

TSE-Listed Companies White Paper on Corporate Governance 2021

Tokyo Stock Exchange, Inc.



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Introduction

In recent years, some progress has been made with efforts to strengthen corporate governance at companies listed on the Tokyo Stock Exchange (hereinafter, "TSE"). For example, the percentage of companies listed on TSE First Section that appoint at least one-third of independent directors on their boards has steadily increased from 6.4% in 2014 to 58.7% in 2020. In addition, the majority of companies have established nomination and remuneration committees, including optional committees, and the independence of these committees is increasing.

TSE conducts a comprehensive analysis using data from reports on corporate governance disclosed by listed companies (hereinafter, "CG Reports"), and issues a White Paper on Corporate Governance every other year since 2007, to provide a multifaceted picture of the status and progress of corporate governance efforts by listed companies. This White Paper on Corporate Governance 2019 (hereinafter, "this White Paper ") is the eighth publication in the series.

Up until now, starting with urging listed companies to enhance corporate governance in 1999, TSE has pushed forward with various initiatives, formulating the Principles of Corporate Governance for Listed Companies in 2004, institutionalizing CG Reports in 2006, and introducing the independent directors/*kansayaku* (Audit & Supervisory Board members) system in 2009. In 2015, TSE formulated the Corporate Governance Code (hereinafter, the "Code"), which outlines key principles to help ensure effective governance by listed companies. The Code was then revised in June 2018.

Discussions are currently underway concerning a second revision of the Code, aiming to further ensure the effectiveness of corporate governance reform. A revision of the Code is scheduled in the course of 2021.

This document analyzes the state of corporate governance, taking into account recent progress made with corporate governance reform at Japanese companies. We hope that this White Paper will provide the stakeholders involved in these efforts with an overview of the state of corporate governance efforts by listed companies in Japan as these undergo dramatic changes.

Finally, we would like to acknowledge the invaluable assistance provided by Daiwa Institute of Research Ltd. in the preparation of this White Paper. We would like to take this opportunity to express our deepest gratitude.

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Tokyo Stock Exchange, Inc.

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Attachments

Attachment: Itemized Summary Table (information on company attributes and implementation of all 78 principles of the Code)

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Part I

Structure of this Document

This document can roughly be divided into “Part I,” “Part II” and “Attachments.”

“Part I” introduces the corporate attributes and capital structure, etc. of TSE-listed companies subject to CG Report analysis, and then provides an overview of the status of whether they comply or explain non-compliance with the Code.

“Part II” follows the Code’s chapter structure and contains an analysis of the details of disclosures made by listed companies in the CG Reports. It consists of five sections: “1. Securing the Rights and Equal Treatment of Shareholders,” “2. Appropriate Cooperation with Stakeholders Other than Shareholders,” “3. Ensuring Appropriate Information Disclosure and Transparency,” “4. Responsibilities of the Board” and “5. Dialogue with Shareholders”.

Finally, a table with comply-or-explain for all of the Code’s 78 principles on the horizontal axis and information on the attributes of listed companies on the vertical axis is included as an attachment.

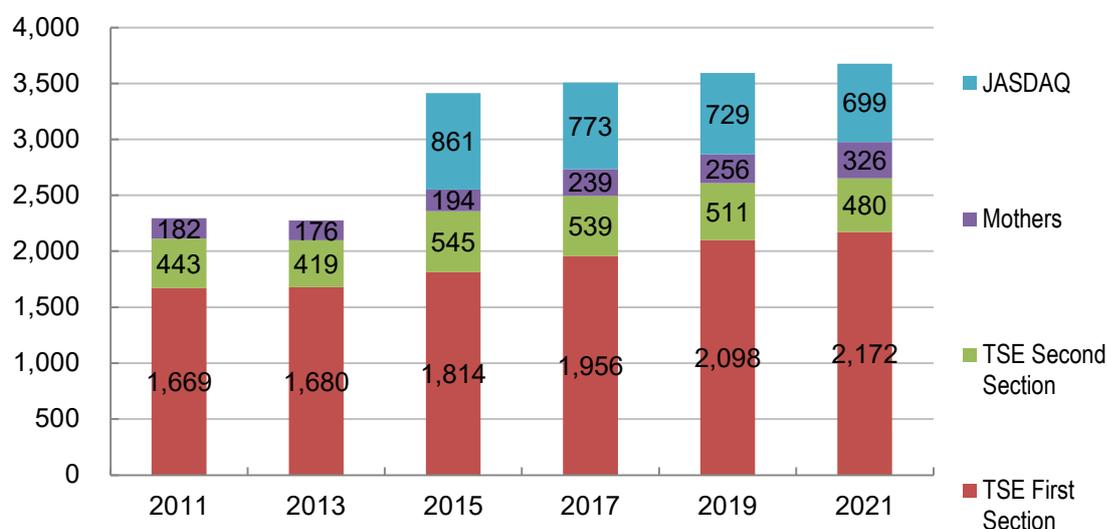
Scope of Analysis

This analysis covers CG Report data submitted by all 3,677 Japanese companies whose shares are listed on the First Section, Second Section, Mothers, and JASDAQ of the Tokyo Stock Exchange as of August 14, 2020. With regard to the Code, we analyzed the compliance status of 2,652 companies on TSE First and Second Sections as of the same date.

Furthermore, we also looked at data from the previous surveys, and referred to changes in numbers, where appropriate.¹

¹ In the charts in this White Paper, “changes from the previous survey” refers to the comparison with data from the previous White Paper (current as of July 13, 2018). Some charts also include time-series comparisons with earlier data. In the time-series comparison with 2006, 2008, 2010, 2012, 2014 and 2016, the data used was current as of October 31, 2006, August 21, 2008, September 10, 2010, September 10, 2012, July 14, 2014 and July 14, 2016, respectively. We use “points” (percentage points) for comparisons between percentages.

Chart 1 Changes in the Number of Companies Subject to Analysis in the “White Paper on Corporate Governance”



White Paper version (as of)	2011 2010/9/10	2013 2012/9/10	2015 2014/7/14	2017 2016/7/14	2019 2018/7/13	2021 2020/8/14
TSE First Section	1,669	1,680	1,814	1,956	2,098	2,172
TSE Second Section	443	419	545	539	511	480
Mothers	182	176	194	239	256	326
JASDAQ			861	773	729	699
TOTAL	2,294	2,275	3,414	3,507	3,594	3,677

Methodology for Analysis

Since July 7, 2008, XBRL files have been automatically generated upon submission of the CG Reports to TSE. TSE has used data in XBRL files for numerical data classification and aggregation in the analysis presented in this document as well.² To analyze the overall trends of topics in free text entry sections, TSE defined several keywords, as appropriate, and aggregated the number of responses containing such keywords in the descriptions. Furthermore, this White Paper will discuss typical and characteristic examples of the text of disclosures based on the Code’s principles.

²As numerical data is rounded, aggregate percentages in some charts may not amount to 100%, and aggregate figures in charts may not match the figures in the text.

1. Corporate attributes³

1-1. Market divisions

The numbers of TSE-listed companies by market division are as follows: 2,172 companies listed on TSE First Section, 480 companies on TSE Second Section, 326 companies on Mothers and 699 companies on JASDAQ. The number of constituent companies of the JPX-Nikkei Index 400 (hereinafter, "JPX-Nikkei 400") is 396. Note that there are 285 companies (7.8%) that are cross-listed on other exchanges in Japan.

Chart 2 Number of Listed Companies (by Market Division)

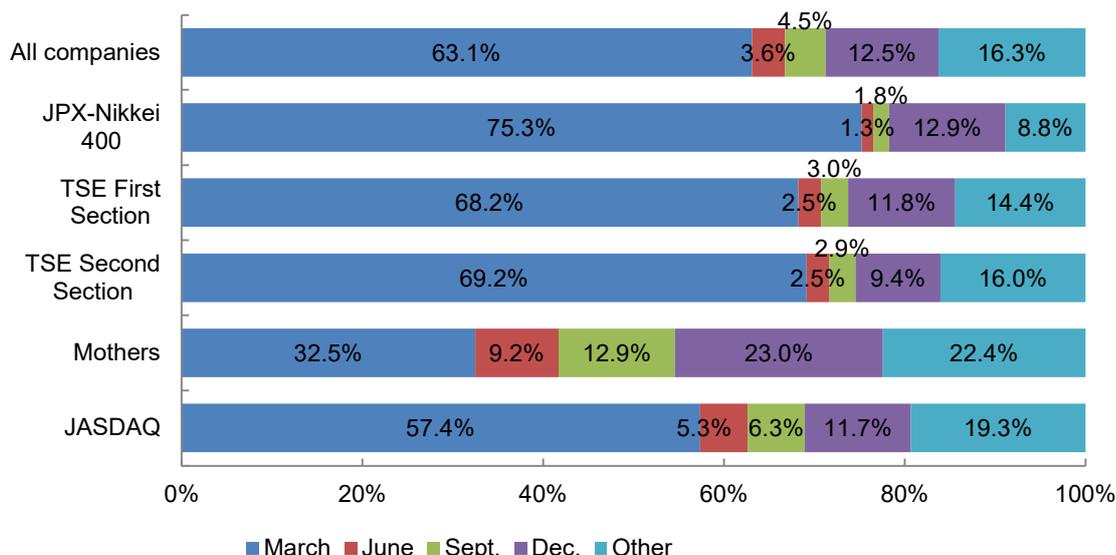
Market	Number of companies		% of total
		Change from 2019	
TOTAL	3,677	83	100.0%
JPX-Nikkei 400	396	▲ 3	10.8%
TSE First Section	2,172	74	59.1%
TSE Second Section	480	▲ 31	13.1%
Mothers	326	70	8.9%
JASDAQ	699	▲ 30	19.0%

1-2. Fiscal year-end

The end of the fiscal year at TSE-listed companies is as shown in Chart 3. The majority of companies (63.1%) use a fiscal year ending in March. The percentage of companies with fiscal years ending on March 31 has decreased by 13.3 percentage points over the past 14 years, from 76.4% in 2006. If we look at each market division in terms of the percentage share occupied by companies with a fiscal year ending in March, the share is large in TSE First Section (68.2%) and TSE Second Section (69.2%), while in Mothers and JASDAQ it is only 32.5% and 57.4%, respectively, with some companies ending their fiscal year in December and others in September.

³ In the CG Report, companies are, in principle, required to report their corporate attributes as of the date of submission; however, the number of employees (consolidated), net sales (consolidated), the number of consolidated subsidiaries, the percentage of shares held by foreign nationals and the status of major shareholders should be current as of the end of the immediately preceding fiscal year. Note that because companies are not required to state market capitalization in their CG Report, market capitalization as of August 14, 2020 was aggregated separately.

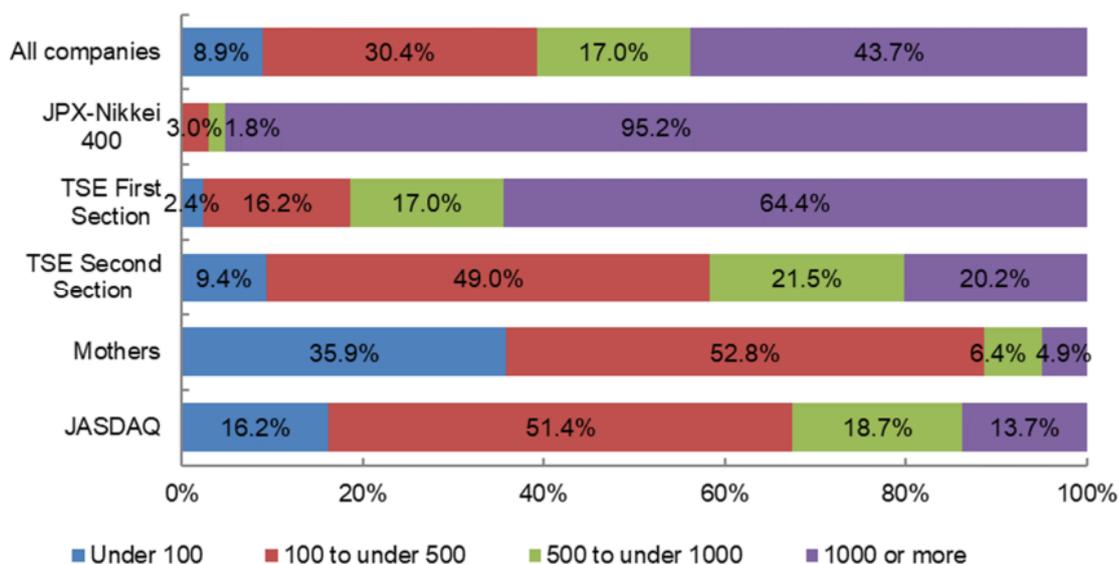
Chart 3 Fiscal Year End (by Market Division)



1-3. Number of employees (consolidated)

The consolidated number of employees of TSE-listed companies⁴ is as shown in Chart 4. Companies with 1,000 or more employees (consolidated) accounted for 43.7% of the total. By market division, companies in TSE First Section tend to be larger, with 64.4% having 1,000 or more employees (consolidated) — more than any other market division.

Chart 4 Number of Employees (Consolidated) (by Market Division)

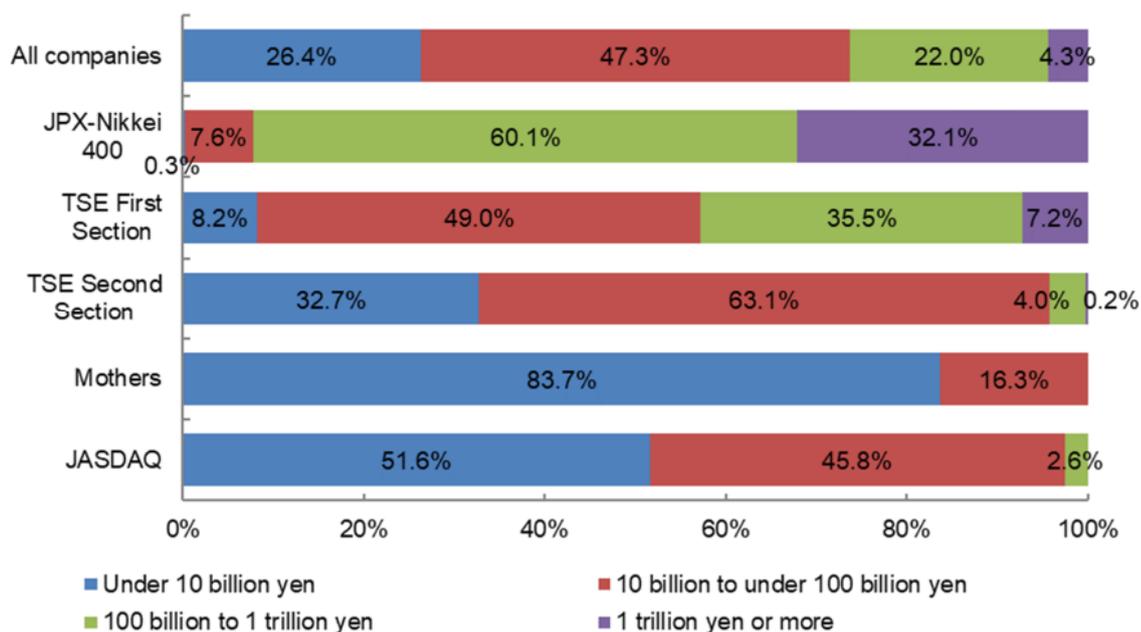


⁴ Non-consolidated numbers of employees were used for companies that do not prepare consolidated financial statements.

1-4. Consolidated Sales

Consolidated sales of companies listed on TSE are shown in Chart 5. Companies with 10 billion yen to less than 100 billion yen in consolidated sales accounted for the largest share at 47.3%. By market division, the percentage of companies with high consolidated sales tends to be higher in the order of TSE First Section, TSE Second Section, JASDAQ and Mothers. Among JPX-Nikkei 400 companies, companies with a market capitalization of 100 billion yen or more made up the majority at 92.2%, including those with 1 trillion or more, which accounted for 32.1%.

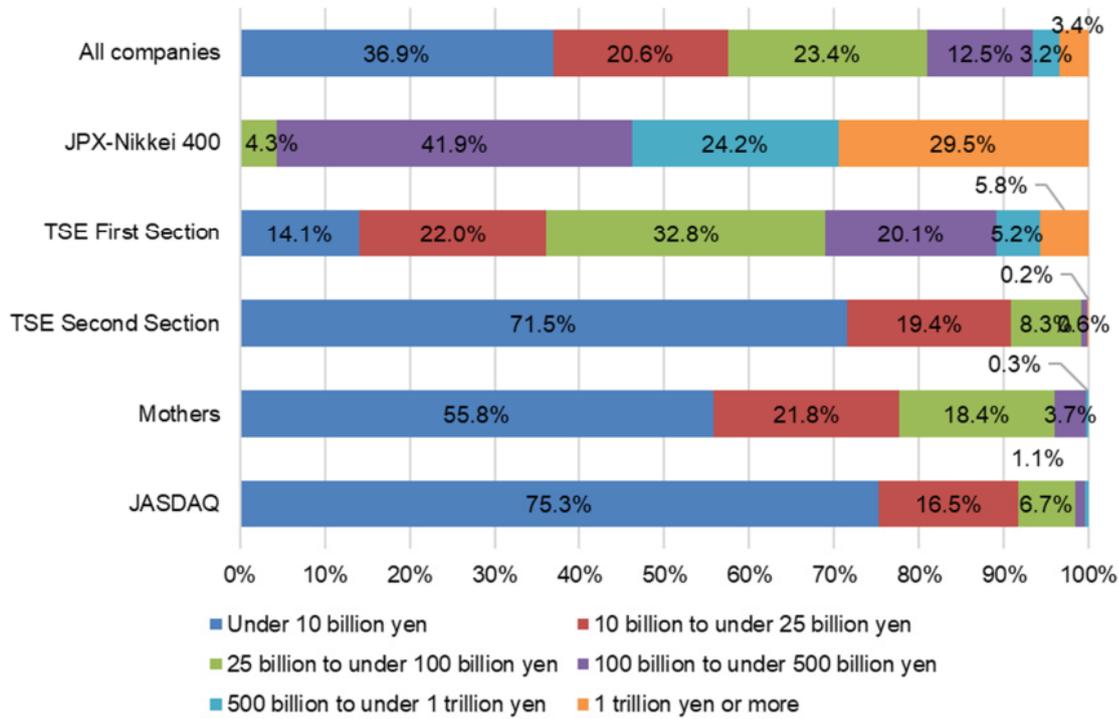
Chart 5 Consolidated Sales (by Market Division)



1-5. Market capitalization

The market capitalization of TSE-listed companies is as shown in Chart 6. By market division, the percentage of companies with a high market capitalization is higher in TSE First Section, and there is a tendency for many companies with low market capitalization (less than 10 billion yen) to be listed on TSE Second Section, JASDAQ and Mothers. Among JPX-Nikkei 400 companies, companies with a market capitalization of 100 billion yen or more made up the majority at 95.7%, including those with 1 trillion yen or more, which accounted for 29.5%.

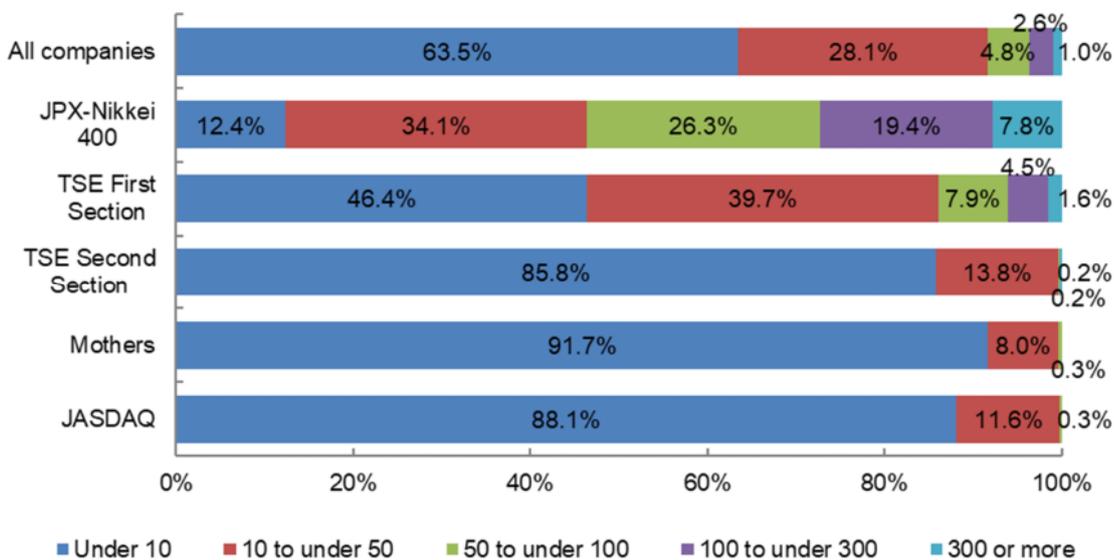
Chart 6 Market Capitalization (by Market Division)



1-6. Number of consolidated subsidiaries

The numbers of consolidated subsidiaries of TSE-listed companies are as shown in Chart 7. Companies with less than 10 consolidated subsidiaries were the majority at 63.5%. By market division, the percentage of companies with 10 or more consolidated subsidiaries tends to be higher in TSE First Section, TSE Second Section, JASDAQ and Mothers, in that order. As for JPX-Nikkei 400 companies, companies with 10 or more consolidated subsidiaries made up 87.6%.

Chart 7 Number of Consolidated Subsidiaries (by Market Division)



1-7. Foreign shareholding ratio

Chart 8 shows foreign shareholding ratios among TSE-listed companies, by market division. By market division, the percentage share of companies with a higher foreign shareholding ratio is greater among those listed on TSE First Section compared to other divisions. Specifically, companies with a foreign shareholding ratio of 30% or more constitute 13.2% of TSE First Section companies, 3.3% of TSE Second Section companies, 4.3% of Mothers companies and 3.0% of JASDAQ companies. Among JPX-Nikkei 400 companies, companies with a foreign shareholding ratio of 30% or more account for the largest share at 43.7%, while companies with a foreign shareholding ratio of less than 10% account for only 3.0%.

By consolidated sales, the percentage of companies with a high foreign shareholding ratio increases with consolidated sales (Chart 9).

Chart 8 Foreign Shareholding Ratio (by Market Division)

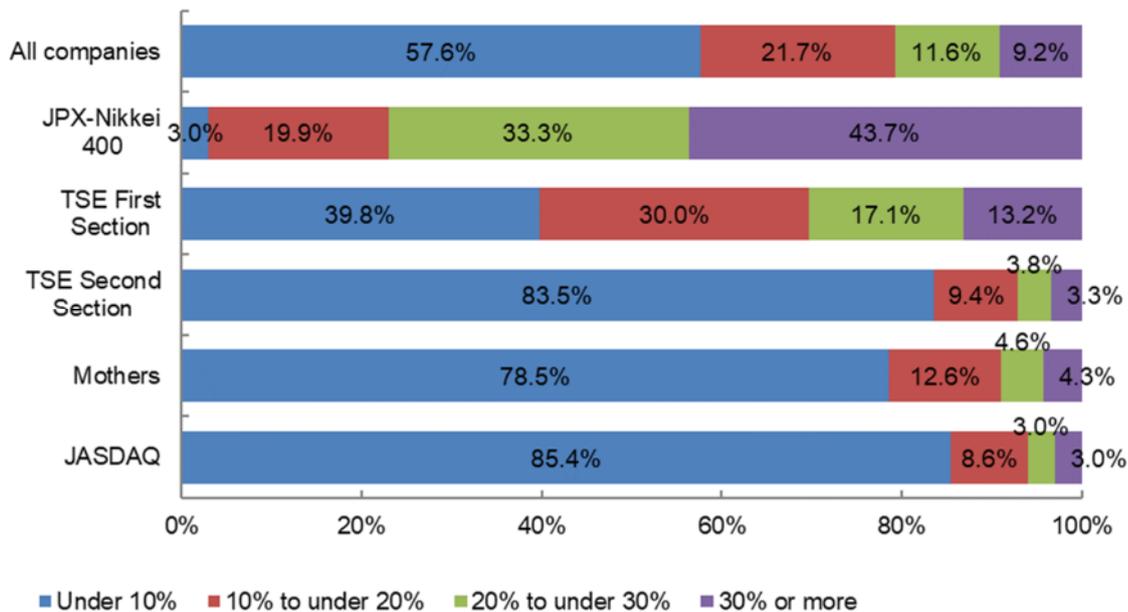
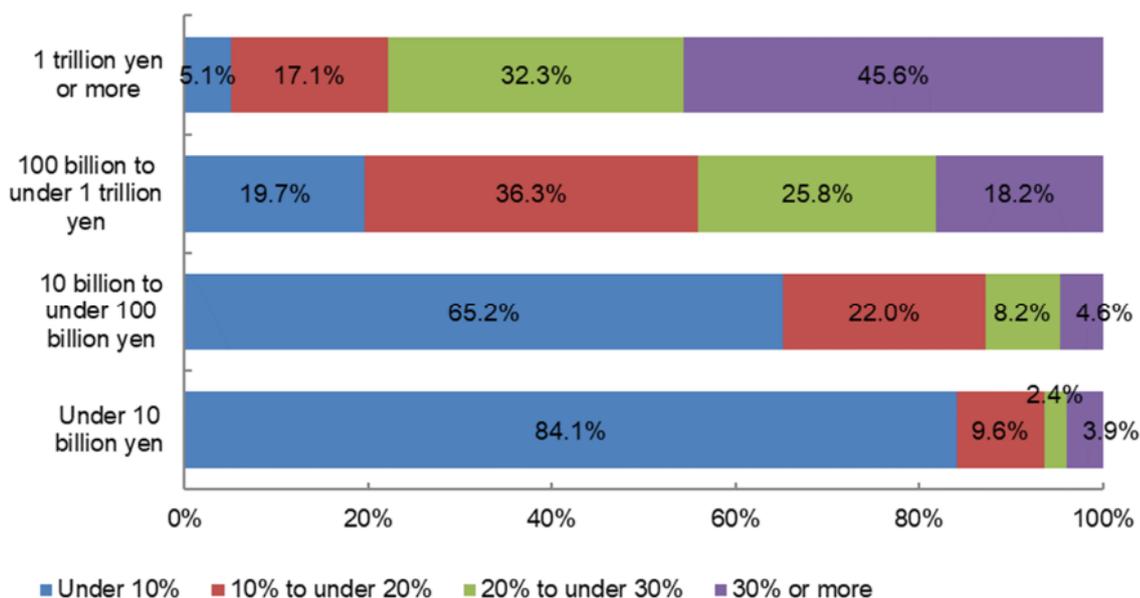


Chart 9 Foreign Shareholding Ratio (by Consolidated Sales)



1-8. Major shareholders⁵

As for information on major shareholders, in the CG Report companies are required to provide the names of their top ten shareholders along with the number of shares held and the shareholding ratio. Of these, the shareholding ratios of the largest shareholders of TSE-listed companies are shown in Chart 10. The shareholding ratio of the largest shareholder tends to be higher in the order of Mothers, JASDAQ, TSE Second Section and TSE First Section. There are more companies where the largest shareholder has a low shareholding ratio in the JPX-Nikkei 400 than in TSE First Section. In terms of consolidated sales as shown in Chart 11, the larger the consolidated sales, the lower the ownership ratio of the largest shareholder tends to be. This shows a higher degree of shareholder diversification among companies in TSE First Section and companies with higher sales.

⁵ In the CG Report, companies are required to provide this information based on the entries in the shareholders' register, similarly to the "Major Shareholders" section in the Annual Securities Report.

Chart10 Shareholding Ratio of the Largest Shareholder (by Market Division)

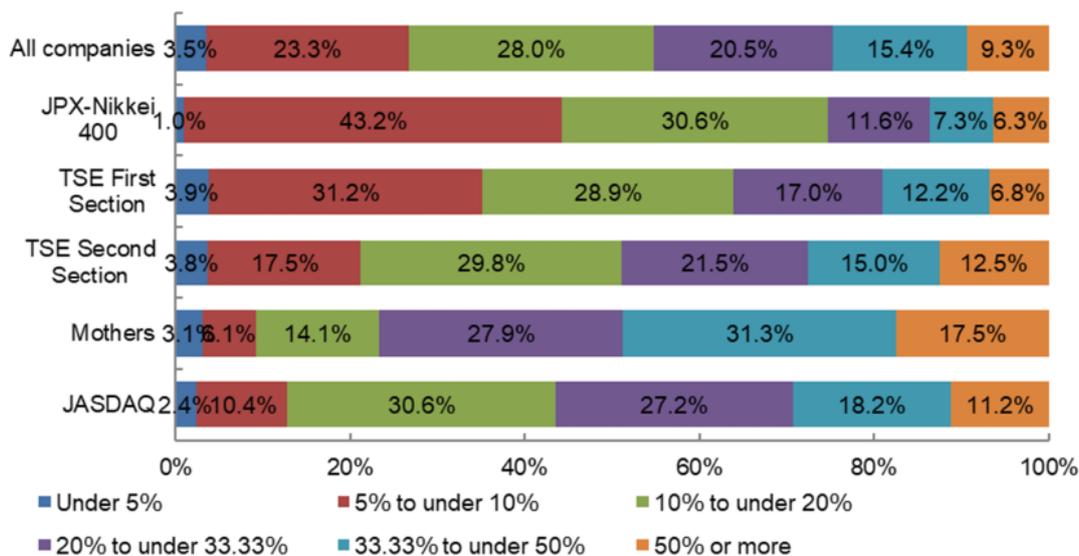
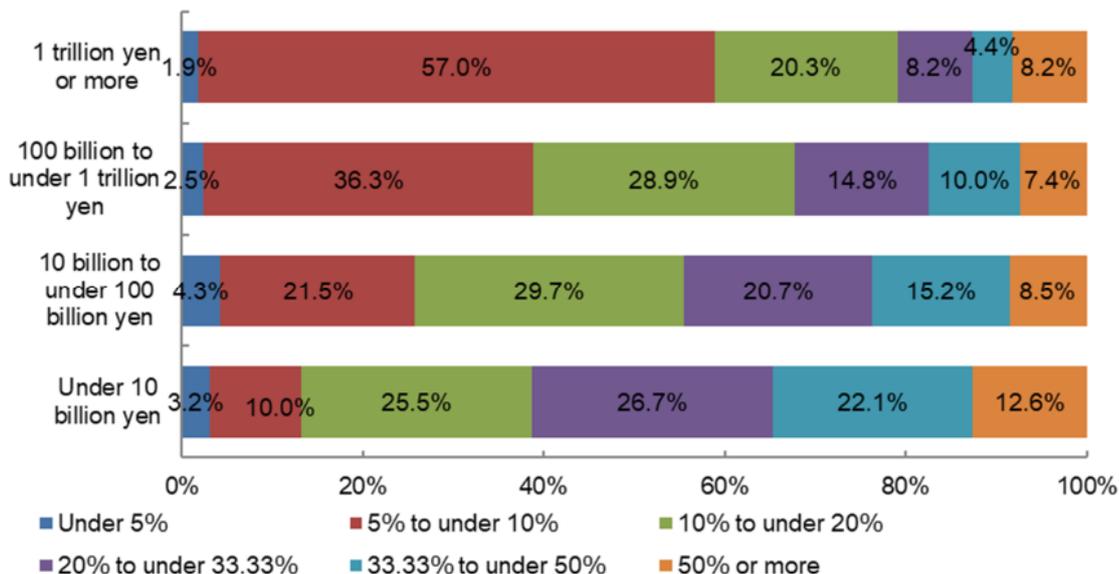


Chart 11 Shareholding Ratio of the Largest Shareholder (by Consolidated Sales)



1-9. Presence of Controlling Shareholder/Parent Company

Companies are required to state whether they have a controlling shareholder⁶ and whether they have a parent company⁷ in their CG Reports. The concept of controlling shareholder encompasses

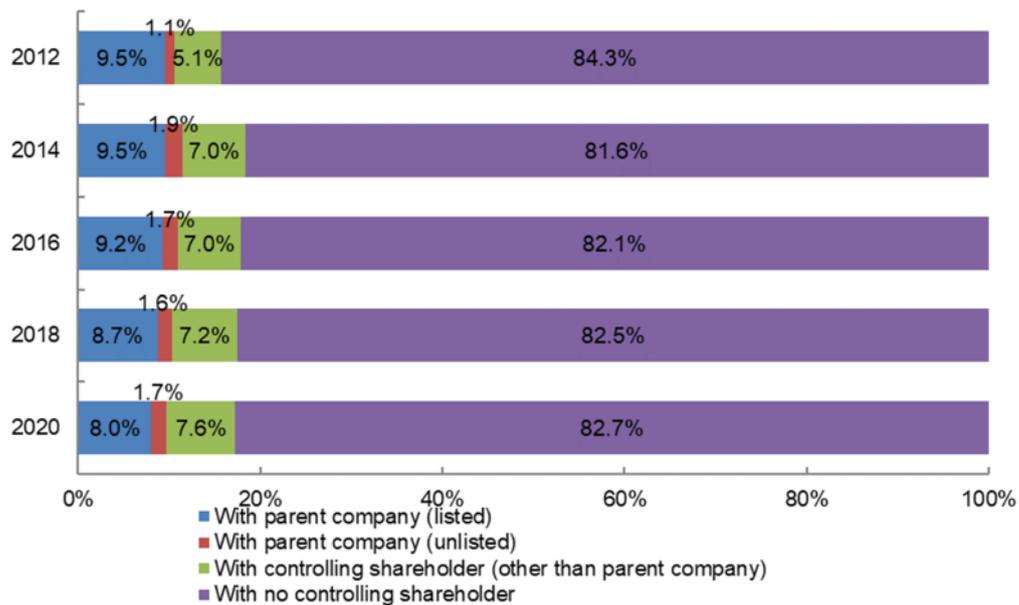
⁶Rule 2, Item (42)-2 of the Securities Listing Regulations and Rule 3-2 of the Enforcement Rules for Securities Listing Regulations

⁷Refers to a parent company as defined in Article 8, Paragraph 3 of the Regulation for Terminology, Forms and Preparation of Financial Statements.

(1) parent companies and (2) major shareholders⁸ who hold the majority of voting rights of a listed company after combining the voting rights held on their own account and the voting rights held by their close relatives or companies in which they hold a majority of voting rights. Among TSE-listed companies, 635 companies have controlling shareholders, accounting for 17.3% of all listed companies. Out of these, 354 (9.6% of all listed companies) have parent companies, and 281 (7.6% of all) have controlling shareholders other than a parent company.⁹ 293 (82.8%) of the companies with parent companies (8.0% of all) have listed parent companies (Chart 12).

By market division, 16.5% of TSE Second Section companies and 13.0% of JASDAQ companies have parent companies. The percentage of companies that have controlling shareholders other than a parent company is higher in Mothers (29.4%) and JASDAQ (10.2%) (Chart 13). This is likely due to the fact that founders and other individuals are often the controlling shareholders of Mothers and JASDAQ companies. The percentage of listed companies with a controlling shareholder increased slightly with the addition of JASDAQ when TSE and Osaka Securities Exchange merged in 2013. Since then, the number of companies with a parent company has decreased, and the number of companies with a controlling shareholder has increased. (Chart 12)

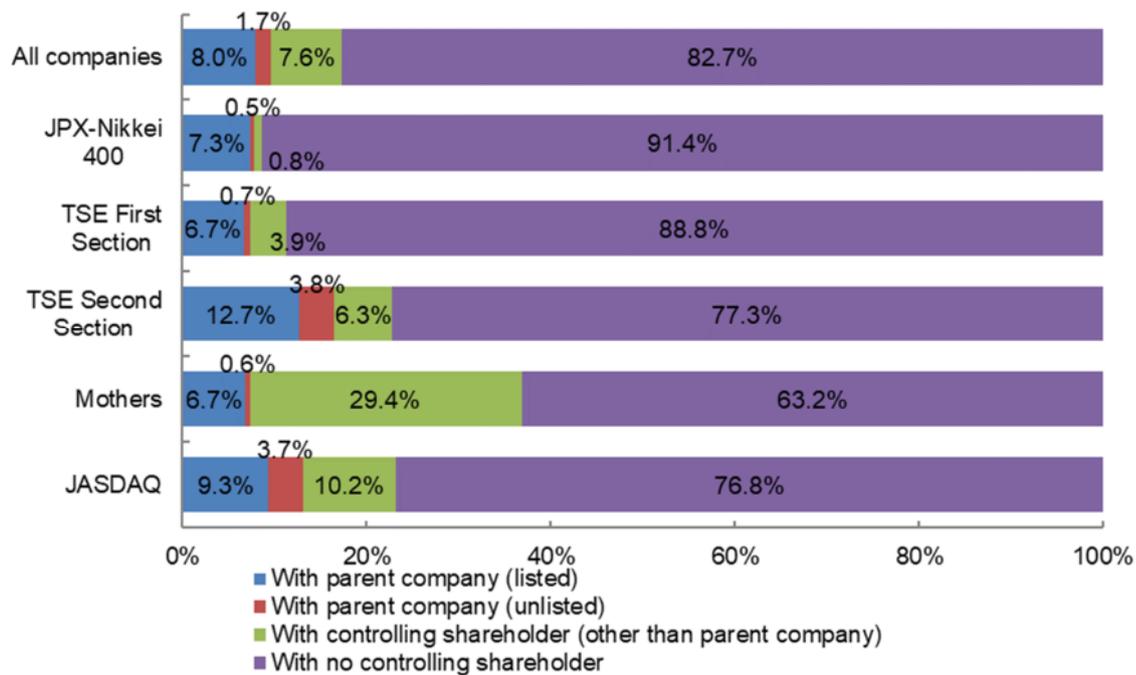
Chart 12 Presence of Controlling Shareholder/Parent Company



⁸Article 163, Paragraph 1 of the Financial Instruments and Exchange Act

⁹Controlling shareholders other than parent companies are generally owners or other individuals.

Chart 13 Presence of Controlling Shareholder/Parent Company (by Market Division)



2. State of compliance with the Corporate Governance Code

The Code¹⁰ establishes principles for contributing to the achievement of effective corporate governance, and is composed of a total of 78 principles, in turn consisting of 5 General Principles, 31 Principles and 42 Supplementary Principles. It adopts a “comply or explain” approach (companies can either comply with a principle or explain why they choose not to do so). In other words, the Code assumes that if a company finds it inappropriate to comply with specific principles (General Principles, Principles or Supplementary Principles) in view of its individual circumstances, the company may choose not to comply, provided that it explains the reasons for this in full. Under the Listing Regulations, companies listed on TSE First and Second Sections have an obligation to disclose the “comply or explain” status of all 78 principles in their CG Reports. In June 2018, the Code was revised to pursue more substantial corporate governance reform. One Principle and four Supplementary Principles were added, and five Principles and four Supplementary Principles were revised.

TSE analyzed the compliance status of 2,652 companies listed on the First and Second Sections as of August 14, 2020. Chart 14 shows the overall status of efforts made in relation to the Code in TSE First and Second Sections. In TSE First and Second Sections overall, 21.6% of companies indicated that they had implemented all 78 principles, and 62.5% of the companies stated that they had implemented 90% or more of the principles. Following the 2018 revision of the Code, the rate of compliance with some of the new and revised principles had decreased at first. As of August 2020, however, with some time having passed since the Code was revised, compliance with the revised Code has progressed and the Code compliance rate is improving again.

By market division, 26.0% of the 2,172 companies in TSE First Section have complied with all the principles, while 62.6% have complied with 90% or more of the principles. In TSE Second Section, out of 480 companies, 1.7% have implemented all the principles and 62.1% have implemented 90% or more. Among JPX-Nikkei 400 companies, the percentage of companies complying with all principles is 58.5%, which is significantly higher than in TSE First and Second Sections overall.

Results by market capitalization are as shown in Chart 15, and the general trend is for larger companies to comply with more principles.

By industry, the banking industry (65.9%) had the highest percentage of companies complying with all principles, followed by the electricity and gas industry (50.0%), the insurance industry (44.4%), the securities and commodity futures industry (44.0%) and pharmaceuticals (42.5%) (Chart 16).

¹⁰Refer to the Japan Exchange Group website for the full text of the Code. <https://www.jpx.co.jp/equities/listing/cg/>

Chart 14 Code Compliance by Company (by Market Division)

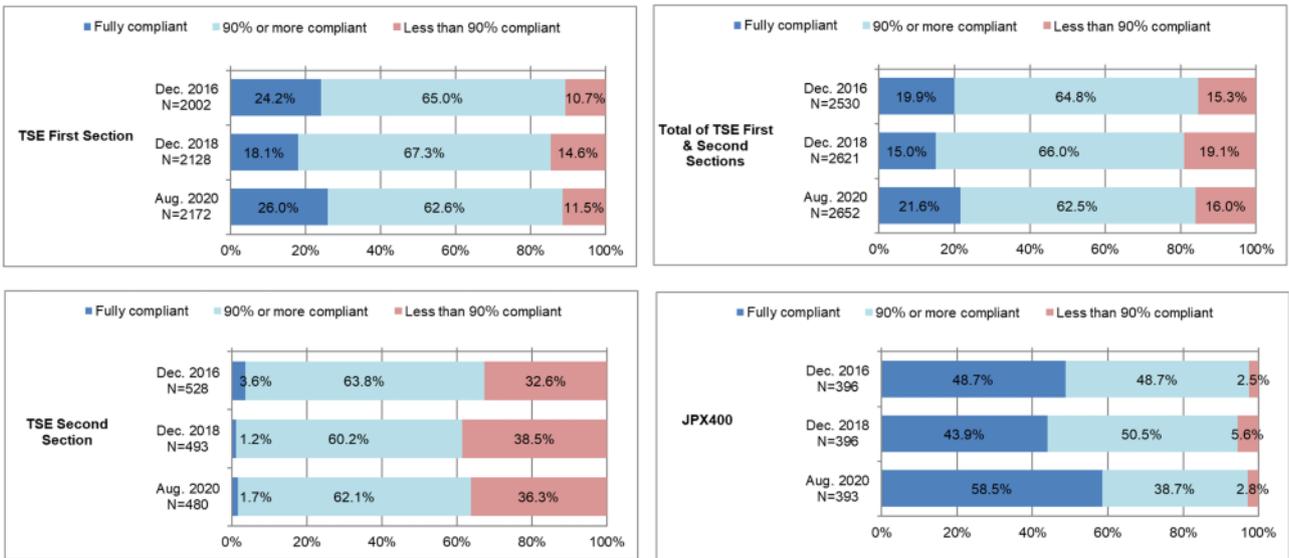


Chart 15 Code Compliance by Company (by Market Capitalization)

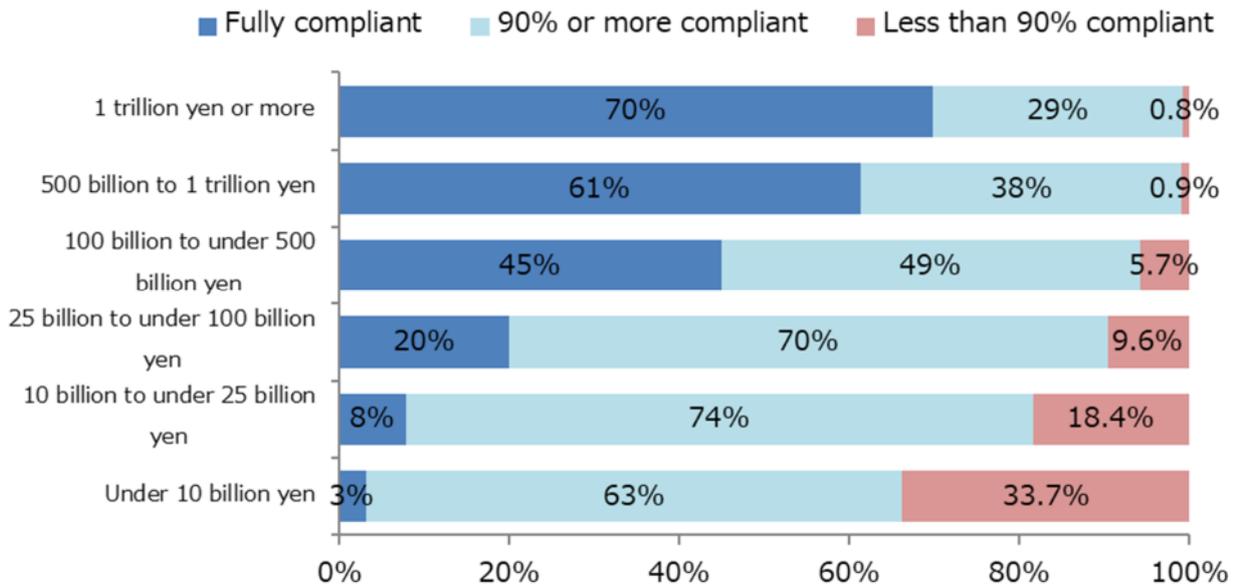
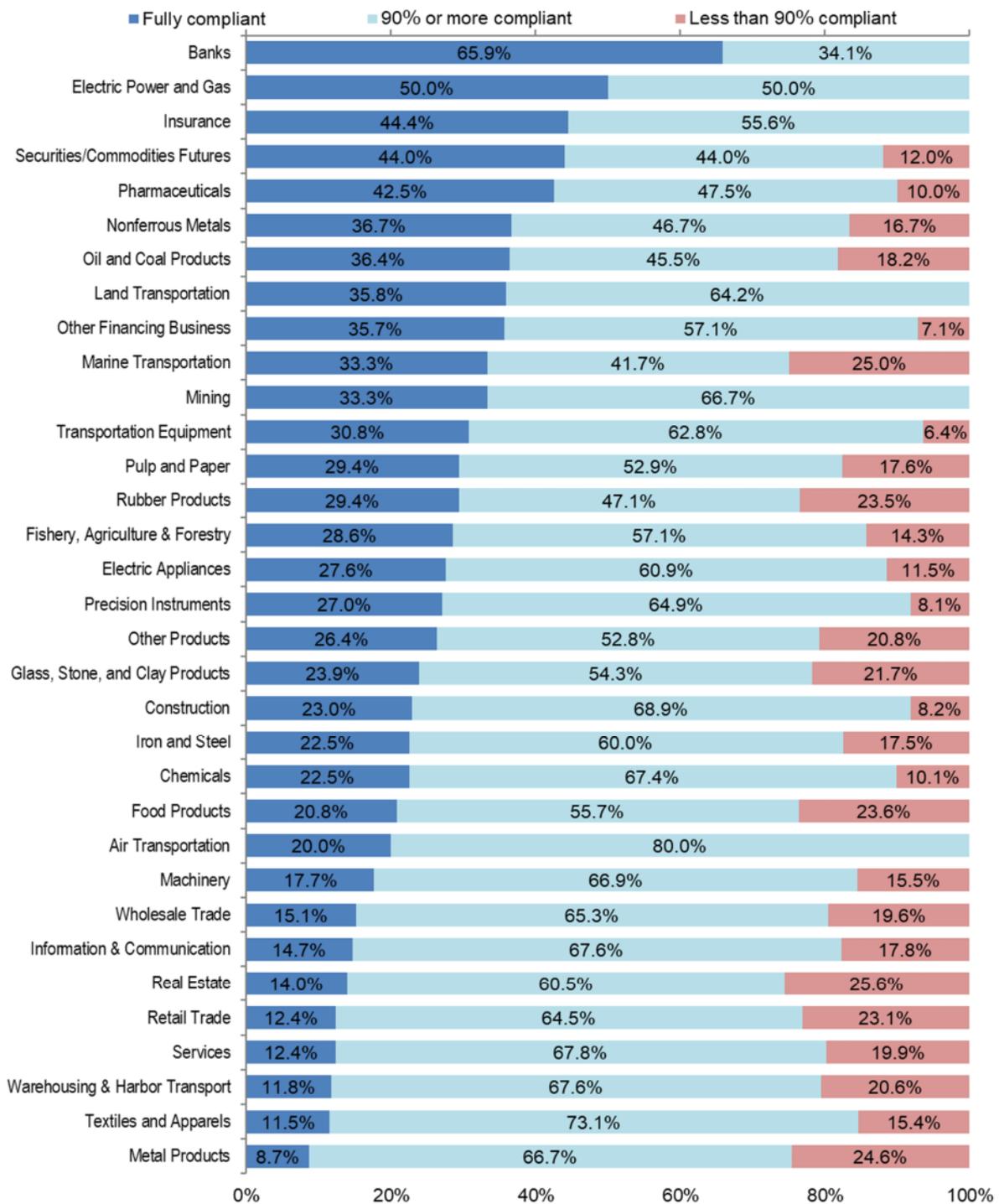


Chart 16 Code Compliance by Company (by Industry)



1. Securing the rights and equal treatment of shareholders

Section 1 of the Code requires listed companies to effectively secure the rights and equal treatment of shareholders, based on the premise that shareholders are the cornerstone of the diverse stakeholders of listed companies and an important starting point for corporate governance.

General Principle 1

Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively.

In addition, companies should secure effective equal treatment of shareholders. Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.

TSE has been urging listed companies to make efforts toward creating an environment where shareholders can exercise their rights appropriately, thus ensuring the rights and equality of shareholders and achieving effective corporate governance. These efforts include sending out convening notices earlier, avoiding peak dates of general shareholder meetings, exercising voting rights by electronic means, using voting platforms for institutional investors and preparing English translations of convening notices, among others.¹¹¹²

This chapter will look at the state of these efforts, and analyze the status of compliance with each of the principles in Section 1 of the Code. In particular, analysis will focus on the contents of disclosures of cross-shareholdings and related party transactions, which listed companies are required to disclose under the Code.

1-1. Early dispatch of convening notices

2,613 companies (71.1% of all listed companies) stated that they dispatch convening notices for general shareholder meetings early.¹³ Of these, 523 companies (14.2%) stated that they send out the notices approximately three weeks prior to the general shareholder meeting, and 41 companies (1.1%) stated that they do so about four weeks in advance.

¹¹TSE “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).

¹² Rule 446 of Securities Listing Regulations, and Rule 437 of Enforcement Rules for Securities Listing Regulations.

¹³In the CG Report, “early dispatch” is defined as the dispatch of convening notices for the most recent annual general meeting three or more business days earlier than the statutory notification deadline.

By market division, companies providing early notification accounted for 80.2% of companies listed on TSE First Section and 85.3% of those listed on Mothers, showing a higher ratio compared with TSE Second Section (60.8%) and JASDAQ (43.1%) (Chart 17). As for JPX-Nikkei 400 companies, 88.6% of them dispatch notices early. This is 8.4 points higher than that in TSE First Section. In addition, as shown in Chart 18, companies with higher consolidated sales are more likely to implement early dispatch — in other words, the larger the company, the more likely it is to send out convening notices early. As shown in Chart 19, another notable feature is that companies with higher foreign shareholding ratios are more likely to provide early notification.

The percentage of companies that send out convening notices early has declined from the previous survey across multiple divisions, but this may be due to the fact that closing and auditing work was delayed compared to previous years due to the impact of the COVID-19 pandemic.

Chart 17 Efforts for Encouraging Shareholders' Participation in General Meetings (by Market Division)

	Early dispatch of convening notice	Avoidance of peak day (companies with a fiscal year ending in March)	Exercise of voting rights by electronic means	Use of electronic voting platform	English translation of convening notice
All companies	71.1%	37.0%	51.0%	38.6%	41.9%
JPX-Nikkei 400	88.6%	52.0%	92.2%	88.9%	92.9%
TSE First Section	80.2%	42.6%	64.5%	52.9%	56.9%
TSE Second Section	60.8%	31.3%	21.7%	8.1%	12.7%
Mothers	85.3%	28.5%	72.1%	57.7%	57.4%
JASDAQ	43.1%	27.8%	19.2%	6.3%	7.9%

Chart 18 Efforts for Encouraging Shareholders' Participation in General Meetings (by Consolidated Sales)

	Early dispatch of convening notice	Avoidance of peak day (companies with a fiscal year ending in March)	Exercise of voting rights by electronic means	Use of electronic voting platform	English translation of convening notice
Under 10 billion yen	63.6%	26.4%	41.8%	27.4%	27.8%
10 billion to under 100 billion yen	68.6%	36.9%	39.3%	25.8%	31.0%
100 billion to 1 trillion yen	81.0%	45.0%	78.0%	68.5%	71.1%
1 trillion yen or more	93.7%	63.3%	98.1%	96.2%	98.1%
Total	71.1%	37.0%	51.0%	38.6%	41.9%

Chart 19 Efforts for Encouraging Shareholders’ Participation in General Meetings (by Foreign Shareholding Ratio)

	Early dispatch of convening notice	Avoidance of peak day (companies with a fiscal year ending in March)	Exercise of voting rights by electronic means	Use of electronic voting platform	English translation of convening notice
Less than 10%	65.5%	32.4%	35.8%	20.3%	21.8%
10% to under 20%	77.2%	41.9%	63.1%	52.7%	59.0%
20% to under 30%	77.9%	45.2%	77.2%	71.1%	76.0%
30% or more	83.1%	44.5%	84.6%	80.1%	84.3%
Total	71.1%	37.0%	51.0%	38.6%	41.9%

The compliance rate with Supplementary Principle 1.2.2,¹⁴ which prescribes the early dispatch of the convening notices along with digital disclosures (TDnet and company websites) prior to dispatch for the purpose of allowing sufficient time for consideration of the agenda for general shareholder meetings, was 96.8% as of August 14, 2020.¹⁵

The amendment to the Companies Act promulgated in 2019 establishes a system for the electronic provision of materials for general shareholder meetings. Listed companies will be required to provide convening notices, reference materials for general shareholder meetings, financial statements, business reports, etc. via electronic means (company websites, TDnet, etc.) at least three weeks prior to the date of the general shareholder meeting.¹⁶ In light of this, TSE amended its listing rules in March 2021 to stipulate a requirement for listed companies to provide shareholder meeting materials electronically earlier than three weeks before the date of the general shareholder meeting as a desired item in the Code of Corporate Conduct¹⁷. Listed companies are expected to endeavor to provide

¹⁴The Code adopts a “comply or explain” approach (either comply with a principle or explain the reasons for non-compliance). “Compliance rate” refers to the percentage of companies that implement each principle out of the total number of companies. The same applies below.

¹⁵ Calculated based on a population of 2,652 First Section and Second Section companies that had made disclosures up to August 14, 2020. Hereinafter, the same applies to the compliance rate for each principle of the Code unless noted otherwise.

¹⁶ Article 325, Paragraph 3-1 of the revised Companies Act. The effective date of the revised Companies Act with respect to electronic provision of materials is to be set by Cabinet Order within a period not exceeding three years and six months from December 11, 2019.

¹⁷ Rule 446 of Securities Listing Regulations, and Rule 437-3 of Enforcement Rules for Securities Listing Regulations Furthermore, with regard to the “Outline of the Revision of the Companies Act (related to Corporate Governance, etc.)”, at the meeting of February 14, 2019 the Legislative Council made a supplementary resolution, stating : “The rules of financial instruments exchanges should stipulate that listed companies must endeavor to

information electronically at an earlier stage in order to ensure that shareholders have sufficient time to consider agenda items for the general shareholder meeting.

1-2. Avoidance of peak dates

Companies with a fiscal year ending in March remained numerous, accounting for 63.1% of all TSE-listed companies (Chart 3). Partly because shareholder rights may be exercised only within three months from the record date,¹⁸ most companies hold their annual general meetings around the end of June. In the fiscal year ending March 2020, 32.8% (747 companies) held their annual general meeting on a peak date^{19,20}. The concentration of shareholder meeting dates makes it difficult for shareholders who own shares in more than one company to attend, and TSE has been requesting that the timing of the meetings be staggered.²¹ Recently, some listed companies have set a date differing from the fiscal year end as the record date of the general shareholder meeting, and have also set the schedule for the general shareholder meeting more flexibly. Going forward, such efforts to avoid peak dates are spread among companies ending their fiscal year in March.²²

In the CG Reports, out of all companies with a fiscal year ending in March, 37.0% stated that they scheduled their general shareholder meetings on non-peak dates (Chart 17). In terms of supplementary explanations, many companies mentioned the “establishment of an environment that makes it possible for as many shareholders as possible to attend” (573 companies, accounting for 14.5% of companies with a fiscal year ending in March). For example, some CG Reports stated that the annual general meeting was held on a Saturday or Sunday for the shareholders’ convenience, or, in relation to venues, that ease of access was considered (e.g. distance from stations).

start the electronic provision of materials earlier than three weeks prior to the date of the general shareholder meeting in order to secure sufficient time for shareholders to consider the agenda items.”

¹⁸Article 124, Paragraph 2 of the Companies Act.

¹⁹ “Peak dates” refers to dates when very large numbers of listed companies hold their annual general meetings, based on the dates of the most recent annual general meetings (usually the date with the highest number of meetings throughout the year is assumed).

²⁰ Information on the general shareholder meetings of companies with fiscal year ending in March on the Japan Exchange Group website (<https://www.jpx.co.jp/listing/event-schedules/shareholders-mtg/index.html>)

²¹ Rule 446 of Securities Listing Regulations and Rule 437-1 of Enforcement Rules for Securities Listing Regulations

²² In light of the recommendation made in the Report by the Working Group on Corporate Disclosure of the Financial System Council published in April 2016, the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc. and the Ordinance for Enforcement of the Companies Act have been partially revised, and an institutional environment is being developed in order to achieve greater flexibility in the schedule for general shareholder meetings. For example, the time of compilation of the “Major Shareholders” section in the securities report and the “Information on the Top Ten Shareholders” in the business report was changed, as a general rule, from the end of the fiscal year to the record date for exercising voting rights.

By market division, the ratio of companies with a fiscal year ending in March that avoid peak dates is 42.6% in TSE First Section — higher than in TSE Second Section (31.3%), Mothers (28.5%) and JASDAQ (27.8%) (Chart 17). 52.0% of JPX-Nikkei 400 companies avoided peak dates — 9.4 points higher than in TSE First Section. In addition, in terms of the relationship with consolidated sales, it appears that companies with larger sales tend to avoid peak dates (Chart 18). Likewise, in terms of the relationship with foreign shareholding ratios, companies with higher ratios appear to be more likely to avoid peak dates (Chart 19). Compliance rate with Supplementary Principle 1.2.3, which requires setting an appropriate schedule for general shareholder meetings, was 98.9%.

Although the percentage of companies avoiding peak dates has decreased in several market divisions compared to the previous report, this is likely a result of schedules being postponed in general in order to secure as much time as possible for closing/audit work and convocation paperwork in view of the impact of the COVID-19 pandemic. In fact, several companies stated that the meeting was held on a peak date in this instance only due to the pandemic's impact.

1-3. Exercise of voting rights by electronic means

Exercise of voting rights by electronic means²³ may be used by the board by stipulating that shareholders who are unable to attend the general shareholder meeting may exercise their voting rights in this way²⁴. Companies that provide for the exercise of voting rights by electronic means accounted for 51.0% of all companies, up from 40.8% in the previous survey. This shows that the environment is gradually improving, especially among large companies.

By market division, there is a large gap in the percentage of companies that stipulate the exercise of voting rights by electronic means in Mothers (72.1%) and TSE First Section (64.5%) vs. TSE Second Section (21.7%) and JASDAQ (19.2%) (Chart 17). In case of JPX-Nikkei 400 companies, 92.2% have adopted the exercise of voting rights via electronic means — a much higher ratio than that seen in TSE First Section (64.5%). The ratio of use of electronic voting is higher among companies with higher consolidated sales (in other words, larger companies; Chart 18). Furthermore, companies with higher foreign shareholding ratios are more likely to adopt electronic voting (Chart 19).

1-4. Use of voting platforms for institutional investors

TSE has striven to foster an environment that facilitates the exercise of voting rights by institutional investors. The CG Report requires listed companies to check off a box if they use electronic voting platforms such as those operated by ICJ²⁵ and trust banks for institutional investors as part of efforts toward raising participation in general shareholder meetings and facilitating the exercise of voting rights.

²³ Specific examples include the use of voting platforms for institutional investors, as well as smartphone-based voting services for individual investors.

²⁴ Article 298, Paragraph 1, Item 4 and Paragraph 4 of the Companies Act.

²⁵ "ICJ" stands for Investor Communications Japan. For more details, please visit ICJ's website. (<http://www.icj.co.jp/>)

38.6% of all listed companies state that they use electronic voting platforms for institutional investors.

By market division, there is a large gap between the usage rates seen in TSE First Section (52.9%) and Mothers (57.7%) and those seen in TSE Second Section (8.1%) and JASDAQ (6.3%). As for JPX-Nikkei 400 companies, 88.9% utilize electronic voting platforms — a much higher ratio than that seen in TSE First Section (Chart 17). The ratio of utilization of electronic voting platforms tends to be higher at companies with higher consolidated sales (in other words, larger companies). For example, 96.2% of companies with consolidated sales of 1 trillion yen or more utilize electronic voting platforms (Chart 18). In addition, the ratio of utilization is higher among companies with higher foreign shareholding ratios, reaching 80.1% for companies with a foreign shareholding ratio of 30% or more (Chart 19).

1-5. Preparation of English translations of convening notices, etc.

According to the "FY2019 Survey on the Distribution of Shares²⁶" published by stock exchanges nationwide, the percentage of shares held by foreign shareholders has remained high in recent years, with the 29.6% of shares held by foreign institutional investors and other foreign corporations. Against the backdrop of such foreign shareholders, an increasing number of companies are taking steps such as preparing convening notices in English. The CG Report requires listed companies to check off a box if they prepare convening notices for annual general meetings, etc. or summaries of such notices, etc. in English as part of efforts toward increasing participation in general shareholder meetings and facilitating the exercise of voting rights.

The ratio of companies that prepared convening notices, etc. (including their summaries) for annual general meetings in English was 41.9%. By market segment, the ratio was 56.9% in TSE First Section and 57.4% in Mothers, with a large gap separating these from TSE Second Section (12.7%) and JASDAQ (7.9%) (Chart 17). At 92.9%, the ratio among JPX-Nikkei 400 companies was higher by 36.0 points compared to that seen among TSE First Section companies. In terms of consolidated sales, the rate of implementation is higher among larger companies, with 98.1% of companies with 1 trillion yen or more in sales preparing notices in English (Chart 18). On the other hand, by foreign shareholding ratio, the implementation rate was highest in the category of companies with 30% or more in foreign shareholdings (84.3%), with lower implementation rates as the foreign shareholding ratio decreases (Chart 19).

By principle, the compliance rate with Supplementary Principle 1.2.4, which prescribes the creation of an infrastructure for electronic voting (including the use of an electronic voting platform) and the provision of convening notices in English, was lowest (48.9%). With regard to reasons for non-compliance, the most common explanation was that the current ratio of foreign shareholders was low, but that compliance would be considered in the future if this ratio increased.

1-6. Other efforts for facilitating shareholders' active participation in general shareholder

²⁶ Survey on the distribution of shares on the Japan Exchange Group website
(<https://www.jpx.co.jp/markets/statistics-equities/examination/01.html>)

meetings and the smooth exercise of voting rights

Companies that take other measures for facilitating shareholders' active participation in general shareholder meetings and the smooth exercise of voting rights in addition to the above are required to provide supplementary explanations on such measures in the CG Report.

A review of the supplementary explanations in CG Reports found that 24.8% of TSE-listed companies (911 companies) mentioned the use of websites, etc.²⁷ 11.2% of companies (411) had descriptions related to visual presentations.²⁸ For example, at general shareholder meetings, some companies have arranged slide materials, etc. used at the financial results briefings for securities analysts and institutional investors in a way that is easy for individual shareholders to understand, and adopted a style where the Chairperson gives explanations in his/her own words to the shareholders at the venue, not just reading out such materials; and their policy also generally requires the Chairperson to provide detailed replies during Q&A sessions.

In previous years, with the aim of furthering communication with shareholders, there has been a trend for holding company briefings after the general shareholder meeting, or holding the annual general meeting at the company's factory and holding a product information session or factory tour at the same factory in conjunction with the meeting. In 2020, however, the COVID-19 pandemic forced some companies to suspend roundtable discussions and tours. A small number of companies have taken new steps, such as holding hybrid virtual general meetings or using the Internet to livestream their general meetings.

1-7. Cross-shareholdings (Principle 1.4)

In the past, there have been concerns that the presence of stable shareholders (who are expected to support company management) could lead to a lack of management discipline, and that cross-shareholdings are risk assets on company balance sheets that are not proactively used and therefore inefficient in terms of capital management. In light of these concerns, Principle 1.4 requires (1) companies to disclose their policies on cross-shareholdings, including policies and approaches to reducing these; and (2) the Board to examine whether the purpose of each individual cross-shareholding is appropriate and whether the benefits of the holding are commensurate with the risks and cost of capital, and disclose its findings. Furthermore, Principle 1.4 requires companies to (3) formulate/disclose specific criteria concerning the exercise of voting rights in relation to cross-shareholdings, and to take steps in accordance with these criteria.

In addition, the "Report by 'Working Group on Corporate Governance' of the Financial System Council - Realizing a Virtuous Circle in the Capital Markets" pointed out that the disclosure of the purpose of cross-shareholdings is limited to a standardized and abstract description, and that this does not allow verifying the rationality and effectiveness of the holding, expressing the opinion that detailed

²⁷The term "websites, etc." covers companies that mentioned keywords "website" or "homepage."

²⁸"Visual" refers to companies that used keywords "visual" or "PowerPoint."

disclosure of the purpose, effectiveness and rationality of the holding would be required. Accordingly, disclosure related to cross-shareholdings in securities reports is being expanded in securities reports for the fiscal year ending March 31, 2019 and beyond. Specifically, the new rules require disclosure of (1) criteria and approach employed to determine pure investment and cross-shareholding categories; (2) policy for cross-shareholdings and method for verifying their rationality; (3) details of verification by the board, etc. of the appropriateness of the holdings; (4) the reasons for any increase in the number of shares held; and (5) the purpose and effect of holding individual stocks (specific descriptions, including quantitative holding effects). Furthermore, (6) the scope of disclosure of individual stocks has been expanded from 30 stocks to 60 stocks. In addition, in November 2019, the opinions of investors and analysts²⁹ were compiled, and examples of key points for good disclosure expected by investors regarding cross-shareholdings were published (Chart 20).

Chart 20 Key points for good disclosure as expected by investors (FSA)

Large category	Category	Key points
Overall cross-shareholdings	Cross-shareholding policy	<ul style="list-style-type: none"> Specifically describe how the company takes advantage of holdings in light of its management strategy; for example, to use know-how/license of the investee company in cross-shareholdings (it is not sufficient to merely describe "considered benefits of holdings in light of the management strategy") Set and disclose the maximum limit of cross-shareholdings (It is important to take a viewpoint of how shareholders' equity is utilized, and it is, therefore, desirable to assess the size of shareholdings compared to shareholders' equity instead of net assets) Describe the policy for selling cross-shareholdings, if any Provide indicators for judgments on selling such shares, if any
	Method to assess rationale for cross-shareholdings	Not limited to the assessment in terms of the market value (unrealized gain) and dividends, specifically describe the degree of contribution to earning business revenue, in a similar manner to business investments e.g. The size of business transactions increased by more than x% compared to the average in x years; ROE or RORA increased by x% (* While an assessment only in terms of the market value (unrealized gain) and dividends is the similar approach to assess pure investments, it should be noted that an assessment of cross-shareholdings requires a different approach
	Results of assessment by the board	<ul style="list-style-type: none"> Specifically describe the results of the assessment according to the shareholding policy (it is too abstract to merely describe "The board assessed the appropriateness of shareholdings in light of the purpose of the shareholdings") When describing discussion at board meetings, include the dates of meetings and agendas
Individual shareholdings	Purposes of cross-shareholdings	<ul style="list-style-type: none"> Specifically describe how the company takes advantage of holdings referring to relevant business and/or transactions, in light of the management strategy and in accordance with the shareholding policy (it is too abstract and not sufficient to provide the following explanations: benefits for a broader segment that is a unit used in financial reporting, such broad explanations as "business transactions" and "financial transactions" as well as "to maintain/strengthen the B2B transactions" or "to contribute to regional development") In case of mutual shareholdings, describe specific reasons for such shareholdings
	Quantitative benefits of cross-shareholdings	Describe actual results of indicators specified in "Method to assess rationale for cross-shareholdings" under the above category "Overall cross-shareholdings," as well as the assessment (* While an assessment only in terms of the market value (unrealized gain) and dividends is the similar approach to assess pure investments, it should be noted that an assessment of cross-shareholdings requires a different approach (If it is difficult to describe quantitative benefits of the shareholdings, explain specifically what made quantitative measurement difficult) Specifically describe how the company takes advantage of the holdings in light of its management strategy (* Even if it is associated with trade secrets, describe in what way it falls under trade secret
	Reasons for increase	Not limited to descriptions of such acquisition processes as "reinvested the dividend" or "acquired through the client share ownership plan," specifically describe how the company takes advantage of holdings in light of its management strategy; for example, to use know-how/license of the investee company in cross-shareholdings (it is not sufficient to merely describe "to strengthen the business relationship")
	Whether the issuer holds the company's shares (mutual shareholdings)	In case of strategically holding shares of a listed holding company, even if the company's shares are held by an affiliate of the holding company, it is virtually regarded as mutual shareholding relationship, so describe whether or not there are such shareholdings in footnote as reference information

Source: compiled from "Cross-Shareholdings: Key Points of Good Disclosure Expected by Investors (Example)," FSA

In the past, many financial institutions in the banking and insurance industries were required to reduce their cross-shareholdings, which are risk assets, in order to comply with capital controls, and

²⁹ Examples of good disclosure, however, were not published, with one of the reasons being the large gap between the state of disclosure at the time and the expectations of investors. Examples of disclosures in line with the key points for good disclosure were eventually updated in March 2021.

many of these companies placed the reduction of cross-shareholdings at the forefront of their basic policies. In response to these moves by exchanges and the government, however, recent years have also seen cases of business companies actively selling their cross-shareholdings and disclosing such sales. In addition, Glass Lewis and ISS, both major proxy advisors with influence over foreign investors, have announced³⁰ that they will recommend against proposals for the appointment of top management at companies that hold over a certain ratio of their net assets in the form of cross-shareholdings (10% or more in the case of Glass Lewis and 20% or more in the case of ISS). It can be said that the demands of the capital market on listed companies with cross-shareholdings are shifting from "strengthening accountability" to "implementing specific reductions."

