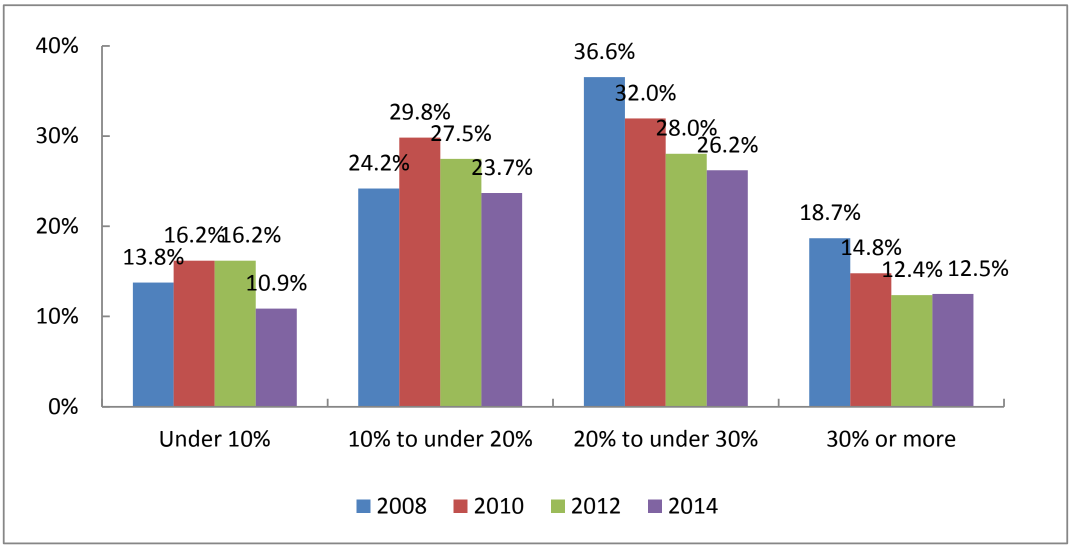
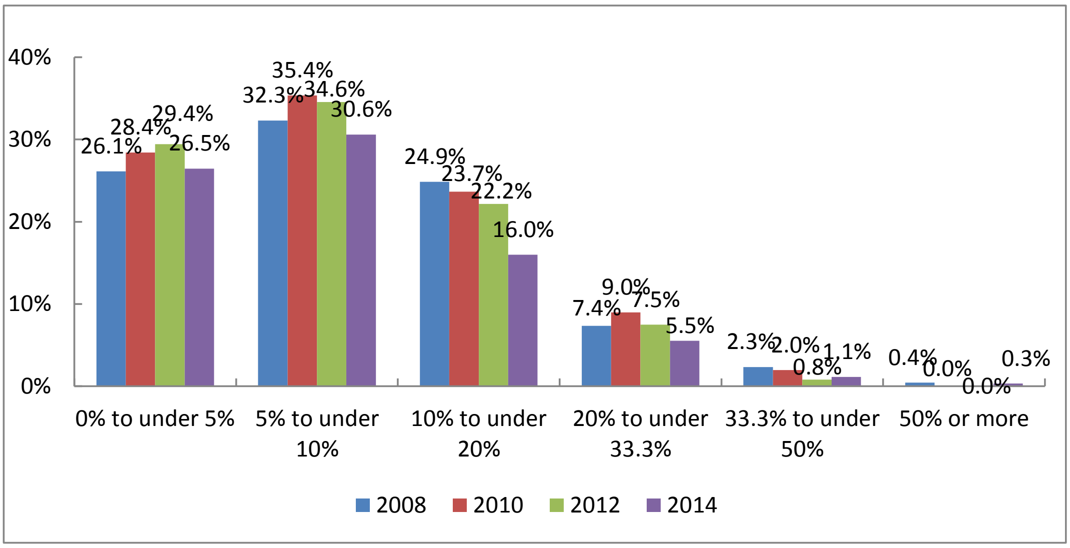


Chart 108 Adoption of Anti-Takeover Measures (By Shareholding Ratio of the Largest Shareholder)



2. Corporate Governance System of Companies which Adopted Anti-Takeover Measures

Chart 109 shows the state of corporate governance by classifying companies depending on whether or not they have adopted anti-takeover measures. With respect to the average number of directors per company, adopting companies have 8.61 directors, surpassing the average number of 7.31 at non-adopting companies. As for appointment of outside directors, 73.8% of adopting companies appointed outside directors, whereas 62.8% of non-adopting companies appointed outside directors.