The compliance rate with Principle 1.4 is 90.0% ³¹(2,386 companies). The following section analyzes the information disclosed by companies that have complied with this Principle. First, disclosures on policies and approaches regarding the reduction of cross-shareholdings can be broadly divided into cases where cross-shareholdings are held and reduction policies have been indicated and cases where there are no cross-shareholdings at the time of writing. The first pattern applies to 86.9% of companies (2,073 companies) complying with this principle, while the second pattern applies to 13.1% (313 companies). For the latter companies that do not hold cross-shareholdings, statements such as "we do not hold listed shares for any purposes other than pure investment" were observed.

On the other hand, as a result of an analysis of the keywords used in policies and approaches regarding reduction among the former companies that hold cross-shareholdings, it was found that 66.7% of complying companies (1,591 companies) used keywords such as "reduce," "sell" and "dispose," while 21.0% (502 companies) went as far to indicate a "policy of not having cross-shareholding," for example stating that "as a general rule, the Company will not hold any cross-shareholdings." Some companies indicated a policy for reduction and sale, and clearly stated that, as a general rule, they would not acquire any new cross-shareholdings. This suggests that listed companies are becoming increasingly aware of the need to reduce or sell their cross-shareholdings.

Next, in regards to the board's verification of the appropriateness of cross-shareholdings, 35.5% of complying companies (848 companies) used keywords such as "the cost of capital" or "capital efficiency." Some companies described their verification process in detail. For example, some clearly stated that they verify the appropriateness of cross-shareholdings based on the cost of capital, which takes into account factors such as whether the economic benefits of transaction-related earnings and dividends are commensurate with the WACC (weighted average cost of capital). Others mentioned they verify the appropriateness of cross-shareholdings in consideration of target and actual ROE, ROA and ROIC.

In addition, some companies discussed progress made with such verifications and the results of the actual sale of cross-shareholding. 15.9% of complying companies (380 companies) disclosed progress

³⁰ Glass Lewis and ISS will apply such policies to shareholder meetings effective from 2021 and 2022, respectively.

³¹ Companies stating that they do not hold any cross-shareholdings are counted as "compliant" with Principle 1.4.

made with verification, stating, for example: "At the board meeting held in [month], we reviewed the appropriateness of cross-shareholdings." In addition, 15.1% (361 companies) mentioned their record of actual sales — an increase from 4.7% (105 companies) in the previous survey. As the demands of capital markets toward the reduction of cross-shareholding increase, it appears that boards are trying to draw the attention of investors and shareholders to their efforts to reduce their companies' cross-shareholdings by specifically indicating verification results and actual sales of cross-shareholdings.

Finally, analysis of the disclosure of specific voting criteria on cross-shareholdings shows that while the revision of the Code requires the formulation and disclosure of specific voting criteria, most companies are limited to abstract statements such as "with respect to the exercise of voting rights, we verify each agenda item and exercise voting rights with an eye to improving the medium- to long-term corporate value of the Company." On the other hand, some companies have presented examples of specific proposals (e.g. anti-takeover measures, retirement benefits and proposals for the appropriation of dividends and other surplus) and have formulated their stance on those proposals. In the keyword analysis, 57 companies mentioned "anti-takeover (measures)," 78 mentioned the "appointment (of directors)," 58 mentioned "surplus (proposed appropriation)," and 33 mentioned "retirement benefits." Some companies disclosed that they exercise voting rights with reference to the policies of institutional investors and proxy advisors.

Chart 21 Keywords for Policies on Cross-shareholdings and on the Exercise of Voting Rights

Item	Number of companies	Ratio
Companies complying with Principle 1.4	2,386	100%
■ Holding policy		
Descriptions assuming holding	2,073	86.9%
No current holdings	313	13.1%
■ Keywords related to policies		
Keywords related to transactions (transactions, sales, etc.)	1,673	70.1%
Keywords related to reduction (reduction, sale, etc.)	1,591	66.7%
Risk	861	36.1%
Cost of capital (capital efficiency, etc.)	848	35.5%
Keywords related to strategy (business strategy, etc.)	603	25.3%
Dividends	351	14.7%
Stock price	216	9.1%
■ Keywords related to the exercise of voting rights		
Corporate value	1,741	73.0%

Shareholder value	444	18.6%
Appointments (of officers)	78	3.3%
Anti-takeover measures	57	2.4%
Treatment of retained earnings	58	2.4%
Retirement benefits	33	1.4%
Damage (corporate value, shareholder value, etc.)	436	18.3%
Cautious/opposed	269	11.3%

In terms of specific examples of disclosure, we will start with Examples 1 to 3, which are examples of disclosure of policies and approaches to the reduction of cross-shareholdings. In Example 1, the company has a basic policy of avoiding cross-shareholdings, and has disclosed that it will sell all of its current cross-shareholdings within a specific time frame. In Example 2, the company has disclosed its plan to reduce its cross-shareholdings, indicating a specific deadline and reduction target (within 10% of net assets). In Example 3, the company has disclosed that it is not only selling cross-held shares in a wide range of companies, including close business partners, but is also requesting its counterparts to dissolve cross-shareholding relationships.

Example 1

In principle, with a view to improving capital efficiency and developing a strong financial base that is less susceptible to stock price fluctuations, our basic policy is not to hold cross-shareholdings.

In addition, the Company currently holds shares in its business partners as strategic holdings with a view to building stable and long-term business relationships and strengthening transactions, but a decision was taken to sell the two issues held by the Company at a meeting of the board held on April 21, 2020. We have decided to wait for the stock price to recover before selling the shares, and we expect to sell within two years.

(Retail)

Example 2

As of the end of March 2020, the Company held 6,900 million yen (amount recorded on the consolidated balance sheet) in listed shares as cross-shareholdings. The Company has the policy to reduce the cross-shareholdings, if the benefit of dividends or gross profit from construction work from the company whose shares are held was less than the "cost of capital (WACC)" (applicable until the end of the fiscal year ending March 31, 2019), or less than "the shareholders' equity cost" (applicable from the fiscal year ending March 2020 onward) at the end of the relevant fiscal year. The appropriateness of holding each individual issue will be verified at the regular meeting of the board held at the beginning of the fiscal year. Accordingly, the Company sold 997 million yen of shares in three companies in the fiscal year ended March 31, 2019 and 139 million yen of shares in three companies in the fiscal year ending March 31, 2020.

In line with the above policy, we will continue to reduce the balance of cross-shareholdings to reach less than 10% of consolidated net assets by the end of the fiscal year ending March 31, 2022. (Omitted)

(Construction industry)

Example 3

The Company undertook a review of cross shareholding in fiscal 2016 and has been dissolving cross shareholding mainly with financial institutions in which the Company had a high equity ratio. In the previous fiscal year, the Company reduced cross shareholding in nine stocks. From the current fiscal year, the Company will promote the dissolution of cross shareholding in a broader range than ever by adding gas equipment manufacturers that are strongly linked to the Company's energy business to the targets for review of cross shareholding. Moreover, the Company also actively encourages companies who hold the Company's shares as cross shareholding to reduce their holding, in addition to the reduction of cross shareholding of the Company, to promote the dissolution of cross shareholding. Since fiscal 2016 to the previous fiscal year, important business partners including financial institutions with which the Company has business have agreed with the Company's policy and have been promoting the sales of the Company's shares. From the current fiscal year, the Company plans to have the equipment manufacturers proceed with the sales of the Company's shares. (Part below omitted)

(Retail)

Next, Examples 4 through 6 provide examples of disclosure of how the appropriateness of cross-shareholdings is verified. As for the verification method, there are some companies that discuss it with the cost of capital in mind. Among these, some go beyond simply stating that "verification is conducted based on capital cost and other factors," and disclose the detailed and specific verification process for the economic rationality of cross-shareholdings, clearly stating that specific indicators will be used for verification. For example, Example 4 states that WACC is set at 6% and used as an indicator of the cost of capital, with the benefits of ownership and the cost of capital as factors to be considered in the verification. In Example 5, the company explicitly states that it makes quantitative judgments using ROA, the market value of its shares, and the amount of transactions as indicators, and discloses, for example, that the profit level it seeks for its cross-shareholdings is "approximately double the average ROA for the past five years on a non-consolidated basis." This is an example of clear criteria that make it easy for investors to understand the company's stance. In Example 6, the company explains that it verifies the appropriateness of cross-shareholdings using "overall business RORA (Return on Risk-Weighted Assets)" based on ROE (Return on Equity) target of its group, as the target value. Describing the verification process in a more specific and objective manner in this way can help to foster understanding and satisfaction among investors with regard to the verification process and results.

Example 4

In certain cases, we acquire and hold the shares of business partners in order to build good relationships, facilitate business and thus increase the Company's corporate value from a medium- to long-term perspective.

The board will examine the relationship between the benefits of cross-shareholdings of listed company shares (dividends received and profits from business transactions) and the Company's cost of capital (WACC set at 6%) in relation to the acquisition price for each issue, and will promptly consider selling shares when the need for such holdings has diminished. (Omitted)

(Metal products)

Example 5

The Company holds the shares of companies if it judges that doing so is necessary to achieve sustainable growth or enhance its social value and economic value, or to build good relations with business partners and facilitate business as part of management strategy, including business alliances and the stable procurement of raw materials. Under the basic policy of disposing or reducing, as promptly as possible, the holding of certain shares which are considered insignificant in light of the situation at the end of the immediately preceding business year, the Company examines at meetings of the Board of Directors every year the significance, economic rationality and other factors of cross-shareholding and determines whether or not to continue each holding and the number of shares to be held. In the examination of economic rationality for each holding, the ratio of the amount which the issuer of the shares contributed to the profits of the Company in the immediately preceding business year to the value of the shares held by the Company at the end of the business year is calculated. When the ratio is below a figure equivalent to approximately double the average ROA of the Company for the past five years on a non-consolidated basis, such shares shall be subject to review for sale. In addition, shares whose market price has declined 30% or more from the book value thereof and shares of a company with which the Company has transactions amounting to less than 100 million yen per year are also subject to review for sale thereof. Moreover, shares of the Company's suppliers and clients that do not meet these standards shall be subject to deliberation at meetings of the Board of Directors every year as to whether or not to sell them and those chosen shall be sold. As a result of a review, the Company sold some of its cross-shareholdings in FY2019.

(Omitted)

(Foods)

Example 6

■ Examination of significance and economic rationale of shareholdings

◇At each Group bank, all shares held for the purpose of strategic investment are being confirmed for their significance and economic rationale (risk-return) over the medium- to long-term from the perspectives of our corporate business clients' growth and earnings and the strengthening of business relations. Based on Principle 1.4 of the Corporate Governance Code, individual strategic shareholdings (Note 4) are examined by the Company's board of directors.

◇Economic rationale is examined based on the Company's overall business RORA (Note 5), which is based on its ROE target, as a target value.

◇The results of the March 31, 2020 validations are as follows.

- We confirmed the validity of the significance of these shareholdings as most of the validation targets were held with the aim of enhancing the medium-to long-term economic interests of the Company and Group banks.
- Regarding economic rationality, the overall business RORA of all of the verification targets as a whole exceeded 1.8 times larger than the target value. 86% of the business partners exceeded the target value on company number basis, the sum total of the said shares the Company held accounts for 94% on book value basis and 89% on market value basis. (Note 6). We aim to improve profitability from business with the business partners which do not meet the target value and, if the profitability is not improved within a certain time of period, may consider selling their shares.

Note 4: The aggregate market value held as of March 31,2020 was approx. 4.1trillion yen (book value: approx. 2.1trillion yen).

Note 5: Overall business RORA (Return on Risk-Weighted Assets) is calculated by dividing Profit (Income from banking transactions and trust banking transactions with a concerned business partner group as well as stock dividends from the said group -Expected loss -Expenses etc.) by risk assets (total value of credits and shares) which are based on the internal rating approach in compliance with

the capital adequacy requirements. In addition, risk asset shares are calculated based on market values.

Note 6: The profitability is determined by whether overall business RORA of a concerned business partner group exceeded a target value or not.

(Omitted)

(Banking)

Example 7 is an example of disclosure of the results of verification by the board. With regard to the results of the verification, the policy for future measures and the specific number of brands are described for each category. The number and value of brands and the amount are clearly indicated along with a record of sales. Example 8 is a case in which the company discloses its sales policy after listing specific brand names. Both of these are examples of verification carried out with actual sales in mind.

Example 7

(Omitted)

For cross-shareholdings, our board of directors will annually review the rationality of holding each share name including capital costs and benefits of holding. The benefits will be evaluated not only from quantitative aspects but also from qualitative aspects. Specifically, we will review the benefits using the following criteria:

1. Whether or not the benefits of cross-shareholdings are in proportion with the weighted average cost of capital (WACC) in our company's capital policy.
2. Whether or not holding these shares has contributed in expanding our company's marketing area (i.e. whether or not it has created reasonable sales against the market value of the shares).
3. Whether or not holding these shares has contributed toward increasing our corporate value (i.e. whether or not it has strengthened our relationship with business partners or promoted cooperative collaborations).
4. Whether or not we can expect an improvement of our corporate value in the future according to our business strategy (i.e. an increase in the number of business transactions or expansion of our business scope).

We conducted the above review at the board meeting held in May this year, and the result was as follows:

(Specific cross-shareholdings)

(A) Number of stocks to which one or more of the criteria listed above applies: 62

(B) Number of stocks which we are planning to sell part or all: 27

(Deemed cross-shareholdings)

(A) Number of stocks to which one or more of the criteria listed above applies: 8

(B) Number of stocks which we are planning to sell part or all: 3

* Seven of the above overlap with the stocks we are holding.

Our company policy for each category:

Regarding (A), our company considers that there is a rationality in holding these shares. However, we will provide opportunities to

hold dialogues with the issuing companies as necessary. We will check the positioning of our company's shareholdings, and if we can confirm that there will be no damage to our relationship with the issuing bodies by selling the shares, we will sell them by taking into consideration our company's fund and market conditions.

Regarding (B), these stocks are the ones which we have decided to sell part or all of our holdings after discussions with the issuing bodies last year but have not yet sold after taking into consideration our company's fund and market conditions. We will continue to review the time and method for sales. Note that those shares which are to be sold partially but still owned by our company will fall into one or more of the above criteria and policy (A) will apply.

Under these policies, we sold the entire shares of 43 stocks and the part of 3 stocks listed in specific cross-shareholdings and the entire shares of 2 stocks listed in deemed cross-shareholdings last year. This brought us approximately 1.7b yen.

As a result, the number of listed companies which we still held shares of as cross-shareholdings was 89 (-32.5% from the end of 2018) and 11 of the deemed cross-shareholdings (-15.3% from the end of 2018) as of the end of March. (Seven of the above belong to both categories.)

(Omitted)

(Land transportation)

Example 8

(...) Based on a verification carried out in June 2020 in accordance with the Company's "Policy on Cross-Shareholdings of Listed Stocks," the Company plans to sell three stock issues (brands), and will hold eight brands of financial institutions, two brands of airlines and three brands in other companies. The following table shows the brands that are scheduled for sale.

A Inc.

B Inc.

C Inc.

(Omitted)

(Land transportation)

A typical example of voting criteria is provided in Example 9. The company formulates specific voting criteria for each proposal and explains that it will oppose any proposal that it considers problematic from a shareholder value perspective. This is an example of a company that has formulated and announced specific criteria, while many other companies only state that they will "make a comprehensive judgment." Other companies explain that they will exercise their voting rights in consideration of the voting criteria published by external proxy advisors, as in Example 10. Given that cross-shareholdings are based on the premise of maintaining business relationships, there are concerns that many companies may be indulgent towards the management of investee company in the exercise of voting rights. Making reference to the views of third parties such as proxy advisors and institutional investors on the exercise of voting rights may be one way to ensure objectivity. In such cases, companies are expected to not only formally rely on third-party standards, but also to actively validate the suitability of those standards.

Example 9

Policy on the Exercise of Voting Rights

1. Basic Approach

- (1) Does the issuing company have a corporate governance system in place?
 - (i) Has the company appropriately dealt with legal misconduct and formulated measures to prevent its recurrence?
 - (ii) Do outside directors have the independence required to fulfill their role?
- (2) Does the issuing company have a history of consecutive years of poor performance, including recently?
- (3) Are the issuing company's retained earnings and shareholder returns balanced appropriately?

2. Specific criteria

(1) Appointment of directors

Oppose the appointment of top management if the company has been in the red for a certain period of time and has little prospect of recovery.

Also oppose the appointment in cases where the independence of outside directors is deemed to be low.

(2) Appointment of *kansayaku*

Oppose the appointment in cases where the independence of outside *kansayaku* is deemed to be low.

(3) Anti-takeover measures

Oppose when the operation is not objective, or when there is no outside committee, or when an outside committee has been set up but its members are not independent.

(4) Proposals for the treatment of retained earnings

Oppose when retained earnings are excessive and return to shareholders is insufficient.

(5) Others

Take decisions on other proposals based on careful examination.

(Machinery)

Example 10

(Omitted)

We will comprehensively evaluate whether our voting criteria are in line with our cross-shareholding policy, taking into account the voting policies of proxy advisors (ISS and Glass Lewis).

(Information and communication)

[Column 1] Recent Trends in Capital Markets Related to Cross-Shareholdings

In the past few years, there has been a strong trend toward requiring listed companies to expand disclosure of their cross-shareholdings and to actually sell or reduce them. Chart 22 shows the capital market trends surrounding cross-shareholdings in recent years. The main points are the expansion of disclosure in securities reports through the revision of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.; strengthened accountability for cross-shareholdings through the formulation and revision of the Code (Code Principle 1.4, etc.); and the clarification of the opposition by proxy advisors and institutional investors (including activist investors) to listed companies holding a certain amount of cross-shareholdings.

Chart 22 Major Capital Market Trends on Cross-Shareholdings

Timing	Major trend (entity in charge)	Key points of the revision
2010	Revision of the Ordinance on Disclosure (FSA)	Requires companies to disclose "specified investment shares" (cross-shareholdings) by issue in the Securities Report (each issue with value exceeding 1% of capital, or top 30 issues)
2015	Establishment of CG Code (FSA/TSE)	Principle 1.4 requires companies to disclose their policies regarding cross-shareholdings, and boards to assess the economic rationale of the shareholdings and disclose the results
2018	Revision of CG Code (FSA/TSE)	Principle 1.4 requires companies to disclose their policies regarding the reduction of cross-shareholdings, and to assess whether the purpose of the shareholdings is appropriate in light of the cost of capital, and disclose the results
2019	Revision of the Ordinance on Disclosure (FSA)	Requires enhanced disclosure on cross-shareholdings in the Securities Report <ul style="list-style-type: none"> ✓ Criteria/concept of distinguishing shareholdings for pure investment purpose and shareholdings for other purposes ✓ Method for assessing the reporting company's policy on cross-shareholdings and rationale for the shareholdings ✓ Details of the board' assessment on cross-shareholdings in terms of the appropriateness of holding each issue ✓ Number of issues, for which the number of shares increased/decreased from the previous year, and reasons for the increase ✓ Raised the maximum number of issues to be disclosed (max. top 30 issues → max. top 60 issues) ✓ Full disclosure of each issue (the reporting company's management policy/strategy, etc., benefits from the shareholdings in light of its business overview and segmental information, reasons for increasing the number of shares, existence of mutual shareholdings)
2021	Policy on proxy advice (Glass Lewis)	Recommends voting against the director, who is the top management, when the size of cross-shareholdings exceeds 10% or more of the net assets (published in 2019)
2022	Policy on proxy advice (ISS)	Recommends voting against the director, who is the top management, when the size of cross-shareholdings exceeds 20% or more of the net assets (published in 2020)

First, with regard to the expansion of disclosure in securities reports and the strengthening of accountability through the formulation and revision of the Code, the 2018 revision of the Code requires listed companies to disclose their policies for reducing cross-shareholdings, and to verify the economic rationality of their holdings based on the cost of capital. Furthermore, as mentioned in this White Paper, the 2019 amendment to the Ordinance on Disclosure requires disclosure of the board's method of verifying the economic rationality of the holding, as well as quantitative benefits for each holding for up to 60 issues held.

In addition, in recent years, there has been a widespread trend toward not only requiring listed companies to fulfill their accountability through disclosure, but also to take action to eliminate their

cross-shareholdings by selling them, etc. Specifically, proxy advisors and institutional investors have been demanding improvements from companies that hold a certain amount of cross-shareholdings through engagement, campaigns and changes to voting criteria.

For example, the Institutional Investors Collective Engagement Forum, an incorporated association in which major institutional investors participate, sends letters to listed companies that hold a certain amount of cross-shareholdings regarding their "Policy on Cross-Shareholdings" and asks them to engage in collaborative dialogue. In addition, recent years have seen an increase in the number of cases of activist investors making shareholder proposals, etc., to listed companies which hold a certain amount of cross-shareholdings.

Moreover, major proxy advisors with significant influence among foreign investors have set quantitative criteria for the maximum amount of cross-shareholdings to be held, and have announced policies of recommending for investors to oppose company proposals for the appointment of directors at companies that do not meet these criteria. Specifically, Glass Lewis has announced that it will recommend voting against proposals for the appointment of top management to the board at companies that allocate 10% or more of their net assets to cross-shareholdings from 2021 onward, while ISS has announced that it will do the same in the case companies that allocate 20% or more of their net assets to cross-shareholdings from 2022 onward. In addition, some institutional investors have already introduced voting standards that require them to vote against a company's proposal to appoint directors based on the cross-shareholding ratios. In the future, this attitude of seeking improvements through the exercise of voting rights is expected to spread, especially among major institutional investors.

In response to such changes in their environment, some listed companies have pushed forward with the reduction of cross-shareholdings. Chart 23 shows the number of issues held by 100 major companies (constituents of the TOPIX 100). 80 out of 100 companies, mainly in the financial sector (banking, insurance, etc.) and the wholesale industry, reduced their cross-shareholdings in the fiscal year ending March 2020. If we look at the number of issues held by the TOPIX 100 constituents as a whole (87 business companies excluding financial institutions and one company with special factors) (Chart 24), we can see that the number of issues held has been decreasing steadily over the past few years. On the other hand, only 13 companies increased the number of issues they held in the fiscal year ending March 2020, with some explaining the increase on the grounds of business reasons, such as the strengthening of relationships.

Some companies still hold a substantial amount of cross-shareholdings relative to their net assets. Chart 25 shows the distribution of the market capitalization of cross-shareholdings as a percentage of net assets of companies in TSE First Section that are TOPIX constituents. The average and median ratios are 7.9% and 4.2%, respectively, and for most companies the ratio is less than 10% of net assets. The percentage of companies holding 10% or more of net assets as cross-shareholdings, which is the cut-off for opposition according to the Glass Lewis criteria, is approximately 26% of TOPIX constituents (563 companies in total), and the percentage of companies holding 20% or more of net assets as cross-shareholdings, which is the cut-off for opposition according to the ISS criteria, is 9.2% (200 companies

in total).

In the past, companies have been required to be "accountable for explaining the significance of their holdings" through enhanced disclosure of their cross-shareholdings. Now that proxy advisors with influence over institutional investors have set opposition criteria for cross-shareholding ratios, however, companies may find themselves under pressure to reduce their holdings until they fall below a certain ratio of net assets even if holding stock in a certain company were meaningful. The environment of listed companies is developing in a way that will require them to take more in-depth measures than ever before.

Chart 23 Number of Issues Held as Cross-Shareholdings by Major Corporations (TOPIX100)

政策保有株の削減状況（削減数上位20社）				
業種	2019年 保有銘柄数	2020年 保有銘柄数	増減数	増減率
銀行業	2,628	2,521	-107	-4%
銀行業	2,138	2,049	-89	-4%
保険業	2,734	2,667	-67	-2%
保険業	1,878	1,814	-64	-3%
銀行業	2,071	2,015	-56	-3%
銀行業	891	840	-51	-6%
電気機器	320	270	-50	-16%
卸売業	413	369	-44	-11%
電気機器	272	233	-39	-14%
保険業	1,943	1,905	-38	-2%
鉄鋼	345	308	-37	-11%
銀行業	1,360	1,333	-27	-2%
保険業	276	250	-26	-9%
化学	75	52	-23	-31%
化学	272	250	-22	-8%
ゴム製品	110	91	-19	-17%
食料品	291	274	-17	-6%
卸売業	283	267	-16	-6%
建設業	73	57	-16	-22%
卸売業	432	417	-15	-3%

前期比較の状況	
前期比	社数
増加	13
変わらず	6
減少	80
-	1
合計	100

増加企業の状況			
	増加 銘柄数	保有 銘柄数	買い増し した上場 銘柄数
食料品	7	52	-
サービス業	7	26	-
化学	6	95	-
電気機器	6	90	-
小売業	6	25	-
電力・ガス業	4	159	-
非鉄金属	3	211	-
通信業	3	126	1
機械	2	169	-
不動産業	2	156	-
建設業	2	4	-
陸運業	1	71	7
通信業	1	60	1

Top 20 companies that reduced cross-shareholdings				
Industry	Number of issues held in 2019	Number of issues held in 2020	Difference	Reduction ratio
Banking	2,628	2,521	-107	-4%
Banking	2,138	2,049	-89	-4%
Insurance	2,734	2,667	-67	-2%
Insurance	1,878	1,814	-64	-3%
Banking	2,071	2,015	-56	-3%
Banking	891	840	-51	-6%
Electric appliances	320	270	-50	-16%
Wholesale trade	413	369	-44	-11%
Electric appliances	272	233	-39	-14%
Insurance	1,943	1,905	-38	-2%
Iron and steel	345	308	-37	-11%
Banking	1,360	1,333	-27	-2%
Insurance	276	250	-26	-9%
Chemicals	75	52	-23	-31%
Chemicals	272	250	-22	-8%
Rubber products	110	91	-19	-17%
Food products	291	274	-17	-6%
Wholesale trade	283	267	-16	-6%
Construction	73	57	-16	-22%
Wholesale trade	432	417	-15	-3%

YOY comparison	
YOY change	Number of companies
Increased	13
Unchanged	6
Reduced	80
-	1
Total	100

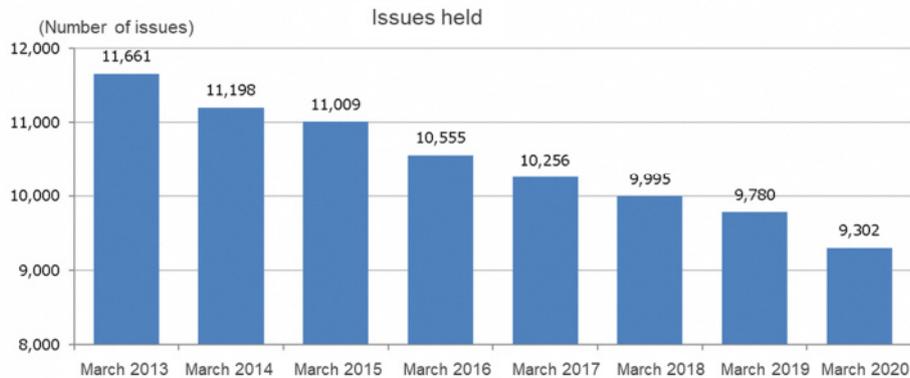
Companies that increased cross-shareholdings			
Industry	Increase in number of issues held	Number of issues held	Number of issues with additional purchase of shares
Food products	7	52	-
Services	7	26	-
Chemicals	6	95	-
Electric appliances	6	90	-
Retail trade	6	25	-
Electric power & gas	4	159	-
Nonferrous metals	3	211	-
Communication	3	126	1
Machinery	2	169	-
Real estate	2	156	-
Construction	2	4	-
Land transportation	1	71	7
Communication	1	60	1

Note: "shares held for purposes other than pure investment" are totaled as cross-shareholdings.

Source: created based on securities report of each company

Chart 24 Decrease in Cross-Shareholdings (Cumulative) by Major Companies (TOPIX100 Excluding Financial)

Reduction of cross-shareholdings (investment shares held for purposes other than pure investments) (cumulative)



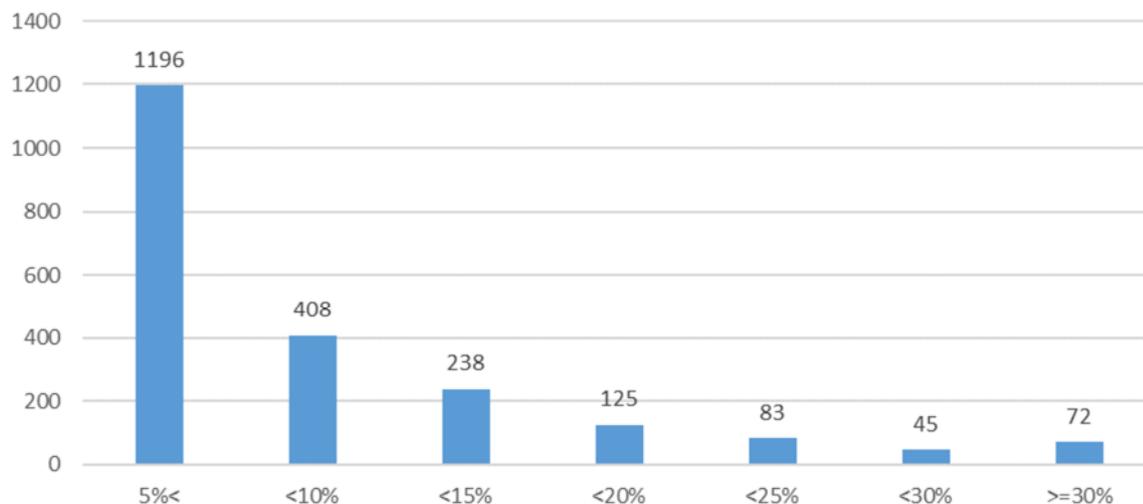
	March 2014	March 2015	March 2016	March 2017	March 2018	March 2019	March 2020
Number of issues held as cross-shareholdings (87 companies except financial institutions and one chemical company)	11,198	11,009	10,555	10,256	9,995	9,780	9,302
Average number of issues held per company	133	130	123	119	116	112	107
Reduction ratio	-4%	-2%	-4%	-3%	-3%	-2%	-5%

Note 1: “shares held for purposes other than pure investment” are totaled as cross-shareholdings.

Note 2: the financial industry was excluded from aggregation because it is characterized by large amounts of cross-shareholdings, making it difficult to see the trend for business companies to reduce their cross-shareholdings; a chemical company was excluded because the scope of subsidiaries to be aggregated differed during the aggregation period.

Source: created based on securities report of each company

Chart 25 Ratio of Cross-Shareholdings to Net Assets of TOPIX Constituents



Average: 7.9% Median: 4.2%

Note 1: “shares held for purposes other than pure investment” are totaled as cross-shareholdings.

Note 2: covers data for 2,167 companies in the TOPIX index, excluding companies for which data aggregation is not possible.

Source: prepared based on QUICK Astra Manager.

1-8. Matters concerning anti-takeover measures

TSE has stipulated matters to be complied with ³² in case of the adoption³³ of anti-takeover measures³⁴ in the Code of Corporate Conduct. At the same time, Principle 1.5 of the Code stipulates that the necessity and rationale for the adoption or implementation of anti-takeover measures should be carefully reviewed, that the appropriate procedures should be ensured, and that sufficient explanations should be provided to shareholders. The compliance rate for this principle was 100% (2,652 companies).

The CG Report requires companies to indicate whether they have adopted any anti-takeover measures. Companies that have adopted such measures are required to describe their objectives and

³²Rule 440 of Securities Listing Regulations.

³³ “Adoption” here refers to an act where a company determines the specific nature of anti-takeover measures, such as a resolution on issuance of new stocks or new share subscription rights for takeover defense.

³⁴ “Anti-takeover measure” refers to measures which a listed company adopts prior to the commencement of a takeover by a party that is undesirable from management’s perspective, among measures intended to obstruct the acquisition of a listed company (meaning the acquisition of as many shares as necessary to exercise influence on the company), for example, by issuing new stocks or new share subscription rights not mainly for the purpose of fundraising or other business reasons.

provide an overview of the scheme.

Anti-takeover measures may have a large impact on the rights of shareholders, and have the potential to be abused in order to serve the interests of executives. In this respect, companies with such measures in place are required to provide explanations, including the rationale for such measures, in their CG Reports.

(1) Number of companies with anti-takeover measures in place

Companies mentioning the adoption of anti-takeover measures in their CG Reports were 283, or 7.7% of TSE-listed companies. Although the number of companies that put anti-takeover measures in place had increased significantly since around 2005 due to factors including changes in the management environment, such as the unwinding of cross-shareholdings and growing interest in hostile takeovers (increased from 132 companies in 2006, when surveys for the White Paper were started, to 461 companies in 2008), the number has gradually fallen in recent years as a result of the development of laws on abusive hostile acquisitions and investors' critical outlook on anti-takeover measures. In fact, the opposition rate of Japanese institutional investors to proposals for the introduction or continuation of anti-takeover measures at shareholder meetings remains high.³⁵

By market division, 9.8% of companies have introduced anti-takeover measures in TSE First Section, a decrease of 4.5 percentage points from the previous survey. In addition, 7.9% of companies on TSE Second Section, 1.2% on Mothers and 4.0% on JASDAQ have introduced such measures — a decrease from the previous survey across all categories (Chart 26). JPX 400 constituent companies that adopted such measures accounted for 5.8% — lower than TSE First Section and a significant decrease of 6.0 percentage points from the previous survey.

In relation to company size, generally, larger companies are more likely to have anti-takeover measures in place, although a decreasing trend was observed in the "1 trillion yen or more" category (Chart 27). The figures for the "100 billion yen to less than 1 trillion yen" and "1 trillion yen or more" categories decreased by 6.5 points and 4.0 points, respectively, from the previous survey.

In terms of foreign shareholding ratio, the percentage of companies with anti-takeover measures was lowest in the "30% or more" category at 2.7% (Chart 28), a decrease of 3.7 percentage points from the previous survey. In addition, 9.2% of respondents were in the category of "20% to under 30%" — a decrease of 11.1 points compared to the previous survey.

Looking at the relationship with the ownership ratio of the largest shareholder, the ratio of companies implementing anti-takeover measures tended to be higher in the category where the ownership ratio of the largest shareholder was low, while it was only 13.8% in the category where the ownership ratio was less than 5% — a significant decrease of 9.5 percentage points from the previous survey (Chart 29).

³⁵ According to ICJ Inc.'s "Status of Institutional Investors' Exercise of Voting Rights from the Perspective of the Electronic Voting Platform," in the fiscal year ended March 2018, the ratio of opposition from domestic institutional investors exceeded 80%.

The above is a summary of the status of the introduction of anti-takeover measures, but most of these are advance-warning type rights plans, which require approval at the general shareholder meeting. Specifically, companies establish procedures during normal times that should be followed by acquirers in the event of a hostile takeover attempt. In the event of a hostile takeover attempt that does not follow pre-established procedures, the takeover will be handled as an abusive acquisition that damages corporate value, and the board will decide to issue new share subscription rights and enact a rights plan.

Most companies that have not adopted anti-takeover measures and have provided an explanation for this mentioned that the maximization of corporate value is the most effective anti-takeover measure and that they did not plan to introduce anti-takeover measures at the time.

Chart 26 Adoption of Anti-Takeover Measures (by Market Division)

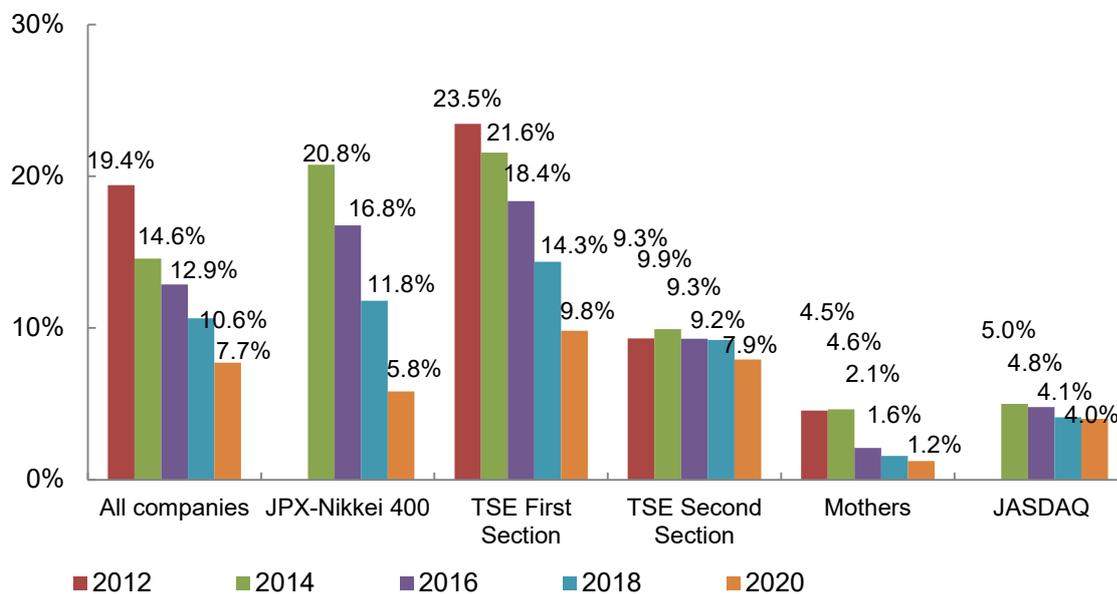


Chart 27 Adoption of Anti-Takeover Measures (by Consolidated Sales)

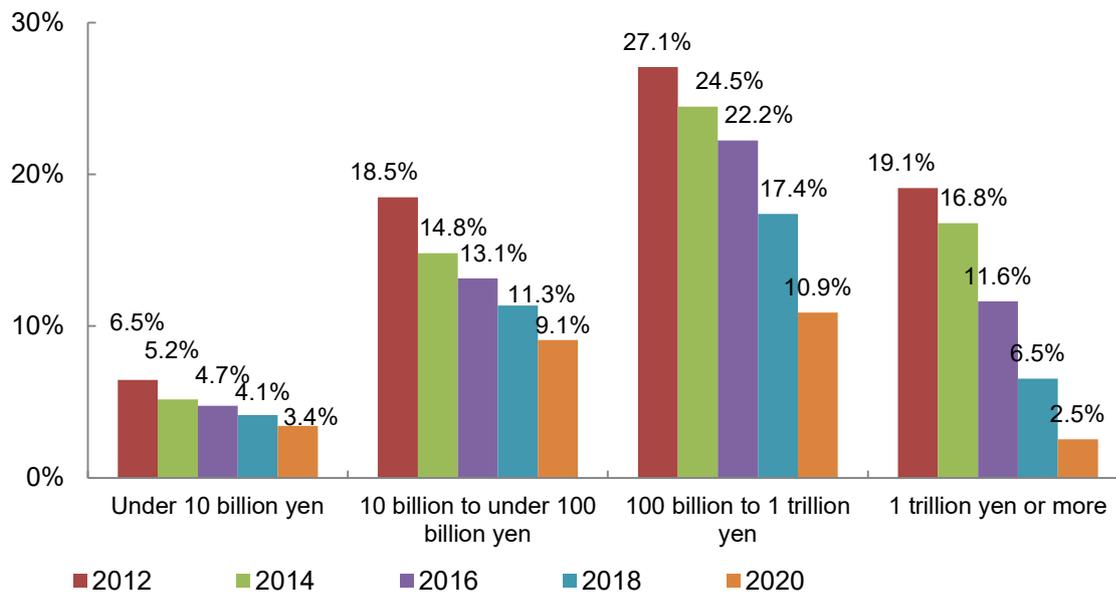


Chart 28 Adoption of Anti-Takeover Measures (by Foreign Shareholding Ratio)

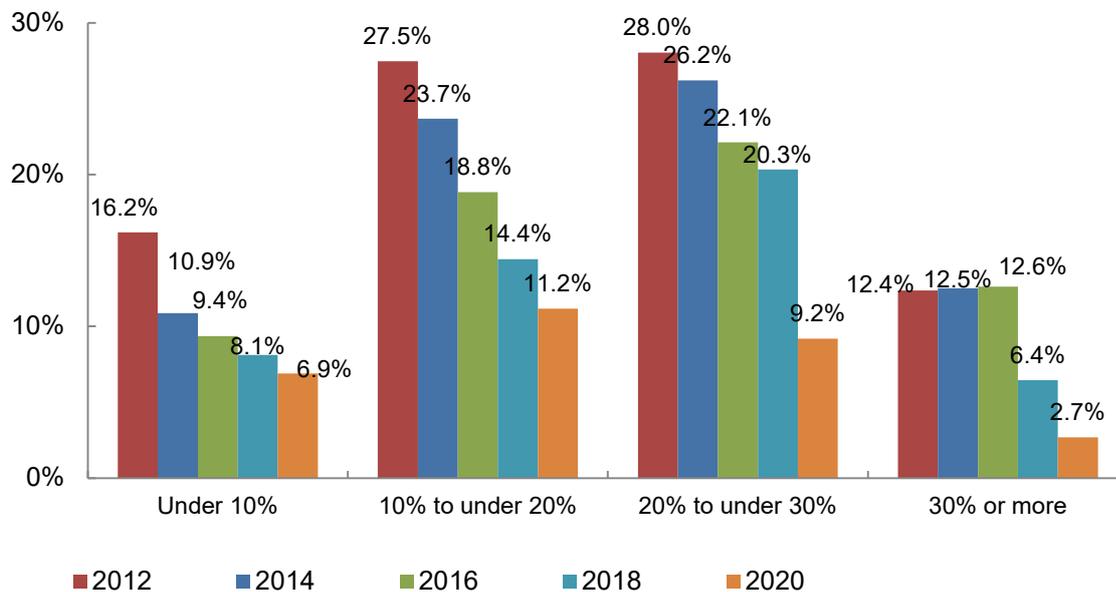
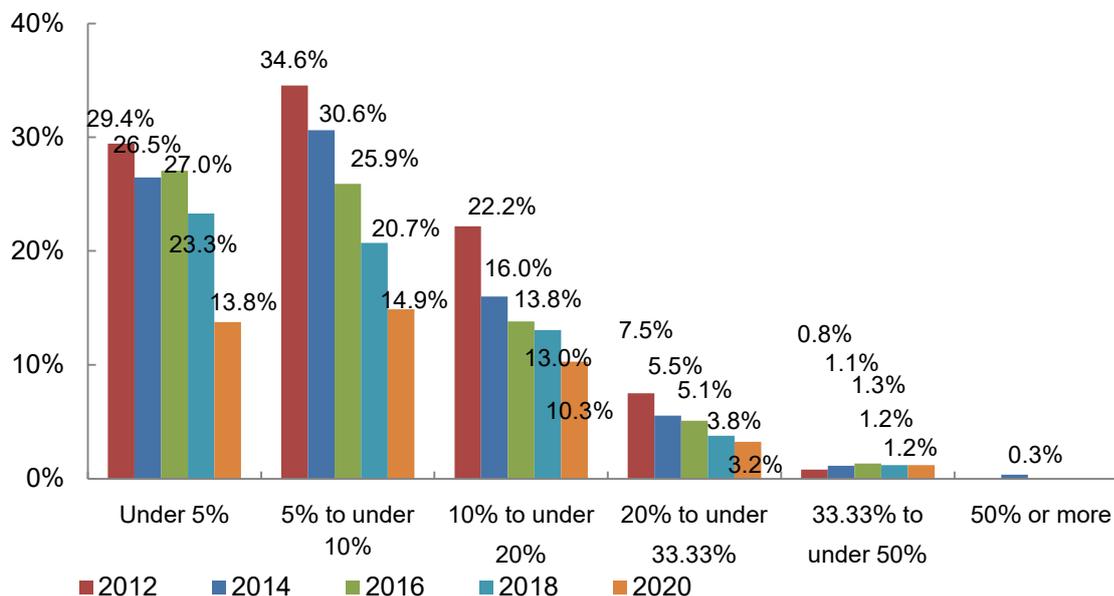


Chart 29 Adoption of Anti-Takeover Measures (By Shareholding Ratio of the Largest Shareholder)



(2) Corporate governance system of companies with anti-takeover measures

Chart 30 shows a comparison of the corporate governance systems of companies that have adopted anti-takeover measures and companies without anti-takeover measures. For companies with anti-takeover measures, the role of independent directors as advocates for minority shareholders is likely to be more important, and the ratio of companies that have appointed independent directors is higher in companies with anti-takeover measures. This is likely due to the fact that, generally, larger companies are more likely to introduce anti-takeover measures, and the appointment of independent directors is likewise more common among larger companies.

Chart30 Adoption of Anti-Takeover Measures and Board Independence

	Average number of directors (per company)	Average number of independent directors (per company)	Percentage of companies appointing at least 1 independent director	Percentage of companies appointing at least 2 independent directors	Percentage of companies appointing at least one-third independent directors
Companies adopting anti-takeover measures	8.65	2.69	97.9%	87.6%	55.5%
Companies not adopting anti-takeover measures	8.10	2.51	95.5%	77.7%	47.0%

1-9. Related party transactions (Principle 1.7)

Principle 1.7 stipulates that when a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the common interests of its shareholders, it should establish procedures for preventing conflicts of

interest, disclose the framework of these procedures, and then conduct monitoring based on these procedures. Because certain disclosures regarding related party transactions are required under the Companies Act and the Financial Instruments and Exchange Act, many companies had already developed frameworks for the protection of investors since before the application of the Code. Thus far, companies have also been required to disclose, in their CG Reports, guidelines on measures to protect minority shareholders in conducting transactions with controlling shareholders. Due to these factors, the compliance rate for this principle is high at 99.9% (2,649 companies).

The contents of Principle 1.7 can be broadly divided into procedures for preventing conflicts of interest and transaction conditions. In terms of procedures for preventing conflicts of interest, it seems that many companies have already established a system that requires approval or resolution by the board or reporting on related party transactions based on the Companies Act and other laws and regulations. We analyzed keywords used, and 90.4% (2,396 companies) mentioned the “board.” The next most common keywords are “resolution” and/or “approval,” mentioned by 83.5% (2,212 companies). In addition, 47.2% of companies (1,251 companies) mentioned “reports,” while 32.0% (847 companies) mentioned “laws and regulations” and the “Companies Act.” In addition, 50.4% (1,335 companies) mentioned “rules” and/or “regulations,” which means that about half of companies have also clearly stated that the above-mentioned systems have been documented in internal regulations, etc. Note that 18.0% (478 companies) mentioned “survey,” indicating that the status of related party transactions is regularly monitored through questionnaires, survey forms, etc.

22.3% (591 companies) mentioned “transaction conditions” in their disclosures. The majority of them disclosed procedures for confirming the suitability, etc. of transaction conditions. Only 3.5% (92 companies) specifically mention that they take “market price” into consideration when deciding transaction conditions.

To deal with the risk of conflicts of interest in related party transactions, some companies have introduced a system whereby persons with a certain degree of independence are involved in deliberations and reviews. With respect to Principle 1-7, 16.2% (429 companies) mentioned “*kansayaku*,” “supervisory committee” or “audit committee,” while only 5.5% (147 companies) mentioned “outside directors” (including independent directors). Even when the analysis is limited to companies with the parent company (239 companies), only 12.1% (29 companies) mentioned “outside directors.”

If we analyze individual cases, there are examples of detailed disclosures of the specific process for related party transactions. For example, in Example 1, the basic policies and structures for related party transactions are mentioned, and each process is disclosed in detail, including the identification of transactions, the approval of new transactions, the management of existing transactions and checks by *kansayaku*. This can be considered a special case, as many companies only mention that “a resolution by the board is required.”

There are also some companies that clearly state that they have established a process for outside officers and external experts to confirm the suitability of transactions as part of approval procedures for related party transactions, and that they have developed systems to ensure that the interests of

general shareholders are not undermined by related party transactions. For example, in Example 2, the rationality of transactions and the appropriateness of procedures are validated by a third party committee composed of independent directors, etc., and resolutions by the board undergo a legal check by legal counsel. In addition, in Example 3, the company clearly states that the opinions of an internal committee consisting of outside directors or a third-party committee consisting of lawyers, etc. are considered when necessary.

As in Examples 4 and 5, companies with parent-subsidary listings have described their processes for determining transaction prices, etc., in order to ensure the transparency of parent-subsidary transactions. In particular, in Example 5, the company determines prices, etc. in consideration of market prices, etc.; with regard to important transactions, the company explains that it has established a system whereby the Governance Committee, which is composed of a majority of independent directors and independent external experts, is consulted in advance in order to ensure that the interests of minority shareholders are not unreasonably impaired through parent-subsidary transactions.

Example 1

[Principle 1.7]

The Company has established the “Related Party Transaction Management Regulations,” stipulating basic policies, procedures and management methods for related party transactions, among other matters. Further, the Company has developed systems in accordance with these regulations so that transactions with related parties do not harm the Company or the common interests of shareholders or lead to any concerns with respect to such harm.

Basic policy on the implementation of related party transactions

The parties in related party transactions are parties that have a specific relationship with the company, and are recognized as parties that can have an influence over the company.

Accordingly, transactions with related parties will need to be judged extremely carefully from the perspective of protecting the interests of general shareholders, including the necessity of the transactions.

[System for ensuring the appropriateness of related party transactions]

a. Identification of transactions

The Finance Department determines whether a business partner is a related party when each department applies for registration as a new business partner;

if this is the case, the Finance Department identifies and manages all transactions with the business partner.

Related party transactions with consolidated subsidiaries are examined and monitored based on the “Consolidated Survey Form” that is submitted by consolidated subsidiaries every fiscal year.

The presence of transactions with officers and their close relatives is examined and monitored based on the “Related Party Survey Form” that is submitted by each officer every fiscal year.

b. Approval of new transactions

When starting a new transaction with a party qualifying as a related party, the Company will confirm the rationality (business necessity) of the transaction itself and the appropriateness of the conditions of the transaction, and will obtain approval through the approval procedure based on the provisions of the Rules on Administrative Authorities and the Table of Standards for Administrative Authorities.

Significant transactions subject to disclosure based on the Companies Act, Financial Instruments and Exchange Act, Regulations Concerning Financial Statements, etc., accounting standards, etc., will require the board's approval.

c. Management of existing transactions

Existing ongoing related party transactions are reported to the Management Committee and the Board of Directors on a regular basis in order to monitor the rationality (business necessity) of continuing such transactions and the appropriateness of their conditions;

when matters that need to be taken into consideration regarding the appropriateness of transactions arise, these are examined and reviewed,

including the pros and cons of continuing transactions.

d. Checks by *kansayaku*

Kansayaku will check the appropriateness, suitability, etc. of related party transactions when viewing and examining approval documents in

the course of the operational audits that are regularly conducted every fiscal year for new transactions.

Existing ongoing transactions will be checked through reports regularly received from the Finance Department.

(Foods)

Example 2

(Omitted)When conducting transactions with directors, major shareholders, etc. ("related party transactions") that may have a major impact on the Company and the common interests of shareholders, a committee composed of independent directors and independent third parties will validate the transactions' rationality and the appropriateness of procedures.

When the board resolves on a related party transaction, the Corporate Administration Department will request legal counsel to conduct a legal check. In addition, the responsible department will also commission a legal check to legal counsel as necessary for matters related to transactions between the Company and the Company's subsidiaries. (Precision instruments)

Example 3

In cases where the Company is to engage in transactions with officers, major shareholders, etc. ("related party transactions"), a meeting body composed of directors, etc. will decide on whether to submit a proposal for approval of the transaction to the board, and will, as necessary, seek the opinion of an internal committee (composed of outside directors, etc.) or a third-party committee (composed of lawyers, etc.). When a related party transaction is subject to a resolution for approval at a board meeting, any director who is involved in the transaction may not participate in the resolution on the grounds of being a specially interested party, and will therefore not be included in the quorum. Going forward, the Company will disclose its efforts to monitor related party transactions. (Service industry)

Example 4

The company has established a system to ensure that transactions with officers or major shareholders do not infringe on the interests of the company or its shareholders, as follows.

- Transactions between the company and its parent company ●●● Co., Ltd. and companies of the ●●● Group are managed based on the ●●● Inter-Group Transaction Management Rule, and the arm's length rule is thoroughly enforced for transactions between related parties. In addition, the approval of the board of directors is required for important transactions with the parent company, etc.

- We have clearly stated that, in principle, the approval by the board is required for competitive transactions and transactions involving conflicts of interest between the company and its directors in accordance with the Companies Act. In addition, strict procedures are conducted for directors involved in such transactions, such as exclusion from resolutions as specially interested parties.

- Note that regular checks are conducted for the presence of transactions with directors, auditors and major shareholders, etc. (Other Financing Business)

Example 5

In accordance with laws, regulations, and internal rules, competitive transactions and transactions involving conflicts of interest between the Company and its directors require prior approval by the board; and in the event that such transactions are conducted, the state of such transactions and other matters will be reported periodically to the board. Prior to the meeting of the board, advice is sought from the Governance Committee, the majority of whose members are independent directors and independent external experts, and a proposal approved by the Audit and Supervisory Committee is submitted to the Board.

Additionally, in transactions with major shareholders, the Company determines prices, etc. by taking into consideration market prices, cost rates, etc., in the same way as it does in the case of ordinary transactions with business partners without capital relationships. With respect to important transactions with major shareholders, the board decides whether or not to enter into such transactions after consulting with and receiving a report from the Governance Committee in advance. In addition, the status of transactions with major shareholders is regularly reported to the Governance Committee. (Information and communication)

Chart 31 Related Party Transaction Keywords

Item	Number of companies	Ratio
Companies complying with Principle 1.7	2,649	100%
■ Related to procedures		
Board	2,396	90.4%
Resolution or Approval	2,212	83.5%
Rules (board rules) and/or Regulations, etc.	1,335	50.4%
Reporting	1,251	47.2%
Major shareholder	1,089	41.1%
Laws and Regulations and/or the Companies Act	847	32.0%
Survey (questionnaires, survey forms,	478	18.0%

etc.)		
<i>Kansayaku</i> , Supervisory Committee, Audit Committee	429	16.2%
Outside directors	147	5.5%
■ Related to transaction conditions		
Transaction conditions	591	22.3%
Market price	92	3.5%

1-10. Improving governance of listed subsidiaries

When a listed company has a controlling shareholder (including parent company), there is a risk of structural conflicts of interest between the minority shareholders of the listed company and the controlling shareholder (parent company). Accordingly, TSE requires disclosure of matters related to conflicts of interest in CG Reports, etc.

First, in cases where a listed company has a controlling shareholder³⁶, the listed company is required to include guidelines on measures to protect minority shareholders in its CG Reports. Specifically, the listed company must provide concrete descriptions 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 the company itself and, ultimately, minority shareholder interests from being undermined by transactions intended to favor the controlling shareholder by leveraging its influence. In addition, after each fiscal year, the company is required to disclose in a timely fashion the status of implementation of the measures stipulated in the guidelines as part of the "disclosure of matters relating to controlling shareholders, etc." ³⁷.

With regard to the policy for establishing internal systems, guidelines on measures to protect minority shareholders contained numerous statements to the effect that transactions with controlling shareholders should be carried out in accordance with the same conditions as regular transactions so as not to damage the interests of minority shareholders. There were also statements to the effect that the company does not conduct transactions with controlling shareholders as a matter of policy. Regarding internal decision-making procedures, many companies stated that decisions on transactions with controlling shareholders are taken by the board of directors. In more specific terms, many stated that decisions are made at meetings of the board with the participation of outside directors who are independent of the controlling shareholder in order to ensure that the listed company makes its own business decisions. Although few companies mentioned the use of external organizations, most stated that they seek the opinions of accounting auditors, lawyers, tax accountants, etc. regarding the

³⁶ "Controlling shareholder" includes not only the parent company (including unlisted companies) but also individuals who hold a majority of voting rights. Rule 2, Item (42)-2 of Securities Listing Regulations, and Rule 3-2 of Enforcement Rules for Securities Listing Regulations.

³⁷ Rule 411 of Securities Listing Regulations, and Rule 412 of Enforcement Rules for Securities Listing Regulations.

pros and cons of transactions on an as-necessary basis.

Among TSE-listed companies, 635 companies or 17.3% have controlling shareholders. Of these companies, 354 companies (9.6%) have parent companies, and 281 companies (7.2%) have controlling shareholders that are not parent companies (Chart 12).

In addition, TSE is further enhancing the disclosure of matters related to conflicts of interest in CG Reports in the case of parent-subsidary listings where the listed company has a parent company and that parent company is also listed. Specifically, the guidelines for CG Reports were revised in February 2020, so that under "Other Special Circumstances that May Have a Material Impact on Corporate Governance," parent companies with listed subsidiaries are now required to disclose "Approaches and Policies Concerning Group Management" and, based on this, "Significance of Having Listed Subsidiaries" and "Measures to Ensure the Effectiveness of the Governance System of Listed Subsidiaries," while listed subsidiaries are required to disclose "Approaches and Policies to Ensure Independence from the Parent Company as Necessary to Protect Minority Shareholders."

Among the disclosures made in CG Reports in cases where the company has a controlling shareholder or in the case of a parent-subsidary listing, Examples 1 through 3 are examples of disclosures by the parent companies of listed companies. In Example 1, the significance of having each listed subsidiary is described in terms of its contribution to the group's ROE target, as well as specific business synergies and the rationale for maintaining the subsidiary's listing. The report also states that the company is working to ensure the effectiveness of governance at its listed subsidiaries by establishing a governance committee with independent directors as its core members. In Example 2, the company describes its policy of periodically examining whether it is optimal to maintain listed subsidiaries and having the matter discussed by the board. The Company also explains the position of each listed subsidiary in its business portfolio, specific business synergies, and the rationale for maintaining the subsidiary's listing. Furthermore, in order to build an effective governance system, the company has formulated and disclosed a policy regarding the exercise of the authority to select and dismiss the independent directors of listed subsidiaries. In Example 3, the author mentions the sharing of group strategies and clarification of the division of functions (elimination of overlapping businesses) between the parent company and its subsidiaries, and also explains measures to maintain the independence of listed subsidiaries. In addition, the company discloses memorandums of understanding it has concluded with listed subsidiaries (e.g., to limit the percentage of voting rights held to 51% or less).

Next, Examples 4 through 6 are examples of disclosures by listed subsidiaries with parent companies (controlling shareholders). In Example 4, the company explains that, as a measure to protect minority shareholders in transactions with the controlling shareholder, important transactions with the parent company group are deliberated by the Supervisory Committee for Conflicts of Interest in Transactions between Group Companies, which is composed of all independent directors. In Example 5, the company refers to the parent company's approach to group management and the segregation of businesses. In Example 6, the company describes the position and business competition status of listed subsidiaries within the group. In terms of governance systems, the company

also describes its current policy of ensuring that at least one third of directors on the board are not directly involved in the parent company group, and states that it intends to increase this to a majority in the future.

Example 1

(2) Reason for having the subsidiaries remain listed

A. Corporation A

1) We are able to: expect the generation of synergies through cooperation and coordination with the subsidiary, a company with strength in textile and chemical product businesses as well as a significant presence in the Chinese market (Corporation A was designated as a friendly trading company in 1961); leverage the subsidiary's knowledge as a resource for our business development in the manufacturing sector, as Corporation A has penetrated emerging markets early by taking advantage of talents, having qualities that stand apart from those of employees of the Company, a manufacturer, and flexible capabilities; and incorporate a broad range of supply chains into the Group as a result of the subsidiary's successful business operations with its partners outside the Group. In order to realize these benefits, we believe that Corporation A has to maintain its listing status for the purpose of enhancing its corporate value, and thereby contributing to the enhancement of the Group's overall competitive advantages, by recruiting and motivating a broad range of excellent talents, a key asset for the business of trading company, while remaining independent from the Company, as a listed subsidiary.

2) In the medium-term management program "Project AP-G 2022" (hereinafter referred to as the "AP-G 2022") that we have been implementing as a Group starting in the fiscal year ending March 31, 2021, the consolidated ROE target is set at approximately 9% in the fiscal year ending March 31, 2023 (the final year of the Program), an increase from the 7% set in the fiscal year ending March 31, 2020 (both figures are estimated on an IFRS basis), based on the assumption that all of the financial plans of the listed subsidiary will contribute to an improved ROE for the Group.

B. Corporation B

1) We position the subsidiary as the keystone in our "Comprehensive Water-related Engineering Business" and are enhancing our collaboration in our water treatment membrane business, a business expected to become a representative growing field in the AP-G 2022. We believe that Corporation B has to maintain its listing status for two principal reasons: first, the subsidiary needs to broadly recruit highly professional talents for the highly technical water treatment systems and plant business the subsidiary is involved with in the above-mentioned Group's comprehensive business, and enhance and maintain their motivation; second, the subsidiary needs to secure by fair means the high transparency required of its business operations as an entity with a highly public nature.

2) In the AP-G 2022 that we have been implementing as a Group starting in the fiscal year ending March 31, 2021, the consolidated ROE target is set at approximately 9% in the fiscal year ending March 31, 2023 (the final year of the Program), an increase from the 7% set in the fiscal year ending March 31, 2020 (both figures are estimated on an IFRS basis), based on the assumption that all of the financial plans of the listed subsidiary will contribute to an improved ROE for the Group.

(3) Measures to ensure the effectiveness of the governance framework for the listed subsidiary

A. Corporation A

1) On March 25, 2020, Corporation A established the Governance Committee, which is a voluntary committee, to strengthen the independence, objectivity, and accountability of the functions performed by its Board of Directors regarding the nomination and remuneration of members of the Board. The subsidiary's Governance Committee also deliberates on matters that become

necessary to be addressed from the perspective of protecting the interests of its general shareholders. No former employees, Directors, officers, or other personnel of the Company serve as members of the Governance Committee, which is composed mainly of independent outside directors, hence the independence of the subsidiary in exercising authority over the election and dismissal of its directors is guaranteed.

2) When exercising authority over the election and dismissal of the subsidiary's independent outside directors, the Company seeks to make an appropriate decision for each agenda item, while serving the interests of the subsidiary's shareholders in general. That decision depends on whether the candidate can oversee management from a broader perspective to further improve the transparency and fairness of management, and can provide appropriate management advice from a mid- to long-term perspective, based on his/her sympathy with the management philosophies of Toray and the subsidiary and understanding of the businesses.

3) The transactions between the Company and the subsidiary are entered into based on the negotiations with reference to the market price, etc.

B. Corporation B

(omitted)

Example 2

The Company has incorporated its main business companies, ●● Corporation, ■■ Corporation and ▲▲ Corporation, as wholly owned subsidiaries, while other Group companies may be operated as wholly-owned subsidiaries or listed subsidiaries, etc. depending on the need to maintain and expand their businesses. It is the Company's policy to periodically inspect whether it is optimal to maintain listed subsidiaries from the perspective of improving corporate value and capital efficiency for the Group as a whole, and to deliberate at meetings of the board on the rationale for maintaining listed subsidiaries and on how to ensure the effectiveness of their governance systems.

The Company is the parent company of ●● Corporation, a listed company. We have made ●● Corporation a subsidiary because it is at the top of the road paving industry in terms of scale and profitability, and because of its important role in the Group's business portfolio. Due to the nature of the Group's business, there is a risk that fluctuations in resource prices could significantly affect the Group's operating results and have a material impact on its financial position. Nevertheless, ●● Corporation has been generating stable, high profits and has helped maximize the Group's overall corporate value.

Moreover, we have been cooperating with ●● Corporation, which has high technological capabilities in the pavement and construction business, to develop recycled asphalt modifiers, and we expect to use the pavement system developed by ●● Corporation, which generates electricity from sunlight, for community services as part of our long-term vision. This creates sufficient synergies.

Furthermore, we believe that maintaining the listing of ●● Corporation is sufficiently rational, because this will preserve its status as an industry leader, and in turn help maintain/improve the motivation of its employees and recruit outstanding personnel.

Our wholly owned subsidiary, ■■ Corporation, is the parent company of listed company ◎◎ Corporation.

■■ focuses on businesses that can be competitive globally through technological differentiation, such as advanced materials, and is treating them as the core of its growth strategy. ◎◎ is a supplier of high-quality materials, such as high-purity titanium for the thin-film materials business, which are important for the competitiveness of the businesses that ■■ is focusing on. Furthermore, in the

advanced materials field, where product lifecycles tend to be shorter, ■■ will need to quickly create and develop next-generation product lines through close collaboration with ◎◎. Therefore, it is essential that ◎◎ is maintained as a subsidiary.

On the other hand, in order to maximize synergy with ◎◎, ◎◎ will need to have the means to flexibly raise funds directly from the capital market, and we believe that maintaining the company as a listed subsidiary is sufficiently rational as it will help maintain/improve the motivation of the company's employees and recruit outstanding personnel.

The Company has formulated the following policy for the exercise of the authority to appoint and dismiss independent directors of listed subsidiaries in order to ensure an effective governance system, giving due consideration to the interests of the general shareholders of listed subsidiaries.

(1) Approach to the Exercise of Appointment Authority

a. Require that at least one-third of the directors be independent directors. If this is not immediately feasible, request that a mechanism be introduced whereby material conflict-of-interest transactions are discussed and reviewed by a committee consisting mainly of independent directors.

b. Consider the following requirements for independent directors.

(a) Whether the person has high professional ethics, excellence in strategic thinking and judgment, and the ability to adapt flexibly to changes, and whether the person is capable of making decisions and supervising management at a listed subsidiary.

(a) Whether the person has not been a member of the ●● Group within the past 10 years

(c) Whether the person is capable of contributing to improving the listed subsidiary's corporate value from an independent standpoint and in consideration of the protection of the common interests of shareholders, including general shareholders.

(2) Approach to the exercise of dismissal authority

Vote to dismiss an independent director in accordance with the decision of the board of the relevant listed subsidiary if he/she:

(a) Commits a serious violation of laws and regulations, and the reputation of the ●● Group or a listed subsidiary group is seriously damaged;

(b) Has malicious intent or commits gross negligence in the execution of his/her duties, and significant damage is caused to the ●● Group or a listed subsidiary group

(c) Significantly undermines the interests of general shareholders

(Oil and coal products)

Example 3

【Purpose of Having Publicly Listed Subsidiaries and Measures for Ensuring the Effectiveness of the Governance Systems of Those Subsidiaries】

The Company has two publicly listed subsidiaries, ■■ Corporation and ▲▲ Corporation. Under the preconditions that the Group strategies are shared with the publicly listed subsidiaries and the division of functions with the Company (eliminate overlapping businesses) is clarified, and the business foundation of the Group can be strengthened through mutual utilization of management resources, the Company has determined that allowing freedom in the management of the subsidiaries and maintaining their stock market listings will contribute to maximizing the corporate value of the Group.

To ensure the effectiveness of the governance of publicly listed subsidiaries, the Company dispatches appropriate personnel to the subsidiaries, regularly exchanges information, supervises the compliance system, etc., and while considering minority shareholders,

takes the following measures to maintain the independence of the subsidiaries.

- The management of each publicly listed subsidiary determines the candidates for Director.
- Publicly listed subsidiaries appoint a certain number of Independent Outside Directors and Independent Outside Audit & Supervisory Board Members, and ensure the transparency of the management of the subsidiaries.
- The decision-making of publicly listed companies is based on the independent management decisions of each subsidiary's Board of Directors.
- If a conflict of interest arises between the Company and minority shareholders, the necessary measures are taken to ensure the independent decision-making of publicly listed subsidiaries.

In addition, for business transactions between the Company and publicly listed subsidiaries, the Company maintains sound relationships with the subsidiaries such as by determining the transaction terms based on market prices through negotiations as needed.

Together with the tender offer conducted in January 2017 for shares in ■■ Corporation, the Company concluded a memorandum of understanding regarding the involvement in the subsidiary's management after it became a consolidated subsidiary. The overview of the memorandum is as follows:

- The Company's voting rights in the subsidiary will be 51% or less.
- The Company will maintain the stock market listing of the subsidiary's shares, and the subsidiary will carry out autonomous management as a listed company.

The Company will give sufficient consideration to the exercising of rights by minority shareholders of the subsidiary. The Company will continuously evaluate the policy of holding shares in the publicly listed subsidiaries, and the Company will keep holding the shares of the two publicly listed subsidiaries as long as they meet the above preconditions and it can be determined that they contribute to maximizing the corporate value of the Group. At this time, the Company does not plan to newly list the shares of other subsidiaries on stock markets.

Example 4

- Corporation is the parent company holding 51.78% (as of March 31, 2020) of the voting rights of the Company.

In the case where the Company conducts transactions with the parent company, appropriate supervision is given in light of the importance of the transactions, and in accordance with relevant procedures such as a requirement of approval at meetings of the Board of Directors at which Independent Outside Directors are present, in order to ensure that such transactions are fair and reasonable from the viewpoint of enhancing the corporate value of the Company. With respect to the Company's significant transactions, etc. with its parent company or any subsidiary of the parent company (excluding the Company and its subsidiaries) (the "Parent Company's Group"), deliberations are conducted from the viewpoint of protecting the interest of minority shareholders at the Supervisory Committee for Conflict of Interests in Transactions between Group Companies which was set up as a consultative body to the Board of Directors and consists of all the Independent Outside Directors.

(Pharmaceuticals)

Example 5

The parent company of the Company is ● Corporation, which owns 51.1% of the Company's voting rights (as of March 31, 2020). Since joining the ● Group in September 2004, the Company has played a central role as the only "comprehensive water treatment

engineering company" in the Group through the transfer and integration of its Japanese water treatment business to the Company.

By sharing the corporate philosophy and vision with each group company, and providing advice and support for the establishment of internal control systems within the Group, the parent company aims to achieve sustainable growth for the Group and enhance corporate value over the medium to long term. Moreover, the parent company has indicated a policy of respecting the Company's independence, refraining from any action that may be detrimental to the interests of general shareholders, and fulfilling its accountability with regard to rational reasons to maintain the Company as a listed subsidiary as well as ensuring the effectiveness of the Company's governance system.

The Company intends to continue to strengthen its cooperative relationship with the parent company, but as the only "comprehensive water treatment engineering company" in the ●● Group, the Company's business is segregated from that of ●● Group companies.

In addition, the appointment of directors & officers and seconded employees from the parent company and Group companies is intended to strengthen the Company's management structure and governance and to facilitate the exchange of information on technologies and products, and this does not interfere with the management decisions of the Company, so that the Company maintains its independence as a listed company.

(Machinery)

Example 6

Securing independence from the parent company

(1) Role of the Company Group within the ●● Group

The Company Group belongs to a corporate group led by ●● Corporation (hereinafter referred to as the "●● Group"). ▲▲ Inc. is the parent company that directly holds the Company's shares as a wholly owned subsidiary of ■■ Corporation, which in turn is a wholly owned subsidiary of ●● Corporation (meaning that ▲▲ Inc. is a wholly owned sub-subsidiary of ●● Corporation). ▲▲ Inc. belongs to the "Electronics Products & Solutions" segment, and the Company Group is positioned to provide Internet-related services within this segment.

Although there are other companies in the ●● Group that provide Internet-related services, the Company Group is mainly engaged in the business of providing RTB-based DSPs to advertisers and advertising agencies in Japan, and does not face any competition from these companies in terms of business or region.

Based on the above, the Company recognizes that the Company Group does not face any competition within the ●● Group, and that there are no plans for this to change in the future. Any future changes in the management policies of the ●● Group, however, may affect the Company Group's business performance and financial position.

(2) Personal relationships with the ●● Group

(Omitted) With regard to the composition of the Company's board, additional personnel from third parties who are not related to the ●● Group were appointed at the annual general meeting for the fiscal year ending March 2020, so that the number of third parties unrelated to the ●● Group exceeded one third (three out of eight directors). In the future, based on the deliberations of the optional Nomination and Remuneration Committee, the Company's policy is to appoint less than half of the total number of directors from within the ●● Group.

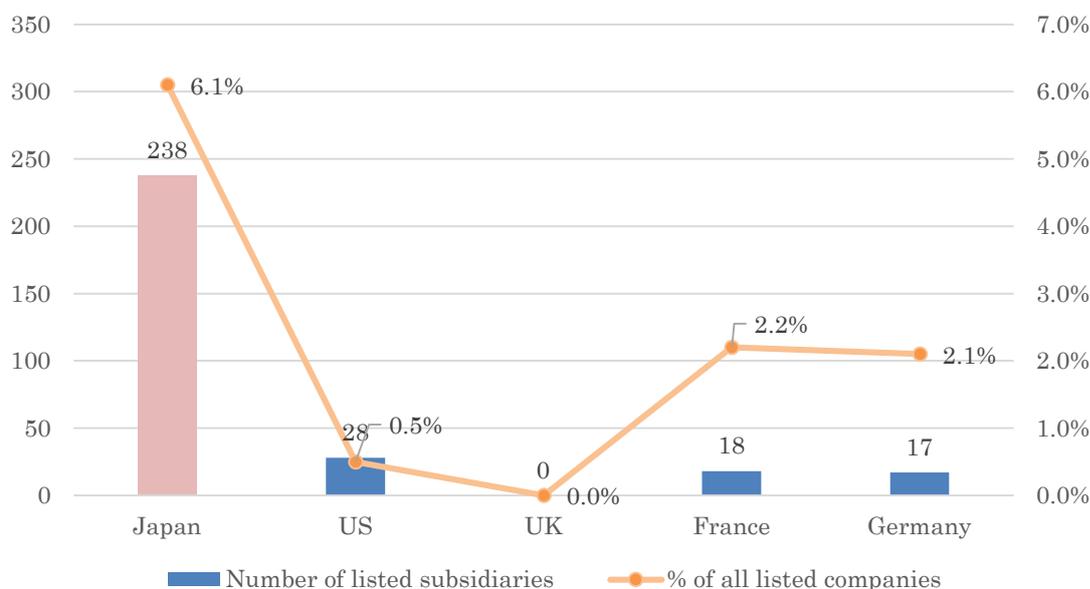
If the ●● Group's stake in the Company Group changes in the future, these personal relationships may change.

(Service business)

[Column 2] Trends of institutional investors regarding parent-subsidary listings

In the past few years, the stock market has become increasingly critical of parent-subsidary listings. Parent-subsidary listings are viewed critically by overseas investors as a phenomenon unique to Japan because, in addition to creating a structural conflict of interest between the parent company as the controlling shareholder and the minority shareholders of the listed subsidiary, parent-subsidary listings are uncommon overseas (e.g., in the United States and the United Kingdom), as shown in Chart 32. While the corporate governance of listed companies in Japan has improved significantly since the formulation of the Stewardship Code and the Corporate Governance Code, parent-subsidary listings have been recognized as one of the remaining representative issues related to corporate governance.

Chart 32 Number and Percentage of Listed Subsidiaries with Listed Parent Companies in Japan and Major Countries



Note: the number of cases in which both the listed company and the company directly owning 50% or more of its outstanding shares are listed on one of the exchanges in the same country (not limited to the same market).

Source: compiled from METI data.

Chart 33 shows the main stock market trends, etc. regarding parent-subsidary listings. With regard to the protection of minority shareholders in parent-subsidary listings, TSE clearly stated in its "Comprehensive Improvement Program for Listing Systems 2007" in 2007 that "TSE should set forth in its Code of Corporate Conduct measures to prevent minority shareholders from suffering damage due to conflicts of interest in transactions involving management and controlling shareholders" as a matter for continued consideration. Since then, TSE has consistently made efforts to protect the minority shareholders of listed subsidiaries by enhancing the disclosure system and requiring

companies to "obtain an opinion that the transaction is not disadvantageous to minority shareholders" in case of important transactions with controlling shareholders.

In March 2019, at a meeting of the Council on Investments for the Future established at the Headquarters for Japan's Economic Revitalization, Prime Minister Shinzo Abe instructed relevant ministers to consider making rules to improve corporate governance of "listed subsidiaries" on the stock market. In addition, the Ministry of Economy, Trade and Industry (METI) released practical guidelines on group governance systems in June 2019, which suggests how listed subsidiaries should be governed, as shown in Chart 34. From the perspective of protecting minority shareholders, securing independent directors at listed subsidiaries is a major issue to consider, and the practical guidelines state that independent directors should be at least one-third or a majority of board members.

Furthermore, the "Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code" established by FSA and TSE issued an Opinion Statement in December 2020, stating that companies listed on the "Prime Market" of TSE, which will be established after market reclassification in 2022, should be "required to appoint at least one-third of independent directors" and "encouraged to consider appointing independent directors to half of board seats if deemed necessary in light of management environment and business characteristics."

In addition, in parallel with these developments, as shown in Chart 35, in 2019 and 2020 major proxy advisors and numerous institutional investors, etc. have introduced so-called controlling shareholder criteria, whereby having outside directors or independent directors account for at least one-third of the board at listed companies that have a controlling shareholder or parent company is a criterion for the exercise of voting rights. The level of corporate governance required of listed subsidiaries is becoming higher, with some major domestic institutional investors beginning to require that outside directors or independent directors constitute a majority of the board as a criterion for the exercise of voting rights.

Chart 33 Major Capital Market Trends Concerning Listed Subsidiaries

Timing	Entity	Major movements
Apr. 2007	Tokyo Stock Exchange (TSE)	Published "Comprehensive Improvement Program for Listing System 2007", which clearly stated "the TSE will consider prescribing, in the Code of Corporate Conduct, measures for preventing minority shareholders from incurring loss due to conflicts of interest in transactions involving the corporate management or a controlling shareholder."
June 2007	TSE	Published "TSE's stance on subsidiary listings" and clarified its view that a subsidiary listing is not necessarily a desirable capital policy.
July 2008	TSE	Enhanced disclosure requirements concerning matters related to the parent company, etc. and transactions involving the management or controlling shareholder of a company with the parent company, according to "Comprehensive Improvement Program for Listing system 2007." *TSE expanded the scope of timely disclosure applicable to companies with the parent company as follows: the requirement of disclosing information on "parent company, etc." was revised to require disclosing information on "controlling shareholder, etc.", which includes not only "parent company, etc." but also individual controlling shareholders.
June 2010	TSE	Established new rules in the Code of Corporate Conduct to require companies to "obtain an opinion that the interests of minority shareholders will not be undermined" with respect to important transactions with controlling shareholders, according to "Listing System Improvement Action Plan 2009" (published in Sept. 2009). * From the perspective of preventing controlling shareholders from abusing their power and appropriately protecting minority shareholders, TSE required listed companies, if their decision-making bodies decide to conduct any material transaction, etc. involving controlling shareholders, to obtain an opinion that the interests of minority shareholders will not be undermined from an entity that has no vested interest in the controlling shareholders, and to make necessary and sufficient timely disclosure of the opinion.
March 2019	HQs for Japan's Economic Revitalization (Cabinet Secretariat)	Prime Minister Shinzo Abe ordered relevant Cabinet members, at Growth Strategy Council – Investing for the Future, to consider establishing rules for improving corporate governance of "listed subsidiaries".
June 2019	Ministry of Economy, Trade and Industry	Published "Practical Guidelines for Group Governance System (Group Guidelines)", which summarized issues of parent-subsidiary listings and recommended necessary measures for minority shareholder protection.
Since Feb. 2020	Proxy advisors and institutional investors	ISS announced that, it will vote against a director who is a top executive at a listed company that has a parent company or the like (controlling shareholders), unless at least one-third of board members, after the shareholder meeting in or after February 2020, will be independent directors. Effective from shareholder meetings in 2020, a number of large institutional investors, including Mitsubishi UFJ Trust and Banking Corporation and Nomura AM, introduced guidelines concerning controlling shareholders with respect to the election of such directors as top executives, and required listed subsidiaries to secure at least one-third independent directors. Other institutional investors, including Asset Management One and Sumitomo Mitsui Trust AM, required that a majority of board members should be independent directors.
Feb. 2020	TSE	Improved the listing system and revised the guidelines for preparing Corporate Governance Report as well as "Practical Considerations for Appointment of Independent Officers", based on "Development of Listing Rules for Improving Governance of Listed Subsidiaries" (published in Nov. 2019).
Sept. 2020	TSE	Published "Interim Report of Review of Minority Shareholder Protection or Other Framework of Listed Companies with Controlling Shareholders or Quasi-Controlling Shareholders".

Chart 34 Practical Guidelines for Group Governance Systems

Category	Item	Key points
Parent company's stance	From the perspective of business portfolio strategy	<ul style="list-style-type: none"> It is important for the parent company to regularly check whether it is appropriate to maintain a company as its listed subsidiary from the perspectives of increasing corporate value of the entire group and ensuring capital efficiency. The board should discuss the rationale for maintaining a listed subsidiary and ways to ensure the effectiveness of the governance system, and fulfill the accountability by disclosing such information to investors.
	From the perspective of risk management	With respect to matters necessary for the group's risk management, it is reasonable that the parent company requests prior consultation, on the premise that independent decision-making by a listed subsidiary is secured.
Governance system in listed subsidiaries	Basic policy	Considering that there is a risk of possible conflicts of interest between the parent company and general shareholders, a listed subsidiary should establish an effective governance system in order to secure its independent in the basic policy and decision-making.
	Roles of independent directors	Independent directors of a listed subsidiary are required to be independent not only from its executives, but also from the parent company as they are expected to play a role in securing the interests of general shareholders.
	View on the independence of independent directors	<p>(Independence criteria in listed subsidiaries)</p> <ul style="list-style-type: none"> Independent directors of a listed subsidiary should not be appointed from those who had worked for its parent company as executives in the past 10 years. <p>(Appointment of independent directors in listed subsidiaries)</p> <ul style="list-style-type: none"> A listed subsidiary should nominate and appoint independent directors after confirming they are capable of playing an important role in protecting the interests of general shareholders. * The protection of the interests of general shareholders is an important role of directors based on the duty of care of a good manager, and it is important to raise the awareness of such a role. <p>(Measures to secure appropriate independent directors in listed subsidiaries)</p> <ul style="list-style-type: none"> When the parent company exercises its authority to appoint/remove directors of its listed subsidiary, the parent company should give full consideration to ensuring governance of its listed subsidiary.
	Effective governance structure	<ul style="list-style-type: none"> A listed subsidiary should establish an effective governance system that is capable of addressing risk of conflict of interest. In general, a listed subsidiary should aim at increasing the percentage of independent directors on the board (at least one-third or a majority, etc.). Even if it is difficult to immediately do so, with respect to material transactions involving possible conflicts of interest, such a listed subsidiary should consider the adoption of a system where a committee led by independent directors (or independent <i>kansayaku</i>) deliberates/examines such transactions.
	Disclosure	<ul style="list-style-type: none"> A listed company should proactively disclose its governance policy from the perspective of fulfilling the accountability to investors and obtaining the confidence of the capital market. * If there is any difficulty in disclosing what was discussed (including policies concerning the acquisition of 100% ownership of the subsidiary or divestment), it is considered that the parent company may disclose the process by which the board sufficiently discussed and objectively confirmed the rationale for maintaining the listed subsidiary.
Nomination of senior management of listed subsidiary	<ul style="list-style-type: none"> With respect to the appointment of senior management of a listed subsidiary, from the perspective of contributing to increasing its corporate value, the listed subsidiary should develop a succession plan and nominate a candidate from an independent standpoint. In doing so, if the parent company suggested a candidate, the listed subsidiary should objectively judge the appropriateness of such a candidate. To ensure that the best candidate is nominated for increasing its corporate value, the independence of the listed subsidiary's Nomination Committee from the parent company's board/Nomination Committee should be substantively secured. 	
Remuneration for senior management of listed subsidiary	<ul style="list-style-type: none"> To ensure that remuneration provides senior management of a listed subsidiary with appropriate incentives for maximizing its corporate value, the listed subsidiary should be able to consider remuneration from an independent standpoint. To ensure that remuneration is designed optimally for a listed subsidiary, the independence of the listed subsidiary's Remuneration Committee from the parent company's board/Remuneration Committee should be substantively secured. 	

Source: excerpt from "Practical Guidelines for Group Governance Systems (Group Guidelines)," METI

Chart 35 Introduction of Controlling Shareholder Criteria in the Voting Criteria of Major Institutional Investors

Name of institutional investor	Criteria concerning controlling shareholder	Criteria, guidelines, etc. (in case of Company with <i>Kansayaku</i> Board)
ISS (revised in 2020)	○	In case of a company that has the parent company or a controlling shareholder, ISS recommends voting against the election of a director who is the top executive, unless the board, after the shareholder meeting, includes at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria.
Glass Lewis (recently announced)	○	Given due consideration of the role of statutory auditors (<i>kansayaku</i>) under the two-tier board structure (Company with <i>Kansayaku</i> Board), Glass Lewis believes that for Companies with <i>Kansayaku</i> Board, the combined independence of the board of directors and <i>kansayaku</i> should be one-third. In the event that the combined number of directors and <i>kansayaku</i> on the boards fails to meet the independence threshold, Glass Lewis generally recommends voting against certain inside directors, internal statutory auditors or affiliates in order to satisfy the one-third level of independence. In addition, it will hold the chair of the company (or most senior executive in the absence of a company chair) accountable for this issue." (No guidelines for listed subsidiaries)
Mitsubishi UFJ Trust (revised in 2020)	○	(In case of a company that has the parent company or the like) Unless the board includes multiple independent directors and at least one-third of the board members are independent directors, it will vote against all director candidates.
Mitsubishi UFJ Kokusai AM (revised in 2019)	○	In a listed company with the parent company (listed subsidiary), if the board does not include at least one-third of outside directors, it will vote against the election of directors.
Nissay AM (revised in 2019)	○	In case a company has the parent company, if the board includes at least 2 independent directors, who make up at least one-third of board members, Nissay AM will generally vote for the election of representative director(s).
Nomura AM (revised in 2020)	○	In case there is a controlling shareholder, unless outside directors represent at least one-third of board members, Nomura AM will generally vote against the re-election of President, Chairperson, etc.
Daiwa AM (revised in 2020)	○	In case a company has the parent company or a controlling shareholder, unless the company has appointed outside directors (as set forth in the Companies Act) representing at least one-third of board members, Daiwa AM will vote against the re-election of directors.
Asset Management One (revised in 2020)	○	In case a company has the "parent company", a "controlling shareholder" or "large shareholder(s)", unless outside directors comprise a majority of board members, it will vote against the election of representative directors. * Shareholder who has no less than 40% of voting rights
Sumitomo Mitsui Trust AM (revised in 2020)	○	· In case of a company with the parent company or the like* ² , unless there is a system for securing independent decision-making* ³ taking into account the interests of general shareholders, it will generally cast 'against' vote. * ² Company which has the parent company or a controlling shareholder as reported in Corporate Governance Report. * ³ The board comprises a majority of independent directors; or the board comprises at least one-third of independent directors, and Nomination Committee or the equivalent (including optional advisory committee) comprises a majority of independent officers, or comprises a half of independent officers and is chaired by an independent officer
Resona AM (recently announced)	○	In case the board does not include at least one-third of independent directors, unless reasonable and convincing explanations are provided, Resona AM will vote against the election of representative directors (however, in case of a Company with <i>Kansayaku</i> Board that has no parent company or controlling shareholder, the board should include 2 independent directors, representing no less than 20% of board members)
Dai-ichi Life Insurance (revised in 2020)	○	It set the new criteria that it will cast 'against' vote unless the board includes "at least 2 independent directors making up at least one-third of board members" (effective from April 2022), and stated in general principles in its voting criteria that it is desirable to appoint "a majority" of independent directors as soon as possible.

Note: voting criteria at the June 2020 General Meeting

Source: compiled by Daiwa Institute of Research

Against the backdrop of recent discussions by the government, initiatives by TSE, and changes in the voting criteria of proxy advisors and institutional investors, some listed companies are moving to dissolve parent-subsidary listings as part of a review of their group strategies. There are two major ways to dissolve parent-subsidary listings through a review of group strategy: either making the company a wholly-owned subsidiary or selling it to another company. First, Chart 36 lists examples of parent companies that have made listed subsidiaries (TSE First and Second Sections) wholly-owned subsidiaries in recent years. For example, Toshiba announced a restructuring of its listed subsidiaries in November 2019, making Toshiba Plant Systems a wholly owned subsidiary. In addition, in May 2020 Sony announced and implemented the conversion of Sony Financial Holdings into a subsidiary, and in September 2020, NTT announced and implemented the conversion of NTT DOCOMO into a wholly owned subsidiary.

On the other hand, there has also been a trend to sell listed subsidiaries. Chart 37 shows a list of

examples of major sales of listed subsidiaries in recent years. There have been cases of parent companies transferring the shares of listed subsidiaries they own to other listed companies or private equity funds (PE funds) in the course of reviewing group strategies with a "selection and concentration" approach that entails investing limited management resources in growth businesses. There has been a notable move by Hitachi to divest, with Hitachi Koki and Hitachi Kokusai Electric being sold to PE fund KKR, while Clarion was sold to Faurecia (France) and Hitachi Chemical to Showa Denko, as share transfers to other operating companies.

In the post-COVID-19 era, as companies are forced to review their approach to group management, the role of listed subsidiaries in the context of group management strategy will become an important issue for each company to consider. More than ever before, in order to optimize group management and protect minority shareholders, parent companies with listed subsidiaries and the listed subsidiaries themselves will need to be carefully accountable to the shareholders of both the parent companies and the listed subsidiaries with regard to group management policies and the significance of maintaining the status of listed subsidiaries, as well as their approach to protecting minority shareholders. Furthermore, in cases where a parent-subsiary listing relationship is to be maintained, listed companies are required to take concrete measures, such as securing a sufficient ratio of independent directors on the listed subsidiary's board and utilizing independent directors in situations where conflicts of interest may be an issue.

Chart 36 Recent Cases of Listed Subsidiaries (First and Second Sections of the Market) Becoming Wholly-Owned Subsidiaries (2019 Onward)

Date of announcement	Parent company	Listed subsidiary
2020/12/16	Idemitsu Kosan	Toa Oil
2020/11/11	Resona Holdings	Kansai Mirai Financial Group
2020/11/01	Shinsei Bank	APLUS Financial
2020/09/29	Nippon Telegraph and Telephone Corporation (NTT)	NTT DOCOMO
2020/07/31	Fujitsu	Fujitsu Frontech
2020/07/09	Itochu Corporation (Retail Investment Company)	FamilyMart
2020/06/10	LIKE	LIKE Kids
2020/05/20	Sony Corporation	Sony Financial Holdings
2020/05/14	Mitsui Chemicals	ARRK Corporation
2020/04/28	Nomura Research Institute (NRI)	DSB
2020/03/31	Maruha Nichiro Corporation	Daito Gyorui
2020/02/13	Yamaha Motor	Yamaha Robotics Holdings
2020/02/01	Hitachi	Hitachi High-Technologies
2019/12/27	J. Front Retailing	PARCO
2019/12/10	AEON	MaxValu Tohoku (MV Tohoku)
2019/11/21	BEENOS	Defactostandard
2019/11/19	Mitsubishi Chemical Holdings	Mitsubishi Tanabe Pharma Corporation
2019/11/18	NAVER, Softbank	LINE
2019/11/14	Toshiba Infrastructure Systems & Solutions Corporation [Toshiba]	Nishishiba Electric
2019/11/14	Toshiba Corporation	Toshiba Plant Systems & Services Corporation
2019/08/07	Takamatsu Construction Group	Asunaro Aoki Construction
2019/05/27	Diamond Electric Holdings	Tabuchi Electric
2019/05/14	Zensho Holdings	Jolly-Pasta
2019/05/13	Toppan Printing	Tosho Printing
2019/05/09	Toyota Housing (subsidiary of Toyota Motor Corporation)	Misawa Homes
2019/04/24	Koito Manufacturing	KI Holdings
2019/02/01	SCSK	JIEC
2019/02/01	SCSK	VeriServe Corporation

Source: compiled by Daiwa Institute of Research based on MARR

Chart 37 Major Recent Sale of Listed Subsidiaries (since 2016)

Date of announcement	Parent company	Listed subsidiary
2020/12/16	Idemitsu Kosan	Toa Oil
2020/11/11	Resona Holdings	Kansai Mirai Financial Group
2020/11/01	Shinsei Bank	APLUS Financial
2020/09/29	Nippon Telegraph and Telephone Corporation (NTT)	NTT DOCOMO
2020/07/31	Fujitsu	Fujitsu Frontech
2020/07/09	Itochu Corporation (Retail Investment Company)	FamilyMart
2020/06/10	LIKE	LIKE Kids
2020/05/20	Sony Corporation	Sony Financial Holdings
2020/05/14	Mitsui Chemicals	ARRK Corporation
2020/04/28	Nomura Research Institute (NRI)	DSB
2020/03/31	Maruha Nichiro Corporation	Daito Gyorui
2020/02/13	Yamaha Motor	Yamaha Robotics Holdings
2020/02/01	Hitachi	Hitachi High-Technologies
2019/12/27	J. Front Retailing	PARCO
2019/12/10	AEON	MaxValu Tohoku (MV Tohoku)
2019/11/21	BEENOS	Defactostandard
2019/11/19	Mitsubishi Chemical Holdings	Mitsubishi Tanabe Pharma Corporation
2019/11/18	NAVER, Softbank	LINE
2019/11/14	Toshiba Infrastructure Systems & Solutions Corporation [Toshiba]	Nishishiba Electric
2019/11/14	Toshiba Corporation	Toshiba Plant Systems & Services Corporation
2019/08/07	Takamatsu Construction Group	Asunaro Aoki Construction
2019/05/27	Diamond Electric Holdings	Tabuchi Electric
2019/05/14	Zensho Holdings	Jolly-Pasta
2019/05/13	Toppan Printing	Tosho Printing
2019/05/09	Toyota Housing (subsidiary of Toyota Motor Corporation)	Misawa Homes
2019/04/24	Koito Manufacturing	KI Holdings
2019/02/01	SCSK	JIEC
2019/02/01	SCSK	VeriServe Corporation

Note: KKR stands for Kohlberg Kravis Roberts

Source: compiled by Daiwa Institute of Research based on various published materials

2. Appropriate cooperation with stakeholders other than shareholders

Section 2 of the Code requires appropriate cooperation with stakeholders other than shareholders, as described below.

General Principle 2

Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought about as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders.

The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.

In addition to shareholders, listed companies have many important stakeholders that include employees, customers, parties outside the company such as business partners and creditors, as well as entities such as local communities, serving as the foundation for existence and activities of companies. Companies are expected to achieve sustainable growth and enhance corporate value over the medium to long term through appropriate collaboration with these stakeholders.

TSE has required listed companies to describe their efforts to respect the position of stakeholders in their CG Reports. These efforts include stipulations on respecting the position of stakeholders in internal regulations, etc., the implementation of environmental conservation activities and CSR activities, and the formulation of policies, etc. concerning the provision of information to stakeholders.

Furthermore, the Japan Revitalization Strategy (Cabinet decision of June 14, 2013) positions the advancement of women in the workplace as a central part of the growth strategy. In light of such trends, TSE recommends that listed companies disclose their efforts to promote women's participation and advancement in the workplace.

This chapter will analyze progress made with such efforts at listed companies. In particular, an analysis on the status of the appointment of female corporate officers as part of these efforts will be presented in a column.

2-1. Rules on respect for the positions of stakeholders under internal regulations

2,616 companies (71.1% of all TSE-listed companies) stated in the CG Report that their internal regulations, etc. contain provisions on respect for the positions of stakeholders. By market division, TSE First Section accounted for the largest share at 78.0%, followed by Mothers at 75.5%, TSE Second Section at 61.5% and JASDAQ at 54.4% (Chart 38). Among JPX-Nikkei 400 companies, 87.6% reported that they have such provisions in place. As for the relation with consolidated sales, larger companies are more likely to have such provisions in place (Chart 39).

2,615 companies (71.1%) provided supplementary explanations on provisions in their internal regulations. The stakeholders that were mentioned in the supplementary explanations included shareholders (760 companies), employees (853 companies), business partners (407 companies), local communities (269 companies), and consumers and customers (325 companies). There were also references to suppliers (16 companies) and banks (19 companies). The stated aims were respect for the position of stakeholders (258 companies), contribution to society (56 companies), trust (440 companies), expectations (120 companies), and ethics (546 companies), among other purposes. Many of the respondents stated that the company has established its management philosophy and action guidelines to meet the trust and expectations of stakeholders.

Chart 38 Efforts to Respect Stakeholder Positions (by Market Division)

	Stipulated respect for stakeholders in internal regulations	Implemented environmental conservation and CSR activities, etc.	Formulated policy on information provision to stakeholders
All companies	71.1%	70.1%	59.4%
JPX-Nikkei 400	87.6%	93.9%	77.8%
TSE First Section	78.0%	80.5%	65.2%
TSE Second Section	61.5%	62.7%	41.7%
Mothers	75.5%	55.5%	85.0%
JASDAQ	54.4%	49.4%	41.3%

Chart 39 Efforts to Respect Stakeholder Positions (by Consolidated Sales)

	Stipulated respect for stakeholders in internal regulations	Implemented environmental conservation and CSR activities, etc.	Formulated policy on information provision to stakeholders
Under 10 billion yen	61.1%	48.6%	59.0%
10 billion to under 100 billion yen	68.6%	69.3%	53.6%
100 billion to 1 trillion yen	84.1%	91.8%	66.6%
1 trillion yen or more	94.9%	98.7%	88.0%
All companies	71.1%	70.1%	59.4%

2-2. Implementation of environmental conservation activities and CSR activities

2,576 companies (70.1% of all TSE-listed companies) stated in the CG Report that they carry out environmental conservation activities, CSR activities, etc. By market division, the First Section had the highest percentage at 80.5%, followed by the Second Section at 62.7%, Mothers at 55.5% and JASDAQ at 49.4%. Among JPX-Nikkei 400 companies, 93.9% implemented such activities. This was 13.4 points higher than TSE First Section (80.5%) (Chart 38). In addition, the implementation rate tends to increase with consolidated sales. The implementation rate for companies with consolidated sales of less than 10 billion yen was 48.6%, while the rate for companies with consolidated sales of 1 trillion yen or more was 98.7% (Chart 39).

2,576 companies (70.1%) provided supplementary explanations concerning environmental conservation and CSR activities. Although 664 companies reported that they obtained ISO14000 or ISO14001 certification, which are international standards for establishing an environment management system, this is lower than the 685 companies in the previous survey. In addition, 287 companies

mentioned the publication of an environmental or CSR report — a decrease from 364 companies in the previous survey. On the other hand, the number of companies mentioning their integrated reports increased to 118, up from 46 in the previous survey, and more companies reported on their efforts to address the SDGs (188 companies) and ESG (149 companies) than in the previous survey. Some companies explained that they will implement medium- to long-term initiatives by identifying major targets (materiality) for addressing ESG issues and achieving the SDGs. Many companies also provided explanations that emphasized initiatives aimed at tackling environmental issues such as the establishment of a CSR committee (79 companies), global warming countermeasures (104 companies), and CO₂ emission figures (91 companies). Furthermore, there were statements on direct actions such as support in response to the Great East Japan Earthquake of 2011 (38 companies), support in response to the Kumamoto Earthquake of 2016 (10 companies) and volunteer activities (88 companies), as well as statements on disaster prevention and contingency measures (21 companies), power saving/energy saving (267 companies), solar power generation (72 companies), recycling (188 companies) and reducing the use of natural resources (107 companies).

The rate of compliance with Principle 2.3, which stipulates that companies should take appropriate measures to address sustainability issues (including social and environmental matters), was 99.8%.

2-3. Development of policies to provide information to stakeholders

2,183 or 59.4% of TSE-listed companies stated in their CG Report that they developed policies, etc. for providing information to stakeholders. By market division, Mothers had the highest ratio at 85.0%, followed by the First Section at 65.2%, the Second Section at 41.7%, and JASDAQ at 41.3% (Chart 38). 77.8% of the JPX-Nikkei 400 constituent companies had formulated such policies, which is higher than the 65.2% seen in the First Section. In relation to consolidated sales, larger companies were generally more likely to formulate policies for providing information to stakeholders. 88.0% of companies with consolidated sales of 1 trillion yen or more developed such policies, followed by companies with consolidated sales of 100 billion yen to under 1 trillion yen at 66.6% (Chart 39).

2,183 companies gave supplementary explanations on the provision of information to stakeholders. Many mentioned disclosing information to shareholders and investors in accordance with the Financial Instruments and Exchange Act and the regulations stipulated by TSE, as well as efforts towards the timely and proactive disclosure of information. Some also provided a website URL and mentioned releasing their disclosure policy on their website.

2-4. Ensuring diversity within the company, including the promotion of women playing an active role in the workplace

In terms of disclosure of the state of women's active participation in the workplace, TSE has made current appointments of women to executive positions an optional item to include in section "Efforts to Respect Stakeholder Positions".

In terms of the details stated, there were 780 companies (21.2% overall) that mentioned keywords³⁸ such as “women,” “gender” and “gender differences”, which is a slight increase from the previous survey (758 companies or 21.1% of all) (Chart 40). By market division, the percentages of such companies were 28.6% on the First Section, 11.5% on the Second Section, 9.5% on Mothers, and 10.3% on JASDAQ. As for JPX-Nikkei 400 companies, 52.5% of them mentioned women’s active participation in the workplace. This is 23.9 points higher than in TSE First Section (28.6%) (Chart 38). Companies with larger numbers of employees (consolidated) and higher consolidated sales were more likely to discuss the state of women’s advancement (Chart 41 and Chart 42).

Promoting the advancement of female employees requires providing support for childcare and nursing care. For example, this may be done by developing reduced work hours systems for childcare, flexible hours systems and leave for nursing care. With respect to corporate efforts in this direction, 486 companies (13.2%) used keywords such as “work-life balance,” “child rearing” and “(maternal/childcare) leave,”³⁹ which is a slight increase from the previous survey of 460 companies (12.8%). By market division, ratio was highest among companies in the First Section at 18.9%, followed by 6.3% in the Second Section, 5.3% in JASDAQ and 2.5% in Mothers. 39.9% of JPX-Nikkei 400 companies mentioned an environment conducive to female advancement. This is 21.0 percentage points higher than the 18.9% in TSE First Section (Chart 40). Companies with a greater number of employees (consolidated) and higher consolidated sales were more likely to discuss their efforts toward women’s active participation in the workplace (Chart 41 and Chart 42).

It is expected that corporate efforts to promote the advancement of female employees will continue to develop, and that companies will provide more information on such efforts in their CG Reports.

The compliance rate with Principle 2.4, which stipulates that companies should promote diversity of personnel, including female advancement, in order to ensure sustainable corporate growth, was 99.6%.

Chart 40 Descriptions of the State of Women’s Active Participation (by Market Division)

	State of w omen's active participation	Change from the previous survey	Improving environment for w omen's active participation	Change from the previous survey
All companies	21.2%	+0.1%	13.2%	+0.4%
JPX-Nikkei 400	52.5%	+1.9%	39.9%	+3.6%
TSE First Section	28.6%	+0.2%	18.9%	+0.7%
TSE Second Section	11.5%	+0.5%	6.3%	+0.4%
Mothers	9.5%	+0.1%	2.5%	+0.5%
JASDAQ	10.3%	-0.8%	5.3%	-0.5%

³⁸ includes companies which mentioned one of the following keywords: “women,” “gender,” “gender differences” and “diversity”

³⁹ includes descriptions which include one of the following keywords: “diverse human resources,” “equal treatment,” “work-life balance,” “child rearing,” “raising children” or “(maternal/childcare) leave.”

Chart 41 Descriptions of the State of Women's Active Participation (by Number of Employees (Consolidated))

	State of women's active participation	Change from the previous survey	Improving environment for women's active participation	Change from the previous survey
Under 100	9.1%	- 0.5%	2.1%	- 0.4%
100 to under 500	10.6%	- 0.4%	5.8%	- 0.5%
500 to under 1000	18.9%	+0.7%	9.8%	+1.6%
1000 or more	32.0%	+0.3%	22.0%	+0.6%

Chart 42 Descriptions of the State of Women's Active Participation (by Consolidated Sales)

	State of women's active participation	Change from the previous survey	Improving environment for women's active participation	Change from the previous survey
Under 10 billion yen	10.3%	+0.8%	4.6%	+0.4%
10 billion to under 100 billion yen	17.4%	- 1.0%	9.9%	- 0.3%
100 billion to 1 trillion yen	33.5%	+1.8%	23.7%	+1.7%
1 trillion yen or more	67.7%	+1.1%	48.7%	+3.0%

With regard to women's career advancement, examples of "Status of Efforts to Respect Stakeholder Positions" show that in addition to setting a target figure for the rate of future appointments, some companies have also indicated the specific nature of their efforts to increase the number of female appointees.

Example 1

As a company that makes the most of its diverse human resources, we are making the following efforts to create workplaces where (1) women can play an active role according to their own career plans while (2) maintaining their autonomy. In 2012, we launched the "Female Advancement Project" under the direct control of the President and COO (currently President and CEO). (Omitted)

Aims of the Project

We intend to better meet the needs of women, who make up the majority of our customers, and to establish a corporate culture in which highly capable and motivated employees can fulfill their responsibilities regardless of their educational background or gender. To this end, we will identify issues with our company's HR system and corporate culture, and propose systems and frameworks to develop an environment in which women can work comfortably, and foster a culture that encourages the growth of female executives.

○ Specific efforts include: (1) providing more opportunities for women to play an active role, and increase the number of departments and duties to which women are assigned by clarifying the skills required for work and improving work processes; (2) distributing guidebooks to promote understanding of systems that can be used in conjunction with life events such as childcare and nursing care; (3) holding individual interviews and get-together sessions with staff members on reduced working hours due to childcare as well as pre-reappointment training as measures to support the return from childcare leave; (4) holding regular "Female Manager Development Training" to help female employees advance in their careers; (5) holding regular training sessions to raise awareness of the importance of female advancement and of changing the attitudes of both men and women; (6) holding regular training to improve

skills in the administrative tasks required for store managers (in retail).

Example 2

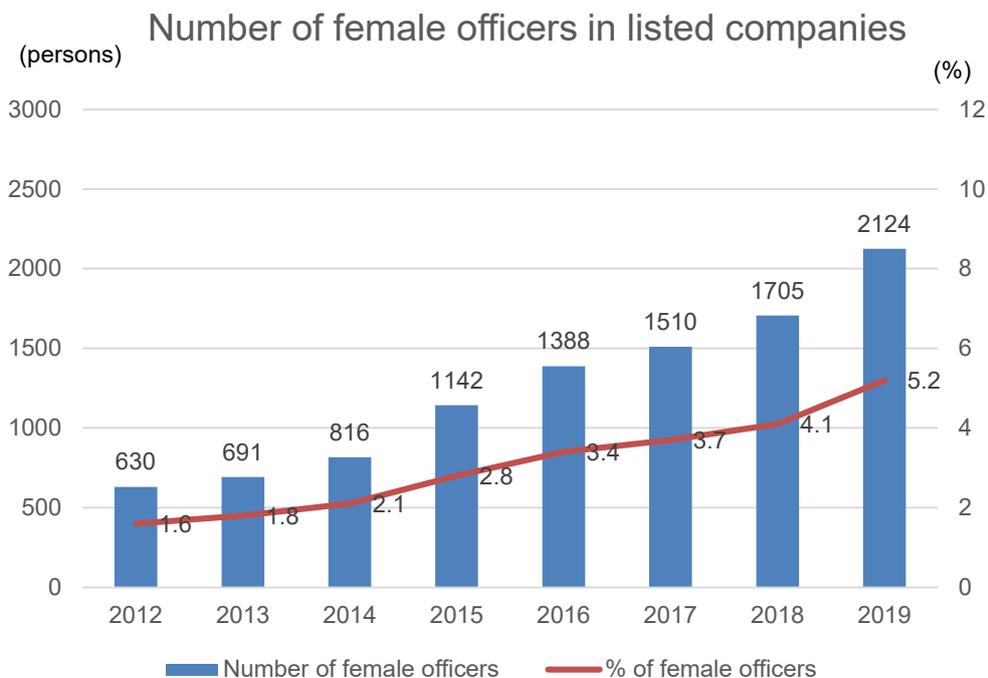
(omitted) The percentage of women on our board (Directors and Audit & Supervisory Board Members) is currently 25% (4 out of 16), but we have set a goal of increasing this to 30% or more by FY 2025. The Group has implemented a leadership training program and a mentoring system for female managers. In order to create a "pipeline" for the continuous development of female executive candidates, we have established the Female Managers Committee, which consists of approximately 50 female general managers from Group companies. The Committee conducts joint training with female managers from different companies in the Group to learn how to overcome unconscious bias. In addition, some members have been appointed as non-executive directors of affiliated operating companies in order to learn about management-level decision-making. (Insurance)

[Column 3] Promotion of Women's Career Advancement

The promotion of women's participation and advancement in the workplace is essential for the sustainable growth of Japan, and is one of the most important policy issues. This is because women's involvement in corporate decision-making is expected to reflect diverse values in corporate management and, at the same time, to promote innovation at organizations that welcome diverse values, thereby improving business competitiveness, social reputation and enhancing corporate value.

In April 2013, Prime Minister Shinzo Abe asked the business community to "appoint at least one woman to the board." As a result, in the seven years between 2012 and 2019, the number of female officers at listed companies increased by about 3.4-fold (from 630 to 2,124), bringing the percentage to 5.2% (2019) (Chart 43).

Chart 43 Number of Female Officers at Listed Companies



Source: Toyo Keizai Inc. "Shikiho" (Quarterly Report of Executives)

As a government initiative, the Act on Women's Participation and Advancement in the Workplace came into full effect in April 2016, imposing an obligation on private companies to disclose information on one or more of the following items (ratio of female managers, ratio of female officers, etc.). The Ministry of Health, Labour and Welfare (MHLW) has established the Database on Promotion of Women's Participation and Advancement in the Workplace as a place to release information, and is gathering information on the advancement of women in the corporate world in a centralized fashion.

According to the MHLW's statistics for 2019⁴⁰, 51.9% of companies have female managers (including executives) in positions equivalent to section chief or higher, and 59.4% have female managers (including executives) in positions equivalent to assistant manager or higher. By size, the larger the company, the higher the percentage of companies with female managers in each position. In companies with 1,000 to 4,999 employees, 40.1% of companies have female managers in the position of general manager or equivalent, and 76.0% have female managers in the position of section chief or equivalent. By contrast, at companies with 5,000 or more employees, 70.0% have female employees in the position of general manager or equivalent, and 90.3% have female managers in the position of section chief or equivalent.

In addition, METI and TSE select listed companies that excel in "promoting women's advancement" and introduce them as Nadeshiko Brands, attracting investors who focus on "improving corporate value over the medium to long term." In addition, METI presents METI Minister's Awards for the Diversity Management Selection 100 project, with the aim of giving greater exposure to the advanced efforts of companies that have linked the promotion of diversity to business results and broadening the base of companies that are engaged in such efforts.

Furthermore, the Cabinet Office has conducted and published a survey of the evaluation of women's advancement in the capital market. This trend reflects the expansion of so-called ESG (Environmental, Social and Governance) investing, which aims to improve long-term investment returns by incorporating non-financial ESG information into investment decisions, as a global trend.

According to the "Research project on ESG investors' usage of information on women's advancement" conducted by the Cabinet Office, about 70% of institutional investors answered that the reason for using information on women's advancement in investment decisions, etc., was "because they consider the information to have a long-term impact on corporate performance." The information on women's advancement that institutional investors make the most use of in their investments and operations is the ratio of female directors, which was cited by 48.7% of institutional investors (Chart 44). The highest percentage of respondents (38.7%) obtained information on women's active participation from corporate reports (annual reports, securities reports, etc.) (Chart 45).

⁴⁰ MLHW, "Basic Survey on Equal Employment in 2019"

Chart 44 Information on Women's Career Advancement Used for Investment and Operations

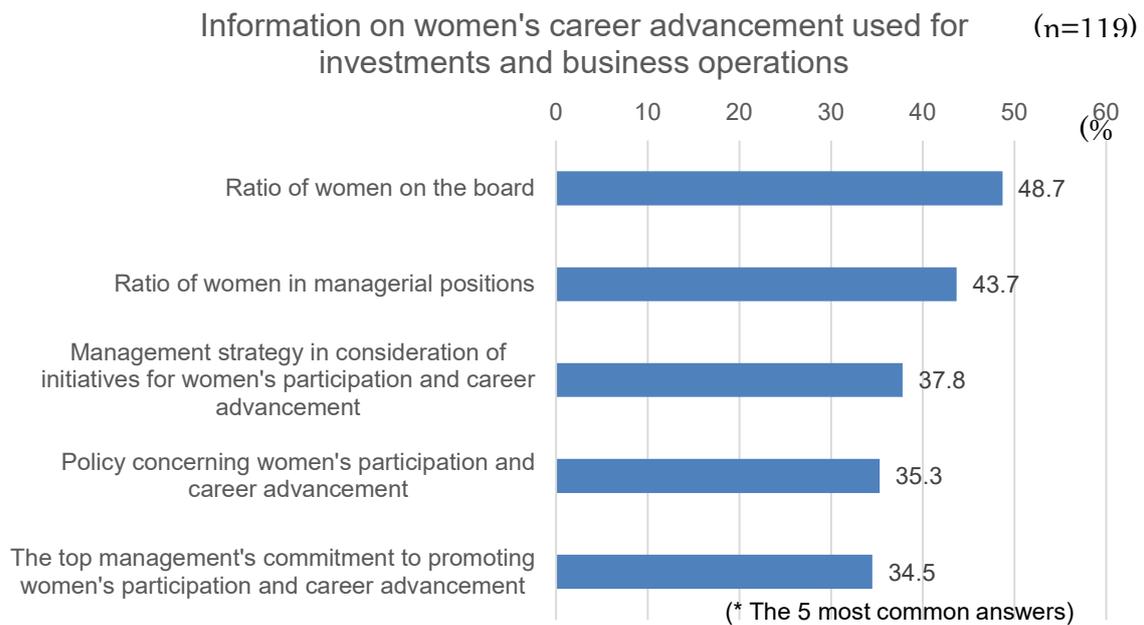
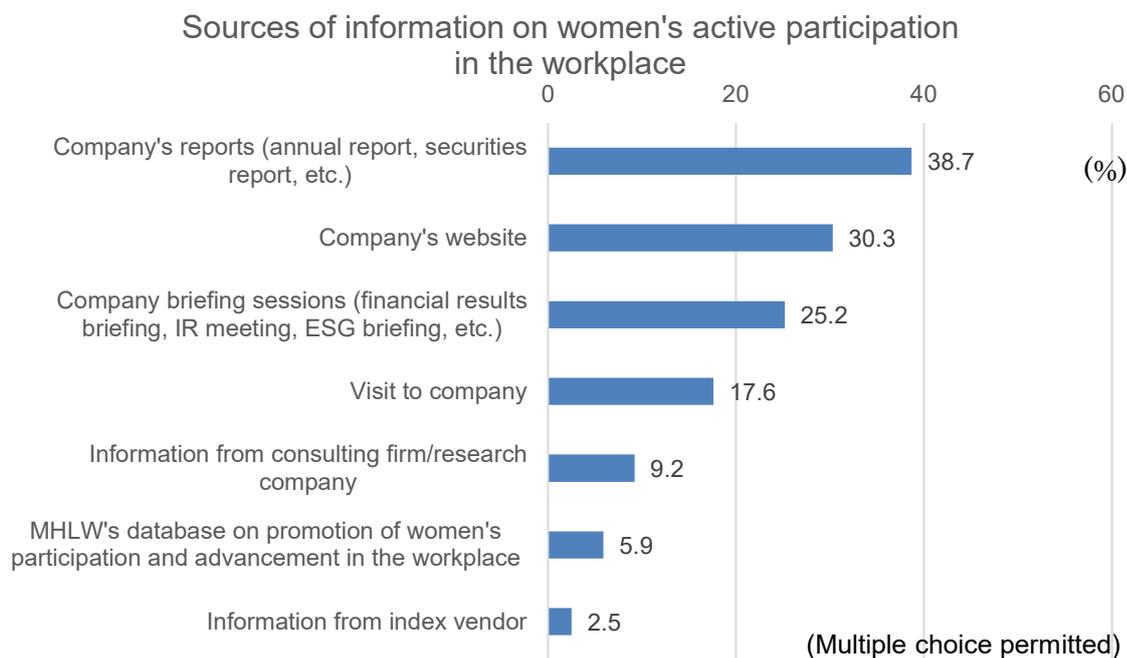


Chart 45 Sources of Information on Women's Active Participation in the Workplace



Source: both from "Research project on ESG investors' usage of information on women's advancement" by the Cabinet Office

In addition to the women's advancement, one of the key issues discussed at the recent "Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code" was the need to ensure diversity in the core human resources of companies. Its Opinion

Statement released in December 2020⁴¹ advocates for ensuring diversity from a broader standpoint, stating that listed companies should be required to set out their approach along with voluntary and measurable goals for ensuring diversity in the appointment of core human resources, including the appointment of women, foreign nationals and mid-career hires to management positions, and to disclose the status of such efforts, and, further, that the publication of human resource development policies and internal environmental policies to ensure diversity along with their implementation status should be a requirement.

⁴¹ “Board Effectiveness and Ensuring Diversity in the Core Human Resources in Companies for Post-COVID Transformation of Companies” (Opinion Statement No. 5 of the Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code)

2-5. Fulfilment of the Function of Corporate Pension Funds as Asset Owners (Principle 2.6)

Principle 2.6 requires companies to take and disclose measures to improve the deployment of human resources and operational practices, and to appropriately manage conflicts of interest which could arise between pension fund beneficiaries and companies to ensure that corporate pension funds fulfill their functions as asset owners. In particular, corporate pension funds, which are positioned at the top of the investment chain, are expected to thoroughly fulfill their role and function as asset owners that truly benefit beneficiaries in optimizing the entire investment chain, from the pension fund (asset owner), which is the provider of funds, to the asset managers and investee companies.

On the backdrop to this principle, since the formulation of the Stewardship Code in 2014, only 57 pension funds have announced their acceptance of the Code, even though 291 asset managers have already done so (as of November 30, 2020). Given that the 57 funds include public pension funds and that, according to the Pension Fund Association, there are 742 defined-benefit corporate pension funds (as of November 1, 2020), it can be said that the acceptance of the Stewardship Code among corporate pension funds is still limited.

One of the reasons that corporate pension funds are reluctant to adopt Japan's Stewardship Code is the significant challenge presented by a lack of specialized human resources. At many companies, the corporate pension fund is under the control of the human resources department, and many of the board members come from the human resources area. This often results in a lack of expertise in monitoring asset managers and other areas.

In addition, Principle 2.6 requires the management of conflicts of interest between pension fund beneficiaries and companies. This is due to concerns that the circumstances of companies may take precedence over the interests of beneficiaries when selecting asset management companies and when exercising voting rights on companies invested in by corporate pension funds.

Compliance rate of the Principle is high at 95.9% ⁴²(2,544 companies). An analysis of descriptions in CG Reports found that companies are roughly classified into three categories: companies with a defined-benefit pension plan, companies with a defined-contribution pension plan, and companies with no pension plan. Among companies with a defined-benefit pension plan, with regard to human resources and operational practices, many mentioned the implementation of appropriate human resource allocation and training, the establishment of an asset management committee, and the use of external consultants. In addition, some companies stated that they monitored asset managers as part of their operational practices. Many companies stated that conflicts of interest were "appropriately managed by an asset management committee, etc."

Note that the Regulation for Enforcement of the Defined-Benefit Corporate Pension Act (Article 84, Paragraph 1, Item 2) requires making efforts to assign personnel with specialized knowledge and experience to make decisions on the composition of assets, and contains provisions regarding efforts related to human resources measures. In addition, the "Guidelines on the Roles and Responsibilities

⁴²"Companies without a pension plan" are totaled as companies complying with Principle 2.6.

of Personnel Involved in Asset Management Related to Defined-Benefit Corporate Pension Funds” require defined-benefit pension funds with assets worth over 10 billion yen to establish an asset management committee, and the same approach as outlined in the revised Code can be seen in laws, regulations, guidelines, etc.

Among companies that have introduced a defined-contribution pension plan, there were disclosures on conducting employees education, etc. on defined-contribution pension plans, as well as the appropriate selection of asset managers. The employees of companies with a defined-contribution pension plan in place choose their own investment products and manage their own assets. Consequently, the company is not expected to play a direct role or function as an asset owner, but it is nevertheless required to create an appropriate environment for building the employees’ pension assets.

Keyword analysis shows that of the companies complying with Principle 2.6, 24.3% (619 companies) mentioned “defined-benefit,” 5.9% (151 companies) mentioned “contract-type,” and 25.9% (660 companies) mentioned “defined-contribution.”

658 companies (25.9%) mentioned "human resources" as a keyword related to efforts toward fulfilling their functions. Furthermore, 579 companies (22.8%) mentioned "specialty (expertise, specialist, etc.)." 522 companies (20.5%) mentioned "committee (asset management committee)" in relation with the use of committees, etc. with the aim of achieving proper pension fund management from a multi-faceted perspective. 554 companies (21.8%) mentioned “accounting” or “finance” as departments involved in the asset management committee as participants besides the human resources department. In addition, 74 companies (2.9%) clearly stated that they employ "(external/management) consultants." 858 companies (33.7%) mentioned the “monitoring” of asset managers. Many of these companies stated that they were complying with the intent of the Code by appropriately monitoring the exercise of voting rights by asset managers.

In addition, 310 companies (12.2%) mentioned “stewardship (Japan’s Stewardship Code, stewardship activities, etc.).” Many of these companies stated that they selected asset managers that have signed up to the Stewardship Code (Chart 46).

Looking at individual cases, such as Example 1, there are companies which stated that they mandate personnel with specialized knowledge and skills for corporate pension funds, while utilizing external advisors to supplement their expertise. In addition, in the management of conflicts of interest between pension fund beneficiaries and the company, a decision making process is described in which conflicts of interest are appropriately managed through final decisions made after obtaining the approval of an asset management committee with members that include managers from the personnel, accounting, and finance departments.

Example 2 describes how conflicts of interest between beneficiaries and the company are managed by entrusting the selection of individual investments and the exercise of voting rights to the asset manager, and describes an intention to improve specialty knowledge through the utilization of external consultants and manager training.

Example 3 is a case study of a company that has adopted defined contribution pension plans. The company stated that its subsidiaries operate defined contribution pension schemes and that it has

selected a subsidiary as its asset manager. In addition, Example 4 and Example 5 are examples of companies whose pension funds have signed up to the Stewardship Code. In particular, in Example 5, the company has signed up to the PRI (United Nations Principles for Responsible Investment), indicating that it is making ESG investments based on global standards.

Example 1

(Excerpt)

In order to realize prudential and appropriate asset management structure in the Pension Plan, the Company appoints an asset management director of the Pension Plan who should have proper knowledge and skills, based on the nomination by Senior General Manager of the Finance Department, and the Pension Plan appoints external advisors to supplement their specialties in asset management.

Any decisions on fund management are made by the person who has the ultimate authority in accordance with the Basic Management Policy, after deliberation at the pension committee, which is composed of heads and/or personnel from the HR, Accounting and Finance Departments which are related to management of the Pension Plan, thereby appropriately managing potential conflicts of interest between the Pension Plan and the Company. In addition, the asset management guidelines are issued to the managing trustee, describing principles to be followed for matters such as asset mix or investment approach, and the compliance status pursuant to the said guidelines is periodically reviewed and evaluated.

(Electrical appliances)

Example 2

(Excerpt)

(3) The operation of both funds shall be delegated to multiple asset management institutions both inside and outside Japan in accordance with the basic policy on management of pension assets. By delegating specific investment choices and the voting rights to each asset management institution, the Company can prevent any conflict of interest arising between the Company and the beneficiaries of the corporate pension scheme. The Company shall also hire people with knowledge of corporate pensions as consultants from outside institutions. These people shall provide advice regarding portfolio creation and the selection of asset management institutions and funds and advice at the Pension Committee meetings. The Company aims to appropriately manage conflicts of interest and strengthen expertise through this process.

(4) By allowing related personnel to attend seminars related to corporate pensions held by each asset management institution and the Pension Fund Association, the Company aims to improve quality and develop personnel who can be involved in the management of its pension funds.

(Construction)

Example 3

The Company's key subsidiaries in Japan, including ● and ●, employ defined-contribution pension plans to reduce future risks in corporate accounting and to support free asset building in accordance with economic rationality and individual employees' life plans. Based on its high degree of specialized expertise, the Company's subsidiary ● is designated as the asset-management agency. It provides employees of individual companies that have adopted these plans with thorough member training using e-learning and

encourages use of the matching-contribution program, among other efforts to promote the pension plans
(Insurance)

Example 4

(Excerpt) The Fund has expressed its support of the Japanese Stewardship Code, and has formulated and disclosed specific policies for the fulfillment of its responsibilities. ●● Corporate Pension Fund (<https://www.●●.jp/●●/>) The fund makes ESG investments in companies that are working to improve their corporate value over the long term through appropriate action on ESG issues, based on the belief that this will ensure stable management of the fund's assets. (Banking)

Example 5

Given the importance of human capital, the “●● Corporate Pension Fund (“the Fund”)” adopted the Corporate Stewardship Code in February 2018. In December 2019, it became a signatory to the Principles for Responsible Investment (PRI) and is making ESG investments that are based on global standards. The Fund will strive to maximize pension returns, and improve its operation through enhancing human capital, etc.

Currently, the Fund does not have sufficient resources in place, and there is a framework for the finance department to provide support to the Fund. In the future, the Company will work to distribute sufficient resources including the deployment of staff who have the requisite experience and qualities, and strive to develop such staff, etc. in order for the Fund to be able to fulfill its expected function as asset owner.

Major decision making on asset management is decided and confirmed by a representative committee based on deliberation of an asset management committee. While the finance department provides support as a member of the asset management committee, the composition of the representative committee has the talent management department as its core member, and since the finance department has no authority to make decisions, the Company believes that this system is able to appropriately manage conflicts of interest.

<https://www.●●.or.jp/pop.html> (●● Corporate Pension Fund "Principles for Responsible Institutional Investors") (Pharmaceuticals)

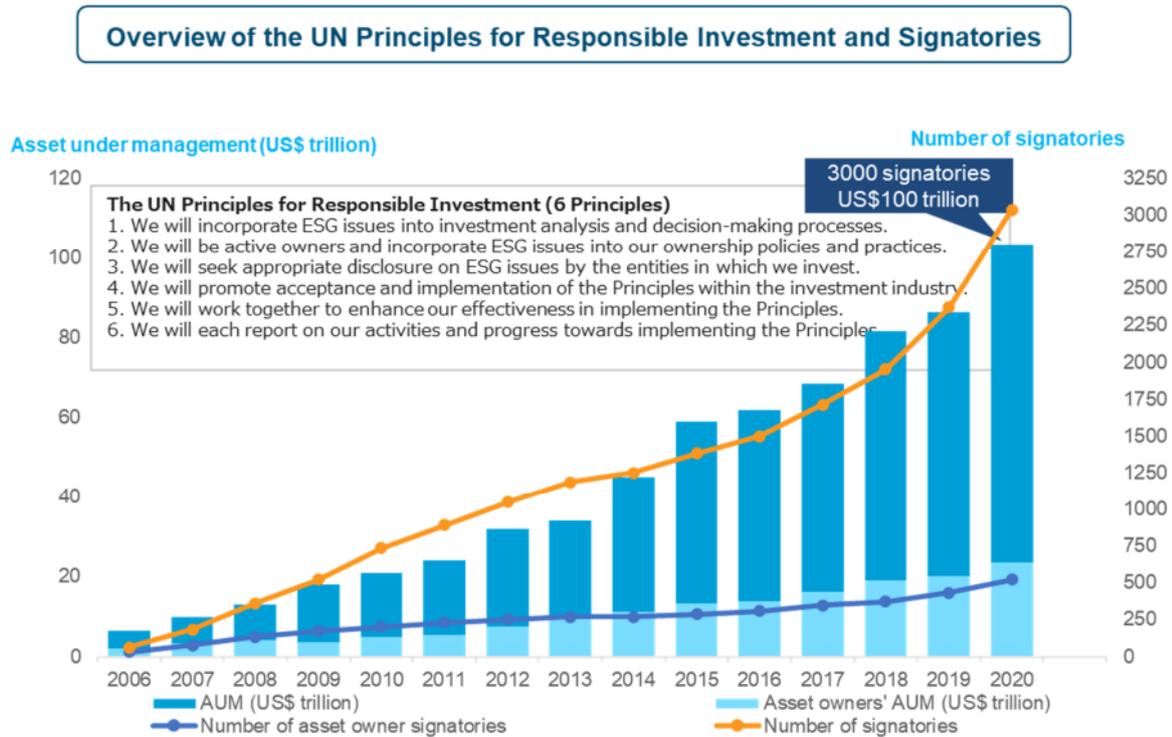
Chart46 Keywords Related to Fulfilling Function as an Asset Owner

Item	Number of companies	Ratio
Companies complying with Principle 2.6	2,544	100%
■ Related to pension form		
Defined benefit	619	24.3%
Contract-type	151	5.9%
Defined Contribution (401K)	660	25.9%
■ Related to efforts		
Expertise	579	22.8%
Human resources	658	25.9%
Committee (asset management committee)	522	20.5%
Accounting and Finance	554	21.8%
Consultant	74	2.9%
■ Others		
Monitoring	858	33.7%
Stewardship	310	12.2%

[Column 4] Expansion of ESG investment and responses by listed companies

In the past few years there has been a rapid increase in ESG (Environmental, Social and Governance) investment, and listed companies have been promoting ESG initiatives. The term “ESG investment” was coined in 2006 in the United Nations Principles for Responsible Investment (PRI), an initiative proposed for the financial industry by Kofi Annan, former Secretary-General of the United Nations. In addition to financial information, PRI signatories are required to incorporate environmental, social and governance perspectives into their investment process. Chart 47 shows the number of institutional investors that have signed up to the PRI and their total assets under management. The number has grown rapidly over the past few years, with a total of around 3,000 investors and \$100 trillion AUM by 2020. Global efforts towards a sustainable society are underway. In 2015 in particular, initiatives such as the adoption of the Sustainable Development Goals (SDGs) by the United Nations, the adoption of the Paris Agreement at the Conference of the Parties (COP21) at the United Nations Framework Convention on Climate Change (UNFCCC), and the publication of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) by the Financial Stability Board (FSB) all contributed to an increase in global interest in addressing social issues, including climate change. In the past few years, institutional investors have stepped up their ESG initiatives, partly due to the growing awareness of ESG matters in society as a whole.

Chart47 PRI Signatories



(Source: Compiled from PRI website)

The Japanese stock market first took notice of ESG investment when the Government Pension Investment Fund (GPIF) signed up to the PRI in 2015. Since 2015, institutional investors and others entrusted with funds from the GPIF have been actively engaging in dialogue with companies in their portfolios from an ESG perspective as well as the traditional corporate governance perspective. In addition, in 2017, the GPIF began managing a portion of its equity investments in ESG indices that incorporate listed companies with high ESG scores (ESG assessments), and at the same time disclosed the ESG scores of investee companies in these indices.

The start of GPIF's investment in ESG indices has led to a growing awareness among the managers of Japanese listed companies that they must properly implement, disclose, and evaluate their ESG initiatives to make their shares more attractive to institutional investors. This has triggered the acceleration of ESG initiatives by Japanese listed companies.

The total amount invested by the GPIF in ESG indices has been increasing year by year. At the start of implementing its ESG index policy in 2017, the GPIF had a total of 1 trillion yen invested in four indices. As of the end of March 2020, it had invested a total of 5.7 trillion yen in five ESG indices (4 trillion yen in domestic equities), as shown in Chart 48. The GPIF's ESG-based domestic equity investments account for more than 10% of its total domestic equity portfolio, and its influence on listed companies is growing.

Chart48 Overview of ESG indices in which GPIF invests and AUM (as of March 31, 2020)

	FTSE Blossom Japan Index	MSCI Japan ESG Select Leaders Index	MSCI Japan Empowering Women Index	S&P/JPX Carbon Efficient Index	S&P Global Ex-Japan LargeMidCap Carbon Efficient Index
Concept of Index	<ul style="list-style-type: none"> The index uses the ESG rating criteria of the FTSE4Good Japan Index. This comprehensive ESG index includes companies with a high overall ESG score, while weighting each issue by using an industry neutral methodology. 	<ul style="list-style-type: none"> This comprehensive ESG index was built based on MSCI's ESG research, and various ESG risks are reflected on its market portfolio. The index selects companies that have a relatively high ESG score in respective industry. 	<ul style="list-style-type: none"> This ESG index is a thematic index that selects companies maintaining a high level of gender diversity among their workforce and superior financial quality. Based on disclosure data on the employment of women, MSCI calculates Gender Diversity Score by assessing various elements including hiring, retention, promotion and training, and selects companies with a relatively high score in each sector. 	<ul style="list-style-type: none"> S&P Dow Jones Indices, the world's largest index provider, established these indices, based on the data on carbon emissions from Trucost, a pioneer in the environmental rating. The indices place higher weights on companies that exhibit relative corporate carbon efficiency within an industry (lower levels of GHG emissions per unit of revenue), and that have made disclosures on their GHG emissions. 	
Target	Domestic stocks	Domestic stocks	Domestic stocks	Domestic stocks	Foreign stocks
Selection universe (parent index)	FTSE JAPAN INDEX (509 issues)	MSCI JAPAN IMI TOP700 (700 issues)	MSCI JAPAN IMI TOP700 (700 issues)	TOPIX (2,164 issues)	S&P Global Large Mid Index(ex JP) (2,896 issues)
Number of constituents	181	248	305	1,725	2,037
AUM balance (in hundred million yen)	9,314	13,061	7,978	9,802	17,106

(Source: Compiled from data released by the GPIF)

In addition, some institutional investors are increasingly clarifying their approach to ESG matters in their voting criteria. For example, major Japanese institutional investors, such as Dai-ichi Life Insurance, have made it clear that they will oppose companies' proposals to appoint top management and other directors if the companies concerned do not improve their efforts to address ESG matters through dialogue or other means. Major overseas institutional investors are also asking the companies they invest in to respond to ESG issues. For example, BlackRock, the world's largest asset management company, has written to the companies in which it invests, informing them that it is stepping up its approach on ESG matters and requesting them to disclose information based on TCFD recommendations and the SASB principles (Sustainable Accounting Standards Council).

In line with the strengthening of institutional investors' initiatives on ESG issues as described above, listed companies are also responding to ESG issues. Specifically, they are integrating ESG issues into their management strategies and enhancing disclosure of their efforts to address ESG issues, and are taking action based on their own values and business models.

In an increasing number of listed companies, the board plays an active role in supervising their companies' ESG initiatives. Specifically, there are cases in which ESG perspectives are taken into account in evaluating board effectiveness, as described later in the evaluation of the effectiveness of the board (Supplemental Principle 4.11.3) and cases where a sustainability committee is established as an advisory body to the board, as in Example 1, and cases where a sustainability committee is established as a decision-making body on the executive side, as in Example 2.