The average number of outside directors is higher in adopting companies, showing 1.28 compared with 1.07 in non-adopting companies. The average number of independent directors/*kansayaku* is 2.67 in adopting companies, and 2.13 in non-adopting companies. Adopting companies display a trend of establishing monitoring systems by independent outsiders as well as promoting the appointment of outside directors. For comparison, with regard to the average numbers of *kansayaku* and outside *kansayaku*, there were no major differences between adopting and non-adopting companies.

With respect to measures for shareholders and investors implemented by adopting companies, as efforts for facilitating their active participation in general shareholder meetings, those which send convening notices well in advance accounted for 60.6% (vs. 38.4% for non-adopting companies); those which schedule general shareholder meetings avoiding the peak day accounted for 39.1% (vs. 33.0%; both limited to companies with a fiscal year ending in March); and those which allow the exercise of voting rights by electronic means accounted for 31.8% (vs. 20.0% for non-adopting companies). The results suggest that adopting companies are generally proactive in these efforts (Chart 110). Similarly, concerning the ratio of companies which hold briefings for investors, adopting companies generally showed higher ratios in most of the categories: 25.6% of adopting companies (vs. 26.0% of non-adopting companies) hold briefings for individual investors; 75.7% (vs. 65.7%) for analysts and institutional investors; and 12.7% (vs. 10.5%) for foreign investors (Chart 111). Moreover, with respect to IR activities, 98.0% of adopting companies (vs. 96.3% of non-adopting companies) post IR information on their company websites, and 81.7% (vs. 80.2%) have a responsible department: high percentages here as well. In connection with such measures, whether or not presentations are given by top management of a company indicates the company's attitude toward shareholders and investors. Analyzing ratios of companies whose top management have directly given messages in regular seminars or on the company website, adopting companies show higher ratio than non-adopting companies, indicating that adopting companies are more proactive in these efforts for shareholders and investors.

While quite a few companies emphasized that they take due account of stakeholders other than shareholders upon adopting anti-takeover measures, companies which adopted such defense measures show higher ratios in the following categories: 70.2% (vs. 58.4% of non-adopting companies) stipulated rules to respect the positions of stakeholders in their internal regulations; 81.1% (vs. 59.5%) implement environmental preservation or CSR activities; and 48.9% (vs. 44.6%) developed policies on information provision. The results prove that companies which adopted anti-takeover measures are more inclined to take measures to respect the positions of stakeholders (Chart 112).

Chart 109 Relation between Adoption of Anti-Takeover Measures and Governance

	Average number of directors	Ratio of appointing outside directors	Average number of outside directors	Average number of kansayaku	Average number of outside kansayaku	Average number of independent director/kansayaku
Companies adopting takeover defense measures	8.61	73.8%	1.28	3.82	2.42	2.67
Companies not adopting takeover defense measures	7.31	62.8%	1.07	3.53	2.42	2.13

Chart 110 Relation between Adoption of Anti-Takeover Measures and Efforts for Facilitating Active Participation in General Shareholder Meetings