Example 1

●● has established a Sustainability Committee as an advisory body to the Board of Directors to discuss the implementation of sustainability concerning ●● Group. The CEO, Sustainability Director, Sustainability Executive Officer, SBU Directors and outside experts will participate in this committee. The committee meets twice a year with the aim of responding swiftly and appropriately to changes in the world as a global company, and of responding to the expectations and demands of society with a unique approach that is more in tune with the business environment and business domains of the ●● Group.

(Service industry)

Example 2

●●'s Executive Sustainability Committee comprises the President and CEO and other members of the Senior Executive Committee, along with the CEOs of every business unit. The committee discusses and reaches decisions on important policies and measures related to sustainability, shares progress and results, and finds ways to connect these to further improvements and new initiatives.

Sustainability Promotion Meetings attended by sustainability strategy promotion officers from business units (business promotion division head-class), also established under the committee, formulate long-term corporate strategies focusing on ESG (environmental, social, and governance) to promote specific measures for advancing sustainability, including contribution to achieving the SDGs.

To review and discuss CSR initiatives, CSR Manager Meetings are regularly held by CSR and social contribution officers from business units and Group companies. In addition, we regularly hold Global and Regional CSR meetings in each overseas region with CSR managers in regional headquarters. To discuss and implement specific measures to achieve long-term environmental targets, Eco-Management Meetings, whose members are environmental promotion officers from business units and Group companies, work together with Sustainability Promotion Meetings. Global and Regional Environmental Meetings are also held regularly, allowing environmental initiative officers from regional headquarters outside Japan to share common directions and promote environmental initiatives.

Additionally, the Sustainability Promotion Division holds regular dialogue with stakeholders in each region in cooperation with regional headquarters. Through such dialogue, we endeavor to grasp global social issues promptly, extensively, and deeply, incorporating them into the issues our management deals with. At the same time, this dialogue lets us safeguard our corporate responsibility in a global society and make continued efforts to improve as we strive to achieve sustainable management and a sustainable society.

As a Company with Three Committees, the Audit Committee conducts an audit of sustainability-related operations once a year. Reports on sustainability-related material issues are made to the committee by ●● executive officers.

(Electrical appliances)

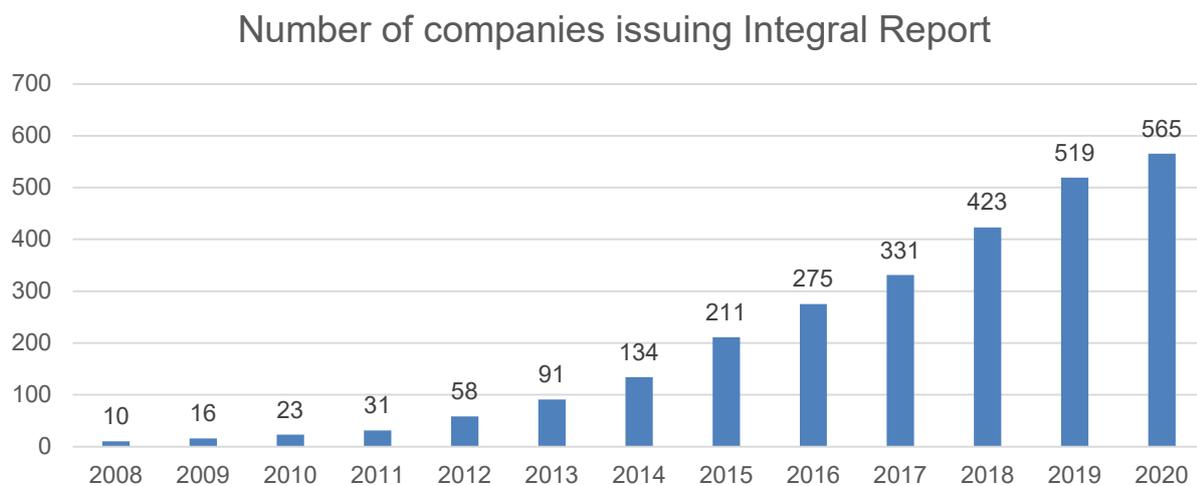
[Column 5] Recent trends in sustainability-related disclosures

As shown in [Column 4], as the focus on ESG investment increases, listed companies are paying more attention to sustainability disclosures, including ESG information. Initiatives in this respect include the improvement of statutory disclosures in securities reports, timely disclosure of medium-term management plans and materials for financial results briefings, creation of voluntary reports including integrated reports and sustainability reports, and disclosure of information on company websites.

In addition, due to the growing interest of institutional investors in non-financial information, as shown in Chart 49, the number of companies disclosing non-financial information such as their own value creation stories in their integrated report has been increasing in recent years. As of October 2020, 565 companies have issued an integrated report.

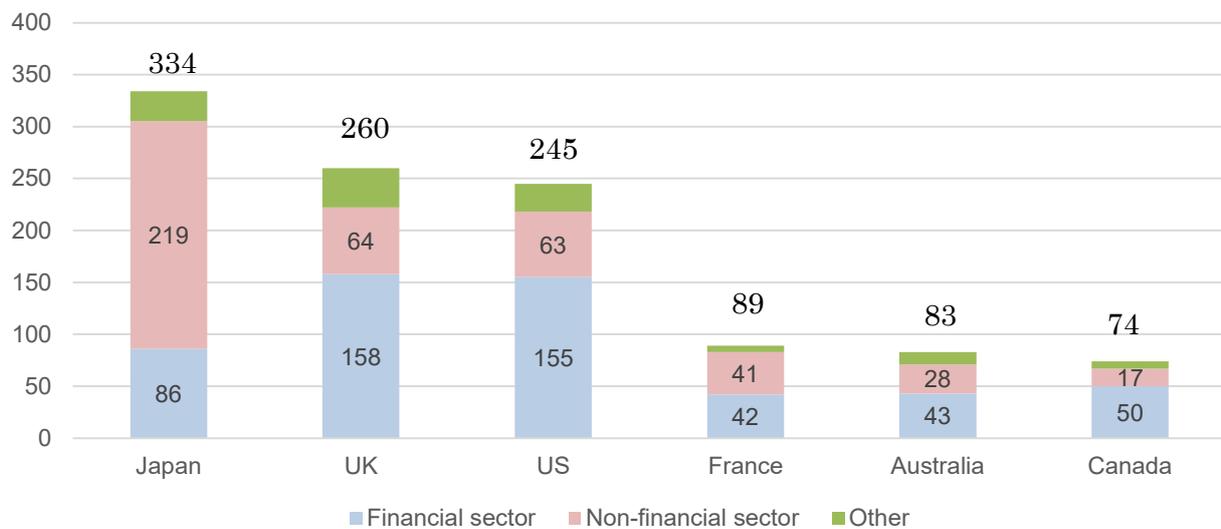
In addition, with regard to the issue of climate change, which has been identified as one of the most urgent ESG issues, companies are increasing their disclosure in line with the TCFD recommendations. As shown in Chart 50, Japan has the largest number of TCFD-supporting institutions in the world.

Chart 49 Trend in Number of Companies Issuing an Integrated Report



(Source) Corporate Value Reporting Lab (List of companies issuing integrated reports in Japan, 2020 edition (preliminary report as of October 2020))

Chart 50 Number of institutions adopting the TCFD recommendations (as of December 31, 2020)



(Source: Compiled from materials of the 24th Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code)

Chart 51 shows a list of typical disclosure frameworks, but various disclosure frameworks exist for the disclosure of sustainability information. In addition to the framework shown in Chart 51, there are also various guidelines such as "ISO26000" (international standard on social responsibility of organizations issued by ISO (International Organization for Standardization)), guidance on value creation (Ministry of Economy, Trade and Industry), and environmental reporting guidelines (Ministry of the Environment). This makes it difficult for listed companies to decide which standards they should follow for disclosure purposes. In some cases, listed companies have responded by disclosing information using multiple combinations of these disclosure frameworks. However, it has been pointed out that this has added to the disclosure burden.

While there are various frameworks for disclosure of sustainability information, in September 2020, five organizations, CDP, CDSB (Climate Disclosure Standards Board), GRI (Global Reporting Initiative), International Integrated Reporting Council (IIRC) and SASB issued a joint statement aiming on the publication of a "comprehensive corporate report" which combines financial and non-financial information. In November 2020, the IIRC and SASB announced their intention to merge into the Value Reporting Foundation (VRF), a unified organization with an integrated reporting framework by the middle of 2021. In addition, the IFRS Foundation, which develops international financial reporting standards, is considering establishing a sustainability reporting standards board to develop internationally uniform standards.

In light of these international trends, we expect standards to become more uniform in future, with the content of sustainability information required from listed companies defined more precisely.

Chart 51 Typical Disclosure Frameworks

	TCFD recommendations	SASB Standards	GRI Standards	International Integrated Reporting Council	CDP	CDSB Framework
Formulated by	TCFD	SASB	GRI	IIRC	CDP	CDSB
	Private sector-led task force under Financial Stability Board (FSB)	Not-for-profit organization in the US	NGO in Netherlands	Not-for-profit organization in the UK	Not-for-profit organization in the UK	Not-for-profit organization in the UK
Overview	Framework for companies to report to investors, etc. on their climate-related financial risks and opportunities	Framework for companies to report to investors, etc. on financial impacts of sustainability (ESG, etc.) challenges	Framework for companies to report to multiple stakeholders, including investors, on their impacts on the economy, environment, and society	Framework that enables integrated corporate reporting to investors, etc., covering both financial information and non-financial information (including sustainability)	CDP conducts surveys and scoring of companies and cities so that they disclose information to investors, etc., intending to take action to build a sustainable economy by understanding their environmental impact.	Framework for supporting investors' decision-making related to the environment, by integrating environmental information with financial information.
Approach	Principle-based	Rule-based	Rule-based	Principle-based	Rule-based	Principle-based
Matters to be reported	<ul style="list-style-type: none"> • Governance • Strategy • Risk management • Indicators and targets 	Developed industry-specific disclosure standards with KPIs for each of 77 industries in 11 sectors e.g. <ul style="list-style-type: none"> • Greenhouse gas emissions • Incidence of industrial accidents 	Set disclosure items and KPIs for economic, environmental, and social aspects e.g. <ul style="list-style-type: none"> • Quality of effluent discharge and receiving waterbody • Ratio of basic salary and remuneration of women to men 	<ul style="list-style-type: none"> • Organization profile and external environment • Governance • Business model • Risk and opportunity • Strategy and resource allocation • Actual performance • Outlook, etc. 	CDP conducts surveys by questionnaires on detailed corporate initiatives (e.g. GHG emissions, etc.) in the following areas, and scores companies: <ul style="list-style-type: none"> • Climate • Water • Forests 	<ul style="list-style-type: none"> • The management's policy, strategy and targets related to environment • Risk and opportunity • Governance • Environmental impact factors • Comparative analysis of performance • Outlook, etc.
Published in	2017	2018	2000	2013	2000	2007

Source: Materials of the 24th Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code (FSA) and Disclosure Standards for ESG Information and their Current Status (Daiwa Institute of Research)

3. Ensuring Appropriate Information Disclosure and Transparency

Section 3 of the Code states the following regarding ensuring appropriate information disclosure and transparency.

[General Principle 3]

Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk, and governance.

The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.

It is essential for listed companies to conduct disclosures based on laws and regulations in a timely and appropriate manner in order to protect investors and ensure the reliability of capital markets. In addition, listed companies should also actively provide information not based on laws and regulations including company objectives (e.g., business principles), business strategies, and corporate governance besides financial information and disclosures.

This chapter will cover the contents of disclosures based on Principle 3.1 “Full Disclosure” for which disclosures are required in the CG Report. In addition to an analysis of the items for which disclosure is required in the CG Report, we introduce the current status of English language disclosure by listed companies.

3-1. Full disclosure (Principle 3.1)

Principle 3.1 requires information disclosure on the items in (i) to (v) below as full disclosure.

- (i) Company objectives (e.g., business principles), business strategies and business plans
- (ii) Basic views and guidelines on corporate governance based on each of the principles of the Code
- (iii) Board policies and procedures in determining the remuneration of the senior management and directors
- (iv) Board policies and procedures in the appointment and dismissal of the senior management and the nomination of director and kansayaku candidates
- (v) Explanations with respect to the individual appointments/dismissals and nominations based on (iv).

Because there are many companies that already disclose these matters as required by Principle 3.1 through various disclosure materials and forms of media that include annual securities reports, convening notices for the general shareholder meeting, the CG Reports, and corporate websites, a

distinctive feature for these matters is that in many cases descriptions tell readers to refer to the materials that have already been disclosed. The compliance rate was 93.8% (2,488 companies). The contents of the disclosures for (i) through (v) for companies in compliance with Principle 3.1 will be analyzed below.

(1) Company objectives (e.g., business principles), business strategies and business plans

Many companies already have disclosures on company objectives (e.g., business principles), business strategies and business plans in other forms of media, and accordingly disclosures such as “the business principles, business strategy and mid-term management plan are stated on our website” are common. If we analyze keywords, 71.9% of companies (1,789 companies) include a keyword such as “home page” or “website”, and 51.1% of companies (1,271 companies) state a specific URL (Chart 52). Other references included are the summary of financial statements (7.2% or 180 companies), explanatory materials for the financial results (6.4% or 160 companies), business reports (2.6% or 65 companies), convening notices (1.8% or 46 companies), and integrated report (1.3% or 32 companies) (Chart 43).

In terms of specific examples, there are many cases of descriptions on only the name of the reference documents or URLs. While such descriptions would reduce the disclosure burden for listed companies, it has also been pointed out that from the perspective of users of the information, excessive references can undermine the usefulness of the information in these reports. On the other hand, there are cases such as displayed in Example 1, in which an overview is described in the CG Report, and the details are stated on the website.

Example 1

■ Group Philosophy

The Company embraces "EARTH FOOD CREATOR" which is built on the spirit of its founder, as the Group Philosophy.

In the EARTH FOOD CREATOR philosophy, the resolve and universal tenet of the Group are clearly stated as "the ●● Group explores various possibilities for food and creates dream-inspiring delicious tastes. We contribute to society and the earth by gratifying people everywhere with pleasures and delights food can provide."

The spirit of our founder is expressed in the four phrases propounded by the founder ■■, which form the core of the Group and are our enduring founding values.

"Peace will come to the world when there is enough food." Food is the most important pillar supporting human life. The business operations of the Group originated from this basic human principle.

"Create foods to serve society." A spirit of creativity is the most important thing of all for a company. We are creating a new food culture and providing people all over the world with happiness and inspiration.

"Eat wisely for beauty and health." The Group pursues food functionality and advocates a wise diet.

"Food related jobs are sacred profession." The mission of the Group is to provide the world with safe, delicious, healthy food.

■ Corporate Strategies and Business Plan

(1) Medium-Term Management Plan

Based on the four elements that make up the spirit of our founder – "Peace will come to the world when there is enough food," "Create foods to serve society," "Eat wisely for beauty and health," and "Food related jobs are a sacred profession" - our aim is to become an "EARTH FOOD CREATOR," as set out in the Group Philosophy, through our commitment to creating food for the world around us. Within the Medium-Term Plan covering the five years from 2016, we have set out numerical targets with an emphasis on "earning power through operations" and "value in capital markets," as key requirements for "recognition as a global company."

(2) Overall Strategy

To achieve the numerical targets under the Medium-Term Plan, we intend to implement the following five strategies in order to ensure profitability.

(a) Promotion of global branding

We intend to improve profitability by accelerating overseas expansion of ●●, as a high value-added product that makes the most of our strengths as a company, and by increasing the number of units sold overseas by 50%. We intend to pinpoint the right approach for design, flavor and promotion, based on a clearly defined target market (young people with a certain standard of living), in order to penetrate the market more efficiently and effectively.

(b) Focusing on priority overseas locations

We have earmarked BRICs (Brazil, Russia, India, China) as priority locations from two key perspectives, based on market appeal (scale of instant noodle market and its growth potential) and opportunities for the Group (strength of business base and potential for expansion of high value-added markets, such as cup-type products, in the short to medium term). We are determined to secure profit growth in these areas. In China, we are planning to further expand our growing sales area for high-margin ●● products. In India, we are focusing on growth in bag-type instant noodle products in urban areas and on stepping up ●● sales to the country's rapidly-growing population of middle-income earners. In Brazil and Russia, we are aiming to build on solid foundations as market leader to expand the market for value-added cup-type instant noodle

products, so that we can secure an even larger market share and increase profits.

(c) Laying stronger foundations for our domestic profit base

In order to establish a business model that will be less susceptible to declining population numbers and other changes in population or consumer composition, we intend to focus more closely on the domestic market, with an emphasis on marketing, and we are also planning to invest in upgrading plants in order to save labor and improve food safety. By conducting these initiatives, we will lay stronger foundations for our instant noodle profit base in Japan, with the aim of becoming a “century brand company”.

(d) Establishing a second pillar that generates revenue and profit

We are stepping up initiatives aimed at developing our confectionery and cereal business into a second primary revenue and profit source, both in Japan and overseas. We intend to grow individual brands even further, strengthen cooperation based on technical synergy between the confectionery and cereal companies, expand overseas operations and make use of M&A to increase sales to around JPY 100 billion, including equity method companies. In terms of chilled and frozen foods, and beverages, we are aiming to increase profit growth domestically, based on our efforts to establish brands throughout the previous medium-term period.

(e) Developing and strengthening human resources for global management

Thanks to active investment in strengthening platforms, we have been able to establish a framework to support growth. Looking ahead to the future, we intend to step up human resource development measures within the group, including running a selection-based in-house university program, promoting diversity, and reinforcing overseas trainee systems. We are also planning to increase management human resources by recruiting from outside the group, in an effort to accelerate global management.

Further details can be found on the Company's website.

https://www.●●.com/jp/ir/management/business_plan

(Foods)

Chart 52 Keywords Related to Disclosures on Company Objectives (e.g. Business Principles), Business Strategies and Business Plans

Item	Number of companies	Ratio
Companies complying with Principle 3.1	2,488	100%
Website, etc.	1,789	71.9%
Individual URL (http://~)	1,271	51.1%
Financial results briefing	269	10.8%
Summary of financial statements	180	7.2%
Explanatory materials for the financial results	160	6.4%
Business report	65	2.6%
Convening notice	46	1.8%
Integrated report	32	1.3%

(2) Basic Views and Policies on Corporate Governance

① Disclosure in accordance with Principle 3.1(ii)

Because disclosures similar to this item were already required under “Basic Views” in the CG Report and annual securities reports, there are many companies that clearly indicate the reference destination through a statement such as “Basic views on corporate governance are stated in the CG Report and the annual securities report”. According to an analysis of keywords, 51.4% of companies (1,280 companies) mentioned “corporate governance report (including the CG Report, this report)”, 21.5% of companies (534 companies) mentioned “website (HP, website, etc.)”, 12.4% of companies (309 companies) mentioned “annual securities report,” and 15.2% of companies (377 companies) mentioned a reference URL (Chart 53).

As a specific example, Example 2 explains a company's basic policy in light of the business environment in which the company operates and the composition of its shareholders. Example 3 provides a detailed explanation of the company's policy for improving corporate governance, including sustainability. In addition, Example 4 refers to "Corporate Governance Guidelines" compiled according to the Code.

Example 2

The Group's mission is "Creating happiness and prosperity, together with people and with society." To achieve this goal, the ●● Group will continue to embrace new challenges in a dynamic way. Our corporate philosophy inspires us in our ongoing quest to ensure proper, upstanding business practices and rigid compliance with relevant laws and regulations. It motivates us to constantly improve management efficiency and transparency, and to promote the group's mutual benefits with all of our stakeholders, including our customers, our employees, our business partners, our communities, and our shareholders. It is the very cornerstone of our corporate governance, which is geared toward generating sustainable growth and improving corporate value over the medium- to long-term.

The Group's core business is Domestic Beverage Business and, as over 80% of those sales come from vending machines in the local community, it is fair to say that our products are familiar parts of consumers' everyday lives. Moreover, our operations are conducted under a "fabless management" system, which means we have no plants of our own and instead outsource work in close cooperation with producers and distributors nationwide to make and deliver products. We concentrate our resources on more specific roles, such as product planning and development, and vending machine operations. We have one of the industry's premier vending machine networks around Japan, which are maintained by the Group employees and the Vending Partner Association (vending machine operators that handle our products).

It is a rather unique business model that depends on the trust of our stakeholders. As such, we believe "happiness and prosperity together with people and society as a whole" is our duty, and the overriding objective of our business activities. To that end, our "dynamic efforts" are founded on a bedrock of corporate governance, a steadfast platform of transparent, fair, swift, and bold decision-making. Moreover, we continually work to improve that foundation in order to contribute to the benefit of our shareholders.

Our executive team (consisting of the president and representative director as well as the chairman and director), which consists of members of the family that founded the Company, directs the Company's management through prompt and decisive decision-making, a management stance characterized by a medium- and long-term perspective that is based on stakeholders' positions, and conformity with its members' status as major shareholders of the Company. Their stake totaled about 33% of the Company's shares (as of January 20, 2020) and is exercised through such means as asset management companies under their direct control. In keeping with our

recognition that ensuring transparency and fairness in the decision-making process is imperative in order to implement effective corporate governance at the Company, we have chosen to structure the Company as a company with Kansayaku Board. In this organizational structure, auditors have investigative authority under applicable laws and regulations to audit directors' performance of their obligations and responsibilities. By filling three of the four seats on the Kansayaku Board with outside corporate auditors (three of whom are independent outside corporate auditors), we have sought to strengthen the ability of auditors to oversee the Company's management from an independent perspective. Furthermore, we have elected two independent outside directors to the Board of Directors since April 2014 in order to incorporate outside perspectives into our management and enhance the Board's ability to supervise the Company's operations. In this way, we're working to increase the accountability of top executives and to increase transparency.

As of April 16, 2020, two of the six seats on our Board of Directors are occupied by independent outside directors, with the result that independent outside directors account for one-third of the Board of Directors. (Foods)

Example 3

The corporate philosophy is enshrined in the Three Corporate Principles. Through corporate activities rooted in the principles of fairness and integrity, the Company strives to continuously raise corporate value. The Company believes that by helping to enrich society, both materially and spiritually, it will also meet the expectations of shareholders, customers, and all other stakeholders.

In order to achieve these goals, the Company recognizes strengthening corporate governance on an ongoing basis as an important management issue as it is the foundation for ensuring sound, transparent and efficient management. The Company, based on the Audit & Supervisory Board Member System, is thus working to put in place a corporate governance system that is even more effective. This includes strengthening management supervision through such measures as appointing Outside Directors and Outside Audit & Supervisory Board Members who satisfy the conditions for Independent Directors or Independent Audit & Supervisory Board Members, and establishing advisory bodies to the Board of Directors where the majority of members are Outside Directors, Outside Audit & Supervisory Board Members and other experts from outside the Company. At the same time, the Company uses the Executive Officer System etc. for prompt and efficient decision-making and business execution.

In accordance with the above basic stance, the Company has set forth the Selection Criteria for Outside Directors and Outside Audit & Supervisory Board Members which clarify the functions and independence of Outside Directors and Outside Audit & Supervisory Board Members, and also require that the number of Outside Directors who satisfy the criteria for independence be a third or more of the number of all Directors.

The Governance, Nomination and Compensation Committee with Outside Directors in the majority, deliberates and reviews the composition of the Board of Directors and the Audit & Supervisory Board, the policy on appointment of and proposals for appointment of Directors and Audit & Supervisory Board Members, the requirements of President and CEO and basic policy on the appointment and dismissal, personnel proposals of President and CEO, the remuneration system including the policy for setting remuneration and appropriateness of remuneration levels and composition, and evaluation of the effectiveness of the Board of Directors. Furthermore, the President's Performance Evaluation Committee has been established as a subcommittee to the Governance, Nomination and Compensation Committee comprising the same Chairman and Outside Directors as the parent committee to deliberate the assessment of the Presidents performance. In this way, the Company develops systems and mechanisms that ensure the effectiveness of management supervision by independent Outside Directors and Outside Audit & Supervisory Board Members.

As part of its policy to communicate with shareholders, the Company communicates with shareholders and investors in a proactive

manner, and discloses information about business conditions including the progress in management plans, quantitative financial information, and non-financial information such as for corporate governance and sustainability & CSR affairs in timely and appropriate manner. In addition, the Company is committed to gain credibility and reputation from stakeholders, including shareholders and investors, by improving the environment that allows shareholders to execute their rights.

For specific policies and approaches based on the above basic stance and policies, please refer to the corresponding items in this report. (Wholesale trade)

Example 4

(Omission) The Company's basic policy on corporate governance is explained in the description corresponding to each basic principle in the heading of each chapter of the Corporate Governance Guidelines (https://www.●●.co.jp/ir/src/g_guideline.pdf) which is published on our website. (Chemicals)

Chart 53 Keywords Related to Basic Views and Policies on Corporate Governance

Item	Number of companies	Ratio
Companies complying with Principle 3.1	2,488	100%
Corporate Governance Report, etc. (this report)	1,280	51.4%
Website, etc.	534	21.5%
Individual URL (http://~)	377	15.2%
Annual securities report	309	12.4%

② Basic views and policies on corporate governance

While Principle 3.1 (ii) requires the disclosure of basic views and policies on corporate governance, the CG Report has required listed companies to describe basic policies for corporate efforts (including the background of such policies) and objectives of corporate governance in a specific and easy-to-understand manner as their basic views on corporate governance. As specific disclosures, the Reporting Guidelines suggest that companies describe their views on shareholders and other stakeholders, views on the management monitoring function, and the group-wide perceptions, for instance. We will analyze the contents of this section below.

According to the Code, the achievement of effective corporate governance contributes to the sustainable growth of companies and an increase in corporate value over the mid- to long-term. Looking at the disclosures for this section, mention is made of “mid to long-term”, “sustainable”, and “growth” by 29.7%, 51.2%, and 33.3% of listed companies, respectively (Chart54). As a high percentage of listed companies (68.6%, 73.2%, 74.7%, respectively) mentioned the keywords of “corporate value”, “transparency” and “stakeholders”⁴³ that were keywords for this item in the previous survey, this suggests that transparency in the decision-making process, positive relationships with not only shareholders but all stakeholders including employees, customers, business partners and local communities, and the creation of the corporate value through appropriate business activities have been broadly instilled as elements of basic views towards corporate governance. Looking at specific disclosures, many companies had descriptions such as “our basic principles of corporate governance are to enhance the soundness and transparency of corporate management, and to improve the corporate value” and “establish good relationships with stakeholders”.

Regarding the management monitoring function, companies which referred to “monitoring” or “supervision” accounted for 37.5% of TSE-listed companies. Looking at results by the form of organization, while the ratio was 36.8% in Companies with Kansayaku Board and the ratio was 37.3% in Companies with Supervisory Committee, the ratio in Companies with Three Committees was quite high at 64.5%, and Companies with Three Committees are characterized by the focus on the oversight function of board of directors. In addition, 32.4% of TSE-listed companies as a whole, 32.2% of Companies with Kansayaku Board, and 30.7% of Companies with Supervisory Committee mentioned “execution,” while the figure is as high as 64.5% for Companies with Three Committees. The figures reflect the fact that Companies with Three Committees often describe the clear separation of business execution and supervision, which is one of their main characteristics.

The trend of companies focusing on corporate social responsibility has continued, and in this survey 24.1% of TSE-listed companies referred to “social responsibility”.⁴⁴ It is worth noting that a continued

⁴³Reference 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”.

⁴⁴ Reference to “social responsibility” covers companies which mentioned one of the following keywords: “CSR”,

trend of an emphasis on business activities in consideration of social responsibility as the basic policy of the companies, and the disclosure of these activities. Because corporate governance has traditionally been discussed in terms of preventing scandals, some respondents mentioned "compliance with laws and regulations"⁴⁵ (35.0%) and "internal control" (16.9%) from the perspective of sound management.

Chart 54 Basic Views on Corporate Governance

		Mid- to long-term	Sustainable	Growth	Corporate value	Shareholder value	Shareholders
		Percentage	Percentage	Percentage	Percentage	Percentage	Percentage
All companies		29.7%	51.2%	33.3%	68.6%	4.9%	68.5%
Organizational form	Company with <i>Kansayaku</i> Board	28.7%	51.3%	33.3%	68.2%	5.3%	67.3%
	Company with Supervisory Committee	30.7%	50.4%	33.2%	69.3%	4.1%	71.0%
	Company with Three Committees	44.7%	60.5%	36.8%	72.4%	7.9%	71.1%
		Investors	Monitoring/supervision	Execution	Decision-making	Internal control	Stakeholders
		Percentage	Percentage	Percentage	Percentage	Percentage	Percentage
All companies		11.0%	37.5%	32.4%	40.3%	16.9%	74.7%
Organizational form	Company with <i>Kansayaku</i> Board	11.1%	36.8%	32.2%	40.5%	18.0%	75.3%
	Company with Supervisory Committee	10.5%	37.3%	30.7%	39.7%	14.6%	73.3%
	Company with Three Committees	13.2%	64.5%	64.5%	43.4%	10.5%	72.4%
		Social responsibility	Legal compliance	Transparency	Efficiency	Soundness	
		Percentage	Percentage	Percentage	Percentage	Percentage	Percentage
All companies		24.1%	35.0%	73.2%	19.3%	27.6%	
Organizational form	Company with <i>Kansayaku</i> Board	24.5%	36.8%	72.9%	19.4%	28.0%	
	Company with Supervisory Committee	22.9%	32.0%	74.1%	19.1%	27.4%	
	Company with Three Committees	27.6%	21.1%	72.4%	18.4%	17.1%	

(3) Policies and procedures for determining the remuneration

① Disclosure in accordance with Principle 3.1 (iii)

Principle 3.1 (iii) requires the disclosure of the policies and procedures for determining the remuneration of the senior management and directors by the board of directors. There are many companies that already had disclosures on the policy for determining the remuneration of directors and executive officers in other sections of the CG report or in the annual securities report. 20.6% (512 companies) included keywords such as "corporate governance report" and 9.4% (234 companies) included "annual securities report". Compared to other items (Principle 3.1 (i) and Principle 3.1 (ii)), only a few companies refer to other disclosure materials. Perhaps this is because this item is not covered by existing disclosures for most companies, as it is necessary to disclose both the policies and procedures for the remuneration of officers.

Nearly half of the companies, 48.0% (1,193 companies), mentioned "performance" (Chart 55). It can be inferred that in many companies, executive remuneration is determined on the basis of business

“social responsibility” and “corporate ethics”.

⁴⁵ Reference to “legal compliance” covers companies which mentioned one of the following keywords: “legal compliance”, “compliance with laws and regulations” and “compliance”.

performance. In addition, 32.5% (808 companies) mention “outside directors”. There were cases of the opinions of outside directors being incorporated in the remuneration decision process and cases where remuneration details for outside directors are stated separately from inside directors. In addition, 47.1% of companies (1,172 companies) mentioned “general shareholder meeting”, and there were mentions of cases of the limits for total remuneration decided on by the general shareholder meeting (Chart 56).

In terms of the policies for deciding on the remuneration of officers, many companies had separate disclosures on fixed remuneration (basic remuneration) and bonuses, and performance-linked remuneration. There were many companies that clearly stated that fixed remuneration (basic remuneration) was set according to roles and responsibilities. As factors related to fixed remuneration (basic remuneration), 19.9% (496 companies) include the keyword "responsibilities/duties" and 19.8% (492 companies) include the keyword "role/title" (Chart 55). In terms of elements of performance-linked remuneration, “performance” as described above was more frequently mentioned, and there were also companies that mentioned “sales” , “profit (operating profit, ordinary profit and net income)” , “ROE/ROA/ROIC” and “dividends”. Specifically, 1.6% (39 companies) referred to “sales,” 10.5% (260 companies) to “profit (operating profit, ordinary profit and net income),” 1.0% (25 companies) to “capital and other efficiency indicators (ROE/ROA/ROIC),” and 1.7% (42 companies) to "dividends.” The overall trend suggests that many companies focus on profit as an indicator of business performance. In addition, there were also companies that mentioned they referred to “standard levels” and “data provided from external institutions”. 18.5% (461 companies) used the keyword "performance-linked," 16.7% (416 companies) referred to "stock-based compensation" including "stock options," and 313 companies (12.6%) mentioned "incentives.” Compared to two years ago, the number of companies mentioning stock-based compensation has increased, suggesting that stock-based compensation is becoming more popular. 8.6% (213 companies) stated that they conduct “comprehensive consideration or judgments” on multiple factors.

In terms of the procedures for deciding on the remuneration of officers, a little under half of companies mentioned “general shareholder meeting ” (47.1% or 1,172 companies) (Chart 56). 28.9% (719 companies) mentioned a “remuneration committee, etc.” Many companies have established new optional advisory bodies to ensure the transparency of the decision-making process for executive remuneration following the revision of the Code in 2018. There is an increasing number of mentions of the involvement of remuneration committees, etc. in the decision-making process for remuneration (see “4-11. Committee, etc. (2) Remuneration”).

Example 5 is an individual example of a detailed description of the policy and procedure for determining remuneration. The company has developed a remuneration policy which, in addition to disclosing remuneration levels, remuneration mix and the remuneration determination process, also refers to clawback/malus clauses and continued shareholdings. Example 6 describes a specific approach to the calculation of bonuses and performance-linked stock compensation. In particular, for performance-linked stock compensation, the company discloses KPIs (TSR) and specific comparable

companies.

Chart 55 Keywords Related to Policies for Determining the Remuneration of Officers

Item	Number of companies	Ratio
Companies complying with Principle 3.1	2,488	100%
Performance	1,193	48.0%
Basic/fixed	854	34.3%
Outside directors	808	32.5%
Consultation	529	21.3%
Responsibilities/duties	496	19.9%
Role/position	492	19.8%
Performance-linked	461	18.5%
Bonus	428	17.2%
Stock-based compensation (stock options)	416	16.7%
Incentive	313	12.6%
Profits	260	10.5%
Comprehensive consideration or judgments	213	8.6%

Chart 56 Keywords Related to Procedures for Determining the Remuneration of Officers

Item	Number of companies	Ratio
Companies complying with Principle 3.1	2,488	100%
General shareholder meeting	1,172	47.1%
Remuneration committee, etc.	719	28.9%

Example 5

In order to facilitate the steady execution of the Medium-term Business Plan, the Company formulated anew “Officer Remuneration Policy,” which included the introduction of a stock-based remuneration system for officers, in April 2017. However, to reflect the promotion of sustainability management, which is a Company initiative that has emerged since that time, the details of this policy were revised to give it more substance in April 2020.

For details of the revised Officer Remuneration Policy, please refer to the following page on our website.

(https://www.●●.com/_data/news/200410_RemunerationPolicy_J1.pdf)

1. Policy for Determining Remuneration for Directors and Executive Officers

Basic Policy on Officer Remuneration

The Company's officer remuneration system is operated under the following basic policy with a view to realizing and promoting sustainability management (pay for purpose).

The same basic philosophy is also established by ●●, which is one of the major subsidiaries of the Group.

(i) Contribute to the sustainable growth and increase of the corporate value of the Group over the medium to long term, and also be compatible with its corporate culture.

(ii) A highly performance-based remuneration system that provides incentives to Executive Officers both for accomplishing objectives set under management strategies and business plans, and for achieving targets with respect to corporate performance.

(iii) Remuneration levels that can secure and retain human resources who have the desirable managerial talent qualities required by the Company.

(iv) Increase shared awareness of profits with shareholders and awareness of shareholder-focused management.

(v) Enhanced transparency and objectivity in the remuneration determining process.

[How to determine remuneration levels]

To make quick responses to changes in the external environment and the market environment, the Company refers to objectively verifiable survey data from specialist external organizations, and adopts the officer remuneration levels of companies in the same industry (● / retailers) and companies of a comparable size (selected based on market capitalization and consolidated operating profit) in other industries as a benchmark, and compares the remuneration levels of its Executive Officers and Directors with the benchmark every year. The same treatment shall apply to the Directors, Executive Officers and Audit & Supervisory Board Members of ●●.

[Composition of remuneration]

- Executive Officer

Remuneration for Executive Officers shall comprise (i) basic remuneration (monetary remuneration) in accordance with rank (position), (ii) bonuses (monetary remuneration) based on individual evaluations conducted each business year, and (iii) performance shares linked to the consolidated performance achievement rate, etc. provided in the Medium-term Business Plan as a stock-based remuneration system (trust-type stock-based remuneration).

- Directors who do not execute business

Remuneration for Directors who do not execute business shall consist only of fixed remuneration, which shall be (i) basic remuneration (monetary remuneration) in accordance with rank (position) and (ii) restricted stock (non-performance-linked stock-based remuneration), which is not linked to performance as a stock-based remuneration system (trust-type stock-based remuneration).

- For details of the composition of remuneration, please refer to the following page on our website.

(https://www.●●.com/_data/news/200410_RemunerationPolicy_J1.pdf)

2. Procedures for determining remuneration for Directors and Executive Officers

To ensure the appropriateness of the level and amount of remuneration, and the transparency of decision-making processes, independent Outside Directors account for the majority, and decisions are made by deliberation and resolution of a Remuneration Committee headed by an independent Outside Director. The Remuneration Committee determines the policy for deciding the content of individual remuneration for Directors and Executive Officers of the Company and officers of subsidiaries (Directors, Executive Officers and Audit & Supervisory Board Members), as well as deciding the content of individual remuneration for Directors and Executive Officers of the Company.

It is planned that the Remuneration Committee shall meet at least four times a year. Revisions of the officer remuneration system will be undertaken based on Medium-Term Business Plan periods.

In addition, the Company appoints external remuneration consultants with a view to introducing objective viewpoints from outside the Company and expertise on officer remuneration systems. With their support, the Company reviews its remuneration levels and remuneration system in light of external data, economic environment, industry trend and business conditions, among others.

3. Forfeiture of remuneration, etc. (clawback/malus clauses)

With regard to bonuses and stock-based remuneration, in cases where the Board of Directors has resolved that serious accounting errors or fraudulent adjustments after the settlement of accounts have occurred, or in cases where serious infringements of the delegation agreement, etc. between the Company and an officer have taken place, or in cases where a person has resigned for their own reasons during their tenure against the wishes of the Company, the right to be paid/issued remuneration may be forfeited, and the Company may demand the repayment of remuneration already paid or issued.

4. Stock acquisition and holding

Any shares of the Company acquired by Executive Officers as stock-based remuneration shall continue to be held by respective Executive Officers at least for three years from the grant date of the shares (or at least for one year after they retire from the office of Executive Officer). The purpose of this requirement is to deepen the common interest of shareholders and officers. In particular, the purpose of granting shares of the Company to Executive Officers who are responsible for business execution as performance-linked stock-based remuneration is to provide additional incentive to them to work for the improvement of the financial performance and corporate value of the Company from the medium- to long-term perspective.

(Retail Trade)

Example 6

The Guidelines provide for the Board of Directors' policies for determining the remuneration for senior management and Directors as follows:

(Excerpt)

The performance-based remuneration other than fixed remuneration consists of bonuses which serve as monetary remuneration that reflects short-term business performance, as well as performance-based share remuneration (Board Benefit Trust, BBT) which is linked to the Company's total shareholders return (TSR) to provide incentive toward the aim of increasing corporate value over the medium- to long-term.

Note: The Company's TSR = The rate of increase of the Company's shares over a fixed period + The dividend rate over the fixed period (Total dividend ÷ Initial share price)

(i) For the bonus, the fixed remuneration of an individual officer is multiplied by a coefficient that is determined according to a set formula based on consolidated performance in a single fiscal year (operating income and profit attributable to owners of the parent company) and on business performance achieved by the individual.

(ii) The coefficient for the BBT is to be calculated as follows.

- The coefficient that acts as a fixed remuneration multiplier is determined by combining two elements: the ratio of the Company's TSR to the TOPIX growth rate (the "TSR Ratio"); in conjunction with the Company's TSR ranking relative to the TSR of other companies (the "TSR Ranking").

- The Company shall perform assessment, and accordingly award points, each fiscal year over a three-year period for assessing the TSR Ratio and TSR Ranking.

- If the TSR Ratio amounts to 50% or less, then the coefficient is assigned the minimum value of 0%. If the TSR Ratio amounts to 100%, then the coefficient is assigned the base value of 10%. If the TSR Ratio amounts to 150% or more, then the coefficient is assigned the maximum value of 40%. The coefficient is calculated using the set formula if the TSR Ratio amounts to more than 50% but less than 100%, or if the TSR Ratio amounts to more than 100% but less than 150%. The plan is designed so that the coefficient used as a multiplier increases when the TSR Ratio exceeds 100%, thereby providing the Company's Officers with greater incentive to increase shareholder value.
- The TSR Ranking compares TSR of the Company with that of two other Japanese integrated shipping companies: Company A and Company B. The TSR of both companies is calculated in the same way as that of the Company.
- The amount of BBT remuneration is calculated by multiplying the coefficient as calculated above by the fixed remuneration of an individual officer. That amount is then converted to points which are awarded to the individual officer. (Shipping)

② Disclosure of individual director remuneration

Disclosures on the remuneration of officers and directors as required under Principle 3.1 (iii) are, as previously stated, already required in the annual securities report. Listed companies are required to disclose, in their annual securities reports, the total amount of remuneration, etc. for each category of officers, the total amount of each type of remuneration, etc., the total amount of remuneration, etc. of officers who receive 100 million yen or more, and the policy for determining officer remuneration. Regarding disclosure of individual director remuneration, the CG Report requires listed companies to select one of the following: "full disclosure of all individuals", "partial disclosure" or "no individual disclosure on remuneration".

The percentage of companies who do not disclose the remuneration of individual directors in the CG Reports for Companies with Kansayaku Board and Companies with Supervisory Committee is 89.9% and 92.7% respectively, while the percentage of these companies that make full disclosure of the remuneration on all directors is only 0.0% and 0.2% respectively. Chart 57 Chart 58 The percentage of companies that disclose individual information on only some of their executives are 10.1% and 7.1% respectively, but it can be said that the majority of these companies disclose remuneration of individual executives who receive 100 million yen or more.

For Companies with Three Committees, the percentage of companies that do not disclose remuneration on an individual basis is 68.4% for directors and 60.5% for *shikkoyaku*. The percentage of companies that make full disclosure for all members is 2.6% for directors and 2.6% for *shikkoyaku*, which is higher compared to Companies with Kansayaku Board and Companies with Supervisory Committee (Chart 59).

3,562 companies, or 99.1%, provide supplementary information related to directors' remuneration. With respect to officer remuneration, many companies include the same information in the CG report as they include in the annual securities report, because it is required to be included in the securities report.

Chart 57 Disclosure of Director Remuneration (Companies with Kansayaku Board)

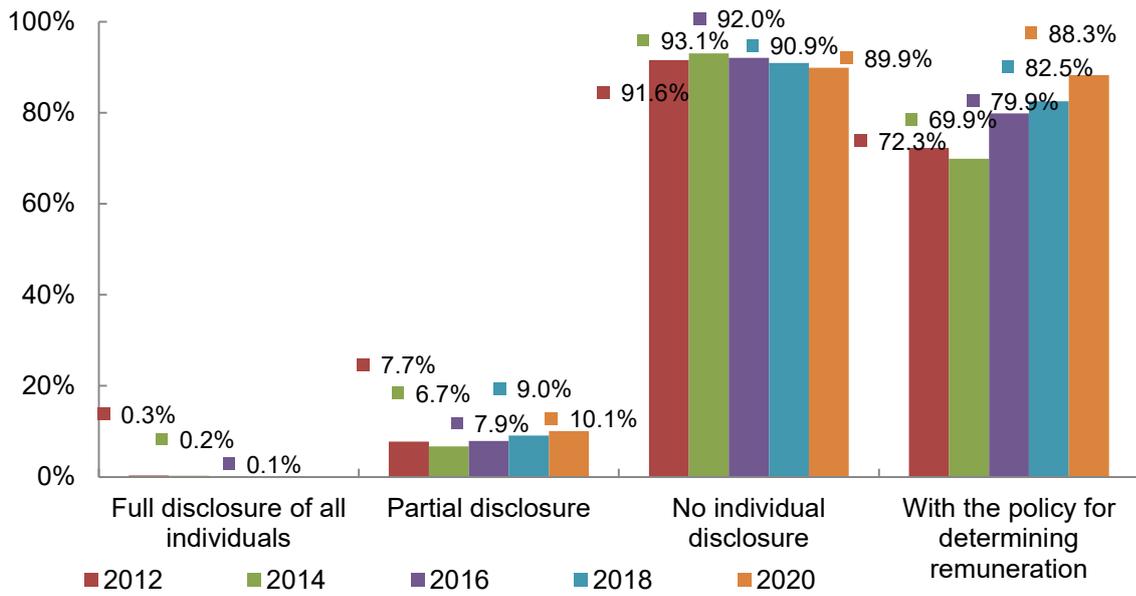


Chart 58 Disclosure of Director Remuneration (Companies with Supervisory Committee)

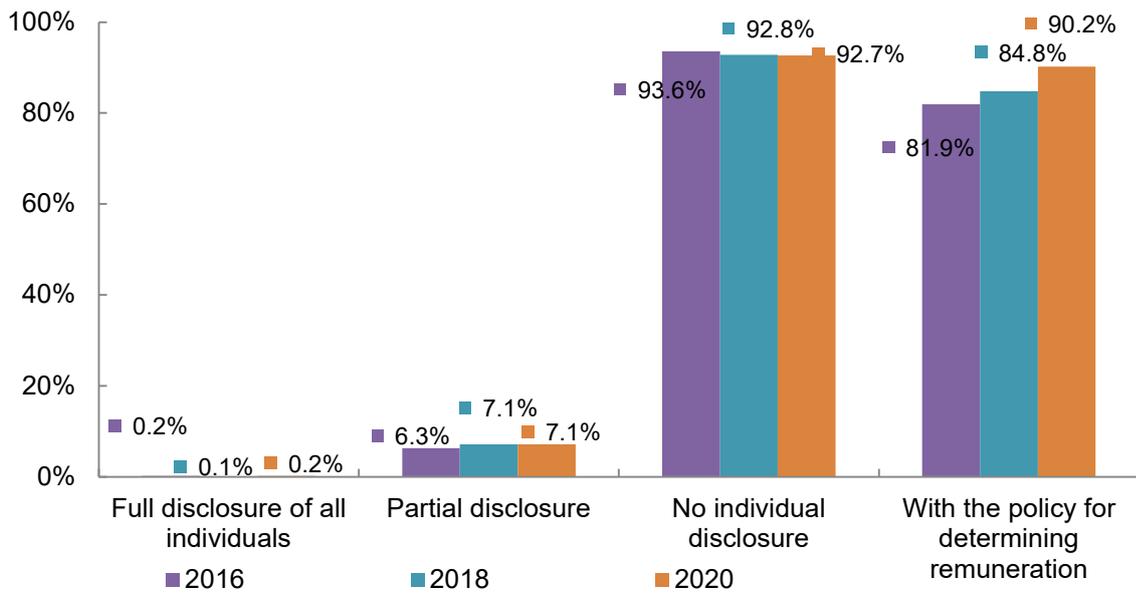
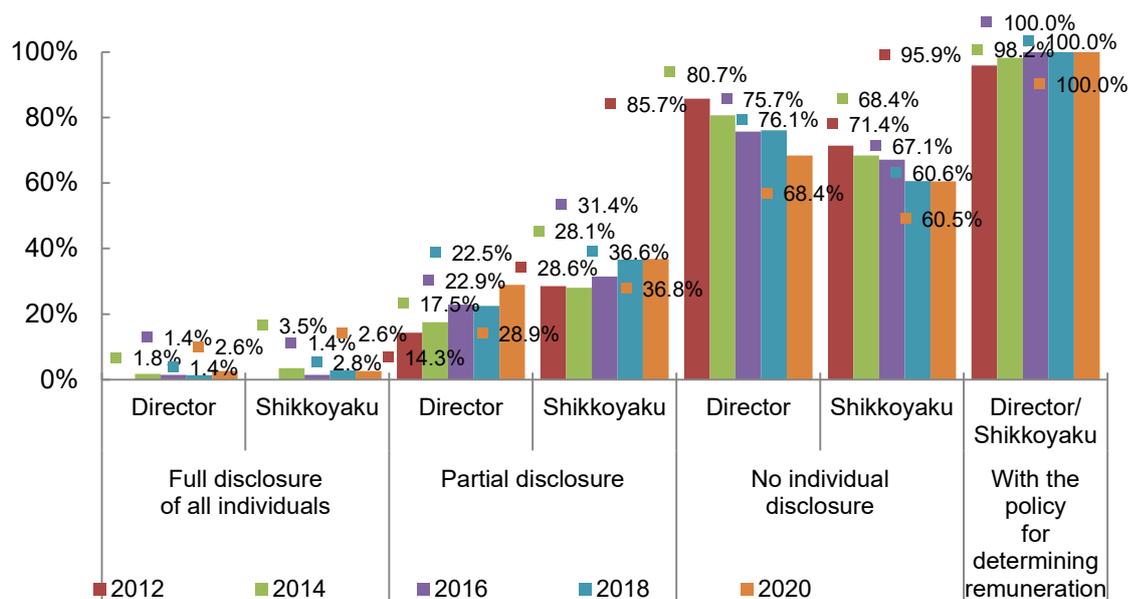


Chart 59 Disclosure of Director/Shikkoyaku Remuneration (Companies with three committees)



③ Policy for determining remuneration amounts and calculation method

In terms of the policy for deciding on officer remuneration, if a company has a policy for determining the amount of remuneration and its method of calculation, it is required to disclose this in the CG Report.⁴⁶

In the CG Report, the percentage of companies which reported that a decision policy on director remuneration amounts, etc. and its calculation method are in place accounted for 88.3% of Companies with Kansayaku Board, 90.2% of Companies with Supervisory Committee, and 100.0% of Companies with Three Committees (Chart 57 to Chart 59).

Analyzing the contents of descriptions by companies with a decision policy in this section, of the

⁴⁶ In terms of the policy for deciding on the amount of officer remuneration, etc. or the calculation method thereof, a company is required to disclose in the annual securities report: (i) The details of the policy as of the date of submission, the method of determination, or if there is no policy in place, a statement to that effect; (ii) If a policy is in place for each position, the details thereof; (iii) The name or title of the person who has authority for determining said policy, the details of that authority, and the scope of discretion; (iv) A description of the procedures of the committee involved in the determination of the policy, if any.

In addition, if performance-linked remuneration is included in the remuneration, the following information is required: (i) If a policy for determining the ratio of performance-linked remuneration to other remuneration is in place, the details of said policy; (ii) The index upon which determination of performance-linked remuneration is based; (iii) The reason for selecting this index; (iv) The method of determining the amount of performance-linked remuneration; and (v) Targets and actual performance of the index upon which performance-linked remuneration is based for the most recent business year.

3,276 companies with a decision policy, the majority of companies mentioned “performance” (64.0% or 2,096 companies), which suggests that consideration is given to performance in deciding on officer remuneration in the same manner as descriptions based on Principle 3.1 (iii). 21.9% (718 companies) mentioned “performance-based remuneration”, 26.4% (865 companies) mentioned “stock-based compensation”, and 9.7% (317 companies) mentioned “stock options.” In terms of the decision process, 78.9% (2,584 companies) mentioned “general shareholder meeting”, 43.7% (1,433 companies) mentioned “outside directors”, and 19.5% (640 companies) mentioned “remuneration committee, etc.”

The Companies Act, which came into effect on March 1, 2021, requires that for listed Companies with Kansayaku Board (limited to those that are large companies) and Companies with Supervisory Committee, in addition to Companies with Three Committees, the Board shall decide on the remuneration policy for individual directors (except where the policy has already been set forth in the articles of incorporation or at the general shareholder meeting). Therefore, the number of companies that include this information is expected to increase in the future.

(4) Policies and procedures for appointment and dismissal of the senior management and the nomination of director and kansayaku candidates

Only a small number of companies refer to the CG Report or annual securities reports, partly because disclosure of policies for the appointment and dismissal of the senior management and the nomination of director and kansayaku candidates is not required in annual securities report. 3.9% (97 companies) mentioned “corporate governance report, etc.” as a keyword and 1.9% (48 companies) mentioned “annual securities report.”

Regarding policies for the appointment of officers, many companies used keywords related to personal qualities, as 56.5% (1,405 companies) mentioned “experience”, 41.8% (1,041 companies) mentioned “abilities”, 37.7% (937 companies) mentioned “knowledge”, 33.3% (829 companies) mentioned “insight”, and 28.4% (706 companies) mentioned “character”. Keywords related to the expertise of candidates were also seen, such as “finance and accounting”, “law”, “corporate management (corporate manager, etc.)”, and “risk management” (Chart 60).

Meanwhile, in terms of policies on the dismissal of officers, many policies mentioned dismissals in cases of major violations of laws and regulations or the articles of incorporation. According to the keyword analysis, 54.7% (1,362 companies) included “dismissal” (excluding “appointment and dismissal”), and 5.1% (128 companies) included “discharge”. As for the reason for dismissal or discharge, 25.4% (632 companies) mentioned “violations (including violations of laws and regulations or the articles of incorporation)” and 12.2% (304 companies) mentioned “wrong doing” (Chart 61). There were also some companies that stated poor business performance as grounds for dismissal.

In terms of the procedures for the appointment and dismissal of officers, many companies clearly stated that a decision is made by the board in order for a resolution to be made by the general shareholder meeting. 33.0% (821 companies) mentioned “general shareholder meeting” and 86.3% (2,146 companies) mentioned “board”. Some companies clearly stated that they respected the opinions and advice of outside directors, etc. in order to ensure the transparency, etc. of the appointment and

dismissal process. Some companies also clearly stated that the involvement of an optional nomination committee, etc., as 26.7% (665 companies) mentioned the keyword “nomination committee, etc.” This is believed to be due to the increase in the establishment of new and optional advisory committees regarding nomination, following the revision of the Code in 2018 which pointed to the establishment of independent advisory committees regarding nomination and remuneration (see "4-11. Committee, etc. (1) Nomination").

80.9% (2,012 companies) mentioned “kansayaku” and “supervisory committee members”, with many companies clearly specifying the qualities required and process for appointing kansayaku and members of the supervisory committee separately from directors (Chart 62).

Looking at individual cases, Example 7 specifically describes the “qualifications of directors and nomination and dismissal procedure”, “selection standards”, “dismissal standards”, and the “stance towards composition” for directors and kansayaku, respectively. In addition, Example 8 describes the formulation and disclosure of more specific criteria for the selection of candidates for directors. In particular, the Company discloses the importance of qualities required for outside directors in terms of general supervision and provision of advice on management. In Example 9, the Company states that it formulates a career-skills matrix table and takes diversity in career and skills into account when selecting candidates for outside directors.

Example 7

[Qualifications of directors and appointment and dismissal procedures]

The appointment of candidates for directors will be decided on by the board, in consideration of the appointment criteria and stance towards the composition of the board, after discussion by the Nomination Advisory Committee.

(Appointment criteria)

1. Have outstanding character and insight, an excellent sense of management, and familiarity with various management issues
2. Have a companywide perspective and excellent objective analysis and judgment abilities
3. Have excellent foresight and insight
4. Have the ability to accurately understand the trends of the times, management environment, and market changes
5. Have a strong desire to work towards self-improvement
6. Have the ability to actively voice their opinion from a companywide perspective

Proposals on the dismissal of directors will be decided on by the board in consideration of the dismissal standards.

(Dismissal criteria)

1. Has acted in violation of public order and morals
2. It has become difficult to continue their duties due to health reasons
3. Has caused significant damage to corporate value as a result of negligence of duties
4. Is deemed not to fulfill the qualities prescribed in the appointment standards

(Views on the composition of the board)

The board is composed of directors with diverse backgrounds including specialized expertise and experience.

The board will be composed of no more than 20 members as an appropriate number enabling the board to perform its functions in the most efficient and effective manner. At least one-third (1/3) of the board shall be composed of Outside Directors.

Internal directors will be composed to ensure exhaustive management oversight, centered on the chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), and the business managers.

4. The board will be composed so that the various experience and knowledge of each director can complement the functions of the board overall so that the fiduciary duties of the board overall can be fulfilled.

(Excerpt)

(Construction)

Example 8

Basic Policy on the Selection of Candidates for Directors

(Selection standards)

1. Has outstanding character, insight, high ethical standards, an excellent sense of management, and familiarity with various management issues
2. Has a companywide perspective and excellent objective analysis and judgment abilities.
3. Has excellent foresight and insight, special skills and knowledge, and a wealth of experience.
4. Has the ability to accurately understand the trends of the times, management environment and market changes.
5. Has a strong desire to work towards self-improvement
6. Has the ability to actively voice their opinion from a companywide perspective
7. Does not fall under any of the grounds for disqualification as a director set forth in Article 331, Paragraph 1 of the Companies Act.
8. In the case of outside directors, meets the requirements for independent directors as stipulated by the Tokyo Stock Exchange.

In addition, the following criteria, (1) to (2), must be satisfied.

(1) Eligibility

Possess the following qualities necessary to comprehensively monitor and provide advice on management based on general knowledge regarding corporate management and a fundamental understanding of the principles to be adhered to by directors and the board, with the aim of achieving sustainable growth and improving the medium- to long-term corporate value of the Group in order to fulfill the responsibilities entrusted by the shareholders.

- Ability to discern facts from materials and reports
- Ability to identify problems and risks and apply knowledge to resolve these
- Capacity to appropriately monitor business strategy and provide advice
- Mental independence to openly question, debate, re-examine, continuously deliberate, and propose ideas in opposition to a resolution

(2) Expertise

Must have knowledge in a specialized field such as management, accounting, finance, law, administration, or social/cultural affairs, and have a record of achievement in that field.

(Service industry)

Example 9

[Balance of career and skill required for Outside Director candidates and diversity]

1) For the diversity of Directors, the Nominating Committee Rules for selection standards for Directors state that candidates should “have experience operating an organization in the industrial, government or academic sector or have specialized skills involving technologies, accounting, law or other fields” and “have accomplishments and knowledge in their respective fields for Outside Director candidates.”

2) Candidates should have the character, skill and experience needed for strengthening and upgrading management in order to enable the Board of Directors to determine the Company’s strategic direction.

3) A career and skill matrix for Outside Directors to be reelected and new Outside Director candidates that includes the industries, major management experience, fields of expertise and other characteristics is prepared in order to take into consideration the diversity of careers and skills. The purpose is to receive beneficial oversight and advice concerning the Company’s management issues at the Board of Directors.

4) Outside Director candidates are not excluded from consideration on the grounds of their gender, nationality, country of birth, cultural background, race, or ethnicity.

(Excerpt)

(Electrical appliances)

Chart 60 Keywords Related to Policies for Appointment of Officers

Item	Number of companies	Ratio
Companies complying with Principle 3.1	2,488	100%
Experience	1,405	56.5%
Ability	1,041	41.8%
Knowledge	937	37.7%
Insight	829	33.3%
Character	706	28.4%
Finance and accounting	601	24.1%
Corporate management, corporate manager, etc.	445	17.9%
Balance	404	16.2%
Comprehensive consideration/judgments	402	16.2%
Laws, legal, etc.	404	12.8%
Diversity	237	9.5%
Risk	138	5.5%

Chart 61 Keywords Related to Policies for Dismissal of Officers

Item	Number of companies	Ratio
Companies complying with Principle 3.1	2,488	100%
Dismissal (excluding appointment and dismissal)	1,362	54.7%
Discharge	128	5.1%
Wrong doing	304	12.2%
Violations (violations of laws and regulation or violations of the articles of incorporation, etc.)	632	25.4%

Chart 62 Keywords Related to Procedures for Appointment and Dismissal of Officers

Item	Number of companies	Ratio
Companies complying with Principle 3.1	2,488	100%
Board	2,146	86.3%
Kansayaku, supervisory committee members, etc.	2,012	80.9%
Outside directors	1,169	47.0%
General shareholder meeting	821	33.0%
Nomination committee, etc.	665	26.7%

(5) Explanations with respect to appointment and dismissal and nominations of individual officers

This item requires an explanation of the reasons for the individual appointments, dismissals, and nominations. While the Companies Act requires the reasons for the appointment of outside directors to be stated in the convening notice, this item also requires the reasons for the appointment of internal officers and the reasons for individual dismissals to be explained.

Many companies respond by including this information in the reference documents for the general shareholder meeting. A general example would be something like “the reasons for the nomination of candidates for directors and kansayaku are stated in the reference documents for the general shareholder meeting.” In general, if an officer is dismissed, the reason for dismissal is not usually stated because the majority of officers are shown as being "not reappointed" when their term of office expires. There are few cases where a resolution for dismissal is taken at the general shareholder

meeting, other than for proposals by shareholders themselves.

As for keywords, 86.1% (2,141 companies) mentioned "general shareholder meeting," 76.2% (1,897 companies) mentioned "convening notice (notice of convocation, convocation notice, etc.)," and 31.4% (780 companies) mentioned "reference documents (reference documents for the general shareholder meeting). In addition, some companies directly stated the reasons for appointment of directors and kansayaku in the CG Report as in Example 10.

Example 10

With respect to all candidates for directors and Audit & Supervisory Board members, the Company has clarified "Reasons for Nomination of the Candidate" in relevant proposals for the election of the Notice of the Ordinary General shareholder meeting (Reference Document). The "Reasons for Nomination of the Candidates" for eight directors and one Audit & Supervisory Board member proposed for election at the ●th Ordinary General shareholder meeting are shown below. In addition, reasons for nomination for election of four Audit & Supervisory Board members other than one member identified above out of the five members in the office of the Audit & Supervisory Board members as of the conclusion of the ●th Ordinary General shareholder meeting are also shown below.

[Directors]

●● :

●● has a proven track record in business management and is particularly highly regarded within the marketing field. As a result of this and other factors, the Company invited him to become President and CEO, and in April 2014 he assumed that office. Following his appointment as a director of the Company at the ●th ordinary general shareholder meeting held on June 25 that year, he was selected as representative director by the Board of Directors and since then has undertaken the mandate given by our shareholders to steer the Company's management.

In 2019, which was the second fiscal year of the three-year second phase of the medium-to-long-term strategy VISION 2020, he worked to further accelerate growth of the Company's prestige brands, build the foundation of the supply chain, and implement M&A to respond to consumers' changes, among others, despite an increasing uncertainty in the management environment, so as to realize the Company's transformation "Be a Global Winner with Our Heritage." As a result, the Company achieved a record high in net sales, operating profit, and net profit attributable to owners of the parent company.

Due to these facts and the leadership that enables him to promote reforms, the Board of Directors has continuously selected him as a candidate for director.

(The ●th Ordinary General shareholder meeting)

●● :

Since joining the Company, ● has handled work related to R&D and technology at ● Research Labs (currently ●), and possesses a wealth of experience in this field. After assuming the post of corporate officer, he has served as officer responsible for areas of new growth and technology alliances, and has also been responsible for cosmetics information development and incubation, among other areas. He has thus contributed to the Company's growth. In 2019, he assumed office of Representative Director, Executive Vice President and has assisted in general corporate management, thereby contributing to the Company's sustainable growth. Due to these facts the Board of Directors has continuously selected him as a candidate for director.

(The ●th Ordinary General shareholder meeting)

● (New Appointment):

Since joining the Company, ●● has worked on several brands and new businesses of the Group, and has been responsible for nurturing brands as President of ●●, which is the Company's subsidiary, with extensive experience and expertise in these areas. ●● has also accumulated extensive experience in the marketing of prestige brands, which drive the Company's growth, in Prestige Brands of ●● Co., Ltd. Furthermore, ●● has led ●●●●, which represents the Company's prestige brands, to grow globally in the Company's Global Prestige Brands.

Due to these facts the Board of Directors has newly selected her as a candidate for director.

(The ●th Ordinary General shareholder meeting)

(Excerpt)

(Chemicals)

[Column 6] Status of English-language disclosure

Supplementary Principle 3.1.2 of the Code stipulates that “Bearing in mind the number of foreign shareholders, companies should, to the extent reasonable, take steps for providing English language disclosures.” In particular, disclosure of information in the English language is desirable for companies with a high percentage of foreign shareholders. However, the compliance rate with Supplementary Principle 3.1.2 is 79.7%, which is comparatively low. In terms of the reason for not complying, the principal reason was that “English versions are not prepared because the current ratio of foreign investors is low, but that compliance would be considered in the future if this ratio increases.”

The status of English-language disclosure on TSE First Section (as of the end of December 2020)⁴⁷ is 55.5% for summary of financial statements and 50.3% for convening notices. Furthermore, the percentage of English-language disclosure is low, at 16.7% for CG reports and 8.6% for annual securities reports. As a result, many overseas institutional investors have called for an increase in the number of companies that provide English-language disclosure of information, as well as for an increase in the actual amount of information disclosed in English. In addition, some investors are concerned about delays to the publication of English language disclosures.

According to the "Survey on the Current Status of General Shareholder Meetings" released by the National Association of Shareholder Affairs (Kabukon) in October 2020, 47.8% of companies have traditionally prepared English translations of their convening notices (including the preparation of partial English translations of convening notices), and 2.5% prepared English translations of their convening notices for the first time in 2020 (including the preparation of partial English translations of convening notices). However, there has not been much progress among these companies in efforts to disclose English language information. In terms of reasons for not translating information into English, the largest percentage of responses (87%) was that the ratio of overseas investors is low, followed by cost (23%) and lack of time (17%).

It is desirable for all companies to *actively disclose information in English to a reasonable extent, taking into account factors such as the ratio of overseas investors in their shareholding base.*

In addition, the concept of the Prime Market, which is due to be launched by TSE in April 2022, is “a market for companies whose market capitalization (liquidity) is large enough to attract investments from many institutional investors, that also have a high quality of corporate governance, as well as a commitment to sustainable growth and medium-to-long term improvement of corporate value with a focus on constructive dialogue with investors.” In particular, companies listed on the Prime Market are expected to disclose more information in English as a prerequisite for engaging in dialogue with overseas institutional investors.

⁴⁷ TSE List of Status of Implementation of English-language Disclosure

4. Responsibilities of the board

Section 4 of the Code clarified the responsibilities of the board as follows

[General Principle 4]

Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid- to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:

- (1) Setting the broad direction of corporate strategy;
- (2) Establishing an environment where appropriate risk-taking by the senior management is supported; and
- (3) Carrying out effective oversight of directors and the management (including *shikkoyaku* and so-called *shikkoyakuin*) from an independent and objective standpoint.

Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with Kansayaku Board (where a part of these roles and responsibilities are performed by kansayaku and the Kansayaku Board), Company with Three Committees (Nomination, Audit and Remuneration), or Company with Supervisory Committee.

Each principle in Section 4 then shows the effective framework for appropriately fulfilling those roles and responsibilities. It has been necessary to describe matters in the CG Report such as the reasons for selecting the organizational form and current structure, the composition of the board and the appointment status of independent directors, and frameworks such as committees related to nomination, remuneration, and audit.

In this chapter, we will analyze the corporate governance structure centered around the board in terms of the organizational form and composition of the board and each committee in the same manner as the previous surveys, and also conduct an analysis of the disclosures pursuant to each principle in Section 4 of the Code.

4-1 Organizational form

Looking at the organizational forms of companies, 67.9% (2,495 companies) of TSE-listed companies are Companies with Kansayaku Board, followed by Companies with Supervisory Committee, an organizational form introduced with the revision of the Companies Act in 2015 (1,106 companies, 30.1%) and Companies with Three Committees (76 companies, 2.1%) (Chart 63)

In terms of market division, Companies with Kansayaku Board accounted for the highest percentage in each market division, followed by Companies with Supervisory Committee and Companies with

Three Committees, which is also the same for each market division. However, for JPX-Nikkei 400 companies, the percentage of Companies with Three Committees is high at 8.3%. There is a slightly high number (35.6%) of Companies with Supervisory Committee in TSE Second Section (Chart 63).

As for the relation with foreign shareholding ratios, the percentage of companies that are Companies with Three Committees is higher as the foreign shareholding ratio increases, and 8.3% of companies with 30% or more foreign shareholders adopted the form of Company with Three Committees (Chart 64).

Chart 63 Organizational Form (by Market Division)

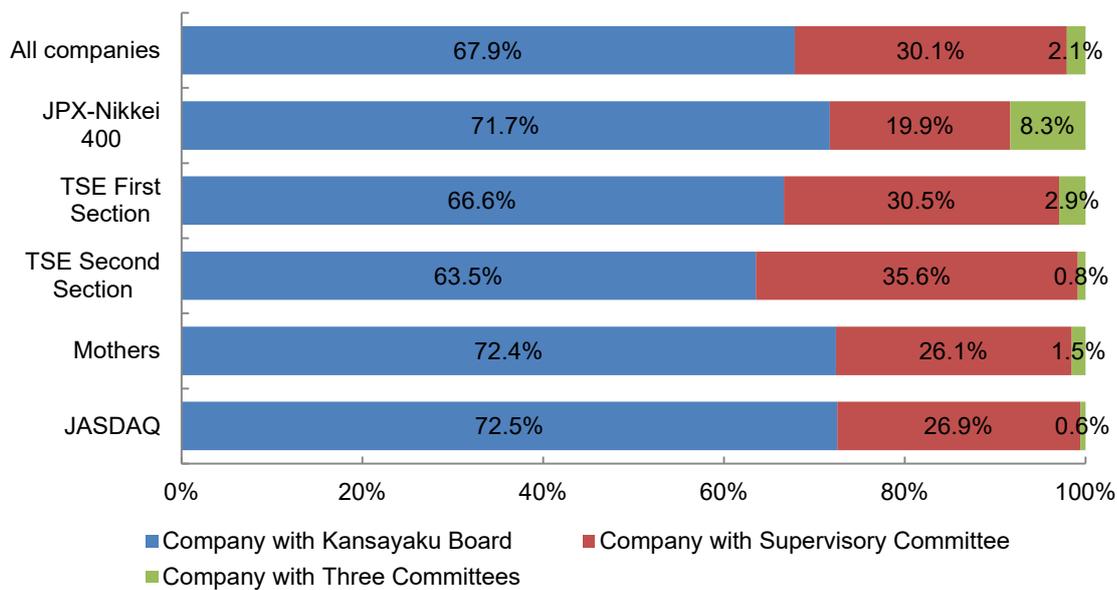
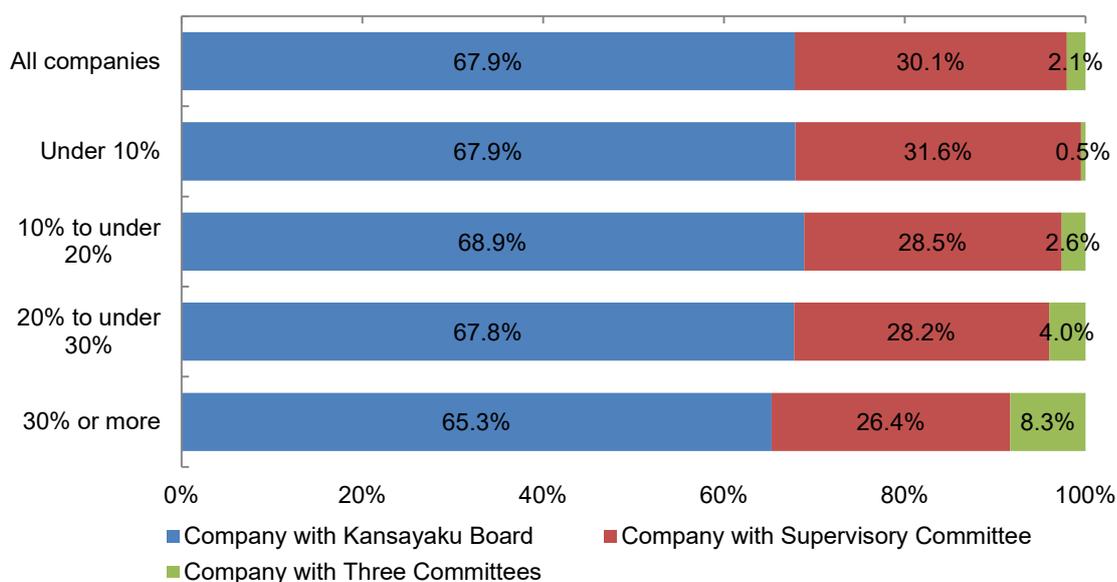


Chart 64 Organizational Form (by Foreign Shareholding Ratio)



4-2. Overview of current corporate governance system

In the “overview of the current corporate governance system” of the CG Report, listed companies are required to provide a detailed overview of the current system of governance including the board, such as business execution, method of audit and oversight, as well as the details of additional measures aimed at enhancement of business execution, the oversight function, etc.

Among Companies with Kansayaku Board (2,495 companies), 49.5% (1,234 companies) mentioned “management meetings” and 5.7% (142 companies) mentioned the “board of executive officers” as swift decision-making structures other than the board. They seem to be positioned at the stage prior to discussions at the board meetings. In addition, 56.2% (1,401 companies) stated that they introduced a “*shikkoyakuin* system” [often translated as executive officer or corporate officer system] in order to promote the separation of the supervision and executive functions. 26.5% (661 companies) mentioned the establishment of an internal control-related committee such as a “compliance” or “risk management” committee.

In the case of Companies with Supervisory Committee (1,106 companies), 49.8% (551 companies) mentioned “management meetings,” 5.6% (62 companies) mentioned “board of executive officers,” and 51.3% (567 companies) mentioned a “*shikkoyakuin* system.” 28.9% (320 companies) mentioned the establishment of an internal control-related committee such as a “compliance” or risk management” committee, which is nearly the same percentage as for Companies with Kansayaku Board.

Looking at Companies with Three Committees (76 companies), 44.7% (34 companies) mentioned “management meetings” and 0% (0 companies) mentioned a “board of executive officers”. Companies with Three Committees have a statutory *shikkoyaku* system, but only 30.3% (23 companies) mentioned the “*shikkoyakuin* system”. 34.2% (26 companies) mentioned the establishment of an internal control-related committee such as a “compliance” or “risk management” committee.

With regard to auditing by kansayaku at Companies with Kansayaku Board, 12.6% (315 companies) mentioned “audit system”, and disclosed matters such as the numbers of inside and outside directors, and full-time kansayaku. In addition, 20.4% (508 companies) mentioned “audit policy”, and 7.2% (179 companies) mentioned “audit standards”, and there were many companies that mentioned that audits were conducted based on corporate audit standards. In addition, some companies mentioned the frequency of Kansayaku Board meetings and the activities of individual kansayaku such as attendance at important meetings, document review, and visits to subsidiaries for auditing. In addition, there were companies that mentioned the establishment of a Kansayaku Office in an effort to improve the completeness and effectiveness of kansayaku operations, and companies that mentioned that audits were conducted based on audit policies and audit standards.

In relation to audits by the Supervisory Committee at Companies with Supervisory Committee, 8.2% (73 companies) mentioned “audit system”, 14.3% (127 companies) mentioned “audit policy”, and 2.0% (18 companies) mentioned “audit standards”.

In relation to audits by the Audit Committee at Companies with Three Committees, 15.5% (11 companies) mentioned “audit system”, 15.5% (11 companies) mentioned “audit policy”, and 5.6% (4

companies) mentioned “audit standards”.

In terms of the audit system for Companies with Supervisory Committee and Companies with Three Committees, there are many disclosures on the composition of the Supervisory Committee or Audit Committee including the numbers of inside and outside directors, and there were also descriptions of audits on the execution of duties of directors, as well as descriptions of attendance at important meetings such as the board based on the audit policies and audit standards stipulated by the Supervisory Committee/Audit Committee by each committee member. In addition, many companies mentioned the assignment of full-time staff in a Supervisory Committee Office in order to strengthen the audit function.

4-3. Reasons for adoption of current corporate governance system

The CG Report classifies companies by organizational form into Companies with Kansayaku Board, Companies with Supervisory Committee, or Companies with Three Committees; and requires Companies with Kansayaku Board to state whether they have outside directors and to describe reasons for adopting the current governance structure, including the board in relation to the governance structure composition.

(1) Companies with Kansayaku Board

The CG Report requires Companies with Kansayaku Board (2,453 companies) that appointed outside directors to explain reasons for adopting such a structure in the context of their current situations, and to describe such matters as roles and functions of outside directors. There were many disclosures that described the roles and functions of outside directors as oversight of business execution and the provision of advice to ensure the appropriateness of decision-making from a position independent from the management team.

Companies with Kansayaku Board that do not have outside directors are also required to explain reasons for adopting such a governance structure in the context of their current situations, and for listed companies that are large companies under the Companies Act, it is necessary to state the reason why it would not be appropriate to have outside directors.⁴⁸ There are 42 Companies with Kansayaku Board that do not have outside directors, which is 1.7% of listed companies that are Companies with Kansayaku Board.

In terms of disclosures for such companies that do not have outside directors, reasons that were mentioned included that it was difficult to appoint qualified people who fulfilled the requirements, the current board of directors was efficient and enabled prompt decision making in consideration of the size of the company, the mutual check function of the board was sufficient, and committees related to

⁴⁸ TSE has amended its rules to require listed companies to have at least one outside director, effective March 1, 2021 (effective from the day after the date of the ordinary general meeting of shareholders for the fiscal year ending on or after the effective date).

internal control such as compliance or risk management committees worked on strengthening governance. Another reason offered is that the appointment of outside directors without deep industry knowledge or sufficient knowledge of management would result in decision-making not suitable for the actual situation, causing a deterioration in the function of the board and wasteful costs.

(2) Companies with Supervisory Committee

As specific reasons for adopting the form of Company with Supervisory Committee, the Reporting Guidelines include the following examples: comparative advantage over a Company with Kansayaku Board 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 Supervisory Committee (1,106 companies) adopted this form, many companies mentioned “outside” in terms of strengthening the oversight function with outside directors (65.5% (724 companies)). On the other hand, there were comparatively few Companies with Supervisory Committee than Companies with Three Committees that mentioned matters such as speeding up the decision-making process (52.7% (583 companies) mentioned “decision”), speeding up business execution with delegation of authority (12.7% (141 companies) mentioned “authority”), clear separation of oversight and business execution (9.8% (108 companies) mentioned “separation”), and strengthening of the execution function (6.0% (66 companies) mentioned “execution function”).

(3) Companies with Three Committees

As specific reasons for adopting the form of Company with Three Committees, the Reporting Guidelines provide examples in the same manner as for Companies with Supervisory Committee.

A keyword analysis of reasons why Companies with Three Committees (76 companies) adopted this form, shows that the percentage of companies mentioning the separation of oversight and business execution was higher compared to Companies with Supervisory Committee mentioned above. Reasons that were commonly mentioned by companies include speeding up the decision-making process (60.5% (46 companies) mentioned “decision”), the strengthening of the oversight function with outside directors (61.8% (47 companies) mentioned “outside”), clear separation of oversight and business execution (61.8% (47 companies) mentioned “separation”), speeding up business execution with delegation of authority (28.9% (22 companies) mentioned “authority”), and strengthening of the execution function (15.8% (12 companies) mentioned “execution function”).

4-4. Directors and the board

(1) Term of directorships in the articles of incorporation

Article 332, Paragraph 1 of the Companies Act stipulates that the term of directorships shall, in principle, continue within two years from the time of their election. However, it also provides for

shortening the term of directorships by the articles of incorporation or by a resolution of a general shareholder meeting. Recently, in order to respond flexibly to changes in the management environment, there has been an increase in Companies with Kansayaku Board specifying the term of directorships to be one year for the purpose of strengthening the corporate governance structure by clarifying management responsibility and gaining the trust of shareholders every year.

In this survey, among TSE-listed Companies with Kansayaku Board, 62.4% of the companies specifies their terms of directorships at one year (Chart 65). The percentage of such companies in each market division is 71.0% in TSE First Section, 53.4% in TSE Second Section, 41.5% in Mothers, and 53.1% in JASDAQ (Chart 66). Out of JPX-Nikkei 400 companies, companies which specify their terms of directorships at one year accounted for 80.6%, 9.6 points higher than that of TSE First Section. In terms of consolidated sales, the top category of 85.8% 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 67). In terms of foreign shareholding ratio, the ratio is high for the “30% or more” category and “20% to less than 30%” category (77.7% and 76.4%, respectively), showing a decreasing proportion of companies with a lower percentage of foreign shareholdings (Chart 68).

Chart 65 Term of Directorships in the Articles of Incorporation (Companies with Kansayaku Board)

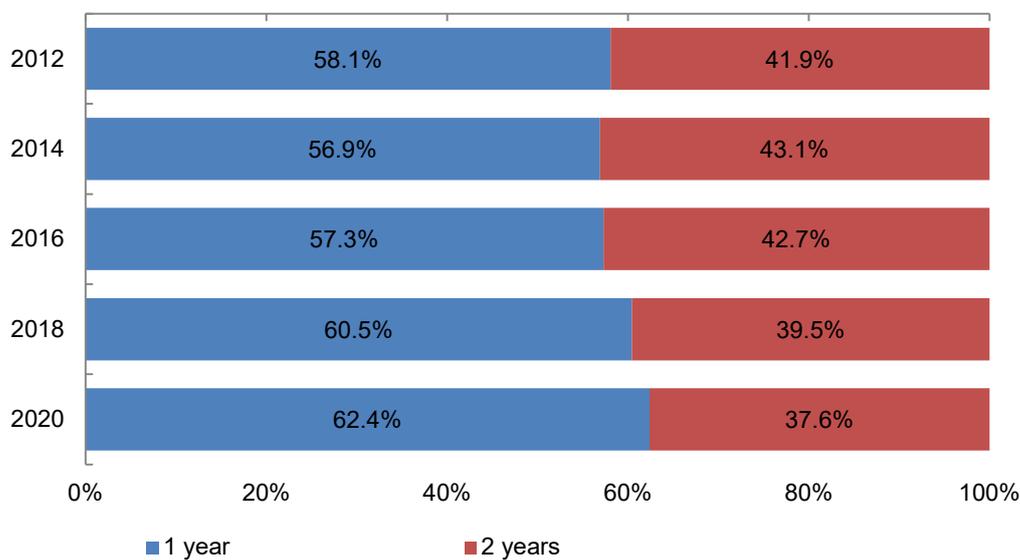


Chart 66 Term of Directorships in the Articles of Incorporation (by Market Division)

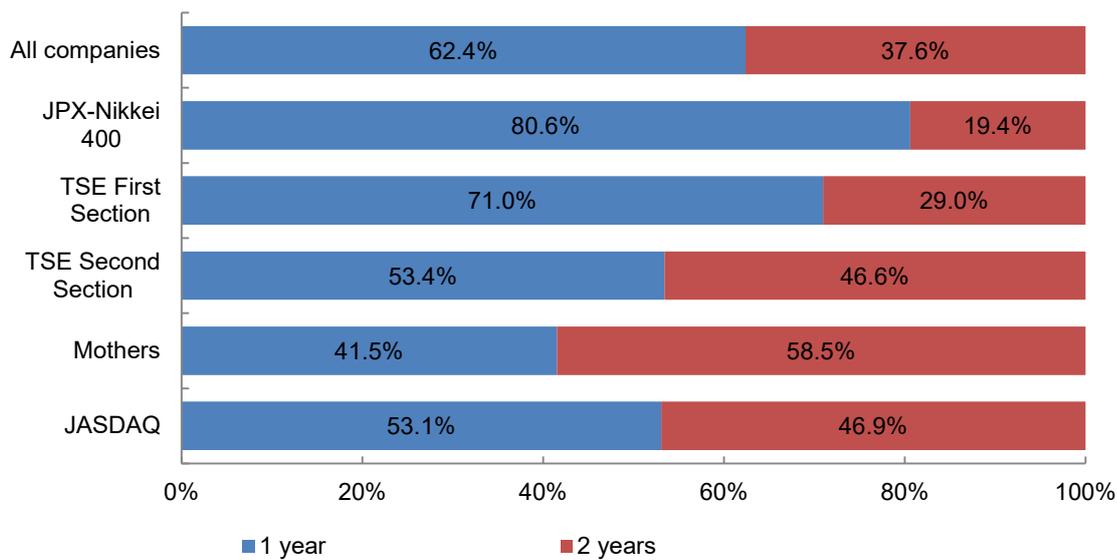


Chart 67 Term of Directorships in the Articles of Incorporation (by Consolidated Sales)

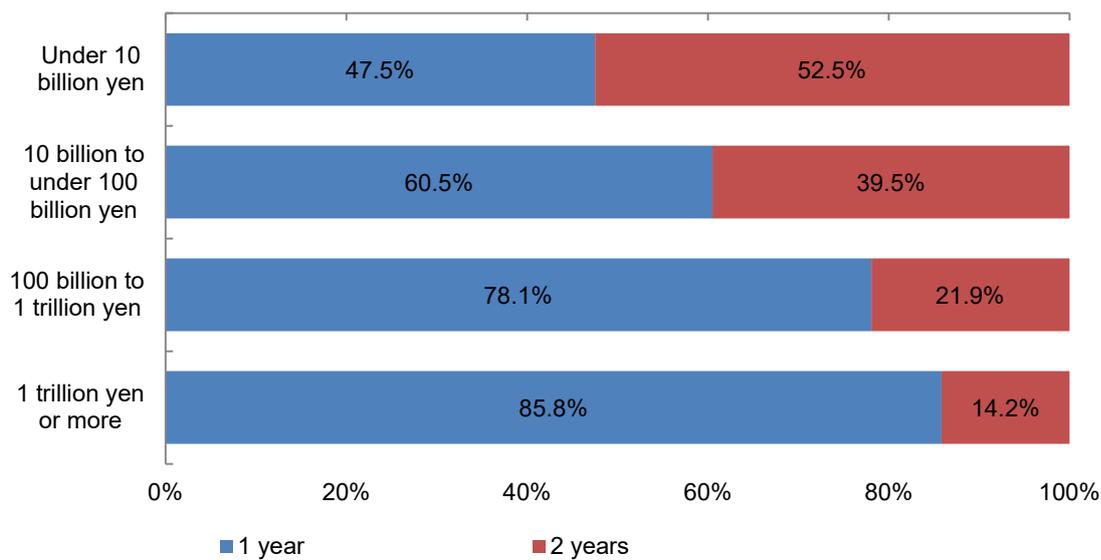
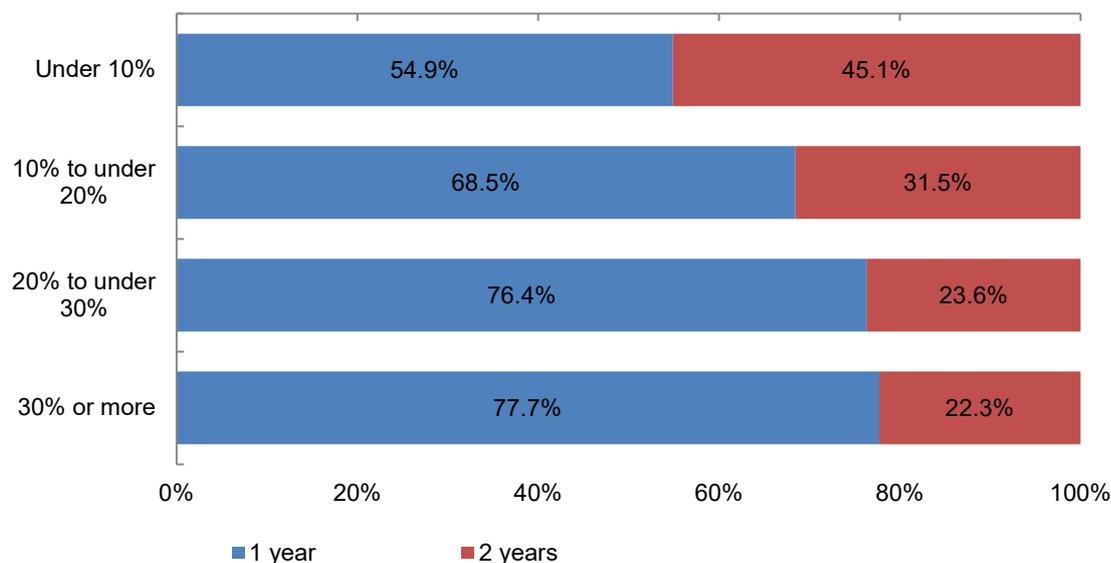


Chart 68 Term of Directorships in the Articles of Incorporation (by Foreign Shareholding Ratio)



(2) Attributes of chairperson of the board

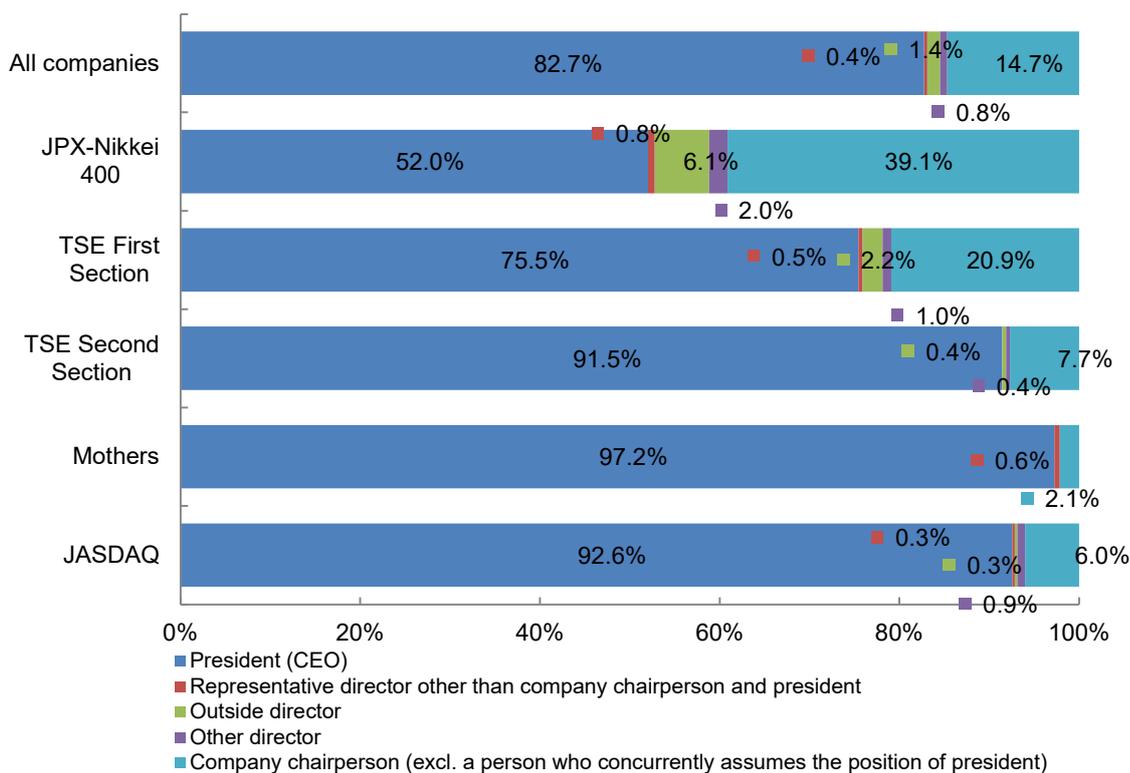
Concerning chairperson of the board, the CG Report requires each company to inform whether or not a chairperson exists, and an attribute of the chairperson, if any, by choosing one of the following: (1) president (shacho), (2) company chairperson⁴⁹, (3) representative director other than company chairperson/president, (4) outside director, (5) other director, or (6) not applicable.

All TSE-listed companies have a chairperson of the board, and as for attributes of the chairperson of the board, the board is chaired by president in 82.7% of TSE-listed companies (Chart 69), which is the highest percentage. In addition, the company chairperson accounts for 14.7%, meaning that either the president or the company chairperson chairs the board in 97.4% of companies, almost all of the listed companies. The percentage of companies chaired by the company chairperson is 20.9% for TSE First Section companies and 39.1% for JPX-Nikkei 400 companies, which is noticeably higher than other market segments.

Although some investors have increasingly called for the board to be chaired by an outside director in order to stimulate discussions by the board and strengthen the oversight function of the board through the separation of oversight and business execution, the percentage of companies with a board chaired by an outside director in this survey was 1.4%, so this will be a future issue. In this regard, out of JPX-Nikkei 400 companies, the percentage of companies chaired by an outside director is 6.1%, which is higher than other types of companies.

⁴⁹ Excluding a person who concurrently assumes the position of president.

Chart 69 Attributes of Board Chair (by Market Division)



(3) Average number of directors

In this survey, the overall average number of directors per TSE-listed company was 8.14 persons. The number of directors had been on an increasing trend up to the last survey, but showed a decrease in this survey.

At Companies with Kansayaku Board, the average number of directors has decreased from 7.96 persons (2014) to 7.67 persons (2020). Meanwhile, the average number of outside directors has increased from 1.90 persons (2016) to 2.29 persons (2020) and the average number of independent directors has increased from 1.76 persons (2016) to 2.03 persons (2020).

By market segment, the number of directors per company decreased in the First Section and Second Section, to 8.94 and 7.67, respectively, and increased in Mothers and JASDAQ, to 6.17 and 6.92, respectively (Chart 70). In addition, looking at results by consolidated sales, the number of directors tends to increase according to the size of the company (Chart 71).

Chart 70 Number of Directors (by Market Division)

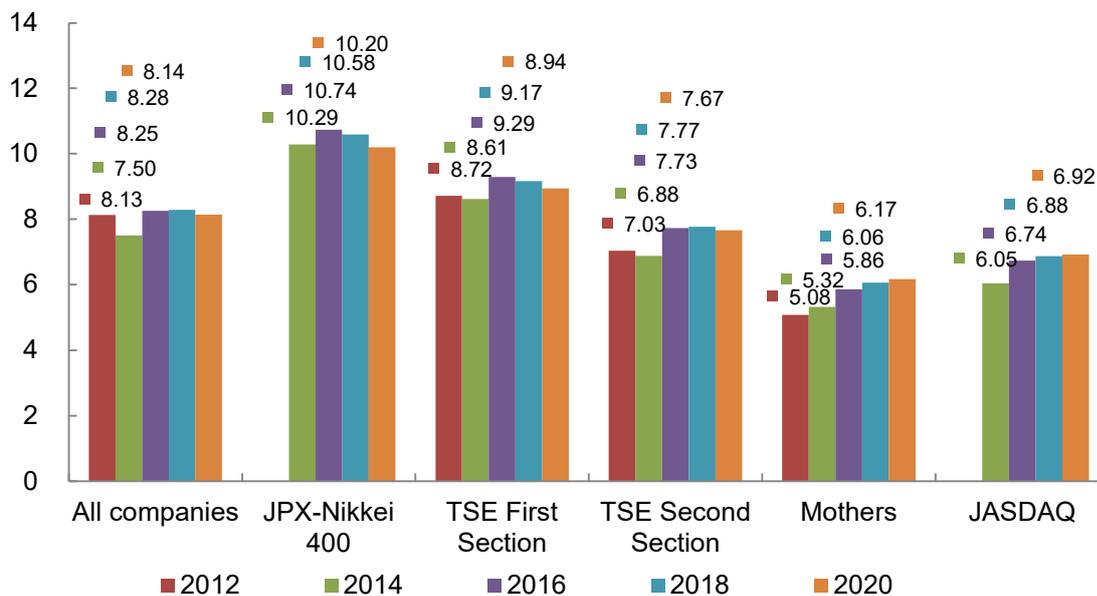
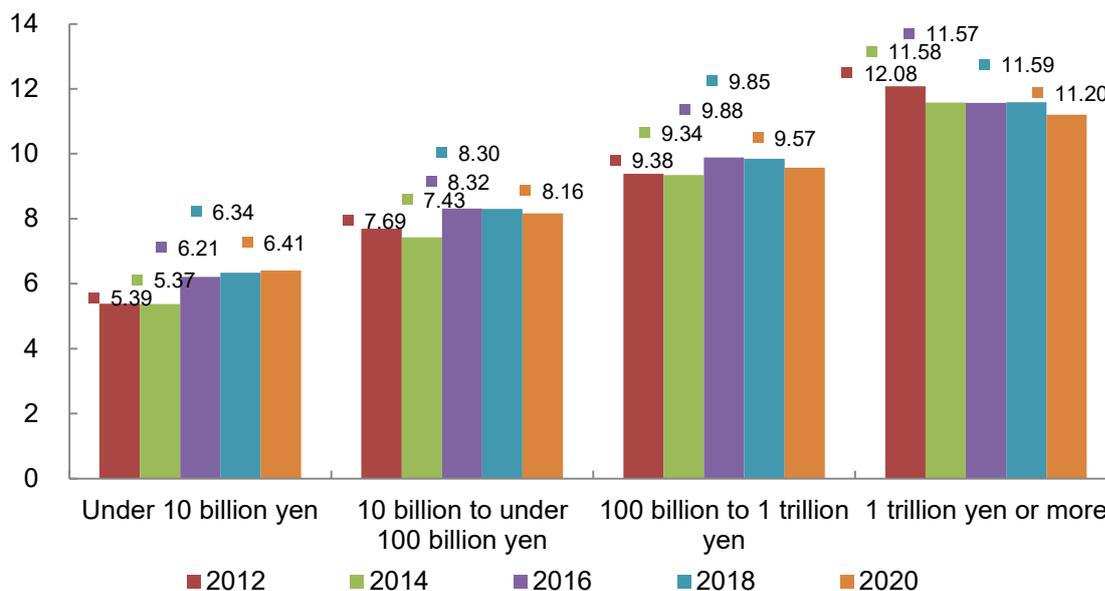


Chart 71 Number of Directors (by Consolidated Sales)



4-5. Implementation of initiatives to offer incentives

The CG Report requires disclosure of the “state of implementation of initiatives to offer incentives to directors.” This is because it is believed that providing directors with incentives linked to the improvement of mid to long-term corporate value and aligning the interests of directors, etc. and general shareholders enables the development of an environment in which the board supports appropriate risk taking by directors, etc.

Specifically, for companies that introduced a performance-linked remuneration system, it has become preferable to provide supplementary explanations on the indicators related to the

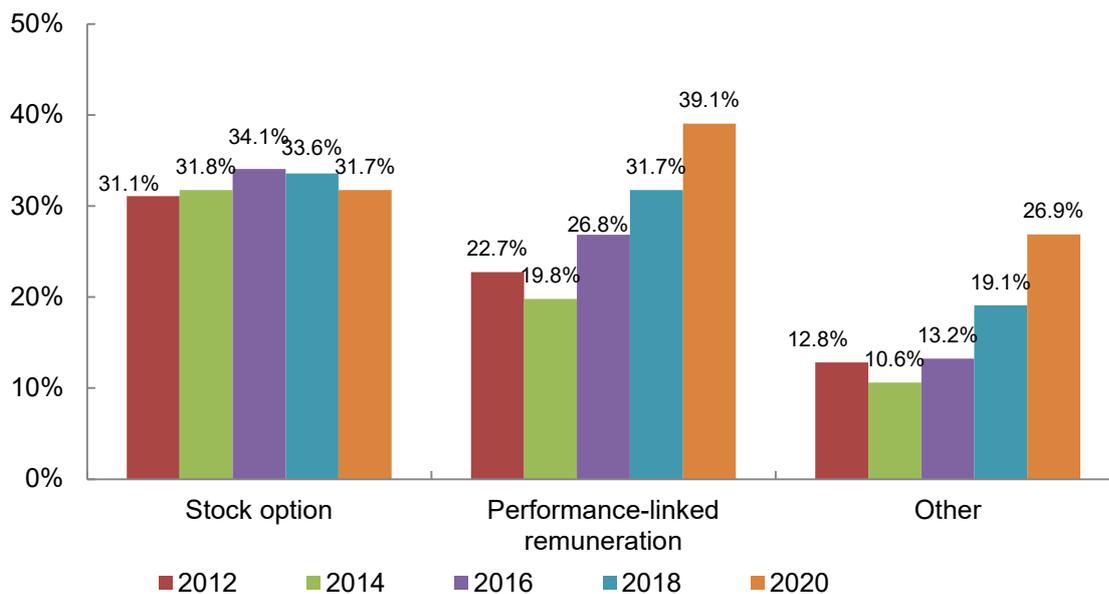
performance-linked remuneration, the reason for the selection of the indicators, and the method for deciding on the amount of performance-linked remuneration. In addition, when a policy related to deciding on the payment ratio of performance-linked remuneration and remuneration, etc. other than performance-linked remuneration has been prescribed, it is preferable to provide supplementary explanations on the details of such policy. In addition, if a stock option plan has been introduced, it is preferable to provide supplementary explanations on the total amount and the approach toward the individual payment levels.

(1) Overview of initiatives related to incentives

Companies which implemented certain initiatives to offer incentives accounted for 76.5% of TSE-listed companies. Regarding each category of initiatives to offer incentives, stock option plans are introduced in 31.7% of TSE-listed companies, while performance-linked remuneration systems and other initiatives are introduced in 39.1% and 26.9% respectively (Chart 72).

3,672 companies (99.9% of all) provided supplementary explanations on implementing initiatives to offer incentives.

Chart 72 Implementation of Initiatives to Offer Incentives



(2) Introduction of stock option plans

31.7% of TSE-listed companies have introduced stock option plans. In terms of market division (Chart 73), companies listed on Mothers showed a remarkably higher ratio, 85.0%, than those listed on TSE First Section (28.6%), TSE Second Section (18.3%), and JASDAQ (25.8%). Among JPX-Nikkei 400 companies, those adopting stock option plans accounted for 30.1%, 1.5 points higher than that of TSE First Section. In terms of consolidated sales, the percentage of companies that have adopted stock option plans increases the lower the level of sales (Chart 75).

Chart 73 Implementation of Initiatives to Offer Incentives (by Market Division)

	Stock option	Performance-linked remuneration	Other
All companies	31.7%	39.1%	26.9%
JPX-Nikkei 400	30.1%	72.7%	36.6%
TSE First Section	28.6%	52.6%	31.4%
TSE Second Section	18.3%	28.3%	20.4%
Mothers	85.0%	8.9%	20.2%
JASDAQ	25.8%	18.5%	20.5%

Chart 74 Implementation of Initiatives to Offer Incentives (by Foreign Shareholding Ratio)

	Stock option	Performance-linked remuneration	Other
All companies	31.7%	39.1%	26.9%
Under 10%	33.0%	28.2%	22.9%
10% to under 20%	28.0%	46.7%	30.9%
20% to under 30%	27.1%	58.4%	32.5%
30% or more	38.9%	65.0%	35.3%

Chart 75 Implementation of Initiatives to Offer Incentives (by Consolidated Sales)

	Stock option	Performance-linked remuneration	Other
All companies	31.7%	39.1%	26.9%
Under 10 billion yen	49.6%	14.4%	19.1%
10 billion to under 100 billion yen	26.0%	38.2%	27.1%
100 billion to 1 trillion yen	24.2%	61.6%	33.3%
1 trillion yen or more	24.1%	84.2%	39.2%

In the supplementary explanations regarding stock options, there were 138 companies that mentioned the connection with “mid to long-term” corporate value as also indicated in the Code. Specifically, many companies stated that stock options were granted in order to increase the motivation to increase corporate value over the mid- to long-term and to promote the sharing of interests with shareholders.

153 companies stated that they provided stock options as “incentives”, and many companies stated that they use stock options for the purpose of clarifying incentives for performance.

68.3% of the companies have not adopted such stock option plans, and reasons for not adopting stock option plans include the following: a plan will not be introduced because the company aims to increase corporate value stably over the mid to long term rather than aiming for short-term increases in profits or the stock price; stock options will be considered in the future if it is deemed that acquiring

human resources and improving incentives for directors would improve corporate value; and while stock options are believed to be an effective system, no stock options have been currently issued.

(3) Implementation of performance-linked remuneration system

39.1% of TSE-listed companies have introduced a performance-linked remuneration system. In terms of the results by market division, 52.6% of companies listed on TSE First Section have introduced a performance-linked remuneration system, showing a higher ratio compared with TSE Second Section (28.3%), Mothers (8.9%), and JASDAQ (18.5%) (Chart 73). Among JPX-Nikkei 400 companies, those adopting performance-linked remuneration systems accounted for 72.7%, 20.1 points higher than that of TSE First Section.

In addition, the higher the foreign shareholding ratio, the more likely companies are to have implemented a performance-linked remuneration system (Chart 74). In terms of a relation with company size, companies with larger consolidated sales tend to show a higher ratio of implementing a performance-linked remuneration system (Chart 75). As specific examples, some companies have introduced board benefit trust remuneration and stock remuneration-type stock options in accordance with the degree of attainment of performance targets in the medium-term management plan. There were also companies that only provide performance-linked remuneration and stock remuneration-type stock options to executive directors, and that do not grant such remuneration and stock options to outside directors in order to ensure independence.

Since the Ministry of Economy, Trade and Industry released a guide on the introduction of restricted stock as a new form of stock remuneration for officers in April 2016⁵⁰, an increasing number of companies have introduced this. Restricted stock is provided to officers as remuneration in the form of actual stock with transfer restrictions for a fixed period of time. 681 companies mentioned this.

There were also companies that set KPIs (key performance indicators) and pay performance-linked remuneration based on the degree of attainment.

(4) Persons eligible for stock options

The CG Report requires companies implementing stock option plans to specify eligible persons by selecting 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).

Chart 76, Chart 77 and Chart 78 show the composition of eligible persons, when the sample is limited to TSE-listed companies with stock option plans. Excluding Companies with Three Committees, it is found that the percentage of the companies that offer their stock option plans to inside directors was highest (95.1% of Companies with Kansayaku Board, and 95.0% of Companies with Supervisory Committee). Among Companies with Three Committees, the percentage of companies that offer their

⁵⁰ Guidebook for Introducing New Stock-based Compensation (“Restricted Stock”) as Board Members’ Compensation to Encourage Companies to Promote Proactive Business Management

stock option plans to *shikkoyaku* was highest (88.9%). This was followed by employees (73.2% of Companies with Kansayaku Board and 78.0% of Companies with Supervisory Committee and 66.7% for Companies with Three Committees).

Chart 76 Eligible Persons for Stock Options (Companies with Kansayaku Board; with Stock Option Plans)

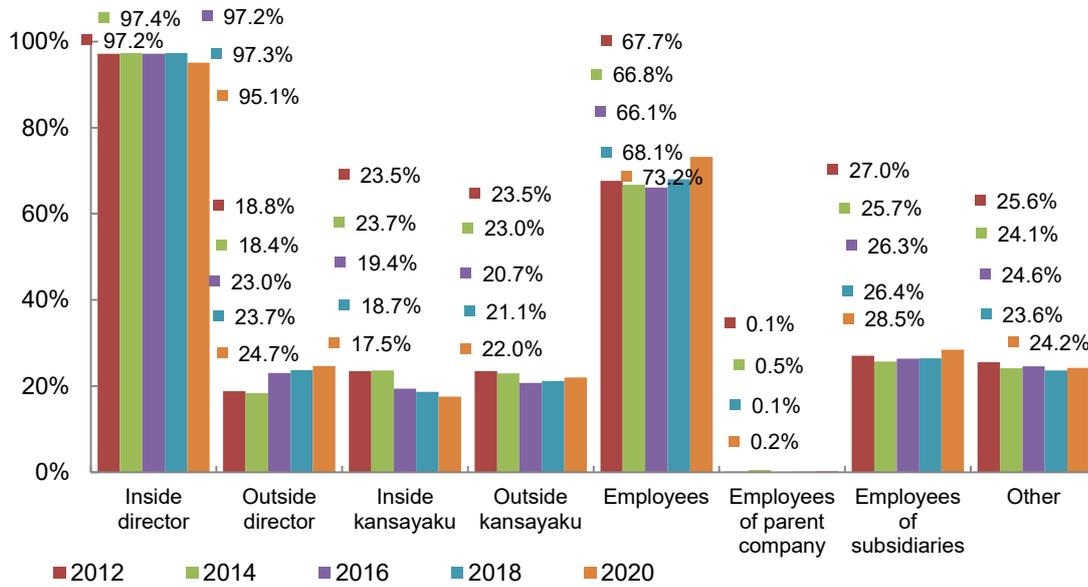


Chart 77 Eligible Persons for Stock Options (Companies with Supervisory Committee; with Stock Option Plans)

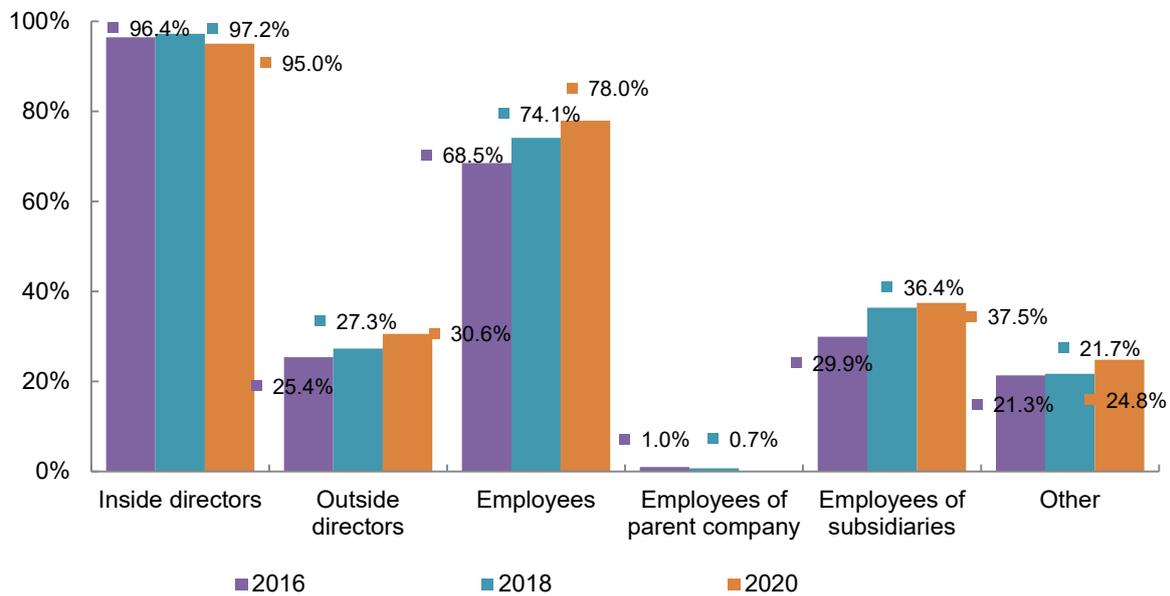
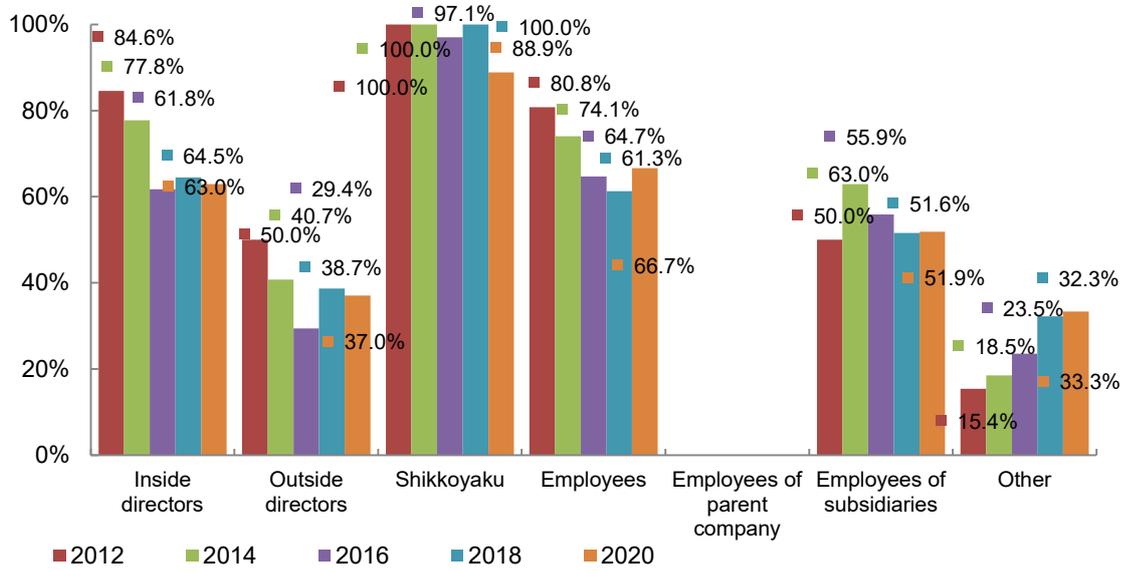


Chart 78 Eligible Persons for Stock Options (Companies with Three Committees; with Stock Option Plans)



4-6. Scope of matters delegated to the management (Supplementary Principle 4.1.1)

Principle 4.1 stipulates that “The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities. It should engage in constructive discussion with respect to specific business strategies and business plans.” In addition, Supplementary Principle 4.1.1 requires the board to specify and disclose its own decisions as well as both the scope and content of the matters delegated to the management. The compliance rate with Supplementary Principle 4.1.1 is 99.7% (2,643 companies). For most companies, the board stipulates its own resolutions in the internal regulations such as rules of the board of directors, and approval authority regulations, and only a very small number of companies do not comply with this supplementary principle.

However, it has been pointed out that matters regarding basic business strategies and business plans and matters concerning the oversight function have not been sufficiently discussed at the board of companies in Japan. This supplementary principle requires the clarification of the roles and responsibilities of the board in the decision-making system for companies. As many companies appoint multiple directors and the oversight function towards the management team in the board gets even stronger than before, it is becoming even more important than before to clarify and implement the roles that should be fulfilled by the board.

A common type of disclosure by companies regarding this supplementary principle would be “The Company has established Board Rules, and matters prescribed in laws and regulations and the articles of incorporation, as well as important matters related to business execution, are determined through a resolution by the board.” In analysis of actual keywords, 81.6% (2,158 companies) mentioned “rules and regulations, etc.”, 67.2% (1,777 companies) mentioned “laws and regulations, etc.”, and 52.6% (1,390 companies) mentioned “articles of incorporation”. In addition, 32.9% (870 companies) mentioned “duty authority”, 21.4% (566 companies) mentioned “approval (approval authority/approval standards)”, and 5.9% (155 companies) mentioned “agenda standards”. This suggests that many companies have clarified the roles and responsibilities of the board of directors based on laws and regulations, the articles of incorporation, various internal rules, approval authority, etc.

In addition, there were some companies that clearly stated a separation of roles between the board and the management team, such as the establishment of a *shikkoyakuin* system or management meeting. 31.4% (831 companies) included the keyword “*shikkoyakuin*”, while 25.8% (682 companies) included the keyword “meeting (management meeting/*shikkoyakuin* meeting, etc.)”.

The number of companies including keywords such as “business strategies” and “business plans” that are items that should be decided on and determined by the board according to the Code was 11.6% (307 companies) for “strategy (business strategy, etc.)” and 17.9% (474 companies) for “plan (management plan/business plan)”. This is low in comparison to the number of companies that included keywords such as laws and regulations, the articles of incorporation, and various internal rules, which suggests that only some companies disclose the specific matters decided on by the board.

Looking at individual disclosure examples, Example 1 mentions the separation of supervision and business execution through the introduction of a *shikkoyakuin* system, and clarifies the roles and responsibilities of the board including the overall stance of the company by specifically describing the matters decided on by the board. Example 2 is a case of the specific internal regulations being clearly indicated. The company has disclosed the detailed standards including monetary standards for matters for a resolution by the board and matters delegated to the representative director, etc. It can be said that by clarifying the specific numerical standards, this clearly indicates the division of roles for the board and the management team for shareholders, investors, etc. In Example 3, the duties of the board are set forth in the guidelines, and the details are reflected in the decision-making standards and disclosed. While only 16 companies (0.6%) mention the “vision”, but in all these cases, the companies clearly state in their guidelines and decision-making standards that the board is involved in management strategy and long-term vision. In addition, these disclosures show the companies’ approach in the exercise of the supervisory function with respect to the progress of the management plan.

Example 1

The Company has introduced an executive officer [*shikkoyakuin*] system that separates oversight and business execution in order to conduct highly effective oversight from an objective and independent standpoint by the board. In order to achieve the sustainable growth of the Group and medium to long-term improvements in corporate value, the board decides on important management matters including basic management policies, management strategies, medium-term management plans, annual management plans, and capital policies, and delegates specific business execution to the management team. The board delegates decisions on individual business execution matters to the management committee, excluding matters stipulated by laws and regulations and decisions on important business execution matters. These classifications are clarified in the internal regulations.

(Fisheries, agriculture, and forestry)

Example 2

(Excerpt)

The internal regulations (approval regulations) stipulate that matters such as alterations to building equipment, the purchase of fixtures, vehicles, etc., the purchase or disposal of important or large quantities of operating assets, and the acquisition of LP gas sales rights for 200 million yen or more are matters for resolution by the board, while such matters for amounts not exceeding 200 million yen are matters for the CEO or other bodies depending on the amount. In addition, writing off or waiving of bad debts, indemnification and compensation for damages, obligation guarantees and pledging collateral, etc. for amounts of 30 million yen or more are matters for resolution by the board, while such matters for amounts of less than 30 million yen are matters for the CEO or other bodies depending on the amount. (Wholesale trade)

Example 3

The Company shall stipulate in the Guidelines the following duties, such that are to be carried out by the Board of Directors which is to consist of a diverse range of Directors who are to be accordingly appointed based on the aforementioned policy for nomination.

(1) Set strategic direction by examining and deciding upon matters relating to the Company's business policy and strategy including business principles, corporate vision and medium-term management plan;

(2) Conduct multifaceted and close examinations of those matters which are prescribed to be decided upon by the Board of Directors, from an independent and objective standpoint in light of the Company's business policy and business strategy, and receive reports on those matters which are required to be reported to the Board of Directors;

(3) Conduct multifaceted and close examinations of proposals from the Executive Officers [i.e. *shikkoyakuin*] based on healthy entrepreneurship, from an independent and objective standpoint, in order to establish an environment that supports appropriate risk taking by the Directors and the Executive Officers, and support the timely and bold decision-making by the Directors and the Executive Officers when approved plans are implemented;

(4) Oversee the execution by the Directors and the Executive Officers of their duties from an independent and objective standpoint; monitor the progress of the management plan and evaluate the status of achievement; analyze the causes if the management plan is not achieved and reflect such analysis on future plans and disclose said causes of non-achievement and analysis to the shareholders;

(5) Develop and improve the risk management system and the corporate governance structure including the internal control system in order to ensure the rationale of the Company's decision-making process;

(6) Secure its fiduciary accountability to the shareholders on the Company's management, and oversee the Directors in order to ensure that information will be disclosed in a timely and accurate manner.

As such, the Regulations on Decision-Making Standards shall limit matters to be determined by the Board of Directors to those listed under items 'i.' to 'vi.' as follows, and decisions on matters of business execution otherwise shall be entrusted to the Executive Officers.

i. Matters to be decided upon by the Board of Directors under laws and regulations;

ii. Matters relating to the Company's business policy and strategy including business principles, corporate vision and medium-term management plan, strategic direction of the Company, and a single-year budget;

iii. Important internal rules including Regulations on Decision-Making Standards;

iv. Response guidelines to deal with any serious law violation committed by the Company;

v. Matters relating to significant lawsuits;

vi. Significant matters comparable to any of the matters set forth above.

(Shipping)

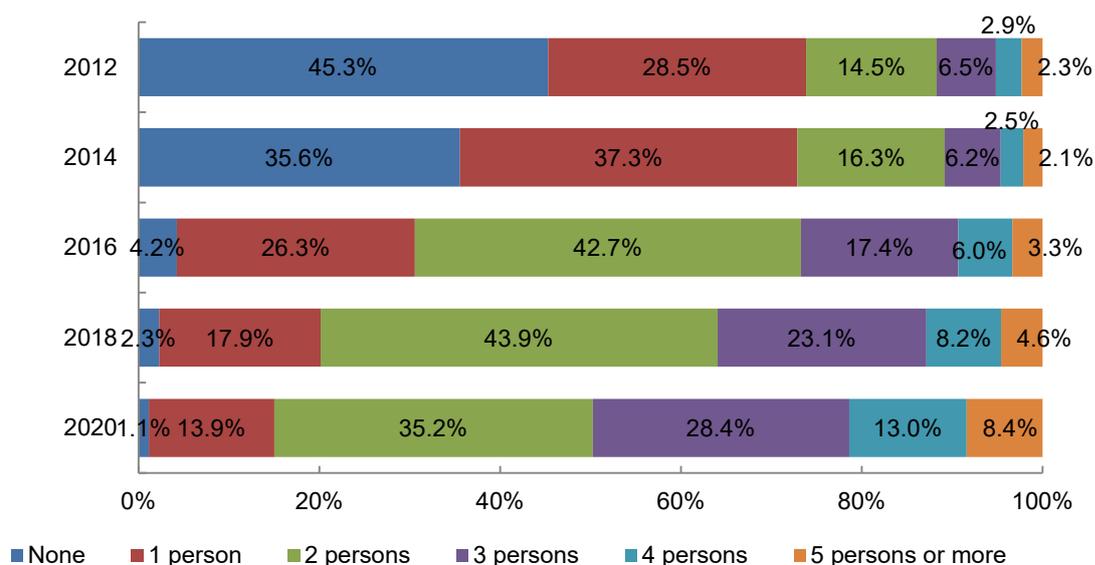
4-7. Appointment of independent directors

(1) Appointment of independent directors and number appointed

① Summary

Companies which have appointed outside directors⁵¹ accounted for 98.9% of TSE-listed companies, which is a further increase from 97.7% in the previous survey (Chart 79). 95.6% of companies have appointed independent directors, which is also an increase from the previous survey results of 93.6% (Chart 80). 78.5% of companies have appointed at least two independent directors as required in Principle 4.8 of the Code, which is an increase from the previous survey results of 71.8%. In addition, 40.5% of companies have appointed at least three independent directors⁵², which is an increase from the previous survey results of 26.0%. Possible contributing factors behind this increase include an increase in companies that appointed diverse independent directors in order to ensure the diversity of the board and enhance discussions at the board, and an increase in companies that have increased the number of independent directors in response to feedback from institutional investors calling for a ratio of independent directors of at least one-third.

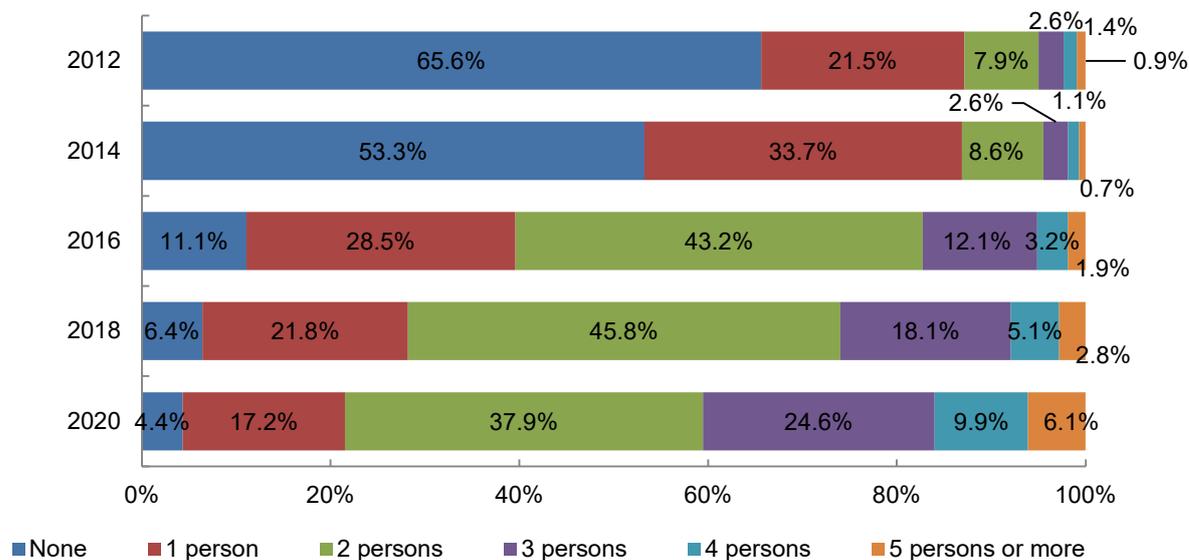
Chart 79 Number of Outside Directors Appointed (All Companies)



⁵¹The definition of outside director is subject to Article 2, Item 15 of the Companies Act.

⁵²The definition of “independent director” in this White Paper is “an outside director registered as an independent officer”.

Chart 80 Number of Independent Directors Appointed (All Companies)



② By organizational form

Looking at the status of number of outside directors by organizational form, the ratio of companies with two outside directors is highest at 41.2% for Companies with Kansayaku Board, the ratio of companies with three outside directors is highest at 37.2% for Companies with Supervisory Committee, and the ratio of companies with five or more outside directors is highest at 69.7% for Companies with Three Committees. (Chart 81) It can be said that the number of outside directors is high at Companies with Three Committees that are “monitoring model” oriented.

Looking at the status of number of independent directors by organizational form, the ratio of companies with two independent directors is highest at 42.8% for Companies with Kansayaku Board, the ratio of companies with three independent directors is highest at 34.2% for Companies with Supervisory Committee, and the ratio of companies with five or more independent directors is highest at 65.8% for Companies with Three Committees. In the same manner as for outside directors, it can be said that the number of independent directors is high at Companies with Three Committees (Chart 82).

Chart81 Number of Outside Directors Appointed (by Organizational Form)

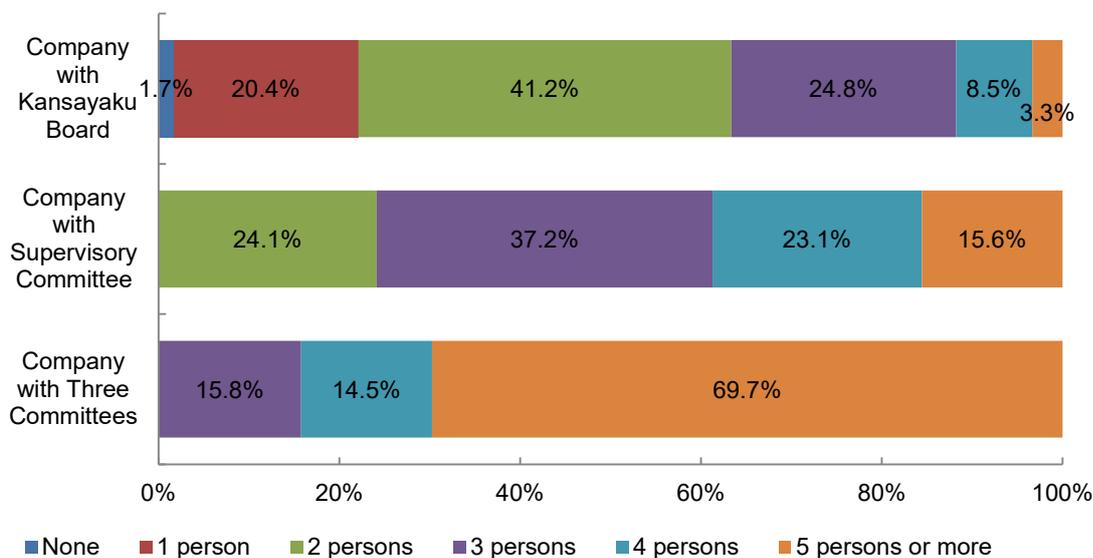
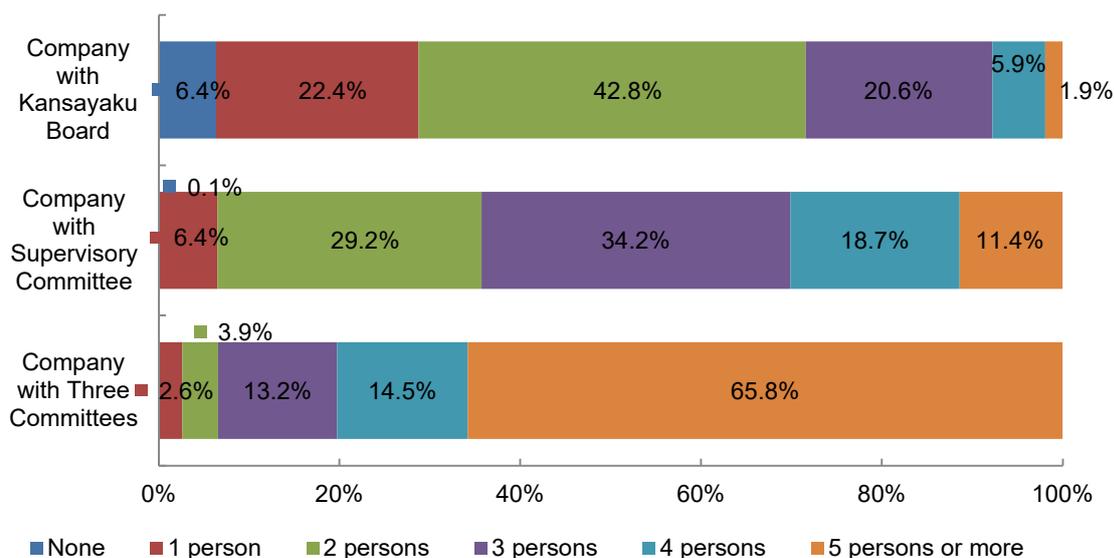


Chart82 Number of Independent Directors Appointed (by Organizational Form)



③ By market division

Looking at the ratio of companies that appoint at least one independent director by market division, the percentage of such companies in each market division is 99.7% in TSE First Section, 97.1% in TSE Second Section, 95.4% in Mothers, and 82.1% in JASDAQ. The ratio of the companies in the JPX-Nikkei 400 that have appointed at least one independent director is 99.7% (Chart 83).

The average number of independent director per company is 2.41 persons. Looking at the results by market division, the average number of independent directors is 2.90 persons for TSE First Section, 2.04 persons for TSE Second Section, 1.83 persons for Mothers, and 1.41 persons for

JASDAQ. The average number of 3.11 persons for JPX-Nikkei 400 companies is higher than these divisions (Chart 84).

The ratio of independent directors on the board by market division is shown in Chart 85. The percentage of companies in which independent directors make up at least one-third of the board of directors increased significantly for each market, reaching 47.6% on an all companies basis. As for JPX-Nikkei 400 companies, the percentage of companies with at least one-third of independent directors reached 74.2%, which is 15.4 points higher than that of TSE First Section (58.8%). The ratio of companies with a majority of independent directors has increased significantly for each market as well, and was 4.9% on an all companies basis. As for JPX-Nikkei 400 companies, the percentage of companies with a majority of independent directors reached 9.6%, which is 3.6 points higher than that of TSE First Section (6.0%).

Chart 83 Number of Independent Directors Appointed (by Market Division)

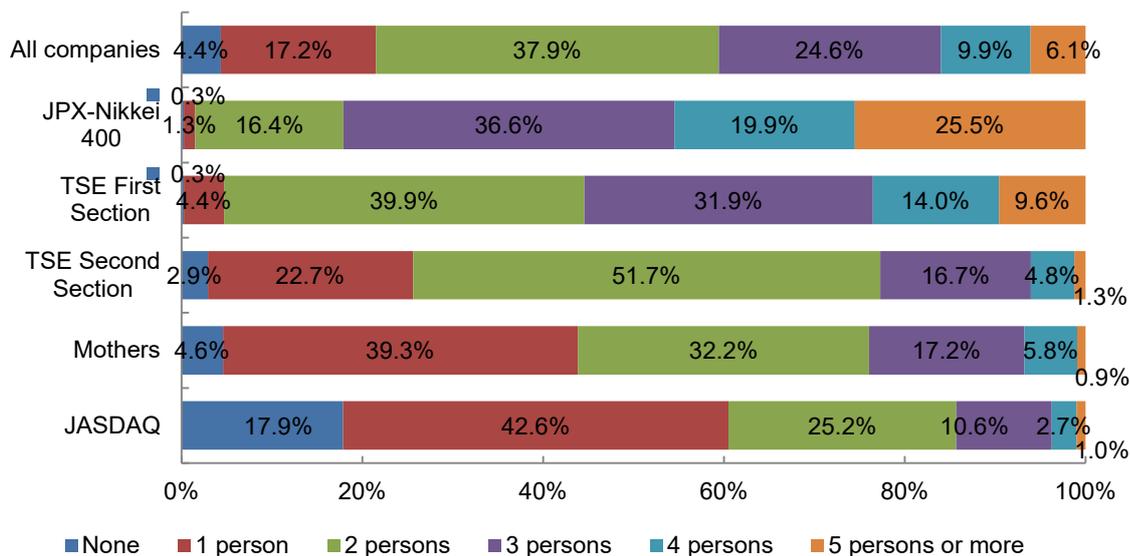


Chart 84 Average Number of Independent Directors (by Market Division)

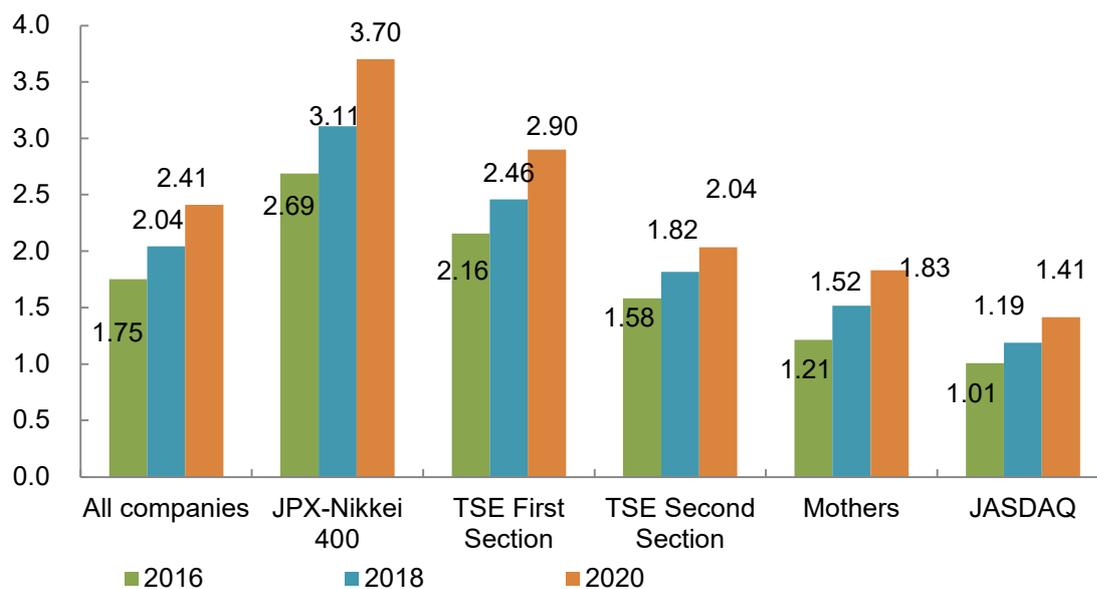
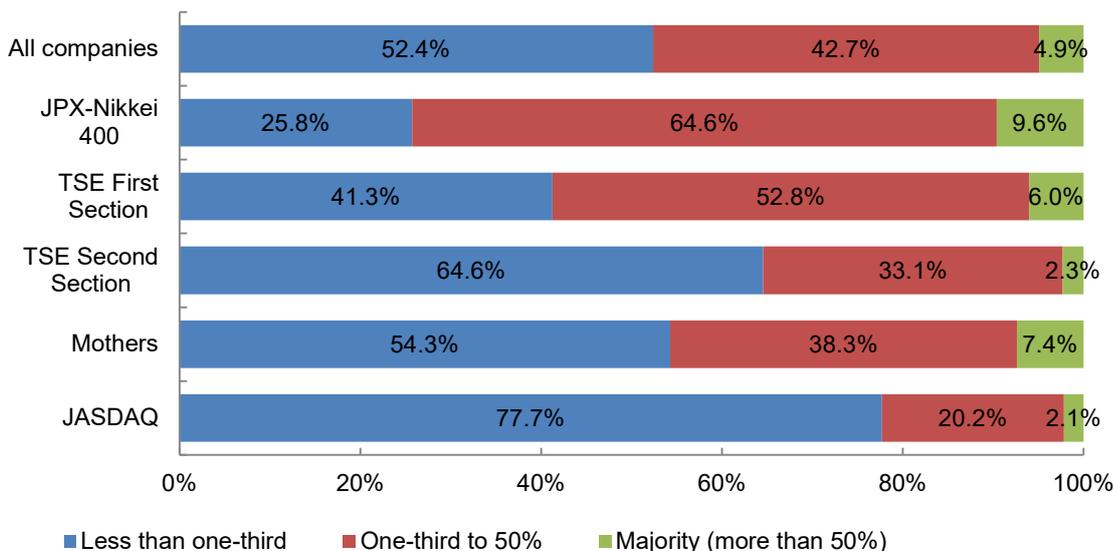


Chart 85 Ratio of Independent Directors on the Board (by Market Division)



④ By foreign shareholding ratio

In terms of foreign shareholding ratios, the higher the ratio, the more likely companies are to appoint independent directors, and the higher the number of independent directors. Specifically, companies with foreign shareholdings of 30% or more have the highest ratio for appointment of independent directors, and the highest average number of independent directors, with 99.7% of companies appointing independent directors and an average of 3.50 persons per company (Chart 86and Chart 87). However, even among companies with a foreign shareholding ratio of less than 10%, 93.1% of these companies have appointed at least one independent director, indicating that the gap between companies with high and low foreign shareholdings is narrowing.