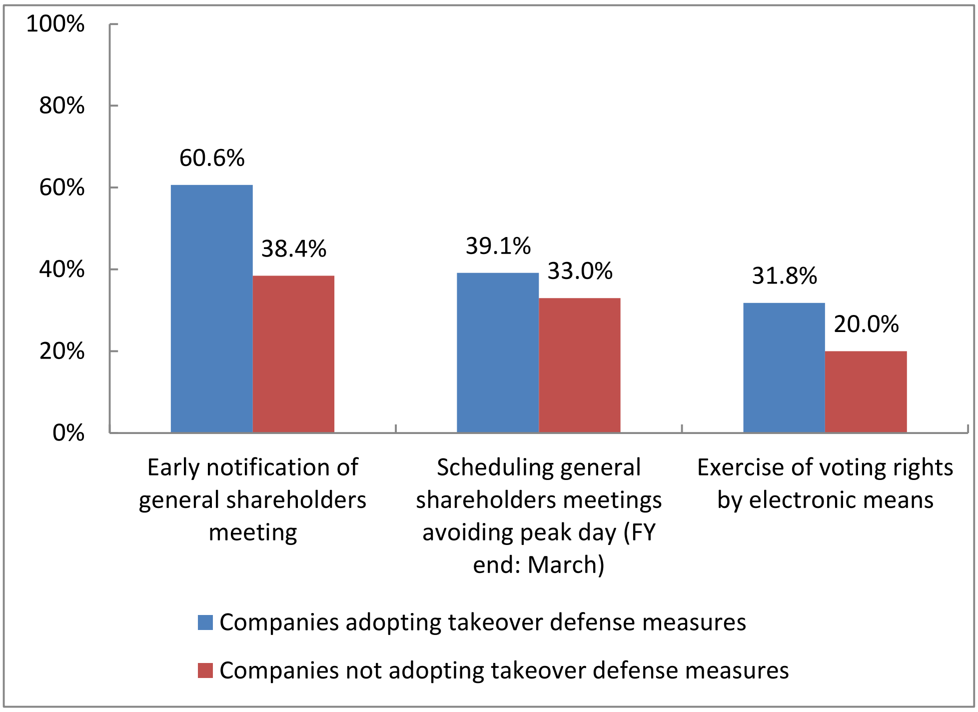


Chart 111 Relation between Adoption of Anti-Takeover Measures and Regular Investor Briefings

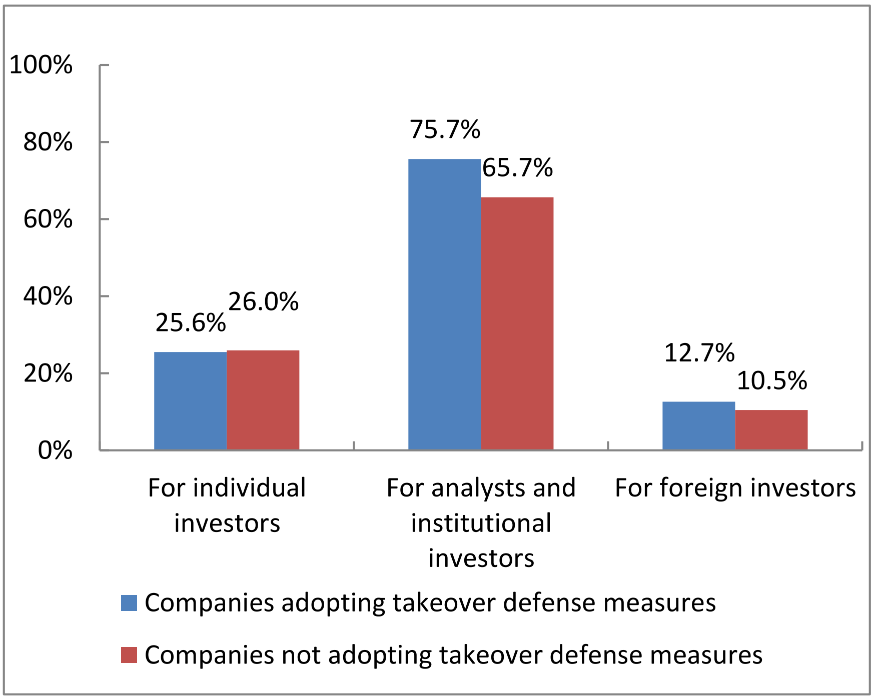
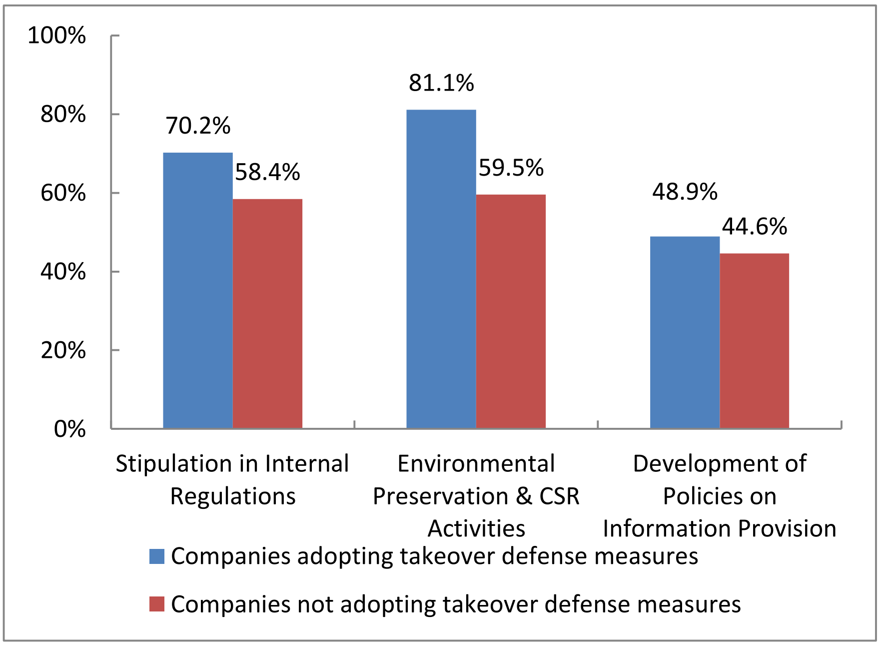