In terms of the ratio of independent directors on the board, the ratio of companies in which independent directors account for more than one-third and the majority of the total is increasing respectively as the ratio of foreign stock ownership increases (Chart 88). The percentage of companies with at least one-third of independent directors has increased significantly, reaching 74.3% for companies with the foreign shareholding ratio exceeding 30%. The ratio of companies with a majority of independent directors has increased significantly, reaching 13.4% for companies with the foreign shareholding ratio exceeding 30%.

Chart 86 Number of Independent Directors Appointed (by Foreign Shareholding Ratio)

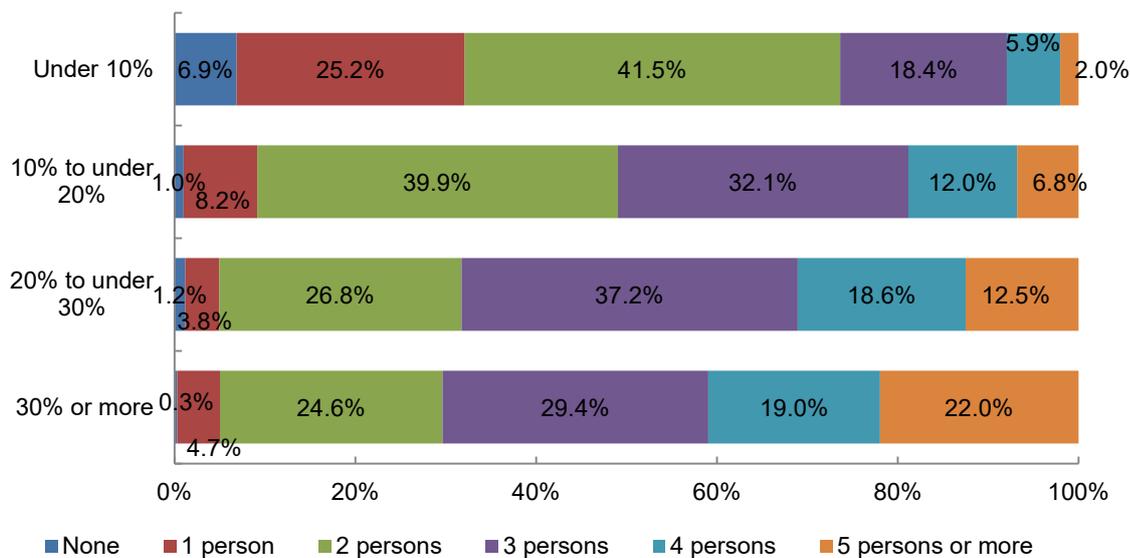
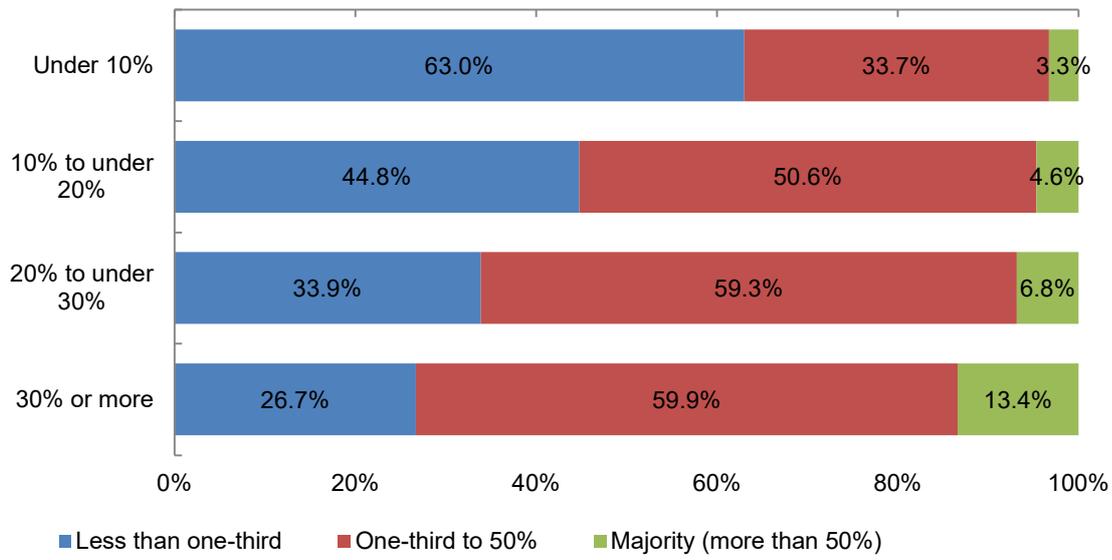


Chart 87 Average Number of Independent Directors (by Foreign Shareholding Ratio)



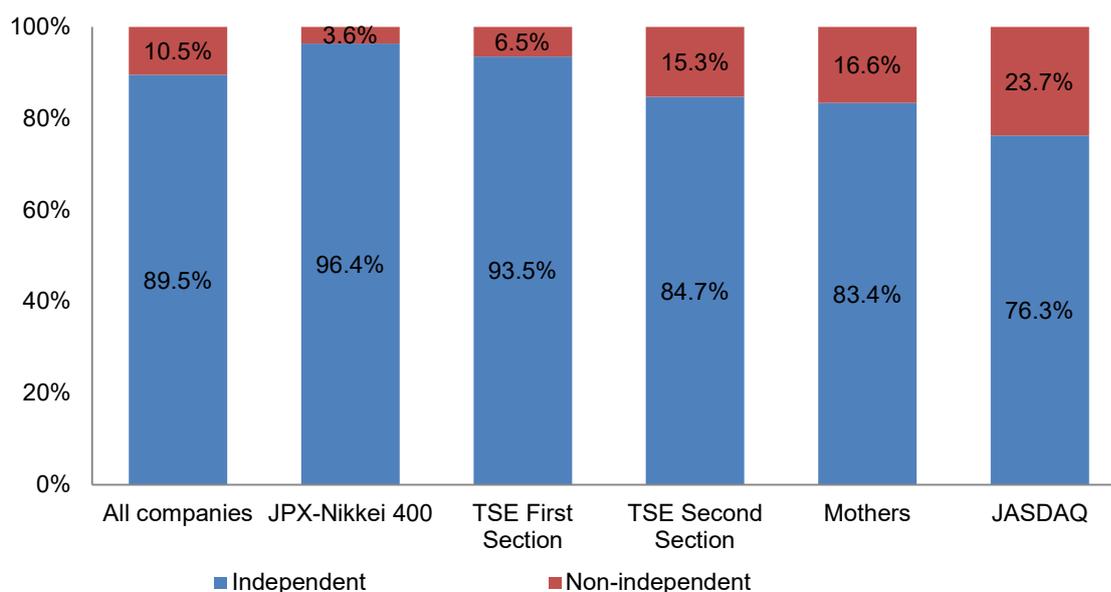
Chart 88 Ratio of Independent Directors on the Board (by Foreign Shareholding Ratio)



(2) Ratio of independent directors among outside directors

The CG Report requires companies to provide information on the number of outside directors designated as independent officers. The ratio of independent directors to total outside directors was 88.9% for all Companies with Kansayaku Board, 90.0% for all Companies with Supervisory Committee and 93.8% for all Companies with Three Committees. By market division, the percentage was 93.5% of the companies in TSE First Section, 84.7% in TSE Second Section, 83.4% in Mothers, and 76.3% in JASDAQ, and there are many outside directors in JASDAQ who do not fall under the category of independent directors (Chart 89). Among JPX-Nikkei 400 companies, the percentage has reached 96.4%. Among the total 9,902 outside directors appointed by 3,677 TSE-listed companies, 8,864 (89.5%) outside directors were notified as independent officers.

Chart 89 Percentage of Independent Directors among Outside Directors



(3) Attributes of independent directors

The CG Report requires listed companies to specify each independent director's attribute by choosing one of the following: "from another company"⁵³, "lawyer", "certified public accountant", "tax accountant", "academic" and "other".

For TSE-listed companies overall, the percentage is high for "from another company". Looking at past trends, the percentage has decreased while the number of people has increased significantly, changing from 65.2% (835 persons) in 2012, 63.9% (1,472 persons) in 2014, 59.3% (3,644 persons)

⁵³"From another company" refers to a person who works or has experience in working for another company.

in 2016, 59.1% (4,338 persons) in 2018 and 58.5% (5,185 persons) in 2020 (Chart 90). This was followed by the category “lawyer”, for which the ratio is on the slight increase and the number of people has increased, from 13.1% (168 persons) in 2012, 13.8% (317 persons) in 2014, 16.1% (986 persons) in 2016, 16.0% (1,172 persons) in 2018 and 16.3% (1,442 persons) in 2020.

Next, looking at the attributes of independent directors by organizational form, the percentage is high for “from another company” for every organizational form, at 65.1% for Companies with Kansayaku Board, 48.2% for Companies with Supervisory Committee, and 60.8% for Companies with Three Committees. Moreover, the percentage is also relatively high for “lawyer” and “certified public accountant” for Companies with Supervisory Committee (Chart 91).

Chart 90 Attributes of Independent Directors (All Companies)

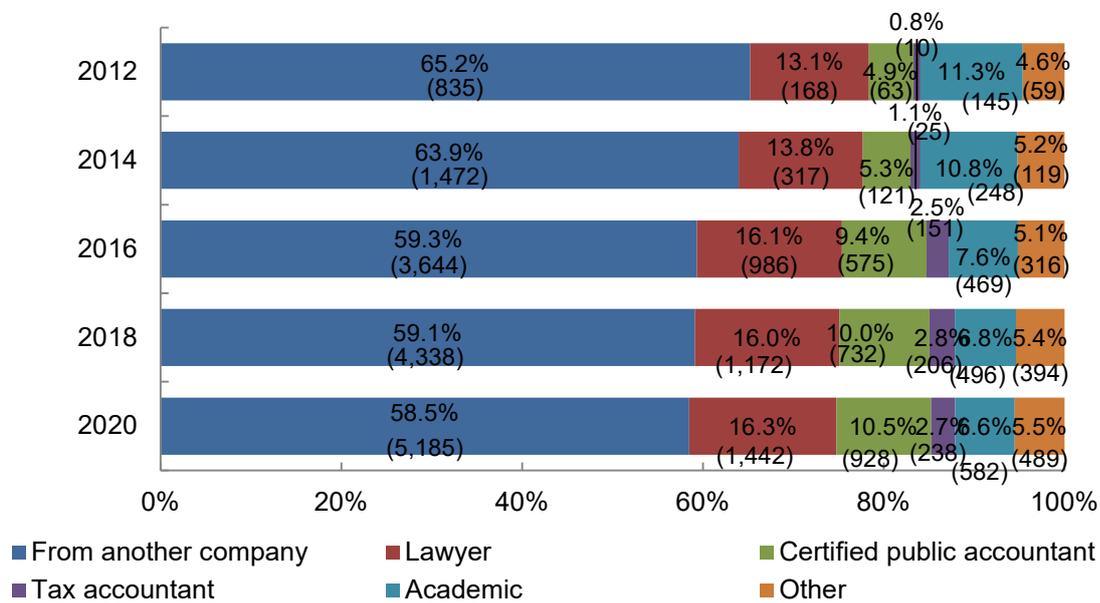
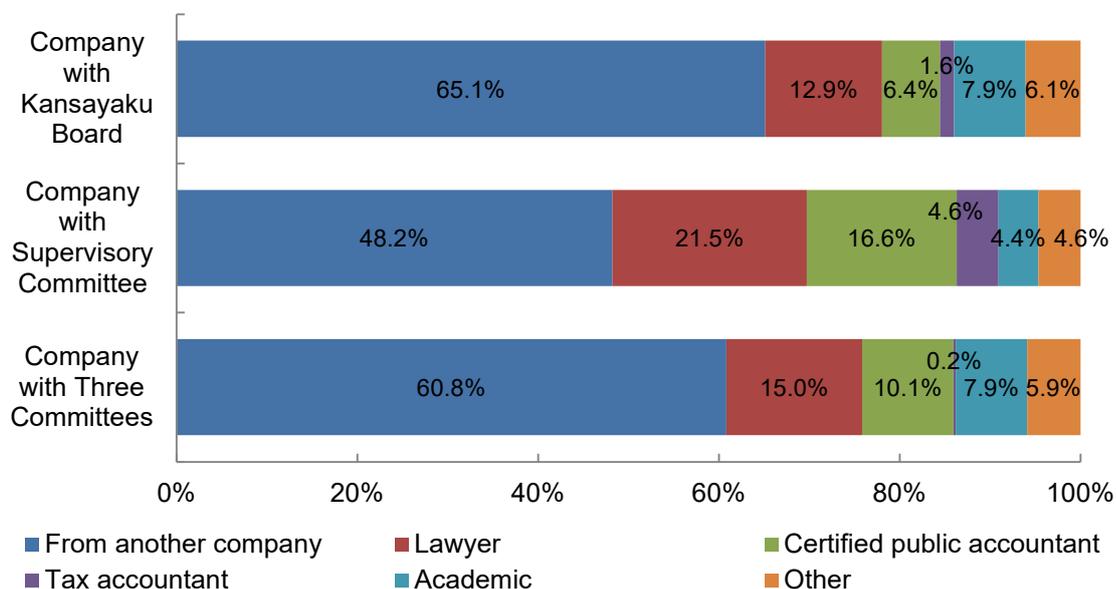


Chart 91 Attributes of Independent Directors (by Organizational Form)



(4) Relationship between independent directors and the company

The CG Report requires disclosure of relations between independent directors and the company, as companies are requested to select from the 11 types of relationships with the company from a to k below.

- a A person who has executed business of the company or its subsidiary
- b A person who has executed business of the company's parent company or is non-executive director of the company's parent company
- c A person who has executed business of the company's fellow subsidiary
- d A person who has executed business of an entity for which the company is a major client
- e A person who has executed business of a major client of the company
- f A person who is a consultant, accounting professional or legal professional who receives a large amount of money or other asset other than remuneration for directorship/auditorship from the company
- g A major shareholder of the company (in the case of a major shareholder such as a juridical person or association, including persons belonging to it)
- h A person who has executed business of an entity for which the company is a client (except "d", "e" and "f")
- i A person who is or was from another company at which a person who is or was from said company is an outside director/auditor
- j A person who has executed business of an entity for which the company contributes
- k Other

Furthermore, for each option it is necessary to make a selection that provides more details on the circumstances by selecting whether an item applies to the individual or a close relative and whether an item applies currently/recently or in the past.

Chart 92 shows which of the above-mentioned categories the independent directors of TSE-listed companies belong to (as multiple answers are allowed, a director may be included in multiple categories).

The percentage of cases to which the selections above did not apply was the highest, accounting for 65.1%. Next, in the case of the selections applying, the percentage was highest for h, "other business partner", at 21.9%.

Next, Chart 93 shows the composition of each category in terms of who (director or his/her close relatives) and when ("currently/recently" or "in the past"). As for the most common selection h, the percentage of the case where directors themselves belonged to "other business partners" "in the past" was the highest (62.0%).

Chart 92 Relation Between Independent Directors and Company (Director/Close Relative)

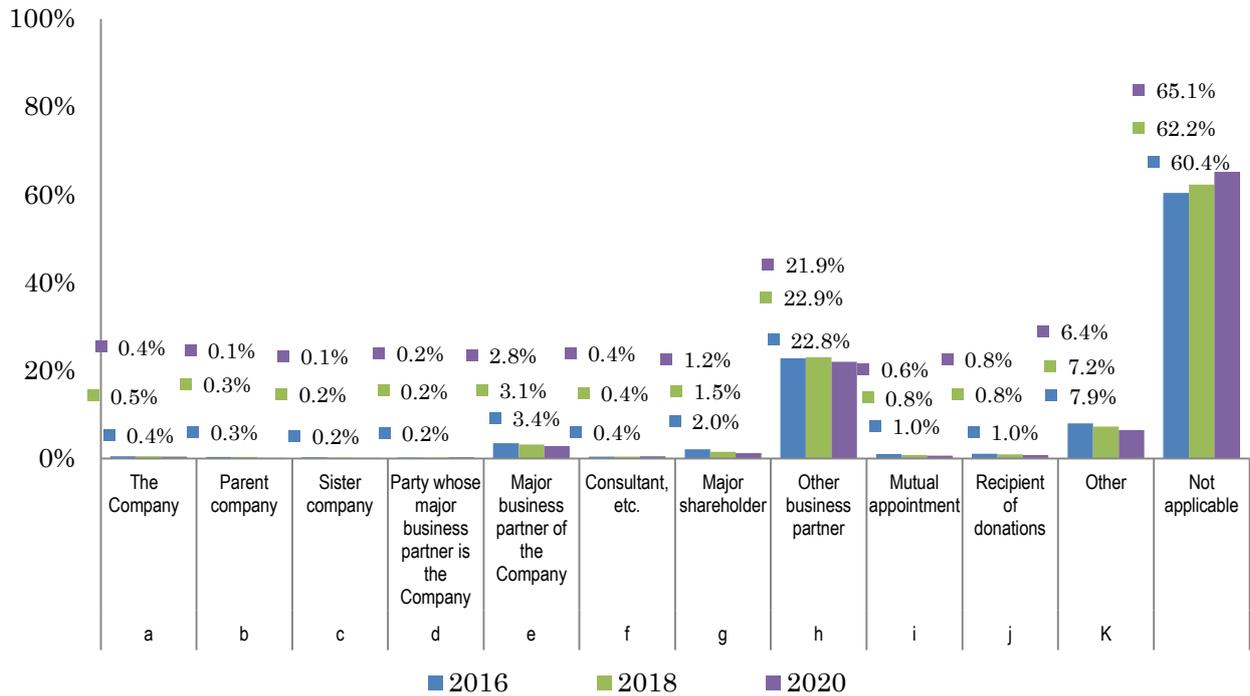
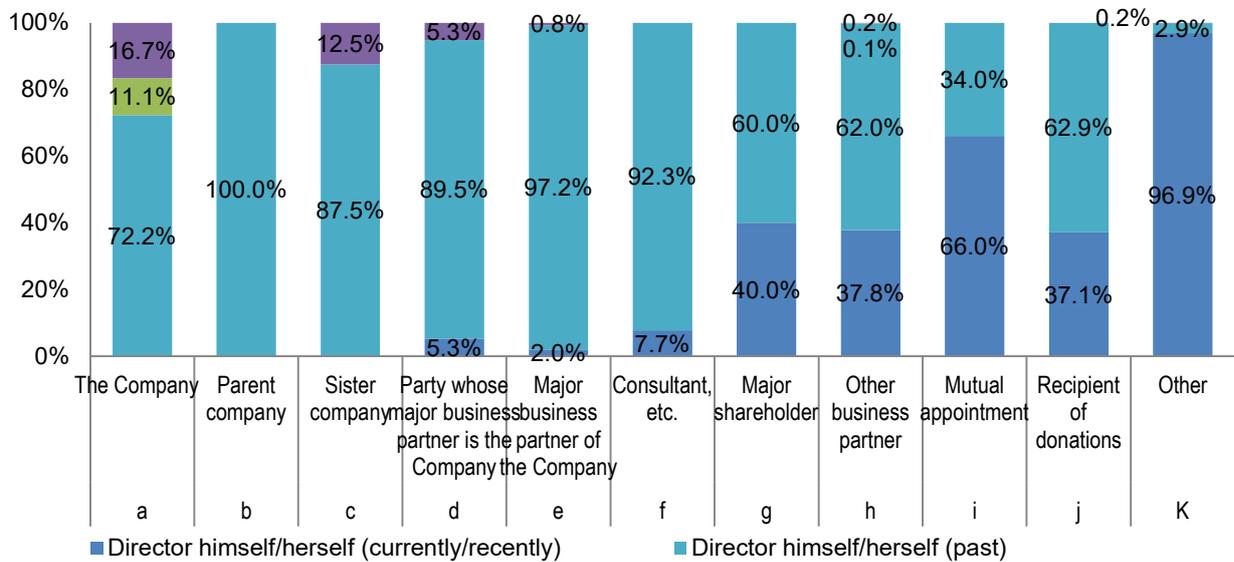


Chart 93 Relationship Between Independent Directors and the Company (Details)



(5) Effective use of independent directors (Principle 4.8)

Principle 4.8 requires companies to appoint at least two independent directors as a general rule, and also requires companies that believe it is necessary to appoint at least one-third of directors as independent directors to appoint a sufficient number of independent directors. The compliance rate for this principle is 97.2% (2,428 companies), and the appointment of independent directors has improved rapidly since the previous survey, when the rate was 87.2% (2,286 companies). As shown in Chart 94, 95.3% of the companies listed on TSE First Section have appointed two or more independent directors.

In addition, 58.8% of companies listed on TSE First Section had appointed at least one-third of directors as independent directors (Chart 95). In particular, compared to 2019, the percentage of companies appointing two or more independent directors increased 1.9 points year on year and the percentage of companies appointing at least one-third of directors as independent directors increased by 15.2 points year on year, which shows how there has been a rapid increase in the percentage of companies appointing at least one-third of directors as independent directors. While the rapid increase in the appointment of two or more independent directors since 2015 following the establishment of the Code has calmed, there have also been requests from institutional investors and proxy advisory firms, and it seems that a trend of securing at least one-third of directors as independent directors has spread among companies listed on TSE First Section.

Chart 94 Ratio of Companies Appointing 2 or More Independent Directors (TSE First Section)

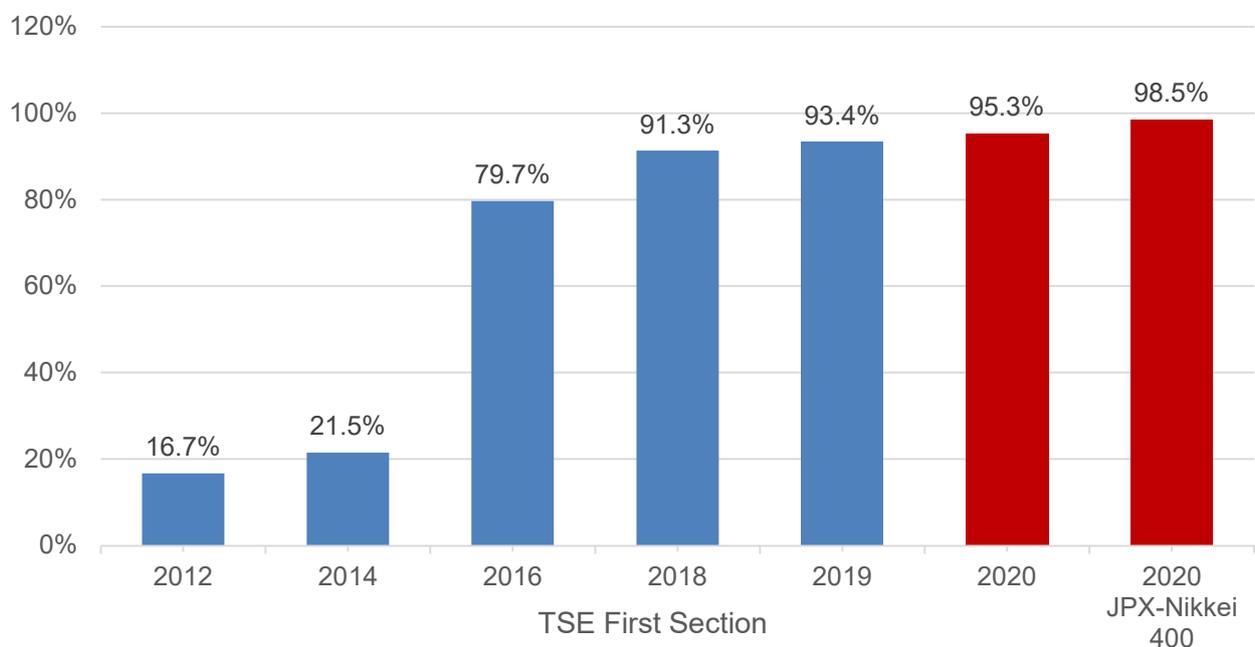
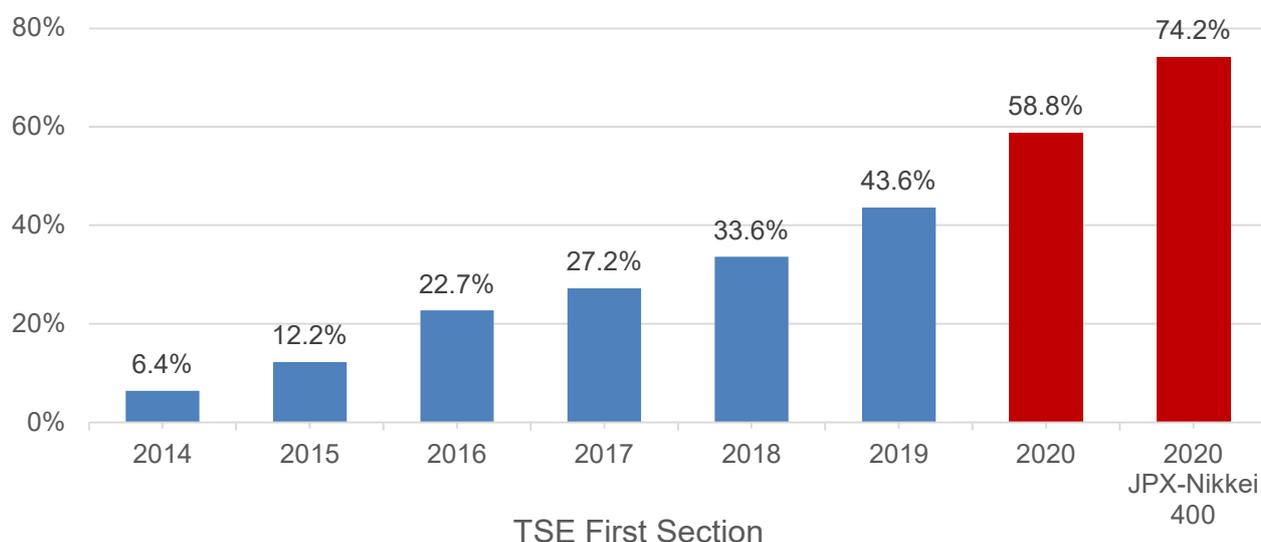


Chart 95 Ratio of Companies Appointing At Least 1/3 Independent Directors (TSE First Section)



4-8. Attributes of outside kansayaku

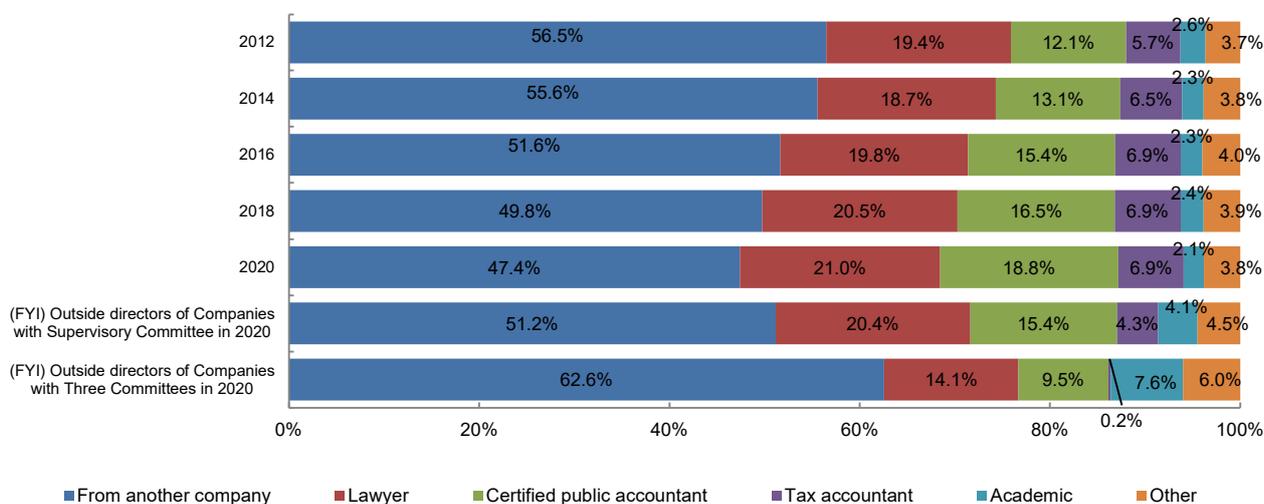
The CG Report requires companies to provide information on the number of outside kansayaku appointed as independent officers. Among the total 6,101 outside kansayaku appointed by 2,495 TSE-listed Companies with Kansayaku Board, 4,883 (80.0%) kansayaku were notified as independent officers.

In the same manner as the attributes of outside directors, the CG Report requires listed companies to specify each outside kansayaku’s attribute by choosing one of the following: “from another company”, “lawyer”, “certified public accountant”, “tax accountant”, “academic” and “other”.

In this regard, among all kansayaku of TSE-listed Companies with Kansayaku Board, those “from another company” accounted for 47.4%, followed by “lawyers” (21.0%), “certified public accountants” (18.8%), “tax accountants” (6.9%), and “academics” (2.1%). (Chart 96)

Comparing the attributes of outside kansayaku at Companies with Kansayaku Board and outside directors at Companies with Supervisory Committee and Companies with Three Committees, the attribute figures for Companies with Supervisory Committee (“from another company” 51.2%, “lawyers” 20.4%, “certified public accountants” 15.4%, “tax accountants” 4.3%, and “academics” 4.1%) are extremely close to the attribute figures for Companies with Kansayaku Board. It is believed that this is due in part to the fact that when companies moved from the Company with Kansayaku Board structure to a Company with Supervisory Committee structure, many outside kansayaku were changed to outside directors.

Chart 96 Attributes of Outside Kansayaku



4-9. Independence standards and qualification for independent directors (Principle 4.9)

While TSE has minimum independence criteria for the independent officer systems in the Listing Rules, it is preferable for listed companies to make practical judgments on each outside director in order to appropriately assess the independence of outside directors, including whether simply not violating the TSE independence criteria is sufficient. Accordingly, Principle 4.9 stipulates that the board should establish and disclose independence standards aimed at securing effective independence of independent directors, taking into consideration the independence criteria set by financial instruments exchange. While the contents of independence judgment criteria that contribute to effective judgments are primarily up to the discretion of each listed company, listed companies are expected to disclose such criteria in order to find reasonable judgment criteria through dialogues between listed companies and the market.

The compliance rate with Principle 4.9 was 97.2% (2,577 companies). In some cases, the content of the description includes the qualities required of independent directors in addition to the external requirements of the Companies Act and the independence criteria stipulated by TSE, etc.

Keyword analysis showed that among companies that have complied with Principle 4.9, 31.5% (813 companies) included the keyword “Companies Ac” in disclosures, while 66.0% (1,702 companies) included the keyword “exchange (TSE, financial instruments exchange, etc.)” (Chart 97). This suggests that many companies firstly make disclosures in consideration of external requirements under the Companies Act and independence criteria stipulated by TSE, etc. Some companies clearly stated that they use the voting standards of proxy advisors and institutional investors as reference for their independence standards.

Meanwhile, some companies also established their own quantitative independence standards for relationships with business partners, large shareholders, etc. In terms of keywords for quantitative criteria, 14.1% (364 companies) mentioned “yen (10,000 yen/100 million yen)” which expresses a

monetary amount or “%” which expresses the percent.

In terms of keywords to describe quantitative criteria, 88.4% (321 companies) mentioned “business partners”. Of these, many companies (259 companies) have used “2% of consolidated sales, etc.” as a criteria, for example, defining a “major business partner” as a “business partner for which the annual transaction amount accounts for over 2% of the consolidated sales of the Group or the business partner (including its parent company or major subsidiaries)”. In addition, in relation to business relationship, some companies take both the criteria of the amount of payments made by their company to a business partner and the criteria of the amount of payments paid by a business partner to their company into consideration.

In addition, 50.3% of companies (183 companies) mentioned “lenders, etc.”⁵⁴. Many companies (97 companies) mentioned “2% of consolidated total assets, etc.” as a numeral criteria for such lender. In addition, among banks, etc. there were also companies that took into consideration loan transactions, establishing criteria such as “cases in which our Bank is the top lender for the party and in which changes to the Bank’s credit policy could have a tremendous impact”.

89.6% (326 companies) mentioned specialists, such as “lawyers” and “consultants”, and companies that used 10 million yen as the amount for this criteria were most common (200 companies). There were also cases using 10 million yen in the case of an individual who received remuneration, while using 2% of consolidated sales in the case of a corporation, organization, etc. (96 companies).

61.3% (223 companies) mentioned “donations” from listed companies. Companies that used 10 million yen as the criteria for the donation amount were most common (146 companies). 80.2% (292 companies) mentioned “shareholders (major shareholders/large shareholders”, of which the majority (242 companies) used “10%” as a standard.

In addition, there were cases of companies incorporating elements such as the service period of independent directors and lead managing securities company in their independence criteria. “Service period” was mentioned by 22 companies, with the majority of companies using 8 years (19 companies) as the standard. Some companies also mentioned “6 years (1 company)” and “10 years (2 companies).” In addition, 96.4% (351 companies) also mentioned a cooling-off period during which there have been no conflicts with independence for a set period in the past such as the “past XX years” or “XX years ago”, as a majority of companies that mentioned quantitative criteria mentioned a cooling-off period.

Keywords related to the character required of independent directors included “experience” (24.9%, 641 companies), “expertise (specialized/expert)” (25.5%, 656 companies), “frank (opinions)” (10.2%, 262 companies), and “personal character” (3.6%, 93 companies). Of those mentioning “experience”, 9.1% (235 companies) mentioned experience related to management (management experience, company management, corporate management, etc.). This suggests many companies prioritize past experience. In terms of keywords related to expected roles, 8.8% (227 companies) mentioned “advice”, while 13.5% (349 companies) mentioned “oversight”, indicating that many companies place more

⁵⁴ Including creditors, funding, financial institutions and main banks

importance on "oversight" than "advice."

Looking at individual examples, Example 1 is an example of descriptions regarding character in addition to requirements of the Companies Act and the TSE's requirements. It states that the company prioritizes the mental independence that makes it possible to present doubts and hold discussions in meetings such as the board, conduct re-investigations and express contrary opinions.

Example 2 is an example of quantitative disclosures. The company has established specific quantitative criteria and presents its own objective criteria on the independence of independent directors to shareholders and investors. As in Example 3, there are also some companies set criteria such as "5% of voting rights" or "1% of transaction value", which are more stringent than general standards. Example 4 is an example of criteria established for a "major borrower", listing the quantitative and qualitative factors based on which judgments are made. In addition, "8 years" is set as the standard service period.

Some major institutional investors believe that independent directors with a long term of office (for example, 12 years) are not in reality independent, and exercise their voting rights in opposition to their appointment as officers. In addition to the widespread introduction of the length of service criterion in the voting criteria, the Opinion Statement of the "Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code" published in December 2020⁵⁵ mentions "number of years in office" in respect of the composition of the board. In the future, more companies are expected to take number of years of service and term of office into account as an independence standard.

Example 1

In the appointment of outside directors, in addition to the requirements under the Companies Act, the Company also prioritizes the ability to understand various businesses and the mental independence that makes it possible to present doubts and hold discussions in meetings such as the board, conduct re-investigations, and express contrary opinions. In addition, the appointment criteria for independent directors require candidates to fulfill the qualifications for independent officers stipulated by TSE, and to be unlikely to have conflicts of interest with general shareholders. (Transportation equipment)

Example 2

Independence Standards for Outside Directors and Outside Corporate Auditors

In addition to the independence criteria established by listed financial instruments exchanges in Japan, the Board will judge any director under any of the following items to lack independence.

1. The Outside Director currently belongs or at any point in the past three years has belonged as an executive director, kansayaku (excluding outside kansayaku), *shikkoyaku* or employee to a company in which the Company currently holds 10% or more of the voting

⁵⁵ "Board Effectiveness and Ensuring Diversity in the Core Human Resources in Companies for Post-COVID Transformation of Companies" (Opinion Statement No. 5 of the "Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code")

rights.

2. The Outside Director currently belongs or at any point in the past three years has belonged as an executive director, kansayaku (excluding outside kansayaku), *shikkoyaku* or employee to a company which currently holds 10% or more of the voting rights of the Company.
3. The Outside Director currently belongs or at any point in the past three years has belonged as an executive director, kansayaku (excluding outside kansayaku), *shikkoyaku* or employee to a company whose transactions with the Company in any of the past three fiscal years totaled a monetary amount exceeding 2% of the consolidated net sales of that company or the Company.
4. The Outside Director currently is or at any point in the past three years has been an executive director, kansayaku (excluding outside kansayaku), *shikkoyaku* or employee of a financial institution from which the Company currently borrows funds equal to 2% or more of its total assets.
5. The Outside Director has in any of the past three fiscal years received compensation other than director compensation exceeding ten million yen from the Company as a law, accounting or tax expert or consultant; or an organization to which the Outside Director belongs has in any of the past three fiscal years received from the Company compensation as a law, accounting, or tax expert or consultant exceeding 2% of the annual revenue of that organization.
6. In any of the past three fiscal years, the Company has made contributions exceeding 10 million yen to the Outside Director or to a corporation to which the Outside Director currently belongs or at any point in the past three years has belonged as an officer that executes business or as an employee.
7. The Outside Director currently belongs or at any point in the past three years has belonged as an executive director, kansayaku (excluding outside kansayaku), *shikkoyaku* or employee to a company whose outside officers currently include any persons with experience as an officer of the Company that executed business.
8. The Outside Director currently is or at any point in the past three years has been a representative officer, officer, or employee of the current accounting auditor (independent auditor) or an accounting auditor (independent) or an accounting auditor (independent auditor) in the past five fiscal years of the Company.

Note: Outside directors and outside kansayaku are collectively referred to as “outside officers.”

(Electrical appliances)

Example 3

The Company designated a person it judges to be well-qualified to supervise the Company management from an independent standpoint without any conflicts of interest with general shareholders and to always express views from a well-informed standpoint on the interests of general shareholders as an Independent Director.

Specifically, the Company observes the following standards of independence:

1. A person who has never belonged to the Company as a Director with executive authority over operations, an executive officer, or an employee;
2. A person who is not an executive of a customer or supplier, etc. of the Company whose annual transactions with the Company exceed 1% of the Company's net sales or the other party's consolidated net sales;
3. A person who is not a major shareholder holding a stake of 5% or more of the voting rights of the Company or an executive thereof at the end of the fiscal year of the Company;
4. A person who is not an executive of any company in which the Company holds a stake of 5% or more of the voting rights at the

end of the fiscal year of the Company;

5. A person who is not an executive of a financial institution from which the Company has borrowed with a balance of loans payable exceeding 3% of the Company's total assets or the financial institution's consolidated total assets, as of the end of the fiscal year of the Company;
6. A person from whom the Company received donations of 10 million yen or more in any of the past ten years or an executive thereof; or
7. A person who is not a consultant, accounting professional, legal professional, a person belonging to a corporation or association thereof, an Accounting Auditor, or advisor who has received cash or other financial gains of 10 million yen or more per year from the Company other than remuneration for Directors and *kansayaku*, etc.

(Retail Trade)

Example 4

[Independence Judgment Criteria for Independent Directors]

(1) None of the following categories below apply to the individual currently or in the past

Executive (*2) of the Group (*1)

(2) None of the following categories below apply to the individual currently or in the past three years

- Executive of major borrowers (*3) of the Bank
- Executive of major business partners (*4) of the Group
- Large shareholders (directly or indirectly holding at least 10% of voting rights) of the Bank, or executives, *kansayaku*, or accounting

advisors of these large shareholders

- Executives, *kansayaku*, or accounting advisors of parties whose 5% of the voting rights are held by the Group
- Accounting auditor of the Group or executives of that accounting auditor
- Parties paid remuneration exceeding 10 million yen per year from the Group other than officer remuneration (accounting

professionals, legal experts, consultants, etc.)

- Executives of organizations gaining donations exceeding 10 million yen per year from the Group

(3) None of the following categories below apply to a spouse, relative within two degrees of kinship, or person living together with the individual

- Persons stated in (1) and (2) above

(4) There are no officers, etc. that have mutually assumed office

(5) The service period of outside directors does not exceed 8 years

(6) There are no circumstances other than those above based on which it has been deemed that the person would not be able to fulfill the duties of an independent director

(7) Even if a person does not fulfill one of the requirements in (2) to (5) above, if the Bank believes that the person has sufficient independence and would be appropriate as an outside director in the light of the personality, insights, etc., that person can be a candidate for an independent director of the Bank by providing an external explanation on the reason for this belief.

(*1) The Bank and its subsidiaries, affiliates and related companies

(*2) Executive director, *shikkoyakuin*, or employee

(*3) The Bank will determine whether a company constitutes a major borrower based on whether that company is in a position that is

subject to significant control from the Bank's management team after giving comprehensive consideration to matters such as the credit share, ratio of the credit amount to sales, total assets, etc., years of debt redemption, balance with deposit transactions, etc., and the status of transactions with other financial institutions.

(*4) The Bank will determine whether a company constitutes a major business partner based on whether it is in a position that is subject to the same degree of influence as from a parent company or affiliate, for example, whether the sales, etc. from transaction between the Bank and the company account for a considerable portion of that company's sales

(Banking)

Chart 97 Key words regarding disclosure of criteria for determining independence and qualifications of independent outside directors (Principle 4.9)

Item	Number of companies	Ratio
Companies complying with Principle 4.9	2,577	100%
■ Keywords related to independence criteria		
Exchange (Tokyo Stock Exchange, financial instruments exchanges, etc.)	1,702	66.0%
Companies Act	813	31.5%
Yen (10,000 yen, 100 million yen)	364	14.1%
■ Percentage of companies with quantitative criteria, etc.	364 companies = 100%.	
Companies mentioning criteria related to "business partners"	330	90.7%
Companies mentioning criteria related to "lenders", etc.	183	50.3%
Companies mentioning criteria related to "experts"	326	89.6%
Companies mentioning criteria related to "donations"	223	61.3%
Companies mentioning criteria related to "shareholders"	292	80.2%
■ Keywords related to qualifications required of independent directors		
Expertise (specialized/expert)	656	25.5%
Experience	641	24.9%
Frank (opinions)	262	10.2%
Experience related to management (management experience, company management, corporate management, etc.)	235	9.1%
Character	93	3.6%

■ Keywords related to the expected role of independent directors		
Oversight	349	13.5%
Advice	227	8.8%

4-10. Committees, etc.

A Company with Three Committees is required by the Companies Act to establish a Nomination Committee, Remuneration Committee, and Audit Committee⁵⁶. Each of these committees must be composed of at least three directors, the majority of who are outside directors.⁵⁷ On the other hand, the Companies Act does not require Companies with Supervisory Committee or Companies with Kansayaku Board to establish a nomination committee or a remuneration committee.

Therefore, Principle 4.10 of the Code stipulates the enhancement of the governance mechanism by utilizing an optional approach, and Supplementary Principle 4.10.1 stipulates that companies should establish an optional nomination committee and an optional remuneration committee to which independent directors make significant contributions, to strengthen independence, objectivity and accountability of board functions related to nomination or remuneration of management executives and directors.

The CG Report also requires Companies with Supervisory Committee and Companies with Kansayaku Board to describe the composition of the committee and the attributes of the chairperson of the committee, if an optional committee equivalent to a nomination committee or remuneration committee has been established, in addition to the description of matters related to the supervisory committee and kansayaku.

The current state of required disclosures for committees will be analyzed by the functions of “nomination”, “remuneration” and “audits” below. For Companies with Kansayaku Board, the function of audits related to kansayaku will be analyzed in the section of “audits”.

(1) Nomination

① Status of nomination committee establishment

While the establishment of a nomination committee is mandatory for Companies with Three Committees, establishment of a nomination committee is at the discretion of management for Companies with Supervisory Committee and Companies with Kansayaku Board. The status of establishment of a statutory or optional nomination committee by market division is displayed in Chart 98. On TSE First Section, the number of companies with a statutory nomination committee is 2.9% (63 companies), and the number of companies with an optional nomination committee is 55.1% (1,196 companies), which is higher than other market divisions. For JPX-Nikkei 400 companies, 8.3% (33 companies) have established a statutory nomination committee, 74.2% (294 companies) have established an optional nomination committee, and these percentages are higher than those for TSE

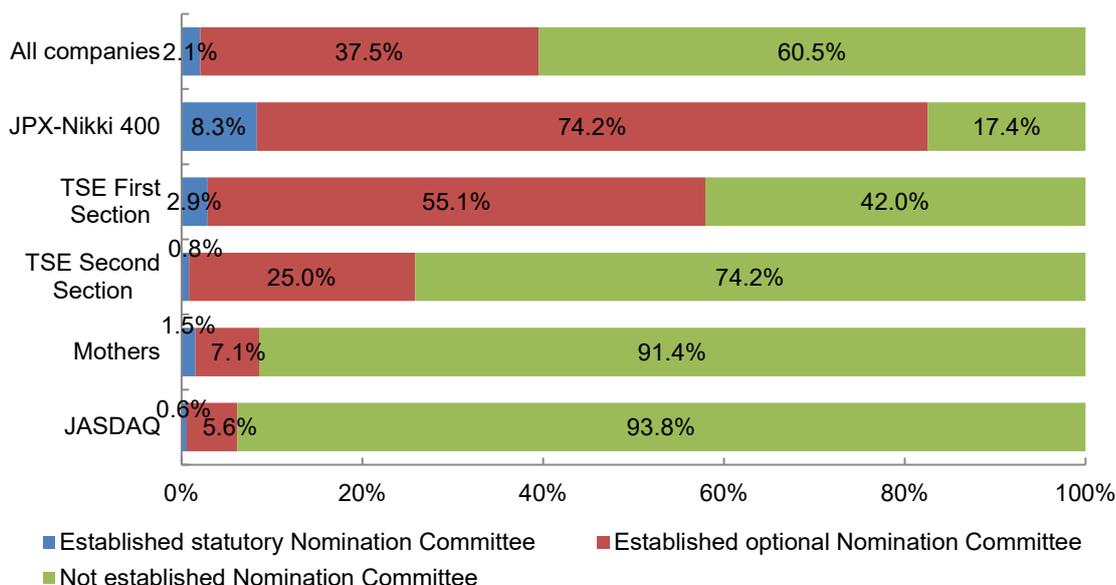
⁵⁶Article 2, Item 12 of the Companies Act.

⁵⁷Article 400, Paragraphs 1 and 3 of the Companies Act.

First Section companies.

The compliance rate with Supplementary Principle 4.10.1 which stipulates that companies should establish an optional nomination committee and an optional remuneration committee to which independent directors make significant contributions for the examination of matters such as nominations and remuneration was 58.5% ⁵⁸. This was 10.2 percentage points higher than the compliance rate in the previous survey (48.3%).

Chart 98 Status of Nomination Committee Establishment (by Market Division)



② Number of nomination committee members

Chart 99 displays the number of nomination committee members by organizational form. The average number of members of a statutory nomination committee at Companies with Three Committees is 4.21, and companies with three committee members account for the highest proportion (34.2%). The average number of members of an optional nomination committee at Companies with Supervisory Committee is 4.52, and companies with five committee members account for the highest proportion (30.2%). The average number of members of an optional nomination committee at Companies with Kansayaku Board is 4.64, and companies with five committee members account for the highest proportion (29.4%).

⁵⁸ As a result of the revision of the Code in June 2018, Supplementary Principle 4.10.1 requires companies to establish an optional nomination committee and an optional remuneration committee to which independent directors make significant contributions.

Chart 99 Number of Nomination Committee Members



③ Ratio and number of inside directors and outside directors in nomination committees

Chart 100 displays the ratio and number of inside directors and outside directors in nomination committees by organizational form. For nomination committees at Companies with Three Committees, 24.1% of members are inside directors and 75.9% are outside directors. For optional nomination committees at Companies with Supervisory Committee, 34.2% of members are inside directors, 64.9% are outside directors, 0.6% are external experts, and 0.4% are other. For optional nomination committees at Companies with Kansayaku Board, 33.0% of members are inside directors, 53.7% are outside directors, 1.9% are external experts, and 11.3% are other. Kansayaku are included in “other” here.

Chart 100 Ratio of Inside Directors and Outside Directors in Nomination Committees

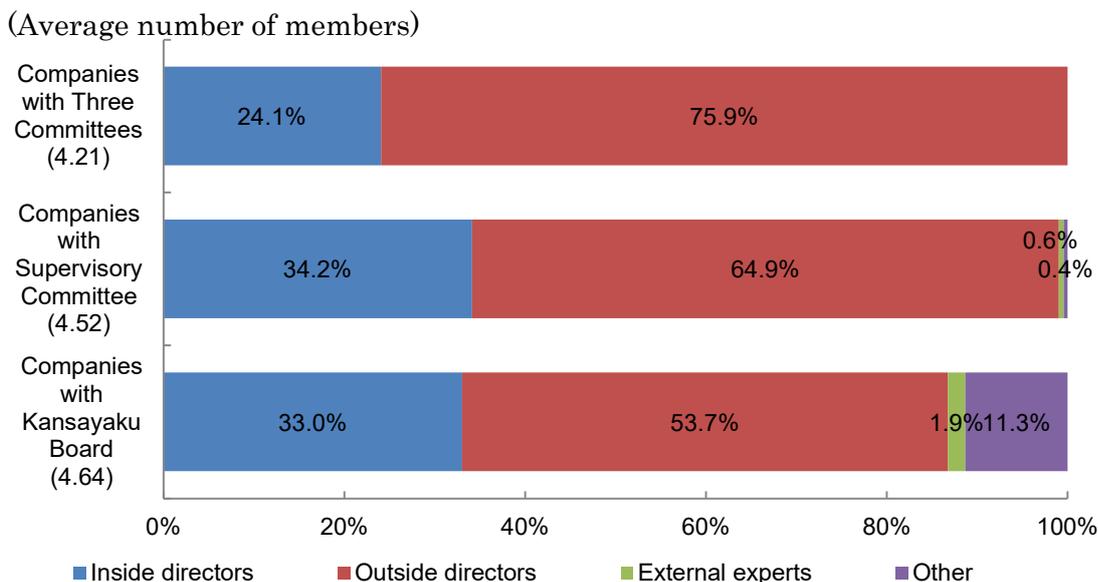


Chart 101 displays the number of inside directors in nomination committees. For optional nomination committees at Companies with Kansayaku Board and Companies with Supervisory Committee, the number of inside directors is higher compared to nomination committees at Companies with Three Committees. While the majority (65.8%) of nomination committees at Companies with Three Committees have only one inside director, optional nomination committees with only one inside director account for 45.9% of those at Companies with Supervisory Committee, and 43.8% of those at Companies with Kansayaku Board.

Chart 101 Number of Inside Directors in Nomination Committees

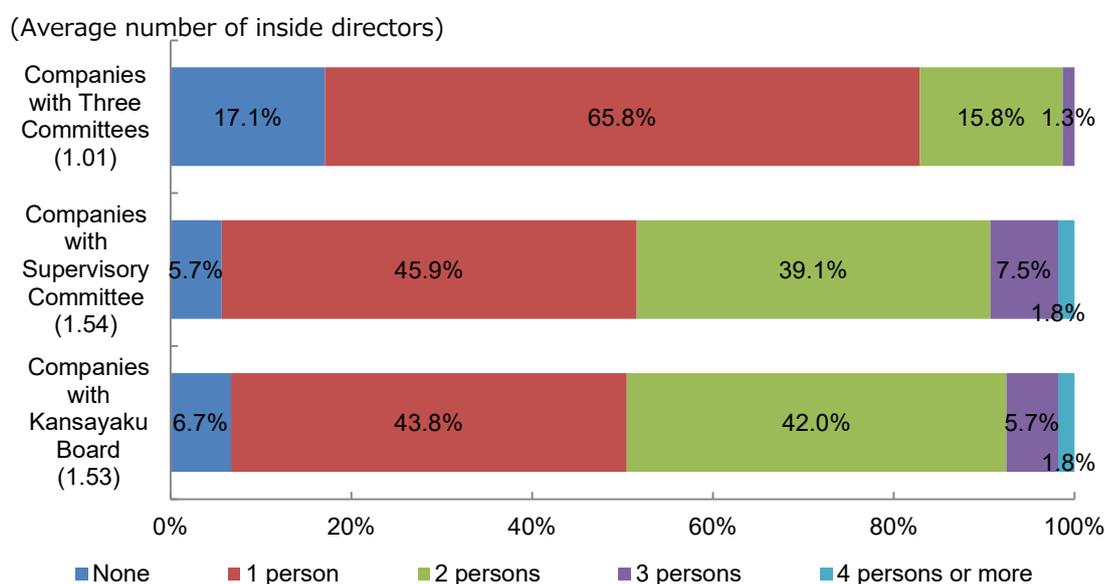
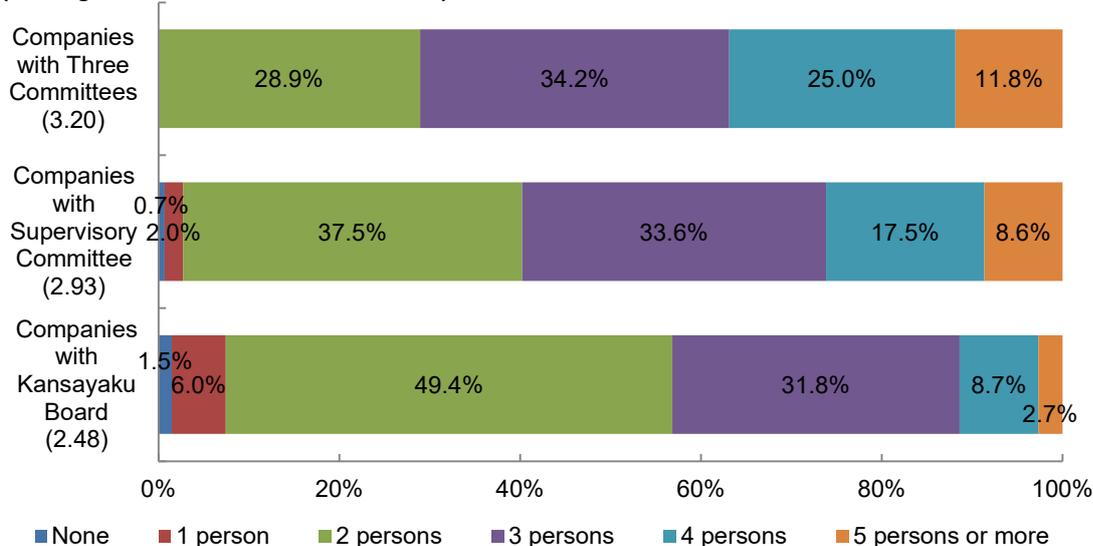


Chart 102 displays the number of outside directors in nomination committees. Because the majority of directors that form a nomination committee at a Company with Three Committees must be outside directors under the law, at the very least such committees must be composed of two outside directors. For optional nomination committees at Companies with Supervisory Committee and Companies with Kansayaku Board, while there are at least two outside directors at the majority of committees, there are also some cases without any outside directors.

Chart 102 Number of Outside Directors in Nomination Committees

(Average number of outside directors)

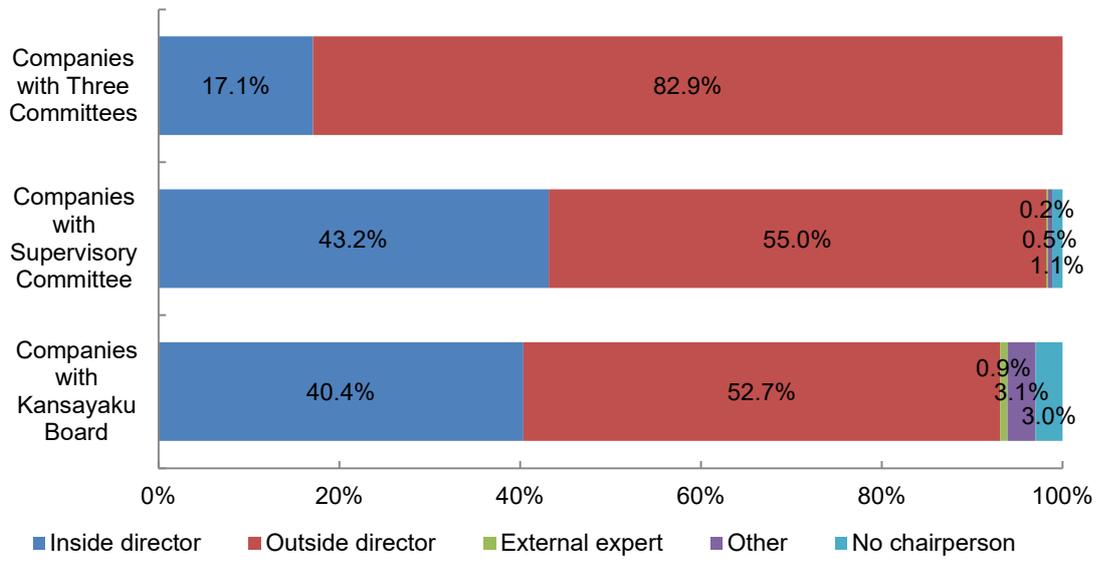


④ Attributes of chairpersons of nomination committees ⁵⁹

Chart 103 displays the attributes of nomination committee chairpersons by organizational form. For nomination committees at Companies with Three Committees, the chairperson is an outside director at the majority of companies (82.9%). On the other hand, for optional nomination committees at Companies with Kansayaku Board and Companies with Supervisory Committee, the percentage of chairpersons who are inside directors is higher compared to the nomination committees at Companies with Three Committees. At optional nomination committees at Companies with Supervisory Committee, the chairperson is an inside director for 43.2% of committees, while the chairperson at optional nomination committees at Companies with Kansayaku Board is an inside director for 40.4% of committees.

⁵⁹While Chart 102 has been totaled using the “total number of committee members”, Chart 103 has been totaled using the totals of “inside directors”, “outside directors”, “external experts”, and “other”.

Chart 103 Attributes of Chairpersons of Nomination Committees

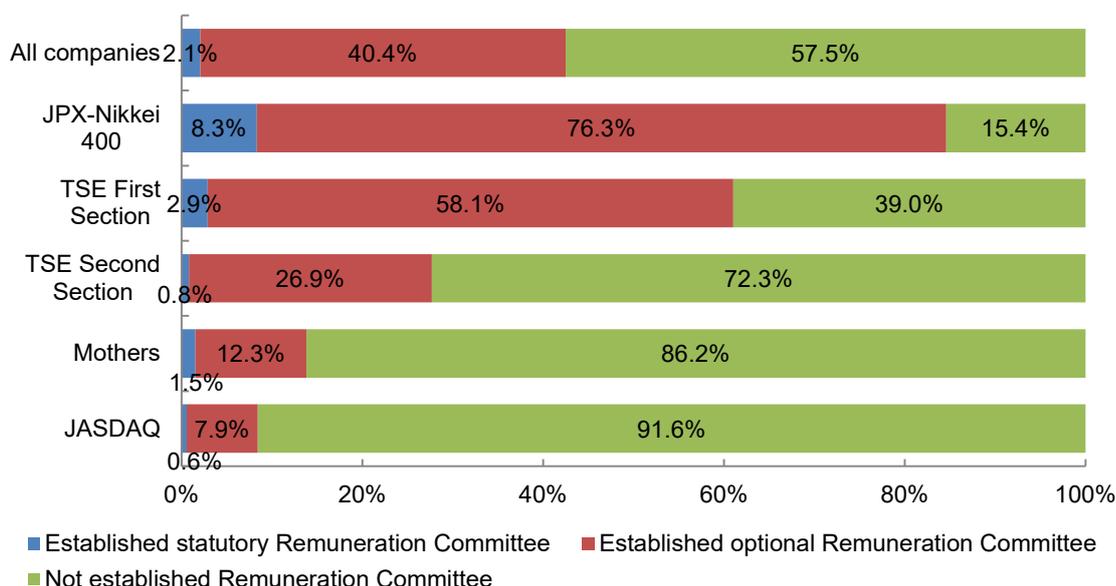


(2) Remuneration

① Status of remuneration committee establishment

While the establishment of a remuneration committee is mandatory at Companies with Three Committees, such establishment is up to the discretion of companies for Companies with Supervisory Committee and Companies with Kansayaku Board. The status of establishment of statutory or optional remuneration committee by market division is displayed in Chart 104. On TSE First Section, the number of companies with a statutory remuneration committee is 2.9% (63 companies), and the number of companies with an optional remuneration committee is 58.1% (1,263 companies), which is higher than other market divisions. For JPX-Nikkei 400 companies, 8.3% (33 companies) have established a statutory remuneration committee, 76.3% (302 companies) have established an optional remuneration committee, and these percentages are higher than those for TSE First Section companies.

Chart 104 Status of Remuneration Committee Establishment (by Market Division)



② Number of remuneration committee members

Chart 105 displays the number of remuneration committee members by organizational form. The average number of members of a statutory remuneration committee at Companies with Three Committees is 3.84, and companies with three committee members account for the highest proportion (50.0%). The average number of members of an optional remuneration committee at Companies with Supervisory Committee is 4.44, and companies with three committee members account for the highest proportion (29.3%). The average number of members of an optional remuneration committee at Companies with a Kansayaku Board is 4.57, and companies with five committee members account for the highest proportion (28.7%).

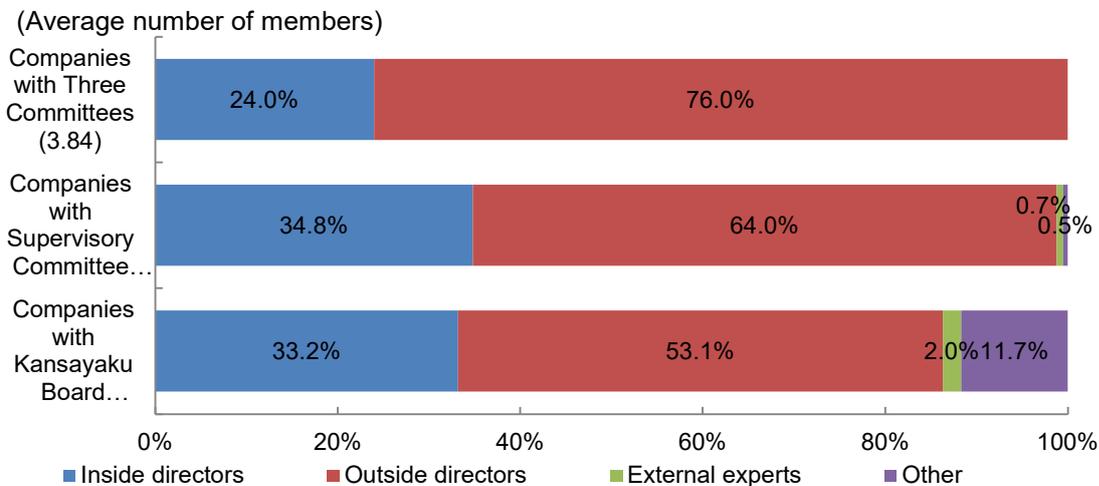
Chart 105 Number of Remuneration Committee Members



③ Ratio and number of inside directors and outside directors in remuneration committees

Chart 106 displays the ratio of inside directors and outside directors by organizational form. For remuneration committees at Companies with Three Committees, 24.0% of members are inside directors and 76.0% are outside directors. For optional remuneration committees at Companies with Supervisory Committee, 34.8% of members are inside directors, 64.0% are outside directors, 0.7% are external experts, and 0.5% are other. For optional remuneration committees at Companies with Kansayaku Board, 33.2% of members are inside directors, 53.1% are outside directors, 2.0% are external experts, and 11.7% are other.

Chart 106 Ratio and Number of Inside Directors and Outside Directors in Remuneration Committees 60



60 While Chart 106 has been totaled using the “total number of committee members”, Chart 107

Chart107 displays the number of inside directors in remuneration committees. For optional remuneration committees at Companies with Kansayaku Board and Companies with Supervisory Committee, the number of inside directors is higher compared to remuneration committees at Companies with Three Committees. While 53.9% of remuneration committees at Companies with Three Committees have only one inside director, optional remuneration committees with only one inside director account for 46.3% of those at Companies with Supervisory Committee, and 45.9% of those at Companies with Kansayaku Board.

Chart 107 Number of Inside Directors in Remuneration Committees

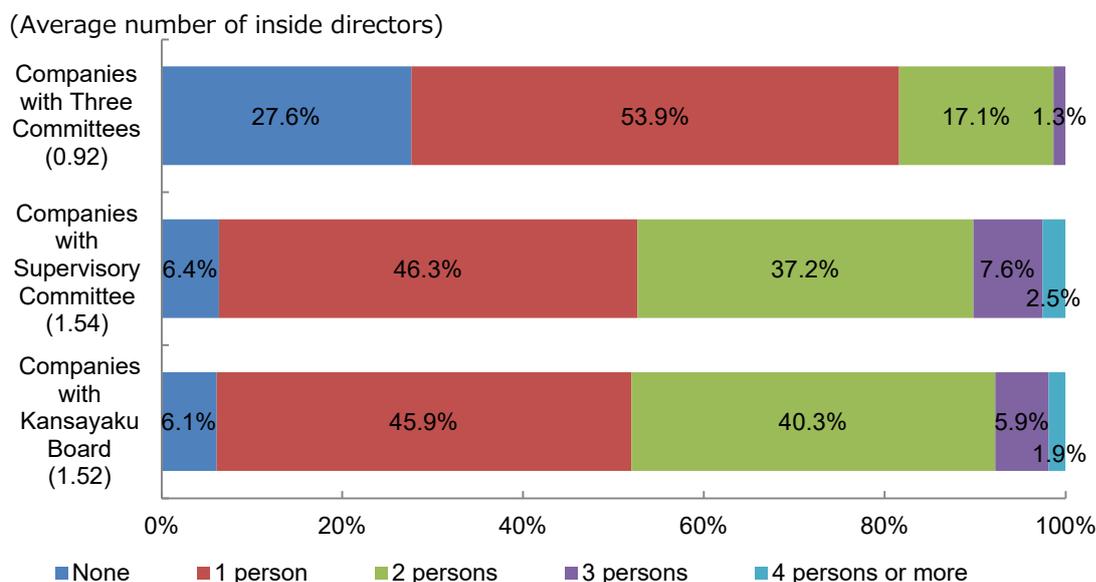
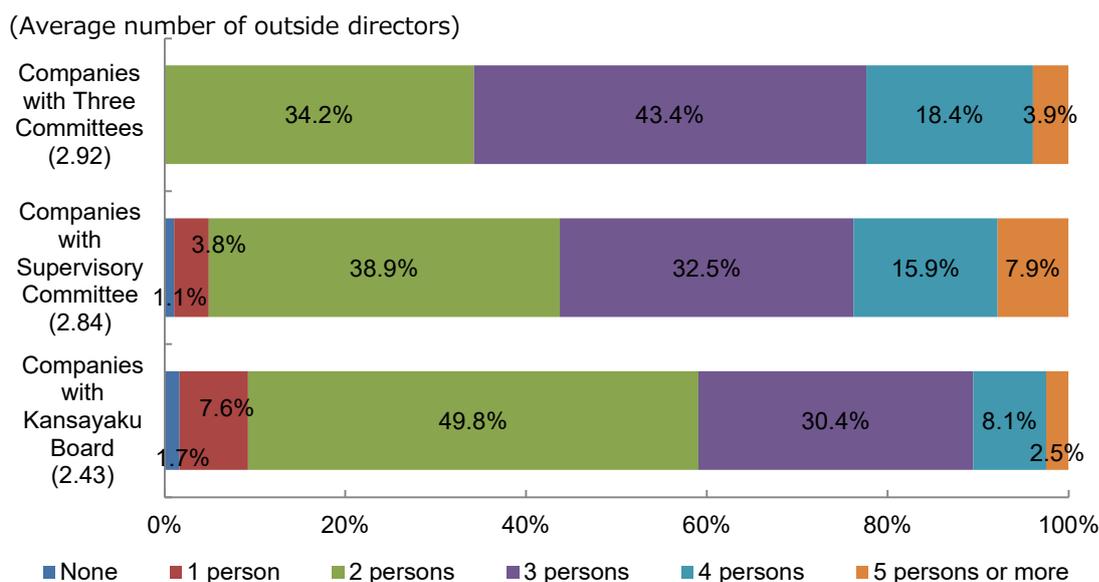


Chart Chart 108 displays the number of outside directors in remuneration committees. As with nomination committees, the majority of remuneration committees of Companies with Three Committees have two or three outside directors as members, and the majority of optional remuneration committees of Companies with Supervisory Committees and Companies with Kansayaku Boards also have two or more outside directors, although there are cases with zero or just one outside director.

has been totaled using the totals for “inside directors”, “outside directors”, “external experts”, and “other”.

Chart 108 Number of Outside Directors in Remuneration Committees

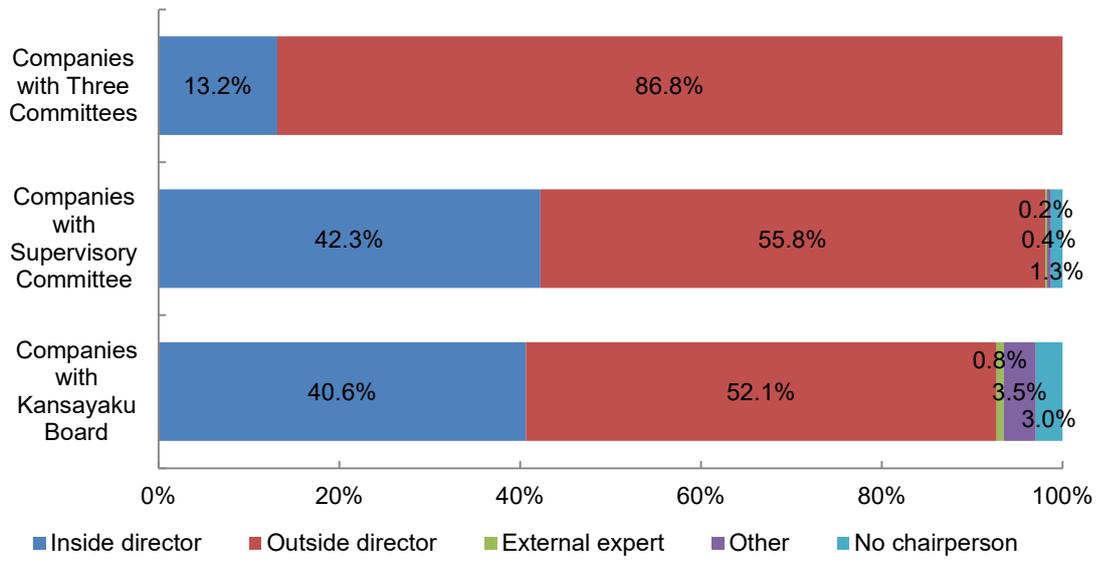


④ Attributes of chairpersons of remuneration committees

Chart Chart 109 displays the attributes of remuneration committee chairpersons by organizational form. For remuneration committees at Companies with Three Committees, the chairperson is an outside director at the majority of companies (86.8%). On the other hand, for optional remuneration committees at Companies with Kansayaku Board and Companies with Supervisory Committee, the percentage of chairpersons who are inside directors is higher compared to the remuneration committees at Companies with Three Committees.

At optional remuneration committees at Companies with Supervisory Committee, the chairperson is an outside director for 55.8% of committees, while the chairperson at optional remuneration committees at Companies with Kansayaku Board is an outside director for 52.1% of committees.

Chart 109 Attributes of Chairpersons of Remuneration Committees



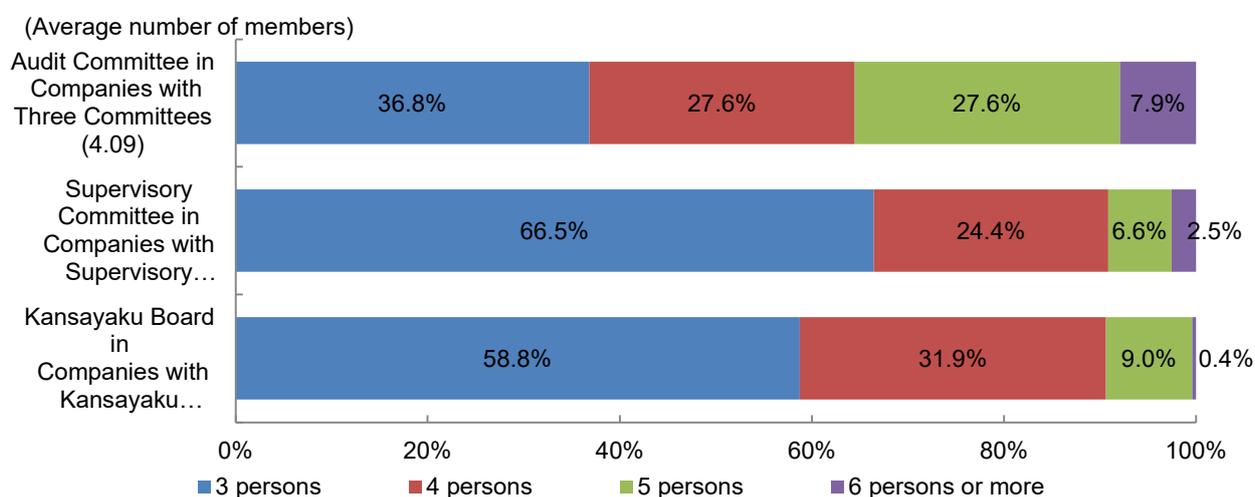
(3) Audit

① Number of audit committee, supervisory committee, and kansayaku board members

Chart Chart110 displays the number of audit committee, supervisory committee and kansayaku board members. The average number of members of an audit committee is 4.09, and companies with three committee members account for the highest proportion (36.8%). The average number of members of a supervisory committee is 3.46, and companies with three committee members account for the highest proportion (66.5%). The average number of members of a kansayaku board is 3.51, and companies with three members account for the highest proportion (58.8%).

Accordingly, the average number of members is highest at audit committees of Companies with Three Committees.

Chart110 Number of Audit Committee, Supervisory Committee, and Kansayaku Board Members



② Ratio and number of inside officers and outside officers at audit committees, supervisory committees and kansayaku boards

Chart 111 displays the ratio of inside officers and outside officers at audit committees, supervisory committees and kansayaku boards.

Note that the inside officers displayed on the graph are inside directors at audit committees and supervisory committees, and inside kansayaku at kansayaku boards. In the same manner, the outside officers are outside directors at audit committees and supervisory committees, and outside kansayaku at kansayaku boards.

For audit committees, 20.3% of members are inside directors and 79.7% are outside directors; for supervisory committees, 21.0% of members are inside directors and 79.0% are outside directors; and for kansayaku boards, 30.3% of members are inside kansayaku and 69.7% are outside kansayaku.

Chart 111 Ratio of Inside Officers and Outside Officers at Audit Committees, Supervisory Committees, and Kansayaku Boards

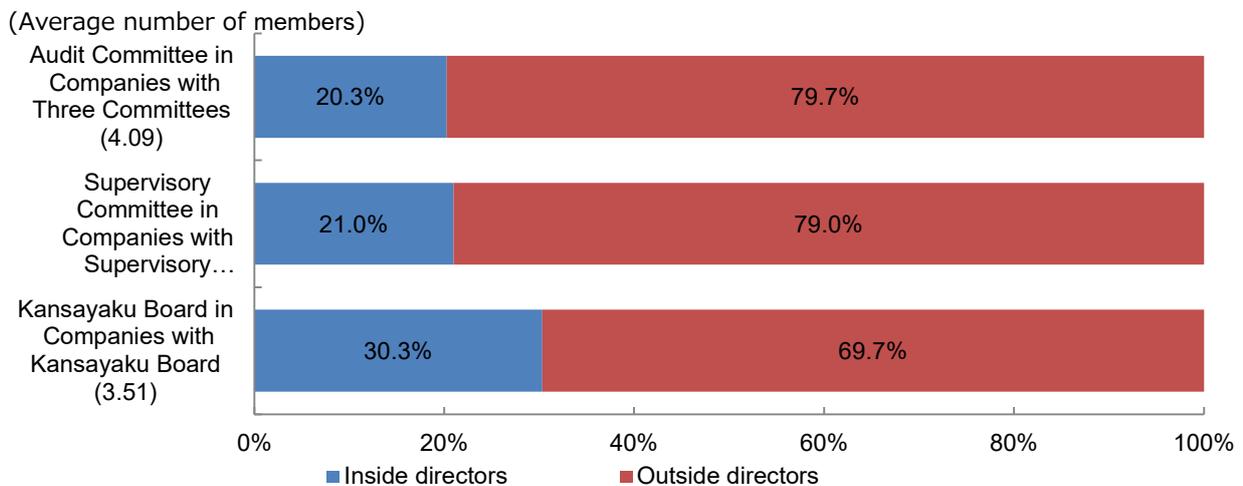


Chart 112 displays the number of inside officers (inside directors and inside kansayaku) at audit committees, supervisory committees, and kansayaku boards. For audit committees, 38.2% of the companies have no internal directors, which is higher than for supervisory committees and kansayaku boards. For supervisory committees, committees with one inside director are most common (64.0%). At kansayaku boards, the majority of companies have at least one inside kansayaku.

Chart 112 Number of Inside Officers at Audit Committees, Supervisory Committees and Kansayaku Boards

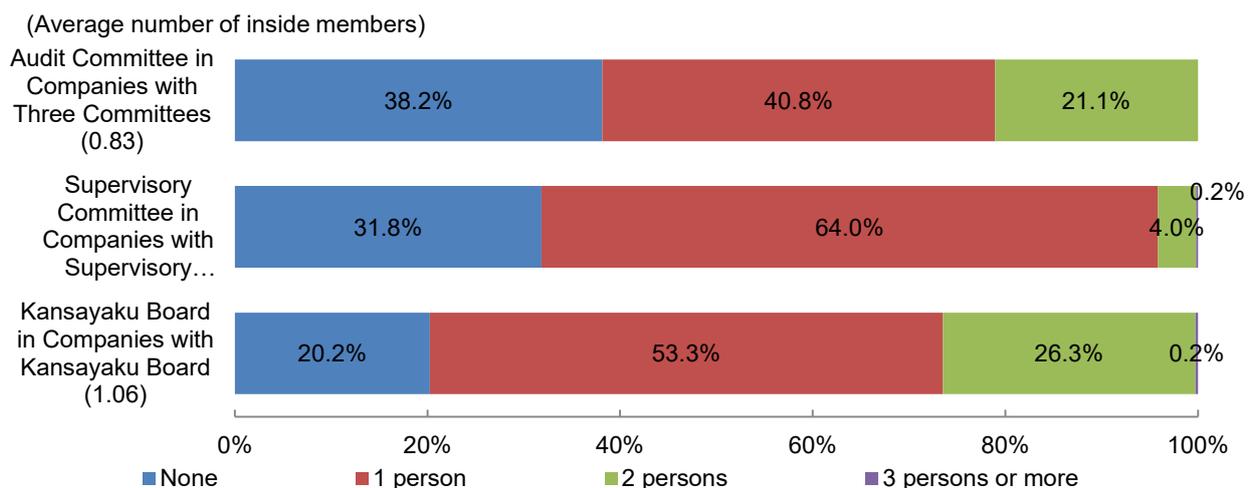
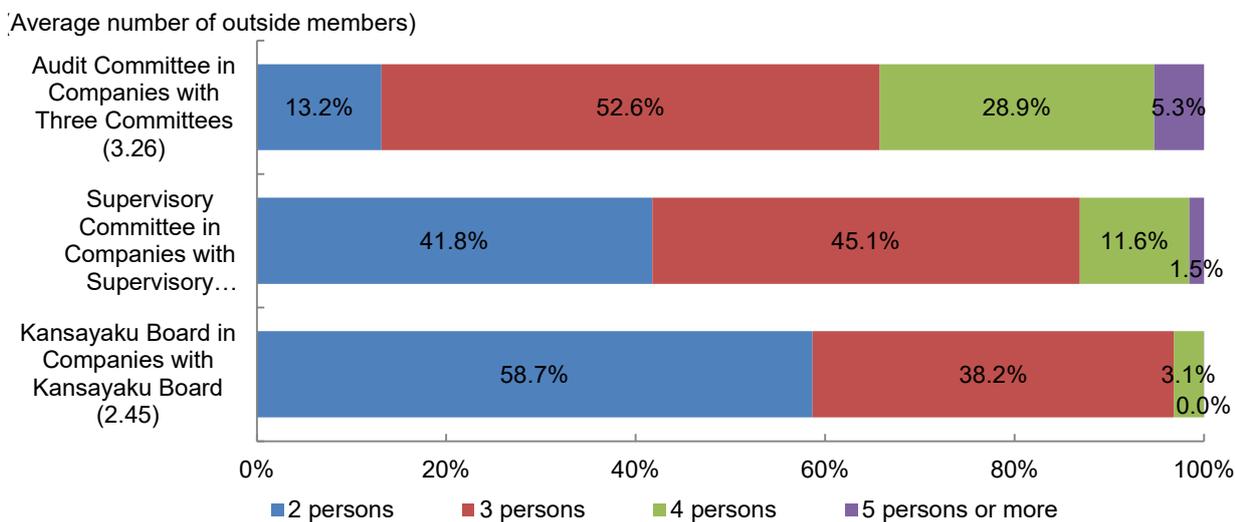


Chart 113 displays the number of outside officers (outside directors and outside kansayaku) at audit committees, supervisory committees and kansayaku boards. In either case, while the statutory requirement is for there to be at least two outside officers, for audit committees of Companies with

Three Committees, the majority of companies have at least three outside directors.

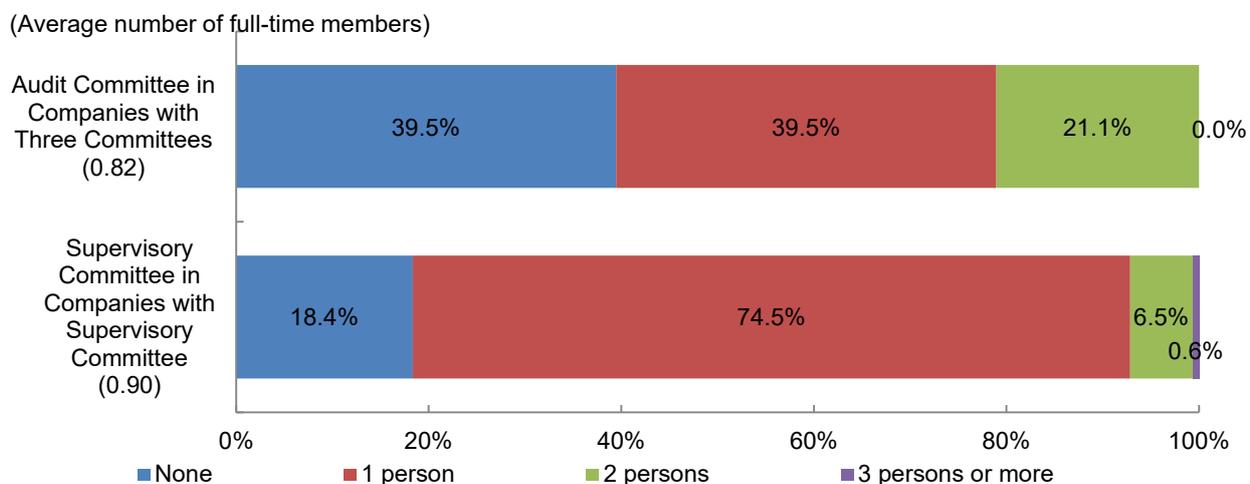
Chart113 Number of Outside Officers at Audit Committees, Supervisory Committees and Kansayaku Boards



③ Ratio of full-time members at audit committees, supervisory committees and kansayaku boards

Chart 114 displays the number of full-time members at audit committees, supervisory committees and kansayaku boards. The average number of full-time members of an audit committee is 0.82, and committees with zero or one full-time member account for the highest proportion (39.5%) respectively. The average number of full-time members of a supervisory committee was 0.90, and companies with one member accounted for the highest portion at 74.5%. Kansayaku boards are required by law to have a full-time member.

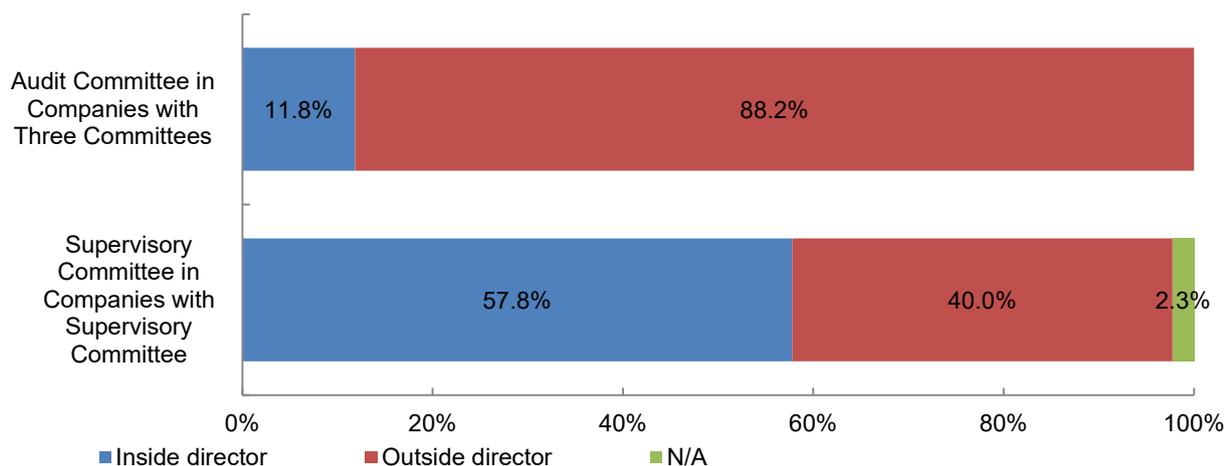
Chart 114 Number of Full-time Members at Audit Committees, Supervisory Committees and Kansayaku Boards



④ Attributes of chairpersons of audit committees and supervisory committees

Chart 115 displays the attributes of chairpersons of audit committees and supervisory committees. While many chairpersons are outside directors at audit committees (88.2%), for supervisory committees 57.8% of chairpersons are inside directors. In addition, for supervisory committees, 2.3% of companies do not designate a chairperson.

Chart 115 Attributes of Chairpersons of Audit Committees and Supervisory Committees



[Column 7] Status of optional nomination committees or remuneration committees

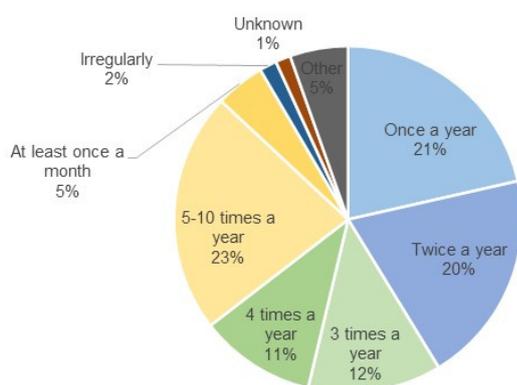
Following the revision of the Code in June 2018, with Supplementary Principle 4.10.1 requiring the establishment of a optional nomination committee and an optional remuneration committee, companies have been establishing optional nomination and remuneration committees. As of the end of December 2020, the majority of listed companies (54.6%) on the TSE First Section and Second Section had established optional nomination and remuneration committees (1452 out of 2660 companies). The effective operation of these committees remains under review.

As a result, in the Opinion Statement published by the Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code in December 2020⁶¹, a recommendation was made for the establishment of highly independent nomination committees and remuneration committees (statutory and optional) and for improvement of their capabilities (for nomination committees, strengthening the process for selection and dismissal of CEOs and directors, including enhancing the candidate pool; for remuneration committees, development of a remuneration system consistent with corporate strategy; improved disclosure of activities for both committees).

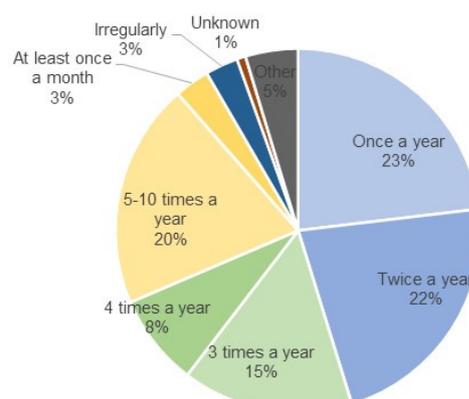
Chart 116 shows the status of holding nomination and remuneration committees. While about 20% of listed companies hold each committee five or more times a year, 40% to 50% of companies hold each committee twice a year or less. In addition, as shown by the attributes of the chairperson of optional nomination and remuneration committees in Chart 103 and Chart 109, while around 50% of listed companies have outside directors as committee chairpersons, around 40% have inside directors (such as the president or company chair) as committee chairpersons. This suggests a widening gap in the effectiveness of such committees.

Chart 116 Status of Holding Nomination and Remuneration Committees

<Nomination Committees>



< Remuneration Committees>



Source: Created from data in Ministry of Economy, Trade and Industry’s “Corporate Governance Fact-Finding Survey on Japanese Companies 2019” (METI)

⁶¹ “Board Effectiveness and Ensuring Diversity in the Core Human Resources in Companies for Post-COVID Transformation of Companies” (Opinion Statement No. 5 of the “Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code”)

However, some companies operate and disclose optional nomination and remuneration committees based on an awareness of their effectiveness. In the CG Report, in the supplementary explanation column for optional nomination committees and remuneration committees, companies are expected to provide the following information: method of selecting members, names of members of each committee, reasons for selection and roles, status of committee activities (frequency of meetings, main matters discussed, attendance of individual members, etc.)⁶². Companies are expected to record the establishment status of the Secretariat and its scale.

Example 1, Example 2 and Example 3 describe the activities of specific committees. In Example 1, the roles of the nomination committee and the remuneration committee are clearly outlined and the method of appointing members and the chairperson of the committees and the details of the consultations are disclosed. In particular, the nomination committee's process of evaluating the incumbent CEO and directors is also disclosed in detail. In Example 2, the specific details of deliberations and changes made by the nomination and remuneration committee along with the composition and basic functions of the committee are summarized in an easy-to-understand manner. Example 3 is an example of appointing the lead independent director as the chair of the nomination committee to demonstrate their active involvement in the development and selection of management successors and the performance evaluation of the CEO.

At present, the role and remit of optional nomination and remuneration committees is often to approve nomination and remuneration proposals prepared by the management or the secretariat. As mentioned above, around 50% of optional nomination and remuneration committees are chaired by outside directors, but only about 30% of these outside directors are executives from other companies with expertise in management nomination and remuneration matters. In the future, a highly independent nomination committee and remuneration committee, potentially with an outside director who has expertise in nomination and remuneration as the chair, is likely to be proactively involved in nomination and remuneration matters and exercise a supervisory function over the management team, from the perspective of strengthening the functions of the board and having the board take the lead in corporate reform.

⁶²In the June 2018 Report by the Working Group on Corporate Disclosure of the Financial System Council, it was recommended that disclosure concerning the activities of the nomination committee and remuneration committee should be enhanced in the CG Report on the premise that providing more governance information would make dialogue between investors and companies more constructive and effective. In February 2019, TSE changed the Reporting Guidelines for the CG Report and added that it is preferable to describe the status of activities (in terms of the frequency of meetings, main matters considered, and the attendance status of individual officers and members).

Example 1

The Company has established the Nomination Committee and the Compensation Committee as advisory bodies to the Board of Directors to ensure transparency and objectivity of nomination and compensation process aimed at strengthening competitiveness, improving corporate value and shareholder value and enhancing corporate governance.

[Nomination Committee]

To secure objectivity, transparency, and timeliness for procedures to appoint, dismiss, and evaluate Directors, the CEO, and other members of the management team, the Company has in place the Nomination Committee, which is an advisory body to the Board of Directors. The Nomination Committee comprises a majority of Non-executive Directors with at least half of the Members being Outside Directors.

During FY2020, the Committee was chaired by an Outside Director with three Outside Directors, one Internal Non-executive Director, one Internal Executive Director, and a majority of Outside Directors.

The Nomination Committee deliberates multiple times on the qualification of the candidates, and reports to the Board of Directors clarifying the basis for nomination. In the appointment of executive officers, the Nomination Committee assesses the rationale of the reasons for appointments made by the CEO. The Board of Directors deliberates based on the report from the Nomination Committee and resolves upon the selection of the CEO and the nomination of candidates for Directors. The CEO and the Board of Directors are evaluated annually by the Nomination Committee. From FY2018, a two-step evaluation has been adopted. In the first evaluation, careful and appropriate deliberations are made on the soundness of Directors to continue in their duties, ensuring timeliness of appointment and dismissal. In the second evaluation, Directors' achievements are evaluated with a multifaceted approach, and their issues are clarified through feedback in an effort to improve the quality of management. The Nomination Committee's deliberations and conclusions on the evaluation of Directors are reported to the Board of Directors to thoroughly oversee the CEO, senior management and directors.

[Election process at the Nomination Committee]

Chair of the Nomination Committee: Resolution by the Board of Directors

Nomination Committee Members: Resolution by the Board of Directors

Matters to be discussed with the Nomination Committee.

- 1) Nomination of candidates for CEO and Directors
- 2) Evaluation of the soundness of the CEO and Directors to continue in their duties
- 3) Evaluation of achievements of the CEO and Directors
- 4) Confirmation of status of CEO succession plans and development of future CEO candidates
- 5) Confirmation of appointment/dismissal proposals and reasons thereof for Corporate Vice Presidents, Group Executive Officers, Advisors, and Fellows
- 6) Approval or disapproval on the formulation, revision or abolishment of appointment/dismissal systems for Directors, Corporate Vice Presidents, and Group Executive Officers

[Compensation Committee]

To secure objectivity and transparency in the design of the compensation system and the determination of appropriate remuneration for the CEO, senior management and directors, the Company has in place the Compensation Committee, which is an advisory body to the Board of Directors, chaired by an Outside Director, with a majority of the Members being Non-executive Directors and at least

half being Outside Directors.

During FY2020, the Committee was chaired by an Outside Director with four Outside Directors, one Internal Non-executive Director, one Internal Executive Director, and a majority of Outside Directors.

Based on the Directors' compensation criteria, the Compensation Committee deliberates (1) the amount of basic compensation other than bonuses and compensation for acquiring stock (2) bonus compensation plans and (3) the details of stock-based incentives with stock price conditions based on multiple deliberations and evaluation of the stock price and individual performances. The results are reported to the Board of Directors. Based on the report of the Compensation Committee, the Board of Directors deliberates on bonuses and decides whether or not to submit proposals for the payment of bonuses to Directors to the General Meeting of Shareholders.

[Election process at the Compensation Committee]

Chair of the Compensation Committee: Resolution by the Board of Directors

Compensation Committee Members: Resolution by the Board of Directors

[Matters to be discussed with the Compensation Committee]

1) Approval or disapproval on the formulation, revision or abolishment of compensation systems for Directors, Corporate Vice Presidents, and Group Executive Officers

2) Individual remuneration for Directors (basic remuneration and bonus)

3) Individual compensation for the President and CEO (basic remuneration and bonus)

① Other important matters related to the compensation of Directors, Corporate Vice Presidents, and Group Executive Officers

(Electrical appliances)

Example 2

The Nomination and Compensation Committee for FY2019 consists of four members: "A," former President and Representative Director; "B", Director; "C", Outside Director; and "D", Outside Director. "C" serves as Chairperson of the Committee. From Committee meetings held on or after June 26, 2020, "E", current President and Representative Director, will serve as a member of the Committee in place of "A", the former President and Representative Director. In principle, the General Affairs Department serves as the secretariat of the Committee.

The Nomination and Compensation Committee meets several times a year as necessary to deliberate on matters related to the nomination of candidates for Directors and Corporate Auditors, the appointment and dismissal of Executive Officers including the President (CEO), and the compensation of Directors and Executive Officers, based on consultation with the Board of Directors, and reports the results of its deliberations to the Board of Directors. The Board of Directors deliberates and decides on these matters on the premise that it respects the results of the deliberations by the Committee.

The Nomination and Compensation Committee has met ten times since June 2019 and have primarily discussed the following matters

(1) Executive structure

(2) Interviewing of candidates

(3) Term of office of Executive Officers

• The term of office for Executive Officers is one year starting from the general meeting of shareholders, the same as the term of office for directors, but is now changed to one year in line with the business year.

(4) Compensation system for Executive Directors and Executive Officers

- Increase the ratio of performance-linked remuneration to total remuneration from a maximum of 30% to 50% in order to widen the range of remuneration depending on performance.

- Introduce stock-based compensation using restricted shares as fixed compensation and performance-linked compensation as an incentive to improve medium- to long-term performance, and abolish the current stock compensation-type share options.

- Format of contract for Executive Officers who do not concurrently serve as Directors

(5) Compensation for Outside Directors and Outside Audit & Supervisory Board Members

(6) Compensation of Audit & Supervisory Board Members

(7) Performance-linked compensation for Executive Directors and Executive Officers in FY2019

(Electrical appliances)

Example 3

(1) The Company established the Nomination Advisory Committee of which the majority of members are independent outside directors and the chair of which is a lead independent outside director to ensure the transparency of the policy and procedures of nominating candidates for directors. In addition, any members of this committee with special interests are not allowed to participate in voting.

(2) The committee deliberates the standards for the diversity in breadth of knowledge, experience, and capability necessary for the Board of Directors, criteria and procedures for nomination, and candidates for future appointment as directors, executive officers (including senior officers) and audit & supervisory board members, and submits its findings to the Board of Directors.

(3) The committee systematically develops and selects candidates for the successor to CEO and/or the president in an objective and transparent manner by providing the pool of candidates with necessary training and coaching to enhance skills and leadership and by actively participating in selection process through interviews etc.

(4) The CEO and/or the president submits to the committee an annual report on management activities including broad range of strategic activities. Based on the report, the committee assesses the business result and performance of the CEO and/or the president, and advises the Board of Directors whether or not improvement in management quality is necessary.

(5) The committee will deliberate and report to the Board of Directors in a timely fashion when the committee deems that a reason that necessitates the dismissal of directors, including the CEO, has arisen. In order to ensure the transparency of the deliberations, the committee takes necessary measures, such as deliberation solely among outside directors, for an agenda relating to dismissal of the CEO.

(6) Upon receipt of the aforementioned annual management activities report and based on the business result and performance evaluation of the CEO and/or the president as well as business circumstances and economic outlook, etc., the committee annually deliberates and judges the appropriateness of the appointment/dismissal of the CEO and/or the president and the term of office.

(7) The Nomination Advisory Committee consists of three independent outside directors and two internal directors, making a total of five members. The committee is chaired by the lead independent outside director.

(8) Number of meetings, month of meetings and attendance for 2019

In FY 2019, the committee met three times, in April 2019, July 2019, and January 2020, with the committee chairperson and all members in attendance at each meeting.

(Chemicals)

4-11. Stance towards the diversity, etc. of the board (Supplementary Principle 4.11.1)

Principle 4.11 stipulates that “The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity, including gender and international experience, and appropriate size.” Meanwhile, Supplementary Principle 4.11.1 requires disclosure on “ a view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size.”

The compliance rate with this principle was 96.8% (2,568 companies). In terms of keyword related to the balance between knowledge, experience and skills and diversity of directors, 41.2% (1,057 companies) mentioned “expertise (specialized/expert)” (Chart 117). In terms of specific expertise, “finance and accounting” was mentioned by 21.0% (538 companies), “management (corporate manager, corporate management, or management experience” by 51.4% (1,320 companies), “global, international or overseas” by 12.5% (321 companies), “law” by 3.3% (86 companies) and “digital/IT” by 0.5% (14 companies). There were also companies that mentioned department where they have worked, including “business” (36.4%, 936 companies), “administration” (14.2%, 364 companies), “sales and marketing” (9.1%, 234 companies), and “production and manufacturing” (6.3%, 163 companies).

Only 9.8% (252 companies) and 8.7% (223 companies) mentioned “women” and “foreign nationals (nationality)” as keywords related to demographic diversity. However, in the 2018 revision of the Code, Principle 4.11 clearly states that “ including gender and international experience” in terms of diversity of the Board. An increasing number of companies are clarifying whether or not they have appointed women or foreign nationals to their boards, or are taking steps to appoint them in future.

“Quota (articles of incorporation)” was mentioned as the main keyword related to the scale of the board of directors. 36.3% (931 companies) of companies complying with this principle mentioned the keywords “quota or articles of incorporation”, and among them, there are many companies that set the upper limit on the number of directors (quota) in the articles of incorporation. “Decision-making” was mentioned by 28.2% (725 companies), “oversight” by 25.1% (645 companies), and “discussion” by 12.7% (325 companies). These companies describe how the current size of the board is appropriate for fulfilling the roles of “decision making” and “oversight”.

Looking at individual examples, Example 1, Example 2 and Example 3 describe the skills required of directors, using these as assessment criteria. Example 2 and Example 3 mention specific requirements, and Example 3 in particular summarizes the expertise and background required of outside directors from the perspective of sustainable growth. The Opinion Statement published by the Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code in December 2020⁶³ identifies the skills that the board should have in terms of

⁶³ “Board Effectiveness and Ensuring Diversity in the Core Human Resources in Companies for Post-COVID Transformation of Companies” (Opinion Statement No. 5 of the “Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and

business strategies. Based on this, it recommends that the required combination of skills should be published in the form of a skills matrix. In future, it is likely that disclosures will increasingly take combinations of skills into account.

Example 1

(Excerpt)

Candidates for Inside Directors are nominated based on leadership strength in promoting the Company's business, their comprehensive capabilities in all aspects of management based on a deep understanding of the Company's business environment and its strengths and challenges, and other factors.

In terms of management strategies, candidates for Outside Directors are nominated based on their independence, as well as factors such as their range of experience beyond what Inside Directors could achieve themselves, management experience at companies that provide products and services in fields different to those of the Company, consultancy experience or academic experience involving expertise and a high level of insight.

As for Directors' skills requirements, the Company has prepared a skills matrix as a reference standard in terms of experience, background and competency. However, matrix scores are not taken into account in the actual selection of candidates for Directors. Based on the matrix of those skill requirements, the Company believes that the Board of Directors should appoint as candidates for Directors inside or outside personnel who are capable of objective and multifaceted deliberation, particularly taking account of their personal character and the balance with other Directors. (Excerpt)

Based on the requirements listed above, the Company believes that the appointment of personnel who have a multifaceted perspective, as well as knowledge, experience and ability, will ensure that the business is appropriately audited and supervised as it expands globally and achieves medium-term growth.

A voluntary committee consisting of one Representative Director and two Outside Directors is established as required, with the support of outside consultants, to select candidates for Outside Directors from a list of candidates. The Board of Directors decides on the nominees. Candidates for Inside Directors are nominated based on leadership strength in promoting the Company's business, their comprehensive capabilities in all aspects of management based on a deep understanding of the Company's business environment and its strengths and challenges, and other factors. The Board of Directors decides upon the nominated candidates as appropriate. (Excerpt)

We believe that the current composition of the Board of Directors is of an appropriate scale that enables substantive discussions to be held on a concise basis while at the same time generally ensuring diversity.

(Precision instruments)

Example 2

The Company's Board of Directors has established the following "Policy on the Composition of the Board of Directors". As of the date of submission of this report, the Company has appointed the required number of Directors who have experience and a high level of knowledge in management and business in order to ensure diversity in accordance with the "Policy on the Composition of the Board of Directors."

In particular, the skills (expertise) required of the Company's directors are defined as "management experience," "industry knowledge,"

“sales and marketing,” “technology and R&D,” “legal affairs,” and “finance, accounting and taxation,” taking into account the industry, scale, business characteristics, organizational structure and corporate environment. The members of the Board as a whole possess all of these skills. The required skills (expertise) shall be reviewed as required in light of the Company's business and corporate governance circumstances and the external environment.

Based on the above, the Company believes that the composition of the Board of Directors is optimal at present in terms of balance of knowledge, experience and ability, diversity and size.

◆ Approach to the composition of the Board

(1) The Board of Directors shall consist of no more than eight (8) Directors (including no more than five (5) Directors excluding Audit and Supervisory Committee Members). At least two (2) of these shall be Outside Directors.

(2) The composition of the Board of Directors shall take into consideration balance and diversity in terms of areas of expertise, experience, and ability.

(Service industry)

Example 3

Accepting the diversity of human resources and utilizing the diverse knowledge, experiences, and skills of each employee are important drivers of growth for the Company that aims for the "Integration of Telecommunications and Life Design," and we believe that ensuring diversity in the Board of Directors will also lead to good management decisions.

From the perspective of realizing the sustainable growth of the Company, the Nomination Advisory Committee stated that, in terms of the expertise and background of outside directors and outside auditors that are important to the Board of Directors, the key factors are "experience as a president of a listed company (management know-how, etc.)," "expertise in the information and telecommunications field (support for core businesses)," and "expertise in law, accounting, and government (compliance, etc.)." By ensuring that each director and auditor has these attributes, the Company is well-placed to benefit from balanced supervision and advice on management.

Please refer to the "Notice of Convocation of the Annual Shareholders Meeting" for more information on the fields of expertise of the Company's outside directors.

<https://www.●●.com/corporate/ir/stock-rating/meeting/20200617/>

(Information and communication)

Examples of descriptions related to diversity can be found in Example 4 and Example 5. Example 4 is a case in which the company clearly states that it has appointed foreign nationals and female directors with the aim of increasing the diversity of its board of directors. Example 4 is an example where a company states that it will continue to appoint women to senior positions in order to ensure that women are appropriately represented in terms overseeing the operations and business activities of the company.

Example 4

With the aim of overseeing important management decision making and the execution of duties in appropriate and timely fashion in order to increase corporate value over medium and long-term, the Company considers it important that the Board of Directors as a

whole effectively utilize both i) the extensive knowledge, experience and high capability in such fields as business management (including those of global businesses), R&D, manufacturing, manufacturing technology, human resources, and finance and accounting, etc. held by inside directors and ii) the vast experience and extensive expertise of management of companies in various fields and of business and management both in Japan and overseas, and the capability to actively express opinions and raise issues on growth strategy and enhancement of governance from a broad perspective held by independent outside directors. The Board of Directors should thus ensure such diversity in knowledge, experiences and skills as it deems necessary.

In FY2019, in order to cope with the drastic changes in business circumstances such as globalization, advance in Information Technologies and digitalization, the Company appointed, upon resolutions of the board, the first non-Japanese CEO stationed in the US and responsible for global business management of the Company and a COO and President stationed in Japan and supporting the CEO. The Company has further enhanced the diversity of the board as the AGM held on June 17, 2020 approved the election of an inside female director.

The Company will continue to ensure the sufficient diversity in knowledge, experience, and capability that are essential for the Board of Directors and maintain its optimum size but not exceeding 12 persons in accordance with the deliberation to be made by the Nomination Advisory Committee and with its business strategies in the future.

(Chemicals)

Example 5

(Excerpt)

The Company has appointed one executive director and one outside director who have experience working overseas. In addition, it has appointed one female independent director. We would like to continue to promote women from outside and inside of the company so that our management and business can be checked from a women's perspective in light of the characteristics of our business that involves interiors and the living environment.

(Wholesale trade)

Chart 117 Keywords Related to the Stance Towards the Diversity of the Board

Item	Number of companies	Ratio
Companies complying with Supplementary Principle 4.11.1	2,519	100%
■ Knowledge, experience, skills, etc.		
Management (corporate manager, corporate management, etc.)	1,320	51.4%
Expertise (specialized/expert, etc.)	1,057	41.2%
Finance and accounting	538	21.0%
Global, international or overseas	321	12.5%
Law	86	3.3%
Digital and IT	14	0.5%
■ Diversity		
Women	252	9.8%

Foreign nationals (nationality)	223	8.7%
■ Size		
Articles of incorporation and quota	931	36.3%
Decision making	725	28.2%
Oversight	645	25.1%
Discussion	325	12.7%

4-12. Concurrent positions by directors and kansayaku (Supplementary Principle 4.11.2)

Supplementary Principle 4.11.2 stipulates that “directors and kansayaku should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and kansayaku also serve as directors, kansayaku or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.” In terms of concurrent positions by directors and kansayaku, because “significant concurrent positions” is something that needed to be stated on business reports up until now, the compliance rate with this principle is high at 99.9% (2,649 companies). In addition, the disclosures of many companies in the CG Reports refer to materials, with statements such as “for details on the status of concurrent positions by officers, please refer to the notice of the general shareholder meeting”. In the keyword analysis, of the companies complying with Supplementary Principle 4.11.2, 72.1% (1,910 companies) mentioned the keyword "general shareholder meeting" and 67.0% (1,776 companies) mentioned "convocation (notice of convocation, convening notice, etc.)". In addition, 15.3% (405 companies) clearly stated a website URL.

Furthermore, 25.2% (668 companies) mentioned “reasonable (reasonable scope, etc.)” 2.8% (74 companies) disclosed specific figures for the maximum and target number of concurrent positions. 11 companies, including the company concerned, stated that the number of concurrent positions was "3 companies or less", 44 companies stated "4 companies", 18 companies stated "5 companies", and 5 companies stated "6 or more companies". In addition, there were also companies that stated that another company’s offer shall be notified to the board or be approved by the board in advance for appointment of an officer. In terms of attendance, some companies clearly stated that “an attendance rate of at least 75% should be ensured.”

Looking at individual examples, Example 1 is an example of a company requiring an attendance rate of 80% or more and limiting the number of concurrent positions in principle to three companies as criteria for appointment to ensure sufficient time for the execution of responsibilities as a director. Example 2 is an example of a company requiring an attendance of 75% or more for board meetings, and 100% attendance for any optional nomination committee/remuneration committee meeting (in case of Executive Appointment Meeting and the Executive Compensation Meeting). Outside directors are expected to play a central role not only in attending board meetings but also in nominating and remunerating directors. From the perspective of ensuring effective corporate governance, the trend of requiring outside directors to attend board meetings, including optional committees, seems likely to continue to grow. As in Example 3, there is also an example of a company that stated that the current state of concurrent positions was within a reasonable scope in consideration of the attendance rate for the board.

Example 1

For the selection standards for Outside Directors, the Company's Nomination Committee stipulates that individuals must “be able to spend sufficient time to perform their duties”, and carefully reviews the status of concurrent positions when selecting candidates.

The status of concurrent positions held by directors appointed at the 116th General Meeting of Shareholders is as follows. Furthermore, the Company requires all Directors to have an attendance rate of at least 80%, and in order to realize this, as a general rule Directors should aim to hold concurrent positions (positions as Officers as stipulated in the Companies Act) at no more than three companies other than the Company.

Major concurrent positions (as of July 17)

●● ●● (Chairman of the Board of Directors)

Company A (Outside Director), Company B (Outside Director), Company C (Outside Director)

●● ●● (Outside Director)

Company D (Outside Director), Company E (Outside Director)

(Excerpt)

(Electrical appliances)

Example 2

(Excerpt) For this reason, the Company especially confirms with the candidates for part-time Outside Directors/Outside Audit & Supervisory Board Members whether they are able to attend at least 75% of the meetings of the Board of Directors and the meetings of the Audit & Supervisory Board (in the case of Outside Audit & Supervisory Board Members) before their appointment. Furthermore, Outside Directors (candidates) must, in principle, be able to maintain 100% attendance as members for the Executive Appointment Meeting and the Executive Compensation Meeting. Taking into account the time required to be devoted to duties as the Company's Member of the Board of Directors or Audit & Supervisory Board Member, the Company sets a limit on the number of companies, in principle, for which Members of the Board of Directors and Audit & Supervisory Board Members are allowed to concurrently serve, either as officers or in some other capacity (appointment as officers of listed companies, etc.), of up to four companies not including the Company.

(Pharmaceuticals)

Example 3

(omission) The rate of attendance at meetings of the Board of Directors by Outside Director ●●, who concurrently serves as a Director at another company, is 100%; and the rates of attendance at meetings of the Board of Directors and meetings of the Audit & Supervisory Board by Outside Audit & Supervisory Board Member ●● and Outside Audit & Supervisory Board Member ●● are both 100%. In consideration of the above, it is believed that the number of concurrent positions as officers for other companies served by the Company's directors and Audit & Supervisory Board Members is within a reasonable scope (attendance rates, etc. based on the results for FY2019).

(Other products)

[Column 8] Concurrent positions by outside officers

Supplementary Principle 4.11.2 stipulates that “Outside directors, outside kansayaku, and other directors and kansayaku should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and kansayaku also serve as directors, kansayaku or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.” Accordingly, we attempted to assess the actual current state of concurrent positions held by outside directors and outside kansayaku. Chart 118 displays the current state of concurrent positions held by outside directors and outside kansayaku at all 3,792 listed companies (as of December 2020).

Chart 118 Concurrent Positions by Outside Directors and Outside Kansayaku

Number of concurrent positions	Previous (as of March 2019)		This occasion (as of December 2020)	
	Number of persons	Composition ratio	Number of persons	Composition ratio
7 companies	2 persons	0.0%	1 person	0.0%
6 companies	2 persons	0.0%	1 person	0.0%
5 companies	20 persons	0.1%	17 persons	0.1%
4 companies	113 persons	0.9%	17 persons	0.7%
3 companies	418 persons	3.3%	446 persons	3.2%
2 companies	1,841 persons	14.3%	1,655 persons	12.0%
1 company	10,453 persons	81.4%	1,655 persons	83.9%
Total	12,849 persons	100.0%	13,772 persons	100.0%

The total number of outside directors and outside kansayaku at all 3,792 listed companies is⁶⁴ 13,772. Chart 118As shown in the table below, the percentage of outside directors and outside kansayaku who serve at one company is very high at 83.9% or 11,561 persons. This was followed by 1655 persons with concurrent positions at 2 companies (12.0%), 446 persons with concurrent positions at 3 companies (3.2%), 91 persons with concurrent positions at 4 companies (0.7%), 17 persons with concurrent positions at 5 companies (0.1%), and 1 person each with concurrent positions at 6 companies and 7 companies.

If we analyze the attributes of the 19 persons who held five or more concurrent positions, 7 were from other companies, 6 were lawyers, and 6 were CPAs. In the previous survey (as of March 2019), 24 persons held 5 or more concurrent positions, 18 of whom were from other companies, but the number of concurrent positions held by persons from other companies is declining.

It is believed that the larger the number of concurrent positions per outside officer, the more time and

⁶⁴Based on SPEEDA data as of December 2020. Individuals have been identified by name and date of birth and totaled.

effort required for appropriately fulfilling roles and responsibilities is dispersed. Quantitatively, this can be expressed as a decline in the board attendance rate. Some listed companies limit the number of concurrent positions by outside officers so that they concentrate as much as possible on activities at their own company so the experience and knowledge of these outside officers can be effectively used in management. Furthermore, some proxy advisory firms suggest opposing votes if a *shikkoyakuin* of a listed company will concurrently serve as a director or kansayaku at 3 companies or more, or if an officer of a listed company who is not a *shikkoyakuin* will serve as a director or kansayaku at 6 companies or more (however, with concurrent positions within their own group counting as one company). In some cases, the capital market is very strict about excessive concurrent positions.

In fact, since the formulation of the Code, the roles expected of outside officers have increased more than ever before. In the past, it was no problem for outside directors and outside members of the audit & supervisory board attending monthly meetings of the board (or meetings of the audit & supervisory board). In recent years, however, they have been required to attend optional meetings of the nomination committee and remuneration committee, attend internal meetings other than meetings of the board (in order to understand the execution of business activities), participate in various internal events, and attend off-site meetings to discuss medium to long term strategy. The amount of time spent per company in fulfilling the duties of outside directors and outside members of audit & supervisory boards is increasing, and the practical burden is also increasing. In addition, in terms of engagement with investors and shareholders, recently there have been some cases of holding large meetings and small meeting such as governance briefings as well as cases of direct engagement between outside directors and investors through individual meetings. In such a situation, it has been pointed out that the number of concurrent positions which a person can realistically hold is limited. As the role that is expected of outside officers grows going forward, the number of concurrent positions will likely continue to be a theme that attracts much attention.

4-13. Evaluation of the effectiveness of the board (Supplementary Principle 4.11.3)

Supplementary Principle 4.11.3 requires the board to analyze and evaluate its effectiveness as a whole, and to disclose a summary of the results. The evaluation of the effectiveness of the board assumes an ongoing process of regularly verifying not only the execution of duties by individual directors, but also whether the board is functioning properly as a whole, and taking appropriate measures based on the results such as improvements to problems and augmenting strengths to ensure that the roles and responsibilities of the board are effectively fulfilled.

Conducting evaluations on the effectiveness of the board is already a common practice in various countries such as the UK and the US, and it is necessary to conduct such evaluations and provide disclosures based on the Code, securities exchange regulations, etc. Among listed companies in Japan, there has been an increase in companies conducting evaluations on the effectiveness of the board since the formulation of the Code. 81.5% (2,161 companies) of the companies listed on TSE First and Second Sections have implemented Supplementary Principle 4.11.3, and because there are some companies that have conducted an evaluation for the fifth time since 2015, it can be said that such evaluations are becoming instilled as business practices among listed companies in Japan.

The content of disclosure based on Supplementary Principle 4.11.3 can be broadly divided into the evaluation process and an overview of evaluation results. The typical evaluation process consists of the distribution of questionnaires, etc. to directors and kansayaku, and deliberations on effectiveness evaluation and future improvement measures, etc. based on the aggregated results. According to an analysis of keywords, the most common keyword related to the evaluation process was “questionnaire, survey form, etc.”, which was mentioned by 67.8% (1,466 companies) (Chart 119). 10.0% (216 companies) mentioned “interviews and hearings, etc.”.

37.8% (816 companies) conducted “self-assessment” Meanwhile, 17.4% (377 companies) mentioned the use (including consideration in the future) of external evaluation (third-party organizations, external evaluation organizations, lawyers, etc.). Specifically, in addition to cases of the creation, gathering, totaling and analysis of questionnaires, etc. and conducting of hearings by external evaluation organizations, there have been examples where third-party organizations participate in the board to directly observe the state of deliberation and conduct an evaluation of effectiveness. An increasing number of companies that have traditionally conducted in-house evaluations of the effectiveness of their boards of directors are now using external evaluations in order to utilize external knowledge.

In terms of evaluation items, many companies mentioned the composition and roles of the board, operations status, status of discussions, and support structures for directors (training, information provision, etc.). In the keyword analysis, “operations and management” was mentioned by 60.0% (1,296 companies), “composition” by 51.0% (1,103 companies), and “deliberation” by 40.4% (873 companies) (Figure 119).

Some companies also included “engagement with shareholders including IR and SR”, “status of board participation by individual directors”, “risk management and compliance”, and “ESG/sustainability” as evaluation items. There were companies that also mentioned “group

governance” and “board culture” as evaluation items. In addition, there were multiple companies for which at least five years have elapsed since the introduction of evaluations on effectiveness of the board and that have included a “review on the response to challenges in the evaluation for the previous fiscal year or previous time” as an evaluation item.

In their overview of evaluation results, many companies state that “the effectiveness of the board is ensured.” However, some companies clearly stated challenges and the response policy for ensuring an even more effective board, which will lead to future initiatives as follows. The main challenges that were pointed out include succession planning, risk management and compliance, and having deeper deliberations on mid to long-term strategies, and there were also many companies that viewed the quantity and quality of materials as a continued challenge from the previous year. In addition, as a recent trend, more and more companies are referring to sustainability and ESG as issues.

If we analyze individual cases, Example 1 is an example of the “evaluation process (including evaluation items)” and “evaluation results (including responses to issues identified in the previous year),” as well as detailed disclosure of “issues facing the Board of Directors” and “future initiatives.” In addition to evaluating the nomination committee and the compensation committee, the company established the Project for Enhancing the Effectiveness of the Board of Directors (comprising the chairperson, two outside directors, the CEO, and one outside audit & supervisory board member) was established within the board. This carried out discussions on risk appetite and, as a part of its ESG initiative, agreed to recommendations of the Task Force on Climate-related Financial Disclosures and held discussions on the establishment of the Human Rights Policy In addition, this year there were examples of companies that referred to COVID-19. In Example 2, the company discloses that the impact of COVID-19 was a topic for discussion at board meetings in addition to matters related to the business portfolio to ensure that medium to long term issues were properly discussed. Example 3 includes items such as “business portfolio,” “climate change,” and “independence of listed subsidiaries,” which are of particular interest to the capital markets, for evaluation of the effectiveness of the board. Example 4 is an example of a company using an external evaluation organization with the disclosure of the name of the external organization in question. Example 5 is an example where the effectiveness of optional committees is included as one of the evaluation items. The summary of the external experts’ evaluation is disclosed, as well as detailed measures concerning matters such as succession planning.

Example 1

The Board of Directors analyzed and evaluated its effectiveness in 2019 as part of the Company’s efforts to implement growth-oriented corporate governance that contributes to the practice of management for corporate value enhancement. An overview of the results and initiatives to be implemented going forward is as follows:

I. Overview of Analysis and Evaluation Results

(i) Conclusion

- Our Board of Directors has concluded that the Board was “functioning effectively” for FY2019.

(ii) Analysis and evaluation

- “Performed adequately” or “Performed adequately overall” accounted for a high proportion of the responses to the questions in the effectiveness evaluation questionnaires, submitted by the Directors and Audit & Supervisory Board Members.

Nearly all answers included proposals, advice, and observations with regard to the discussions and initiatives of the Board of Directors, including the enhancement of corporate value over the medium to long term, appropriate risk-taking, and communication with shareholders and investors.

- In addition to the evaluation questionnaires, a third party conducted interviews with all Outside Directors to obtain objective opinions. Their opinions have been reflected in the evaluation.

After considering the results of the evaluation, the Company’s Board of Directors has prioritized the following issues, which will be addressed to enhance their overall effectiveness:

i) Deepening discussions that contribute to medium- to long-term improvements in corporate value

- Facilitating discussions on medium- to long-term management strategies and business portfolios
- Conducting discussions on optimal corporate governance models for the Company
- Restructuring the operations of the Board of Directors to facilitate such discussions (including administrative support and time management for discussions at Board meetings)

ii) Monitoring that contributes to Group governance

- Strengthening reporting and monitoring by the Group’s regional headquarters
- Appropriate monitoring that facilitates ERM and risk appetite initiatives

iii) Enhancing the transparency of the Nomination Committee and the Compensation Committee

- Increasing the transparency of discussions held by the respective committees
- Reconfirming the matters to be shared by each committee with the Board of Directors

iv) Accelerating ESG initiatives

- Supervising the direction of ESG initiatives (from an ultra-long-term management viewpoint)
- Monitoring the milestone achievements of ESG initiatives

v) Strengthening the provision of information to enhance the effectiveness of the Board of Directors

- Strengthening the provision of information regarding stakeholder engagement

II. Future Initiatives

After considering the results of the evaluation, the Company’s Board of Directors has prioritized the following issues, which will be addressed to enhance their overall effectiveness:

i) Deepening discussions that contribute to medium- to long-term improvements in corporate value

- Facilitating discussions on medium- to long-term management strategies and business portfolios
- Conducting discussions on optimal corporate governance models for the Company
- Restructuring the operations of the Board of Directors to facilitate such discussions (including administrative support and time management for discussions at Board meetings)

ii) Monitoring that contributes to Group governance

- Strengthening reporting and monitoring by the Group’s regional headquarters
- Appropriate monitoring that facilitates ERM and risk appetite initiatives

iii) Enhancing the transparency of the Nomination Committee and the Compensation Committee

- Increasing the transparency of discussions held by the respective committees

- Reconfirming the matters to be shared by each committee with the Board of Directors

iv) Accelerating ESG initiatives

- Supervising the direction of ESG initiatives (from an ultra-long-term management viewpoint)
- Monitoring the milestone achievements of ESG initiatives

v) Strengthening the provision of information to enhance the effectiveness of the Board of Directors

- Strengthening the provision of information regarding stakeholder engagement

III. Responses to Issues Identified in Previous Fiscal Year

• Strengthening the Group's effective corporate governance system, establishing a risk management system for the enhancement of Group governance, and reinforcing ESG initiatives were identified in the previous fiscal year as issues to address.

To address those issues, the Project for Enhancing the Effectiveness of the Board of Directors (comprising the chairperson, two Outside Directors, the CEO, and one Outside Audit & Supervisory Board Member) was established within the Board of Directors. Through this project, the Board of Directors conducted studies on items to be discussed at Board meetings to enhance its effectiveness, carried out discussions on risk appetite and, as a part of its ESG initiative, agreed to recommendations of the Task Force on Climate-related Financial Disclosures and held discussions on the establishment of the Group's Human Rights Policy.

• A certain level of progress has been made with all of the aforementioned issues. However, the Board of Directors is aware of the need for further efforts with regard to the majority of comments cited in the evaluation, and therefore is committed to continuing to improve in these areas.

(ii) Methods of analysis and evaluation

To assess the effectiveness of the Board of Directors during fiscal 2019, each of the Company's Directors and Standing Audit & Supervisory Board Members evaluated the effectiveness of the Board of Directors between December 2019 and January 2020 using an effectiveness evaluation questionnaire prepared by the Secretariat with third party advice after approval by the Board of Directors.

In addition, an interview with all outside directors was conducted by a third party in December 2019, primarily to obtain more details on the evaluation. The third party also provided support in analyzing the results of the questionnaire and providing benchmarking indicators.

Based on the compilation of the results of the evaluation through this questionnaire and the summary of the secretariat with third party assistance, the Board of Directors held multiple discussions in March 2020, and determined the evaluation for the year.

V. Evaluation items

The major sections of the effectiveness evaluation questionnaire are as follows:

1. Roles and responsibilities of the Board of Directors
2. Board of Directors' discussions and initiatives
3. Delegation of authority
4. Appropriate risk taking
5. Global risk management, internal controls
6. Composition of the Board of Directors
7. Appointment and succession of senior management and Directors
8. Management remuneration
9. Dialogue with shareholders, investors and stakeholders

(Foods)

Example 2

1. Evaluation Summary

The Board of Directors receives reports regarding matters including the progress of the medium-term business plan and the status of compliance and risk management in a timely manner, and has a thorough understanding of management conditions. The management team actively takes into consideration the opinions of the Board of Directors to improve operations. With regard to meeting administration, the necessary materials are made available and sufficient discussion time is allocated. It was determined that a suitable structure was in place for the Board of Directors to exercise its supervisory functions, and that Board of Directors meetings were being effectively conducted.

2. Main Initiatives Implemented

(1) Enhancing discussions regarding medium- and long-term management issues

In response to the recommendation that we enhance discussions regarding management approaches and medium- and long-term issues, the Board of Directors took up and discussed the following topics.

- Domestic and overseas construction market trends and business portfolios of other domestic and overseas construction companies
- Policy regarding growth fields in construction markets
- Impact of COVID-19 pandemic
- Technology development and partnerships with other companies in the IoT field, including robot construction
- Progress of investment plans (real estate development, R&D, etc.)
- Current status of social contribution activities and direction of future initiatives

(2) Initiatives to Strengthen Group Governance

(i) Compliance risks, including those of Group companies in Japan and overseas were reviewed regularly. High priority issues were discussed multiple times through inclusion as Board of Directors agenda items and management status was confirmed.

(ii) Opportunities for dialogue between outside officers and executives of local companies were created in order to improve governance in overseas operations. Through this dialogue, local conditions and issues were reported and opinions were exchanged.

(iii) Information was shared and opinions exchanged at Board of Directors meetings regarding feedback from dialogue with shareholders, investors and other stakeholders.

(3) Further Leveraging the Functions of the Governance Committee as an Advisory Organ

The Governance Committee provided advice following multiple discussions concerning structure of the Board of Directors and officer remuneration. Based on this advice, the Board of Directors engaged in deliberations and made the following decisions.

- In order to maintain the size of the Board of Directors within appropriate bounds, clarify the management responsibilities of individual directors, and create a management system capable of rapidly responding to changes in the business environment, the number of directors stipulated in the Articles of Incorporation would be reduced to 13 or fewer and the term of office would be shortened to up to one year. (Submitted to and approved by the 123rd Ordinary Shareholders' Meeting on June 25, 2020.)
- From the perspective of providing incentives aimed at improving medium- and long-term business performance improvement and reflecting the characteristics of the construction industry, the director and executive officer performance-linked remuneration (bonus) system was revised.

(Construction industry)

Example 3

(2) Evaluation of the effectiveness of the Board of Directors for the current fiscal year

This evaluation was in the form of a questionnaire survey concerning initiatives to address the above issues, and considered deliberations at a total of 13 Board of Directors meetings held between April 2019 and March 2020. All directors and audit and supervisory board members were eligible to participate in the survey, and the survey was conducted in late March 2020.

In terms of the main items covered in the questionnaire, the following five items were used as before, with the main details based on third party advice. The questionnaire took account of the social situation aimed for by the Board of Directors, and the questions included themes such as "business portfolio management," "climate change," and "independence of listed subsidiaries."

- Composition of the Board of Directors / Governance Structure
- Management of the Board of Directors
- Culture of the Board of Directors
- Supervision by the Board of Directors
- Discussion on management strategy

(Part below omitted)

(Other products)

Example 4

We recognize that it is crucial to strengthen governance through the Board of Directors adequately fulfilling its function in order to increase our corporate value continuously. We have implemented self-evaluation since the fiscal year 2015 in order to improve the effectiveness of the Board of Directors.

We evaluated the effectiveness of the Board of Directors in the fiscal year 2019 with the help of an external consulting company (note) in light of seeking a governance system suitable to the future of the Company that intends to accelerate a structural reform of the Group.

(Note) ●● (hereinafter referred to as “●●”) was used as the external consultant.

1. Evaluation method

●● distributed a questionnaire (listed below) to all directors who belong to the Board of Directors as well as all auditors, and analyzed the responses. ●● individually interviewed all directors and all auditors based on their answers and compiled the results in a report. Based on this report, the board identified and evaluated the current situation, deliberated on the future direction of the board, and decided on a course of action.

(1) Questionnaire

Respondents: All directors (9 individuals) and all auditors (5 individuals)

Method of response: anonymous replies (to all 62 questions)

Assessment Items:

<1> Role and functions of the Board of Directors

<2> Progress of the policy for fiscal 2019

<3> Size and composition of the Board of Directors

<4> Operation of the Board of Directors

- <5> Composition and roles of Nomination & Remuneration Committee
- <6> Operation of Nomination & Remuneration Committee
- <7> Officer training
- <8> Support system for outside directors
- <9> Role and expectations of auditors
- <10> Relationship with various stakeholders,
- <11> Overall effectiveness of our corporate governance system and the Board of Directors
- <12> Self-assessment

(2) Interviews

Respondents: All directors (9 individuals) and all auditors (5 individuals)

Response method: Individual interviews by ●●

(Part below omitted)

(Information and communication)

Example 5

(Excerpt)

(1) Evaluation procedure

Subjects: Directors and Audit & Supervisory Board Members (15 individuals in total)

Period: January to February 2020

Method: Self-assessment involving questionnaires conducted by third party experts.

(a) Questionnaire

Five-point evaluation and open-ended responses; 12 categories (71 items)

[Categories]

- 1) Roles and responsibilities of the Board
- 2) Size and composition of the Board
- 3) Management of the Board
- 4) Composition and role of the Nomination Advisory Committee
- 5) Management of the Nomination Advisory Committee
- 6) Composition and role of the Remuneration Advisory Committee
- 7) Operation of the Remuneration Advisory Committee
- 8) Support system for outside directors
- 9) Role of Audit & Supervisory Board Members and Expectations
- 10) Relationship with investors and shareholders
- 11) Overall effectiveness of the Company's governance system and Board of Directors
- 12) Self-assessment

(2) Overview of evaluation results

The findings of the external experts based on the above questionnaire are as follows.

After combining the opinions of all corporate officers who participated in the questionnaire, it is determined that the Company's Board

of Directors conducts discussions while maintaining an atmosphere in which participants are comfortable in sharing their views. To increase the depth of discussions held by its Board of Directors, ahead of meetings the Company is improving the materials provided, and making more information available, to Outside Directors. Outside Directors also benefit from receiving advance briefings, and are permitted to attend internal meetings. Through these and other efforts, the Board has achieved a considerable degree of overall effectiveness. The composition of the Nominating Advisory Committee and the Remuneration Advisory Committee, which function as advisory bodies for the Board of Directors, have become more relevant due to systemic changes implemented on January 1, 2020. Notable improvements have been made in response to issues identified during the previous fiscal year through evaluations of the Board's effectiveness. On top of that, each officer identified several possible improvements that could be made to further improve the effectiveness of the Board of Directors, and these points may be considered in the deliberations of the Board of Directors in future.

The Board of Directors of the Company took the evaluation from the external experts seriously, discussed the matters pointed out or proposed, and resolved to reflect these in the future management of the Board of Directors as follows.

(Excerpt)

(b) About the succession plan

There were several opinions identifying the Succession Plan as a matter that needed particular discussion this year.

Future outlook

The Company has confirmed that relevant Group-wide, medium- to long-term measures are being implemented, primarily by the Nominating Advisory Committee (which includes the Representative Director), in accordance with the Group's management principles. In addition, we have resolved to resume discussions within the Nominating Advisory Committee concerning personnel requirements for next-generation CEO and corporate officer candidates, the selection of sample groups for consideration, training policies, and training plans. Reports on these matters shall be made to the Board of Directors as necessary. The Company also has decided to consider increasing opportunities for direct contact between its outside directors and next-generation management candidates.

(Part below omitted)

(Foods)

Chart 119 Keywords Related to Evaluations on the Effectiveness of the Board

Item	Number of companies	Ratio
Companies complying with Supplementary Principle 4.11.3	2,161	100%
■ Keywords related to the evaluation process		
Questionnaires, etc. (surveys, etc.)	1,466	67.8%
Self-assessment	816	37.8%
Hearings, etc. (interviews, hearings, etc.)	216	10.0%
External evaluation, etc. (third party institutions, lawyers, etc.)	377	17.4%
■ Keywords Related to the Effectiveness of the Board		
Operation (management)	1,296	60.0%

Composition	1103	51.0%
Deliberation	873	40.4%
Strategy (management strategy, business strategy, etc.)	529	24.5%
Roles, duties, etc. (responsibilities)	494	22.9%
Risk (risk management, etc.)	328	15.2%
Remuneration	315	14.6%
Shareholders, investors	291	13.5%
Nomination	252	11.7%
Succession Planning	180	8.3%
Dialogue (with shareholders)	156	7.2%
ESG, SDGs, Sustainability	73	3.4%

4-14. Training policies (Supplementary Principle 4.14.2)

Principle 4.14 states that “directors and kansayaku should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills” and that listed companies “should provide and arrange training opportunities suitable to each director and kansayaku along with financial support for associated expenses”. Furthermore, Principle 4.14.2 states that “companies should disclose their training policy for directors and kansayaku”.

Although there had been no provisions on officer training in exchange regulations, etc. or requirements for disclosures in the CG Report, etc. until the application of the Code, the compliance rate for Supplementary Principle 4.14.2 is high at 98.2% (2,605 companies), because practices such as the provision of various forms of training including compliance training for newly-appointed officers and opportunities for company briefings for outside officers had already been instilled at many companies.

A typical disclosure based on supplementary principle 4.14.2 for many companies would be something like “in order to acquire and update necessary knowledge and skills, directors and kansayaku will endeavor to study through means such as external seminars”. In terms of the training methods, 72.7% (1,893 companies) clearly mentioned “external seminars/trainings, etc.”, and there were also cases of clearly indicating the organizers of specific seminars (Chart 120). In addition, some companies also mentioned the provision of books, e-learning, etc. Moreover, there are many companies stating that the company covers expenses, and 35.7% (929 companies) mention expenses.

In addition, there were also companies that change the contents of training depending on the attributes of officers (inside, outside, etc.). Such companies have disclosures stating that opportunities were provided to newly appointed inside officers to learn basic knowledge as directors and to newly appointed outside officers to deepen their understanding of the company through means such as factory tours.