Chart 112 Relation between Adoption of Anti-Takeover Measures and Respect to Stakeholders



While the state of adoption of anti-takeover measures are as outlined above, the specific contents of such measures have been increasingly becoming standardized with the growing adoption of anti-takeover measures: first of all, a company set out certain procedures for bulk purchase of shares; then, in the case where an acquirer does not comply with such procedures, or where the company determines that a bulk purchase may damage common interests of the shareholders, the company takes a countermeasure by providing a new share subscription right, etc. to a third party other than the bulk purchaser. Such shareholders' rights plan in advance warning type is typically found in the descriptions. Furthermore, many non-adopting companies have introduced a framework such as an independent committee consisting of external parties to eliminate potential arbitrary decisions by the current management upon imposing a countermeasure.

Meanwhile, out of all companies which have not adopted anti-takeover measures, more than 200 companies provided reasons for non-adoption. Most of these companies expressed that maximization of corporate value is the most effective takeover defense measure, and represented such approaches that they enhance their corporate values by strengthening relationships with their stakeholders, and proactively implement IR activities in order for the market to judge stock prices properly.

Furthermore, while having no intention to adopt anti-takeover measures, certain companies articulated the following approaches: always remaining careful about their share prices and composition of shareholders; preparation of risk management manuals to address risks of hostile takeover attempts; and making efforts to increase long-term shareholders through shareholding associations for clients, employees, and officers as well as cross-shareholdings with business partners. Some companies mentioned that they would continue discussions on adoption while watching trends in society.

In the Reports we used for this survey, 49 companies, which had once adopted anti-takeover measures, reported that they would discontinue such measures after careful consideration. Reasons for discontinuation include that they believe that it should be up to shareholders to decide whether to accept a takeover bid; and that the company's efforts to execute the mid-term management plans would maximize corporate value, and in turn secure common interests of shareholders and improve their benefits. In addition, some companies mentioned improvements to the regulatory environment through amendments of the Financial Instruments and Exchange Act.

Prospective Challenges – Concluding Remarks

The year 2015 would be a turning point of corporate governance in Japan. The revised Companies Act, which came into effect on May 1, will bring about some important changes related to corporate governance, such as the obligation to explain reasons for not appointing outside directors, and a new organizational form - Company with Supervisory Committee. Furthermore, the Japan's Corporate Governance Code, a brand new framework for corporate governance regulation, is to be introduced in June.

Taking 'Comply-or-Explain' approach, the Code assumes that if a listed company finds specific principles inappropriate to comply with in view of its individual circumstances, they need not be complied with, provided that the company explains fully the reasons why it does not comply. In disclosure of information related to corporate governance from now on, a great deal of attention will be drawn to how listed companies 'comply' with the Code, and how they 'explain'. Under the Corporate Governance Code as well as the Stewardship Code, which was established earlier in February 2014, listed companies are expected to aim at achieving sustainable growth and increasing corporate value over the mid to long-term through constructive dialogue with shareholders and investors.

To put this new approach on track, TSE is determined to make efforts to further enhance the provision of information on corporate governance of listed companies, so that such information can be used as a starting point of or tool for facilitating dialogue between listed companies and shareholders/investors, and as references for listed companies to consider their corporate governance initiatives.

This White Paper mainly describes 'forms' of corporate governance of listed companies. However, in order to achieve sustainable growth and increase mid- to long-term corporate value, such 'forms' of corporate governance must be accompanied by 'substance'. For example, Principle 4.8 of the Corporate Governance Code stipulates that companies should appoint at least two independent directors. Yet as shown in the [Background] in the Final Proposal of the Code, "*it would not be appropriate to think that the mere appointment of independent directors will drive corporate growth. Rather, success will depend on whether measures are taken to take advantage of the presence of independent directors and their expected roles and responsibilities.*" This point cannot be emphasized too strongly. In the future, in addition to quantitative information such as the number of independent directors, qualitative information such as how companies make use of their 'forms' of governance would be increasingly becoming more important. We will further make efforts in order for Japan's corporate governance reform to bear fruit in a real sense, thus realizing sustainable growth of the Japanese market and affluent society through sustainable increase in corporate value.