The most commonly used keyword related to the content of training was "Law (laws and regulations, Companies Act, legal responsibility, etc.)", which was mentioned by 34.5% (899 companies). 31.6% (824 companies) mentioned “finance and accounting”, 19.5% (508 companies) mentioned “corporate governance”, and 13.0% (338 companies) mentioned “compliance”. Other keywords include “economy”, “leadership”, “internal control”, “risk management” and “sustainability (ESG)”. In relation to outside officers, some companies stated that they provided explanation on the company’s “organization” and “industry trends” along with observation, etc. of plants and offices.

Looking at individual examples, Example 1 is a case in which the training policy is described for each target group: "Directors (excluding outside directors)," "outside directors," and "kansayaku." Directors other than outside directors are offered opportunities for training on the topics of corporate value and shareholder value after their appointment, in addition to basic training on the duties and responsibilities of directors. Outside directors and kansayaku are briefed on industry trends and the status of the

company, and are offered training opportunities hosted by external organizations as necessary after taking office. Example 2 describes a case in which a company provides outside directors with opportunities for an improved understanding of management through visits to overseas subsidiaries, plants, farms, etc. in addition to explanations on an overview of management, and a training program related to a successor development plan is provided. Example 3 is an example that describes the actual training. The company holds study groups on “Corporate Value Enhancement” and “SDGs and ESG Investment.”

Example 1

■ Directors (excluding outside directors)

As part of its training for directors (excluding outside directors), the Company provides basic training on the duties and responsibilities of directors from the relevant departments prior to assuming office. It also provides opportunities for training hosted by external organizations on the topics of creating corporate value and enhancing shareholder value after they assume office.

Other training opportunities are provided as required in accordance with company strategy.

■ Outside directors

As part of training for outside directors, before they assume office, the Company will explain the status of the ●● industry, the status of the Company's management, and the status of corporate governance. After they assume office, the Company provides outside directors with opportunities for training organized by external organizations as necessary, taking into consideration the roles and responsibilities required of outside directors by the Company and society in general as well as the results of the evaluation of the effectiveness of the Board of Directors.

■ Kansayaku

As part of our training for kansayaku, before they assume office, the Company will explain the status of the ●● industry, the status of the Company's management, and the status of corporate governance. After they assume office, the Company provides kansayaku with opportunities for training organized by external organizations as necessary, taking into consideration the roles and responsibilities required of kansayaku by the Company and society in general.

(Retail Trade)

Example 2

The Company's policy is that Directors receive training on the roles and responsibilities of Directors on becoming Directors. The secretariat of the Board of Directors explains the management status and the corporate governance structure to external directors when they take up office, and also provides them with opportunities to visit overseas subsidiaries, plants, farms and other business premises and to deepen their understanding of the Company's management after they take up office. In FY2016, the Company began providing training to all officers as part of planning for the development of successors. The training focuses on the roles and responsibilities and management knowledge required of senior managers, and helpful approaches and frameworks for the formulation and execution of strategies.

The Company encourages Directors and Executive Officers to participate in outside seminars and external organizations, and the cost of this is borne by the Company in accordance with internal regulations based upon requests by Directors, Executive Officers, etc.

(Foods)

Example 3

The Company recognizes that, in principle, the purpose of training, etc. for directors is to supplement self-improvement efforts so they may acquire, verify and update the knowledge considered necessary for the fulfillment of their roles and responsibilities.

It is the Company's policy to support directors and executive officers in acquiring the necessary knowledge and improving their skills through attending external seminars and holding study sessions with outside lecturers.

To date, as part of the training for directors and executive officers, we have invited outside lecturers to hold study sessions on "Duties and Responsibilities of Directors," "Enhancing Corporate Value," and "SDGs and ESG Investment." (Foods)

Chart 120 Keywords Related to Officer Training

Item	Number of companies	Ratio
Companies complying with Supplementary Principle 4.14.2	2,605	100%
External seminars and training, etc.	1,893	72.7%
Expenses	929	35.7%
Law (laws and regulations, Companies Act, legal responsibility, etc.)	899	34.5%
Finance and accounting	824	31.6%
Corporate governance	508	19.5%
Compliance	338	13.0%

4-15. Independent officers

(1) Appointment of independent officers

Listed companies have an obligation to secure at least one independent officer for the purpose of protecting general shareholders. An independent officer refers to an outside director or outside kansayaku who is unlikely to have conflicts of interest with general investors. This is prescribed as a "matter for compliance" to ensure effective governance under Code of Corporate Conduct (Chapter 4, Section 4) in the Listing Regulations of TSE65.

Listed companies have an obligation to designate at least one outside officer as an independent officer, submit an "independent officer notification" as stipulated by TSE that describes the independent officer, and also state the number of independent officer(s) in the CG Report.

Chart 121 shows the distribution of the number of independent officers. Only 248 companies (6.7%) have secured only 1 independent officer, and 3,428 companies (93.2%) have at least 2 independent officers. The aggregate number of persons notified as independent officer is 13,750 persons, and the average number of independent officers secured per listed company is 3.74 persons. In terms of the trend over time, the number of companies with 3 or fewer independent officers is

65 Rule 436-2 of the Securities Listing Regulations.

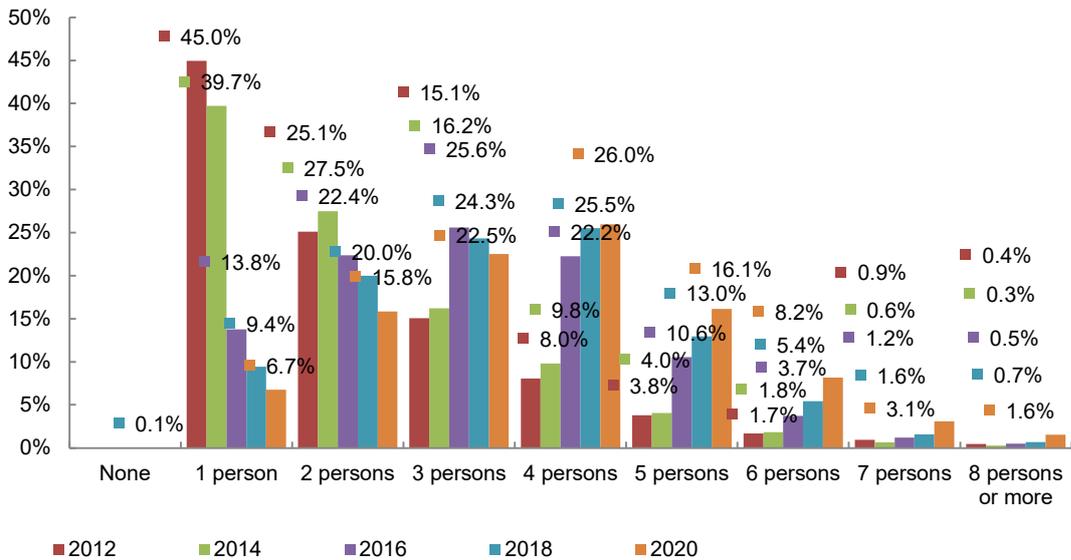
decreasing, while the number of companies with 4 or more independent officers is increasing.

Chart 122 shows the number of independent officers by market division. The average number is the highest for TSE First Section, where the average number is 4.30 persons. Next is Mothers with 3.50 persons, followed by TSE Second Section with 3.06 persons and JASDAQ with 2.56 persons. Among the JPX-Nikkei 400 companies, the average number of independent officers was 5.50 persons, 1.20 more than the 4.30 persons in the TSE First Section.

Notifications in terms of the foreign shareholding ratio show the highest average number of 5.04 persons for the “30% or more” category. The lower the ratio, the lower the average of independent officers (Chart Chart 123).

Of the independent officers, 8,864 are outside directors (64.5% of all independent officers) and 4,886 are outside kansayaku (35.4% of all independent officers) (Chart 124).

Chart 121 Number of Independent Officers



Chart

Chart 122 Average Number of Independent Officers (by Market Division)

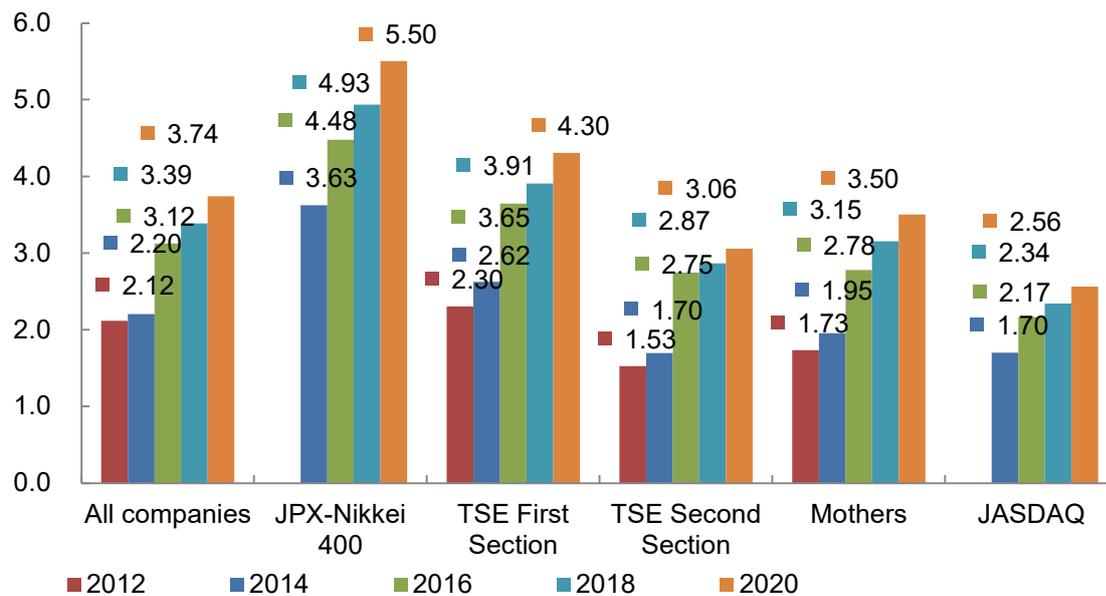


Chart 123 Average Number of Independent Officers (by Foreign Shareholding Ratio)

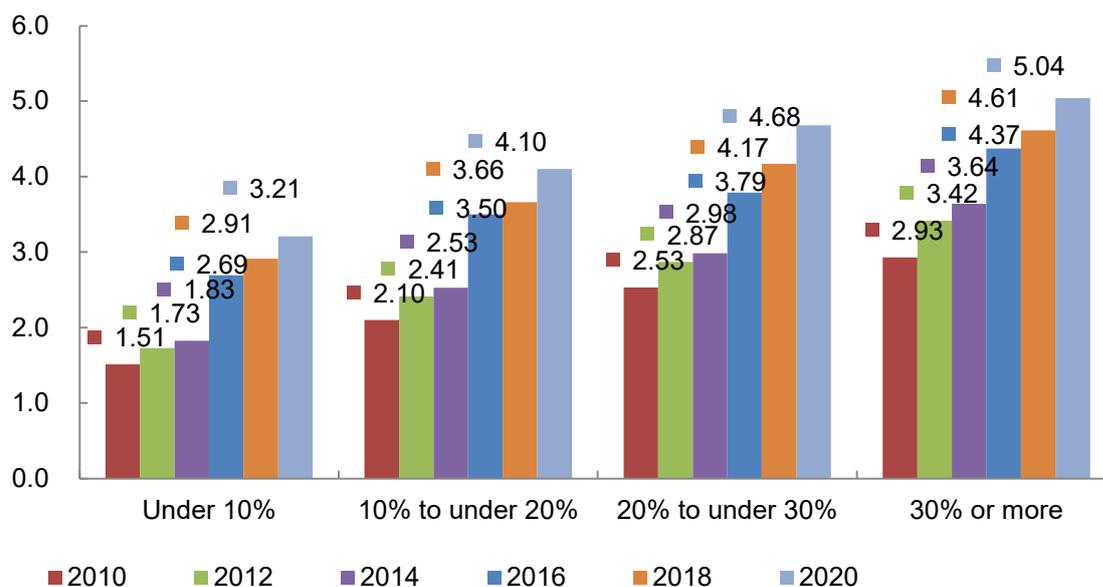
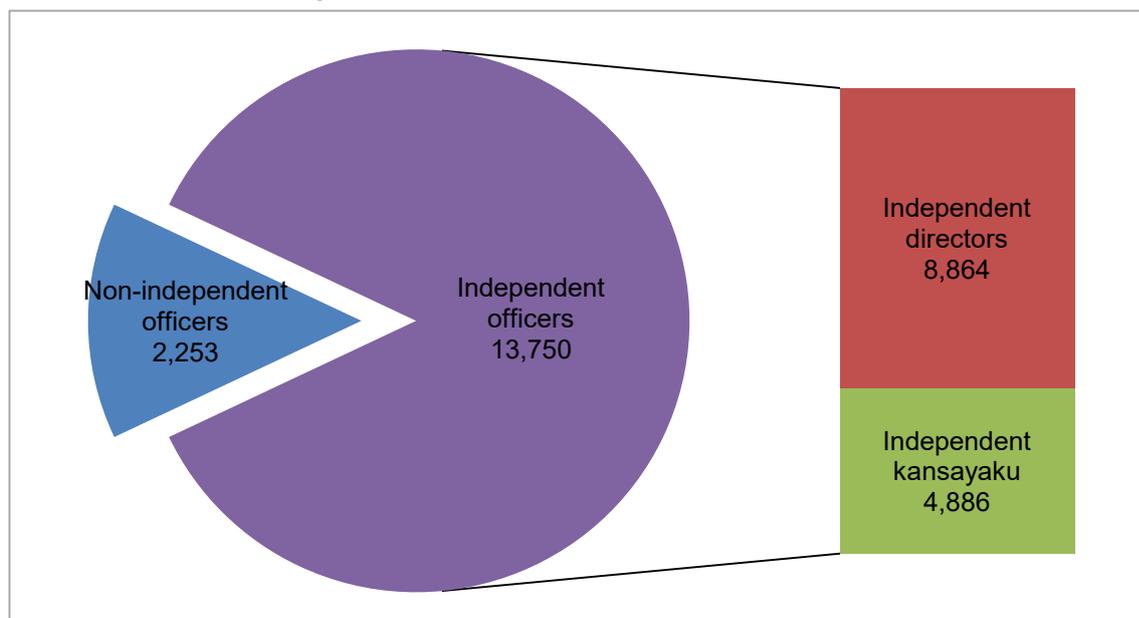


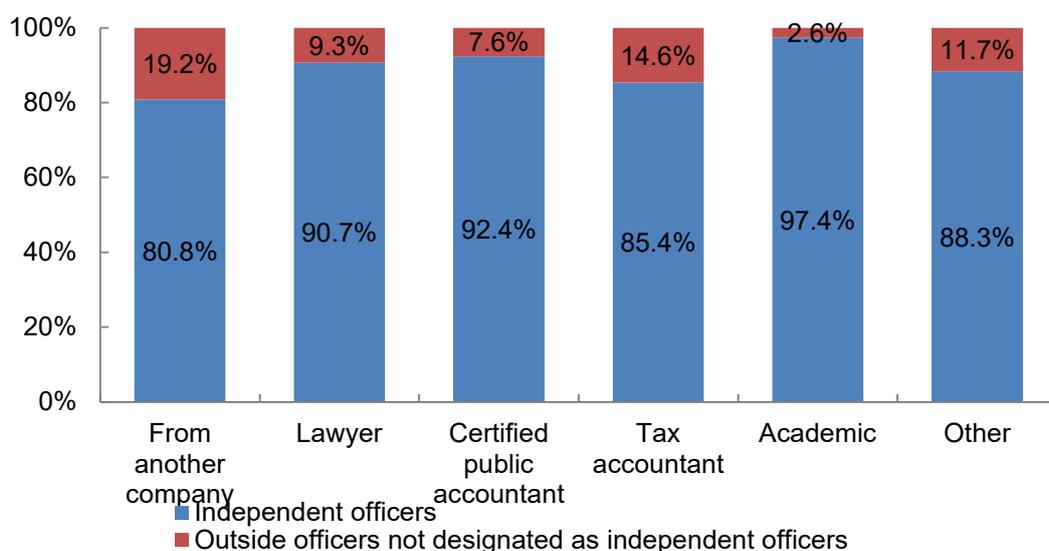
Chart 124 Ratio of Independent Officers



(2) Attributes of independent officers

Chart 125 displays the ratio of independent officers to all outside officers for each attribute.⁶⁶ The ratio was lowest for persons from other companies (80.8%), which was followed by tax accountant (85.4%). This is believed to be the effect of the presence of parties who are in conflict or could be in conflict with independence standards among outside officers, such as business-executing employees of major business partner or accounting professionals, etc. that acquire a high amount of financial compensation other than officer remuneration from listed companies.

Chart 125 Ratio of Independent Officers to All Outside Officers (by Attribute)



⁶⁶ Refers to outside directors and outside kansayaku.

(3) Relationship between Independent Officers and Company

The Guidelines for the Listing Management of TSE prescribe the factors for judgments on the risk of conflicts of interest with general shareholders by TSE (independence criteria) as follows. The CG Report requires disclosure of the relationship between the directors and the company, including the aspects set out in the independence criteria. This is shown in Chart 126. The two items “l Non-executive director” and “m Kansayaku of parent company” are unique items for outside kansayaku.

Furthermore, it is necessary to select whether “currently/recently” or “the past” apply to the officer himself/herself or a close relative.

Chart 126 Relationships with Companies that Need to be Disclosed in the CG Report

Graph item	Item description
The Company	An executive of a listed company in question ("the Company") or its subsidiary
Parent company	An executive or a non-executive director of the parent company of the Company
Sister company	An executive of a sister company of the Company
Party whose major business partner is the Company	A party whose major business partner is the Company or an executive thereof
Major business partner of the Company	A major business partner of the Company or an executive thereof
Consultant, etc.	Consultant, accounting professional, or legal professional who receives a large amount of money or other assets from the Company aside from officer's remuneration
Major shareholder	A major shareholder of the Company (or an executive thereof, if such a shareholder is a corporation)
Other business partner	An executive of a client or supplier of the Company (except d, e, and f) (applicable only to the officer in question)
Mutual appointment	An executive of a company, between which and the Company outside officers are mutually appointed (applicable only to the officer in question)
Recipient of donations	An executive of a recipient of donations from the Company (applicable only to the officer in question)
Other	-
Non-executive director (specifically for outside <i>Basnayake</i>)	A non-executive director or accounting advisor of the Company or its subsidiary
<i>Basnayake</i> of parent company (specifically for outside <i>Basnayake</i>)	<i>Kansayaku</i> of the parent company of the Company

Chart 127 shows the relationship between independent officers and company. The most common selection was “not applicable” (62.7%) as none of the selections applied. Next, 22.5% of the respondents chose "Other business partner", a significant percentage. Apart from "Other business partner", 7.2% of respondents selected "Other" and 3.5% selected "Major business partner of the listed company", but the percentages were much lower than those for "Other business partner".

Furthermore, Chart 128 shows the results for companies that selected “officer himself/herself (currently/recently)”, “officer himself/herself (past)”, “close relative (currently/recently)”, or “close relative (past)” as the relation for independent officer.

Looking at the selection “other business partner” that a remarkably high percentage of companies selected, “officer (past)” accounted for the majority (63.4%). Among the items for the relationship with the company, the ratio was highest for “other” (97.6%) for “officer (currently/recently)”. On the other

hand, “officer (past)” was frequently selected where there was a conflict between the “officer (currently/recently)” and the external requirements under the Companies Act or independence standards.

Chart 127 Relationship Between Independent Officers and Company

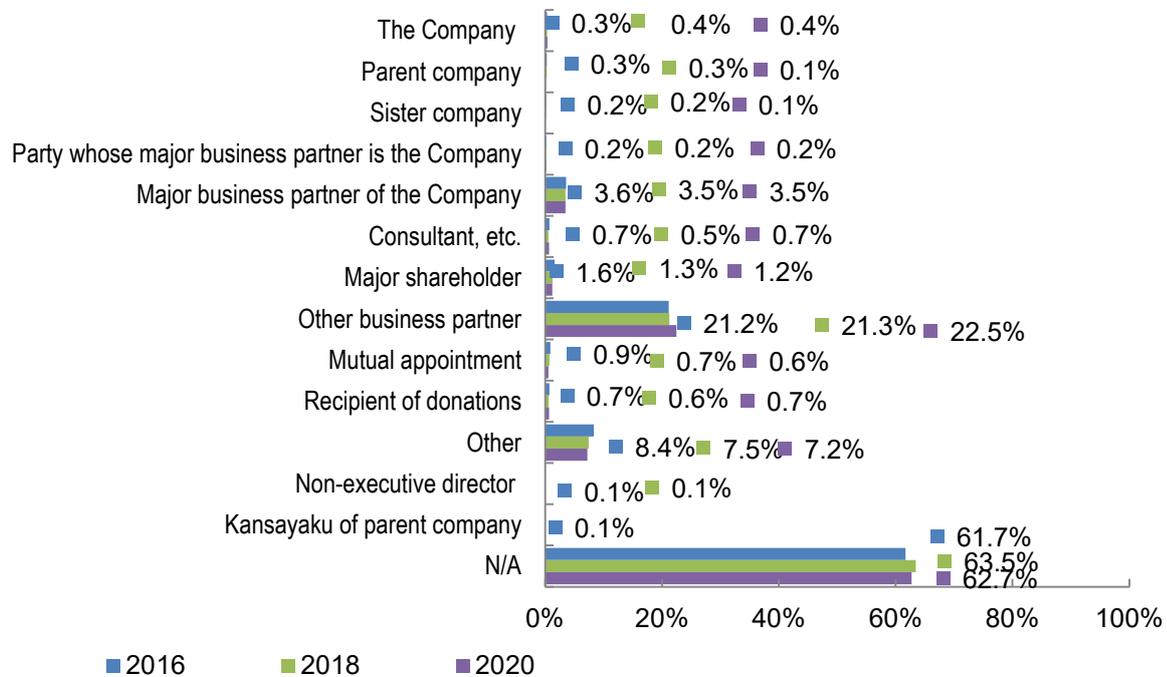
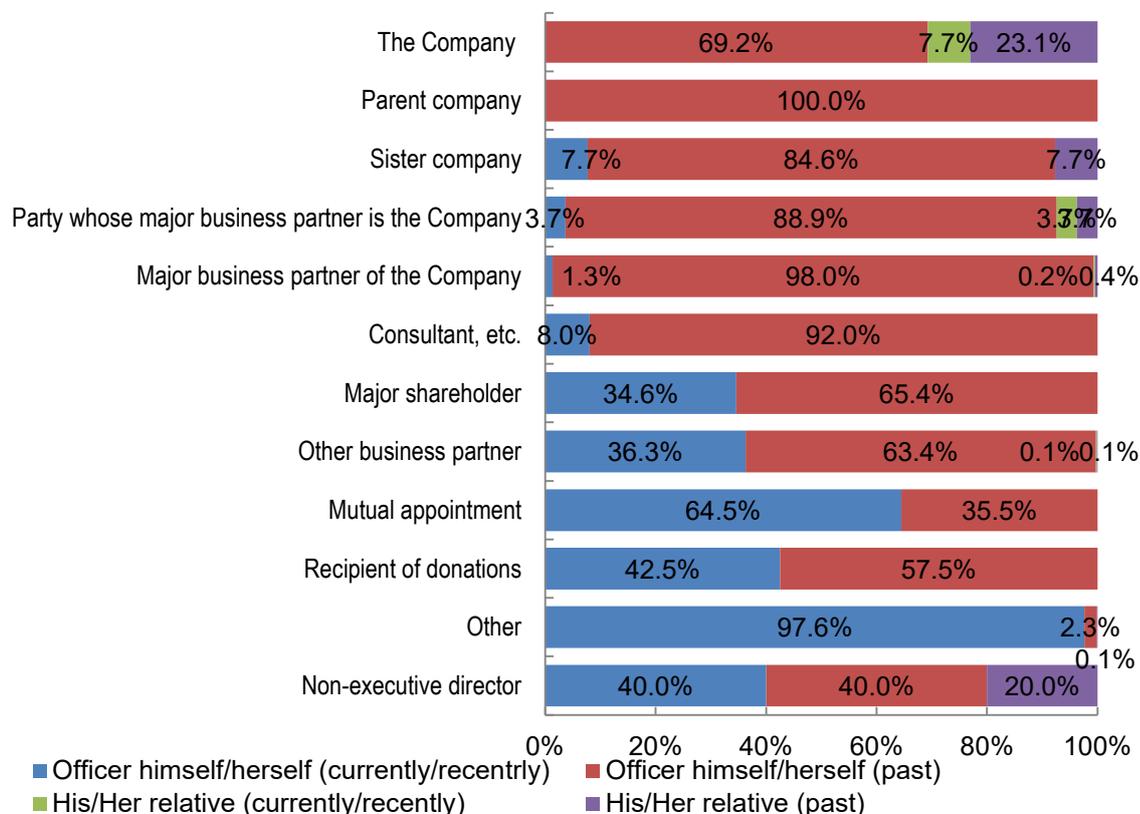


Chart 128 Relationship Between Independent Officers and Company (Officers/Close Relative)⁶⁷



(4) Description of reason for appointment of independent officers

The CG Report requires companies to describe reasons for appointment of outside directors or outside kansayaku, and if they are designated as an independent director or independent kansayaku, companies are required to provide reasons for such designation. First, in terms of keywords that frequently occur when describing all outside officers, explanations such as personal experience (77.1%), knowledge (38.3%), and expertise (30.9%) are seen often, which highlighted the person’s attributes, character, and experience. Companies also frequently mentioned avoidance of conflicts of interest (58.2%), having no interests (21.4%), and objectivity (18.4%) as they showed intent to secure neutrality (Chart 129).

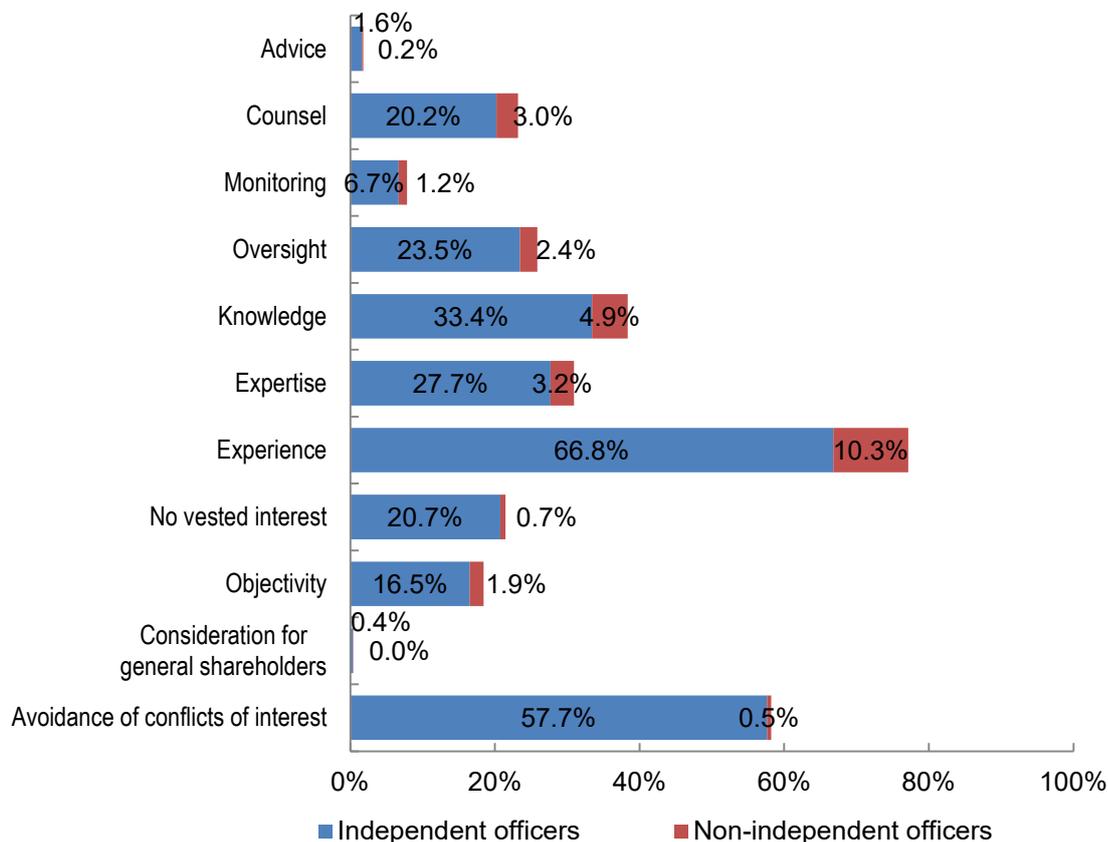
Meanwhile, in terms of the expected functions of outside officers, there were descriptions on providing oversight (25.9%) in a monitoring role, counsel (23.2%) in an advisory role and supervision (7.9%) (Chart 129).

Furthermore, if we analyze keywords used based on whether an independent officer or not, differences could be seen between independent officers and non-independent officers in reasons related to neutrality such as avoidance of conflicts of interest (57.7% for independent officers, 0.5% for non-independent officers), having no interest (20.7% for independent officers, 0.7% for non-

⁶⁷670% (no respondents) selected "kansayaku of parent company", so this is not shown in Chart 128.

independent officers), and objectivity (16.5% for independent officers, 1.9% for non-independent officers). This suggests that a reason for the designation of independent officers is to ensure neutrality.

Chart 129 Analysis of Reasons for Appointment of Outside Officers and Independent Officers



4-16. Support system for outside officers

(1) Overview

The CG Report requires listed companies to describe sections and personnel responsible for supporting outside directors and outside kansayaku (and whether there are dedicated personnel) and the details of this support if applicable, as well as an overview of the information communication system for outside directors and outside kansayaku.

Looking at details of descriptions, many companies stated that the Secretariat of the Board is responsible for supporting outside directors while the Secretariat of the Kansayaku Board is responsible for supporting kansayaku, that materials related to agendas of the board are sent in advance, and that supplementary explanations are conducted by the secretariat as necessary.

Descriptions regarding outside directors included providing the opportunities to understand the situation through visits to business sites, as well as contact with site managers, etc. Furthermore, some

companies stated that outside directors are entitled to seek opinions of external experts, such as lawyers, certified public accountant, consultants, etc., at the expenses of company when needed. With respect to information provision to outside kansayaku, some companies stated that they provide outside kansayaku with opportunities to attend meetings (other than board of directors meetings) where the status of business is discussed, and to meet full-time kansayaku who is/are familiar with the internal circumstances.

Moreover, there were descriptions of the establishment of dedicated liaison meetings such as an “outside officers liaison meeting” as a forum for advance explanations of board agendas, information provision, and information exchange.

Furthermore, because outside directors also include foreign nationals, some companies also described support for such outside directors, including the preparation of English versions of board materials that are distributed to the applicable directors in advance, and making sure to offer simultaneous interpreting when applicable directors attend the board, the general shareholder meeting, etc.

As for the actual means of support, 60.6% of the companies mentioned "distribution of information, communication, and cooperation related to information" and 62.6% of the companies mentioned "prior distribution of and/or briefing on board materials." ⁶⁸.

(2) Support system, etc. for audits

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

The CG Report requires a description of an overview of directors and employees that provide assistance for audit committee and supervisory committee duties.

Looking at the descriptions for Companies with Three Committees, the majority of companies have descriptions such as the establishment of an audit committee office as an organization to assist the duties of the audit committee, and the assignment of dedicated employees to provide assistance for the audit committee. They stated that the hiring, transfer, personnel evaluation, and disciplinary action of employees are carried out with the consent of the audit committee. In addition, there were also descriptions of the establishment of an organization to provide assistance for audit committee duties and the assignment of dedicated personnel when the audit committee makes a request for the assignment of employees to assist with its duties.

Looking at the descriptions of Companies with Supervisory Committee, similarly to the audit committee of Companies with Three Committees, the majority of companies have descriptions such

⁶⁸ 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.”

as the establishment of a supervisory committee office as an organization to assist the duties of the supervisory committee, and the assignment of dedicated employees to provide assistance for the supervisory committee. They stated that the hiring, transfer, personnel evaluation, and disciplinary action of employees are carried out with the consent of the supervisory committee. In addition, some companies also stated that personnel that have received the mandate required for audit work from the supervisory committee would not be subject to command from the business execution line regarding such mandates. There were also descriptions stating that while there were no dedicated employees for providing assistance for supervisory committee duties, as necessary the internal audit office would provide assistance for supervisory committee duties and prioritize tasks related to the supervisory committee.

② Efforts for reinforcement of kansayaku's functions

In the “Overview of the Current Corporate Governance System” in the CG Report, 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 as efforts for the reinforcement of functions of kansayaku⁶⁹.

Regarding the state of securing personnel and systems to support audits by kansayaku, of the 2,495 Companies with Kansayaku Board, 275 companies (11.2%) mentioned the establishment of a “kansayaku office” or “Secretariat of the Kansayaku Board”. In addition, there were descriptions stating that only kansayaku have the authority to issue orders to the executives and employees of the kansayaku office, that the independence of such executives and employees from directors was ensured, and that the advance consent of full-time kansayaku was required for personnel changes, personnel evaluations, etc. involving these personnel.

In addition, there were matters such as the appointment of highly-independent kansayaku and strengthening cooperation among the board, accounting auditors, and the internal audit department. Additionally, the contents of the descriptions of kansayaku audits covered not only legality audits, but also validity audits.

③ Cooperation between the audit committee, supervisory committee or kansayaku board and accounting auditors and the internal audit department

The CG Report requires companies to describe existing cooperation between their audit committee, supervisory committee or kansayaku board and accounting auditors and the internal audit department. Chart 130 shows the ratio of companies that mentioned the keywords “audit planning”⁷⁰,

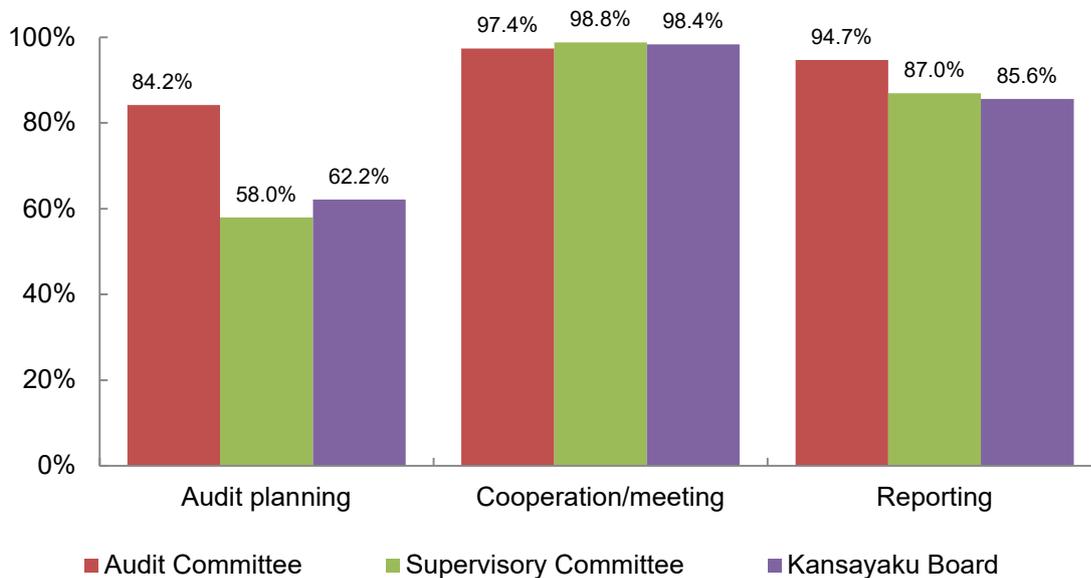
⁶⁹Companies, however, may just make reference to their explanations rendered in other sections (e.g. “Support System for Outside Directors and Outside Kansayaku”, “Reasons for Appointing Outside Kansayaku”, etc.), if any.

⁷⁰ Reference to “audit planning” covers companies which mentioned one of the following keywords: “plan”, “policy” or “regulation”.

“cooperation/meeting”⁷¹ and “report”⁷². The ratio of companies that mentioned “audit planning” is higher for audit committees than for kansayaku boards or supervisory committees.

Looking at details of descriptions, the majority of companies stated that they held regular gatherings for exchanging opinions and information. Specific descriptions include attendance at site audits by accounting auditors and audit reviews, and receiving reports on audit plans, the focus of audits, progress of audits, internal control systems, risk management, etc. In addition, there were cases of stating the number of meetings held for exchanging opinions with accounting auditors.

Chart 130 Cooperation between Kansayaku, Accounting Auditors and Internal Audit Department



⁷¹ Reference to “cooperation/meeting” covers companies which mentioned one of the following keywords: “cooperation”, “gathering”, “regular”, “exchange”, “consultation” or “meeting”

⁷² Reference to “report” covers companies which mentioned one of the following keywords: “report”, “result”, “explanation”, “verification” or “control”.

4-17. Shikkoyaku

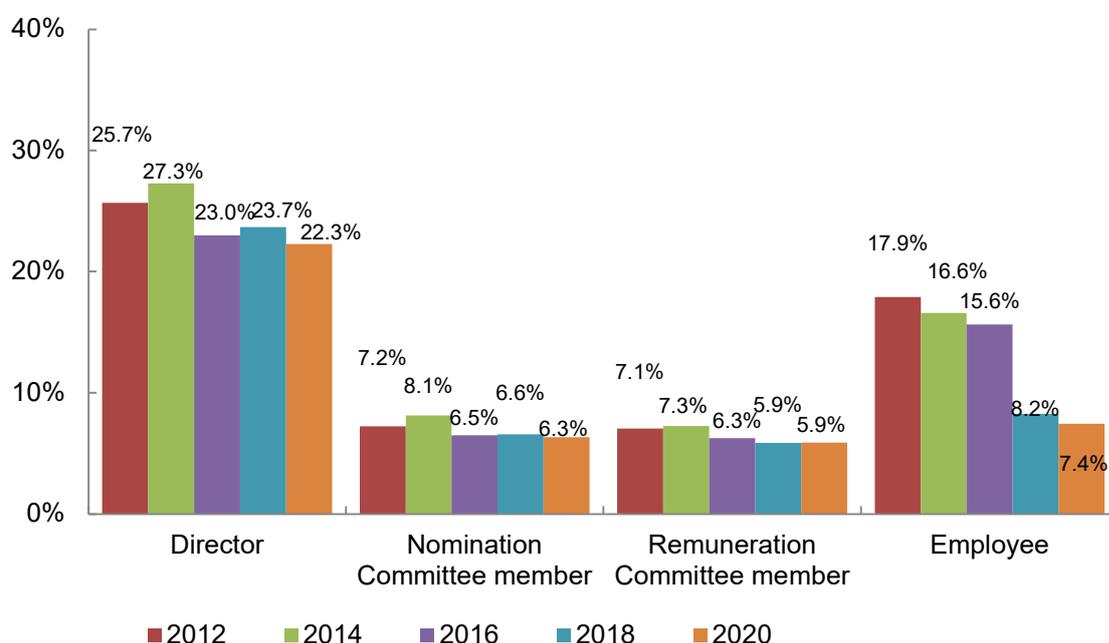
Among TSE-listed Companies with Three Committees, the average number of *shikkoyaku* per company was 11.87 persons.

The average number of *shikkoyaku* with representative authority was 2.18 persons per company, accounting for 18.4% of all *shikkoyaku*.

Shikkoyaku may concurrently assume the position of director⁷³, and 23.7% of *shikkoyaku* are concurrently directors. 6.3% of *shikkoyaku* concurrently assume the position as nomination committee members, and 5.9% as remuneration committee members, both in the capacity of directors (Chart 131). As for audit committees, *shikkoyaku* are prohibited to concurrently assume a position as committee members⁷⁴.

Regarding the status of concurrent positions held by *shikkoyaku* and employees, 7.4% of *shikkoyaku* also hold positions as employees, but the figure is declining year by year. From the perspective of strengthening governance, there has been an increase in the number of *shikkoyaku* working on delegation contracts rather than employment contracts. From the same perspective, with respect to *shikkoyaku*, one factor may be the recent increase in the number of companies that have removed the requirement to hold concurrent positions as employees.

Chart 131 Positions Held Concurrently by Shikkoyaku



⁷³Article 402, Paragraph 6 of the Companies Act.

⁷⁴Article 400, Paragraph 4 of the Companies Act.

4-18. Status of persons retired from the position of representative director and president, etc.

A new section for stating the “status of persons retired from the position of representative director and president, etc.” has been established for CG Reports submitted after January 2018. This is a disclosure system established in an effort to improve the transparency of governance in light of the fact that it is customary for listed companies in Japan to assign a resigning president, etc. an advisory position, such as *sodanyaku*, *komon*, etc. Specifically, if a person retiring from the position of representative director, president, etc. is continually appointed as *sodanyaku*, *komon*, etc., their name, title and position, and details of their work should be stated (on a voluntary basis).

In terms of market division, the percentage of listed companies that made disclosures concerning *sodanyaku*, *komon*, etc. was 44.5% for TSE First Section, 27.7% for TSE Second Section, 2.8% for Mothers, and 15.2% for JASDAQ. Of these, the percentage of listed companies with *sodanyaku*, *komon*, etc. was 56.5% for TSE First Section, 45.9% for TSE Second Section, 66.7% for Mothers, and 53.8% for JASDAQ (Chart 132).

Chart 132 Disclosure Status of *Sodanyaku*, *Komon*, etc. by Market Division, etc.

Scope of data aggregation	Number of companies	Not made disclosure on advisory positions		Made disclosure on advisory positions		At least 1 person in advisory position	
		Number of companies	Ratio	Number of companies	Ratio	Number of companies	Ratio
TSE First Section	2,172	1,205	55.5%	967	44.5%	546	56.5%
TSE Second Section	480	347	72.3%	133	27.7%	61	45.9%
Mothers	326	317	97.2%	9	2.8%	6	66.7%
JASDAQ	699	593	84.8%	106	15.2%	57	53.8%
All companies	3,677	2,462	67.0%	1,215	33.0%	670	55.1%
JPX-Nikki 400	396	123	31.1%	273	68.9%	168	61.5%

For the 670 companies with one or more *sodanyaku*, *komon*, etc., the total number of *sodanyaku*, *komon*, etc. is 679. This is a significant decrease from 947 in the previous survey, indicating that an increasing number of companies are abolishing the *Sodanyaku/Komon* system. The term of office of such positions after retiring from president, etc. is shown in Chart 133, and less than 2 years is the most common response (133 persons), followed by less than 3 years (123 persons) and less than one year (116 persons). There are also some people for which 20 years or more or even 30 years or more elapsed after resigning as president. While the term of office is generally one year, there are companies that set a two-year term, a maximum number of years, a mandatory retirement age, or no term limit. There 17 persons with a lifetime term, as well as 17 persons with “no term limit” or “no term limit set.”

Looking at the relationship between full-time or non-full-time and the presence of remuneration, 167 persons are full-time, 482 persons are non-full-time, 541 persons are remunerated, and 101 persons are not remunerated. Looking at the relationship between these factors, non-full-time with remuneration was the most common response (373 persons) followed by full-time with remuneration (161 persons),

non-full-time without remuneration (91 persons), and full-time without remuneration (3 persons) (Chart 134).

Chart 133 Distribution of Number of People by Years from Date of Resignation

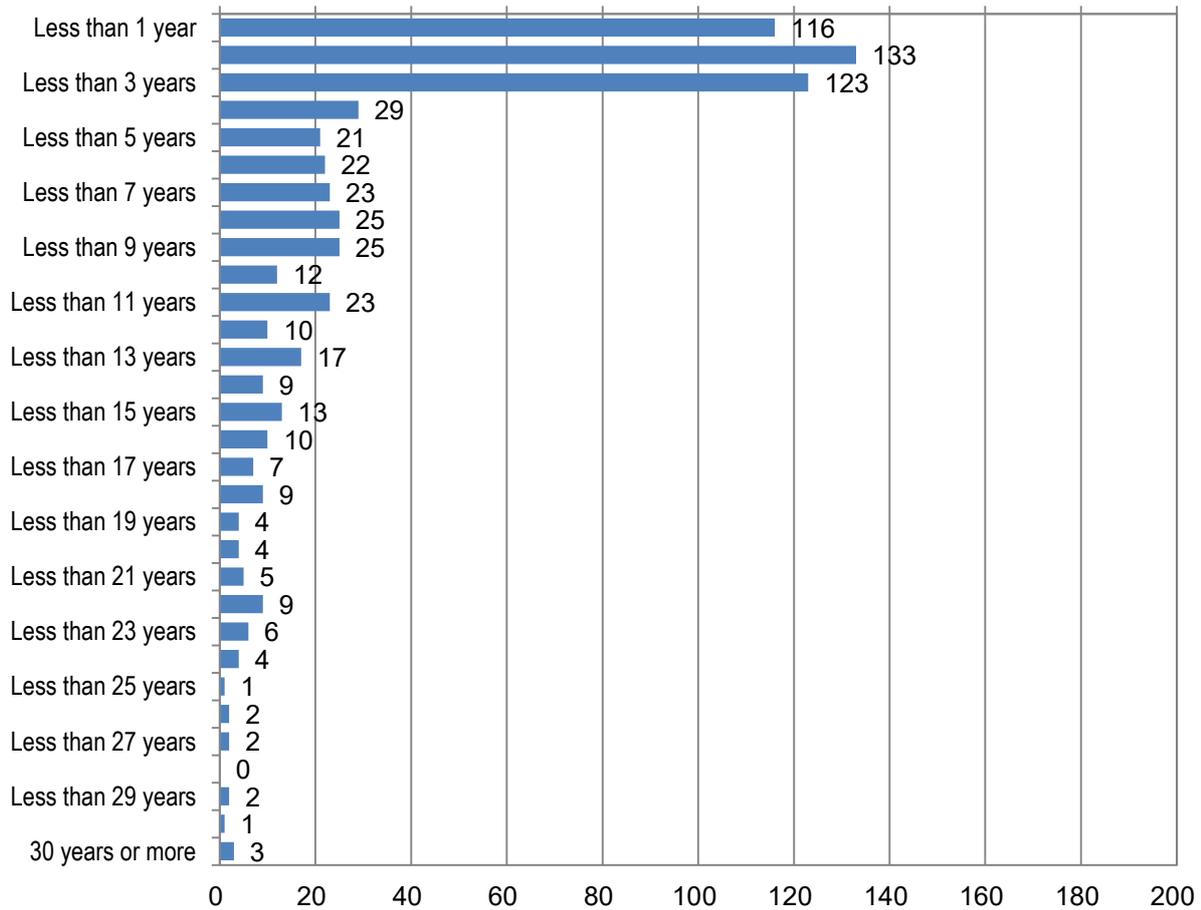


Chart 134 Status of Employment and Remuneration for *Sodanyaku, Komon, etc.*

Category	With remuneration	Without remuneration	Not stated (remuneration)	Total
Full-time	161	3	3	167
Part-time	373	91	18	482
No work		7	2	9
Not stated (work)	7		14	21
Total	541	101	37	679

In terms of the work conducted by *sodanyaku, komon, etc.*, among the 679 persons for which there are disclosures, many persons are providing advice, etc. (332 persons). In addition, matters believed to be related to external activities that were mentioned included industry organizations (92 persons), the business world (51 persons), social contribution (81 persons), external activities (56 persons), and

maintaining relationships with business partners (21 persons). At the same time, there were also disclosures clearly stating non-involvement in management (97 people).

4-19. Basic views on internal control system and the progress of system development

Under the Companies Act, large companies⁷⁵, Companies with Supervisory Committee⁷⁶, and Companies with Three Committees⁷⁷ are required to develop a system necessary to ensure the properness of operations of a company and operations of a group of enterprises consisting of said company and its subsidiaries (a so-called internal control system) and disclose the details in the CG Report. TSE also requires companies to describe their approach and basic policies from the perspective of ensuring the appropriate fulfillment of operations, including how a company can manage organizations to attain management strategies or business objectives, and how a company can comply with laws, regulations, and the articles of incorporation⁷⁸.

With respect to the basic views on internal control systems and the development of the systems themselves described in the CG Report, many companies provided descriptions according to the items prescribed in the Companies Act and the Ordinance for Enforcement of the Companies Act.⁷⁹

Specifically, 34.6% of TSE-listed companies referred to the term “the Companies Act”.⁸⁰ In total, 84.2% of the companies referred to “risk management” and more companies, reaching 96.2%, referred to “legal compliance”⁸¹. Refer to Chart 135 for the trends by market division.

As for “systems related to the retention and management of information pertaining to the execution of the duties of a director/*shikkoyaku*”⁸², many companies mentioned appropriate storage and management in accordance with their documentation rules.

Concerning “rules and other systems related to management of the risk of loss”⁸³, many companies reported that rules on risk management have been adopted. Specific descriptions include establishment of individual rules addressing each specific risk, and the establishment of an

⁷⁵ Article 362, Paragraph 4, Item 6 and Paragraph 5 of the Companies Act.

⁷⁶Article 399, Paragraph 13, Item 1(c) and Paragraph 2 of the Companies Act.

⁷⁷ Article 416, Paragraph 1, Item 1(e) and Paragraph 2 of the Companies Act.

⁷⁸ In addition, the CG Report requires companies to describe the state of compliance system, risk management system, and information management system.

⁷⁹Article 100, Article 110-4, and Article 112 of the Ordinance for Enforcement of the Companies Act.

⁸⁰ 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.

⁸¹ Reference to “legal compliance” covers companies which mentioned one of the following keywords: “legal compliance”, “compliance with laws and regulations” and “compliance”.

⁸²Article 100, Paragraph 1, Item 1; Article 110-4, Paragraph 2, Item 1 and Article 112, Paragraph 2, Item 1 of the Ordinance for Enforcement of the Companies Act.

⁸³Article 100, Paragraph 1, Item 2; Article 110-4, Paragraph 2, Item 2 and Article 112, Paragraph 2, Item 2 of the Ordinance for Enforcement of the Companies Act.

organization to supervise risk information and respond to risk, including the establishment of a risk management committee.

Companies provide a wide variety of descriptions regarding a “systems to ensure that the execution of the duties of a director/*shikkoyaku* is performed efficiently”⁸⁴, and generally, such descriptions focused on management systems taking corporate governance into account, and management procedures with management cycle in mind.

Regarding “systems to ensure that the execution of the duties of an employee complies with laws and regulations and the articles of incorporation”, many companies mentioned the 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, in order to judge whether the system is actually functioning, some described that the internal audit office or the like conducts internal audits to judge the 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 checks of legal compliance, as well as compliance with the articles of incorporation by outside lawyers.

Regarding “systems to ensure the propriety of business activities in a group of enterprises comprised of the relevant stock company and any Parent Company or Subsidiary Companies thereof”, while being generally the same as descriptions concerning the headquarters, the descriptions include the establishment of affiliated company management or compliance departments responsible for managing affiliated companies, internal control systems 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 related to the employee if *kansayaku* has requested that an employee be appointed to assist with the duties of *kansayaku*”⁸⁵ and “matters related to the independence of the employee under the preceding item from the directors”⁸⁶, descriptions were generally in line with the Companies Act. Many companies made due consideration of their independence in terms of appointment and discharge, performance evaluation and personnel transfer. Similar explanations were made concerning supervisory committee members of Companies with Supervisory Committee and audit committee

⁸⁴ Article 100, Paragraph 1, Item 3; Article 110-4, Paragraph 2, Item 1 and Item 3; and Article 112, Paragraph 2, Item 3 of the Ordinance for Enforcement of the Companies Act.

⁸⁵ Article 100, Paragraph 3, Item 1; Article 110-4, Paragraph 2, Item 1 and Item 7; and Article 112, Paragraph 1, Item 7 of the Ordinance for Enforcement of the Companies Act.

⁸⁶ Article 100, Paragraph 3, Item 2 of the Ordinance for Enforcement of the Companies Act.

members of the Companies with Three Committees.⁸⁷

In relation to “system for the directors and employees to report to kansayaku/ supervisory committee/audit committee”⁸⁸and “other systems to ensure that audits by the kansayaku/supervisory committee/audit committee are performed effectively”⁸⁹, companies referred to rules concerning kansayaku’s authorities to participate in certain significant meetings, and authorities to review material documents. In addition, there was a case of allowing employees to report directly to kansayaku.

Chart135 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 data		34.6%	84.2%	96.2%	20.2%	54.0%	70.1%
Form of organization	Company with <i>Kansayaku</i> Board	35.1%	84.6%	96.3%	20.2%	54.0%	71.1%
	Company with Supervisory Committee	32.6%	83.6%	96.3%	19.6%	54.4%	69.1%
	Company with Three Committees	46.1%	80.3%	93.4%	25.0%	46.1%	51.3%
Market division	JPX-Nikkei 400	40.9%	83.1%	96.2%	26.8%	61.9%	69.9%
	TSE First Section	36.6%	84.5%	96.8%	22.1%	56.8%	71.3%
	TSE Second Section	32.3%	82.3%	95.4%	17.3%	53.5%	68.5%
	Mothers	29.8%	85.9%	95.1%	16.0%	42.0%	72.1%
	JASDAQ	32.0%	83.7%	95.6%	17.9%	50.9%	66.5%

4-20. Matters concerning development of systems for excluding anti-social forces

The CG 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 exclude 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, and 2,452 companies mentioned cooperation with police agencies concerning systems for excluding anti-social forces. 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.

⁸⁷ Article 110-4, Paragraph 2, Item 1 and Item 2 and Article 112, Paragraph 1, Item 1 and Item 2 of the Ordinance for Enforcement of the Companies Act.

⁸⁸ Article 100, Paragraph 3, Item 4, Article 110-4, Paragraph 2, Item 1, Item 4, and Article 112, Paragraph 1, Item 4 of the Ordinance for Enforcement of the Companies Act.

⁸⁹ Article 100, Paragraph 3, Item 7, Article 110-4, Paragraph 2, Item 1, Item 7, and Article 112, Paragraph 1, Item 7 of the Ordinance for Enforcement of the Companies Act.

5. Dialogue with Shareholders

As described below, Section 5 of the Code requires the realization of constructive dialogue between shareholders and listed companies.

[General Principle 5]

In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting.

During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.

Meanwhile, up until now the CG Report has required descriptions related to the state of IR activities including the creation and release of a disclosure policy, holding regular briefings for investors, releasing IR materials over a company website, and the establishment of departments (or personnel) related to IR.

In this White Paper, we will analyze such descriptions, as well as the contents of disclosures on policies towards constructive dialogue with shareholders as required under Principle 5.1 of the Code.

5-1. Policy for constructive dialogue with shareholders (Principle 5.1)

Principle 5.1 requires the disclosure of policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders. In addition, Supplementary Principle 5.1.2 stipulates “(i) appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place, (ii) measures to ensure positive cooperation between internal departments, (iii) measures to promote opportunities for dialogue aside from individual meetings, (iv) measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board, and (v) measures for managing insider information.” As these are efforts that many companies have conducted as part of IR/SR development up until now, the compliance rate for this principle is 99.2% (2,630 companies), indicating that almost all companies are in compliance with this principle.

Looking at the contents of descriptions for each item, for “(i) appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place”, a remarkable number of companies mention the appointment of an officer, etc. responsible for IR. The keyword “director responsible for IR/officer responsible for IR” was mentioned by 17.8% (469 companies) of the complying companies (Chart 136)

. In addition, some companies (14.6%, 384 companies) mentioned “responsible” as a keyword. Some companies also mentioned the specific position such as the manager of the administrative headquarters or CFO as the person responsible for IR. There were also descriptions stating the president was responsible for oversight.

Next, in terms of “(ii) measures to ensure positive cooperation between internal departments”, a remarkable number of companies stated that information was shared with internal departments, centering around the departments responsible for IR. The keyword “sharing (information, etc.)” was mentioned by 26.0% (685 companies).

In terms of “(iii) measures to promote opportunities for dialogue aside from individual meetings”, many companies mentioned “(results) briefings” and the “general shareholder meetings.” 60.3% (1,586 companies) and 19.2% (506 companies) mentioned "briefings" and "general shareholder meetings," respectively.

In terms of “(iv) measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board”, it seems that many companies establish opportunities for feedback as necessary rather than regularly. While 24.2% (637 companies) mentioned “as necessary”, 16.2% (426 companies) mentioned “regularly”.

Finally, in terms of “(v) measures to control insider information when engaging in dialogue”, many companies mention the development and implementation of internal regulations, etc. 39.5% (1,038 companies) listed the keyword "Regulations, etc. (rules and regulations). 12.1% (317 companies) mentioned "silent/quiet" and mentioned a silent period.

In addition, 1.9% (51 companies) mentioned keywords related to sustainability (sustainability, ESG or non-financial), which have been a focus for the capital markets in recent years. Many of the companies mentioning sustainability refer to "enhanced disclosure of non-financial information in addition to financial information" in their information disclosure, and some mention issuing integrated reports.

Looking at the individual cases, Example 1 is an example in which the basic stance towards dialogue is described, and the five viewpoints required under Supplementary Principle 5.1.2 are clearly described. The basic policies and separate measures as described in an easy-to-understand manner. Example 2 is an example of a company disclosing details of its system for dialogue with shareholders and its communication activities. In addition to disclosing detailed information on the company's efforts to engage in dialogue with institutional investors (domestic and overseas), the company discloses information on the participation of each officer (President, *shikkoyaku*, CFO) and IR department in specific IR activities. In Example 3, outside directors take part in the dialogue with institutional investors. In addition to holding regular meetings for the exchange of opinions between institutional investors and outside directors, outside directors visit institutional investors and engage in dialogue with them.

Example 1

The Company has established the following policies to build a relationship of trust over the medium to long term through active and

constructive dialogue with shareholders and investors, and to link IR activities to the sustainable enhancement of corporate value.

(1) Designation of senior management or directors to engage in dialogue with shareholders

We regard investor relations as one of the most important issues for management. Top management, including the chief executive officer, is actively involved in this. In addition, the Company has appointed an executive officer to oversee investor relations, and is working to ensure consistency and continuity by developing activities in an integrated manner.

■ Measures to ensure positive cooperation between internal departments

IR department positions are appointed based on the allocation of duties, with human resources who have the skills to carry out the required duties according to management resources and authority. In order to promote and provide support for a constructive dialogue with shareholders and investors, the Company has established a system that enables constant collaboration with the divisions in charge of corporate planning, finance, accounting, general affairs, legal affairs, public relations and ESG.

(3) Initiatives to enhance dialogue

Briefings on financial results are held every six months for shareholders and investors, and explanatory materials are published on the Company's website. The Company also makes individual visits to investors and provides explanations to shareholders as necessary. In order to promote understanding of the Company, we strive to provide easy-to-understand information that integrates not just financial information, but also non-financial information including the Group's corporate philosophy, medium- to long-term management strategies and ESG-related initiatives. In formulating and announcing management strategies and plans, the Company clearly states its earnings plans, investment plans and capital initiatives based on an understanding of the cost of capital.

* In light of the COVID-19 pandemic, we have refrained from holding group financial results meetings and individual face-to-face meetings.

(4) Feedback initiatives for senior management and the Board of Directors

Opinions and concerns from shareholders and investors obtained through dialogue are fed back on a quarterly basis by the director in charge of IR to the Board of Directors and the Executive Committee, which is the decision-making body for execution of business activities. We continuously strive improve corporate value by reflecting thought-provoking opinions and concerns in our management of the business.

(5) Policy to control insider information during dialogue

With respect to the management of insider information when engaging in dialogue with shareholders and investors, we have established a period of time prior to the announcement of financial results as a silent period to restrict the content of this dialogue. In addition, interviews with shareholders and investors are conducted in principle by directors, executive officers, and other authorized personnel who have been trained in handling information to ensure there is no disclosure of insider information, even in individual responses. (Other products)

Example 2

(Excerpt)

Implementation systems and activities

To achieve its sustainable growth and increase its corporate value over the medium to long term, the Company promotes dialogue with shareholders, investors and other stakeholders, which is provided by top management, including the President and Chief Executive Officer, taking into account the requests and major concerns of shareholders and investors in direct communication opportunities.

The Company has established the IR Committee with the aim of promoting more effective IR and SR activities as a means of enhancing dialogue with these shareholders and investors. The committee is chaired by the CSO(*1) and its members include the CFO(*2), CAO(*3) and general managers of other relevant corporate departments. It meets monthly to discuss policies, issues and measures regarding IR and SR activity activities, aiming to enhance dialogue with shareholders and investors. The Company has established a system where feedback is provided to the management through the committee in a timely manner regarding comments and requests obtained from outside by way of IR and SR activities. The Company has also established the Investor Relations Department which is dedicated to IR and SR activities. While collaborating with other relevant corporate departments in a coordinated fashion, it serves as an organization that aims to plan and manage a variety of IR and SR activities, disclose information to meet the expectations of shareholders and investors, and obtain opinions from outside through IR and SR activities to help improve the quality of management in a timely manner.

(*1) CSO (Chief Strategy Officer) Officer in charge of planning

(*2) CFO (Chief Financial Officer): Officer in charge of finance, accounting and risk management

(*3) CAO (Chief Administrative Officer) Officer in charge of human resources, general affairs and legal affairs

- General Meeting of Shareholders

The Company proactively discloses not only information required by law but also information on the environmental, social and governance (ESG) and corporate governance initiatives etc. within the Notice of Convocation of the General Meeting of Shareholders, and strives to provide in-depth explanations in response to questions from shareholders at the General Meeting.

- Institutional investors (in Japan)

The Company holds quarterly financial results briefings by the President and Chief Executive Officer and the CFO for institutional investors in Japan as well as small meetings hosted by the President and Chief Executive Officer and CFO on a biannual basis. When shareholders and investors request meetings on an individual basis, the President and Chief Executive Officer, CFO and the General Manager of the Investor Relations Department, hold one-on-one meeting whenever possible. The Company also holds business strategy briefings by business units, site tours of the Company's businesses both inside and outside Japan, and ESG briefings, etc. on a regular basis. Additionally, in fiscal 2019, the Company held an Investor Day to carry out deep dialogue with institutional investors, with the goal of supporting them to understand its initiatives for medium- to long- term growth.

- Institutional investors (outside Japan)

The Company regularly visits institutional investors, primarily in Europe, North America and Asia, to hold one-on-one meetings with the President and Chief Executive Officer, CFO and the General Manager of the Investor Relations Department. The Company (jointly organized by the Investor Relations Dept. and the Corporate Legal & General Affairs Department) also holds one-on-one meeting with managers who are in charge of executing voting rights in institutional investors (SR activities) in Japan, Europe and the United States.

- Individual investors

The Company periodically holds briefings in various cities within Japan.

To shareholders and investors, the Company discloses not only financial but also non-financial information, including that related to ESG. By presenting the Group's medium- to long-term efforts to increase its corporate value, the Company strives to enhance dialogue with them.

<List of activities in FY2019>

President and Chief Executive Officer: General Meeting of Shareholders, financial results briefings (twice), dialogue with institutional investors in and outside Japan (12 times), briefings for individual investors (twice)

CFO : Financial results briefings (4 times), dialogue with institutional investors in and outside Japan (25 times)

CSO: Financial results briefings (2 times), individual investor briefings (3 times), ESG briefings

Investor Relations Department:

Dialogue with institutional investors in and outside Japan and analysts (approximately 270 times), briefings for individual investors (8 times), online briefing (once),

dialogue with shareholders as part of SR activities in collaboration with the Corporate Legal & General Affairs Department (4 companies in Japan, 10 companies overseas).

(Wholesale trade)

Example 3

The Board of Directors stipulates in the Corporate Governance Guidelines, which set forth the Company's basic approach to corporate governance, that the Company shall strive to maintain favorable and harmonious relationships with its stakeholders in order to enhance its corporate value over the long term. Based on this basic approach, we continue to implement measures to deepen mutual understanding, such as holding regular meetings for dialogue between institutional investors and outside directors, as well as visits by outside directors to institutional investors as part of this dialogue.

(Excerpt)

(Pharmaceuticals)

**Chart 136 Keywords Related to Policy for Constructive Dialogue with Shareholders
Under Supplementary Principle 5.1.2**

Item	Number of companies	Ratio
Companies complying with Principle 5.1	2,630	100%
■ Appointing a member of the management or a director who is responsible for overseeing constructive dialogue		
Director/officer responsible for IR	469	17.8%
Person responsible for IR	384	14.6%
■ Measures to ensure positive cooperation between internal departments		
Sharing (information, etc.)	685	26.0%
■ Opportunities for dialogue aside from individual meetings		
Briefing (financial results briefing, etc.)	1,586	60.3%

General shareholder meeting	506	19.2%
■ Measures to relay shareholder views and concerns to the board, etc.		
As necessary	637	24.2%
Regular	426	16.2%
■ Measures to control insider information		
Regulations, etc. (rules, regulations)	1,038	39.5%
Silent	317	12.1%
■ Other Keywords		
Sustainability, ESG and Non-Financial	51	1.9%

5-2. Preparation and publication of disclosure policies

Disclosure policies have been prepared and published by 1,613 companies (43.9% of the total). This is an increase from 37.4% in the previous survey, which is thought to be due to an increase in the number of companies that have created disclosure policies due to the impact of the introduction of fair disclosure rules in the revised Financial Instruments and Exchange Act that came into effect on April 1, 2018.⁹⁰

In terms of market divisions, Mothers has the highest percentage of companies that prepare and publish reports at 77.0%, followed by the First Section at 49.5%, JASDAQ at 24.5% and the Second Section at 24.4% (Chart 137). As for JPX-Nikkei 400 companies, 67.9% prepared and published disclosure policies, which is 18.4 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 prepare and publish disclosure policies (Chart 138).

Looking at the descriptions, there were many companies that described their stance including constructive dialogue with shareholders and investors, timely, appropriate, and fair information disclosure, and mutual communication, as well as descriptions on the development of regulations including compliance with the Companies Act, the Financial Instruments and Exchange Act, various

⁹⁰This states, “When a listed company, etc. communicates (undisclosed) material information, etc. to business partners, such as financial instruments business operators, in relation to its business, it must make that material information public at the same time as it is communicated to the business partner.” In the Action Guidelines for Fair Disclosure (https://www.jira.or.jp/download/guiding_20180228.pdf) published by the Japan Investor Relations Association, companies are encouraged to formulate their disclosure policies with the aim of proactively communicating their efforts to achieve sustainable growth and enhance corporate value over the medium to long term, and to engage in in-depth dialogue with investors.

laws and regulations, and the TSE regulations; the prompt disclosure of information; and posting information on corporate websites. There were also companies that clearly described the establishment of a silent period on the release date of financial results during which no comments regarding the financial results or responses to inquiries would be made in order to prevent the leakage of information that could affect the stock price.

In addition, there were companies that stated they prohibited the preferential disclosure of non-disclosed material information and companies describing an awareness of fair disclosure through efforts to disclose information deemed to be useful even if it was not information subject to related laws or regulations or the Timely Disclosure Rules.

Chart 137 Investor Relations (IR) Activities (by Market Division)

	Formulation/publication of disclosure policy	Briefings for individual investors	Briefings for analysts & institutional investors	Briefings for overseas investors	Disclosure of information on company website	Establishment of department in charge of IR
All companies	43.9%	38.8%	75.4%	20.5%	98.4%	92.1%
JPX-Nikkei 400	67.9%	53.8%	99.5%	62.6%	99.5%	99.5%
TSE First Section	49.5%	43.4%	86.7%	24.8%	99.4%	95.5%
TSE Second Section	24.4%	19.2%	37.7%	4.8%	95.4%	80.2%
Mothers	77.0%	74.2%	96.9%	46.9%	99.1%	98.2%
JASDAQ	24.5%	21.2%	56.2%	5.6%	96.9%	86.8%

Chart 138 Investor Relations (IR) Activities (by Foreign Shareholding Ratio)

	Formulation/publication of disclosure policy	Briefings for individual investors	Briefings for analysts & institutional investors	Briefings for overseas investors	Disclosure of information on company website	Establishment of department in charge of IR
Under 10%	37.2%	34.3%	64.5%	12.1%	97.8%	89.3%
10% to under 20%	47.1%	42.2%	86.4%	21.1%	99.0%	95.1%
20% to under 30%	55.5%	43.3%	94.4%	35.1%	99.8%	96.7%
30% or more	64.4%	53.1%	93.8%	53.4%	98.8%	96.7%
All companies	43.9%	38.8%	75.4%	20.5%	98.4%	92.1%

5-3. 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 informational sessions on investment twice or more in every year⁹¹, and thereby contributed to improving their communications with investors.

⁹¹ Rule 421-2 of the Securities Listing Regulations.

(1) For individual investors

Companies which hold regular informational sessions⁹² for individual investors accounted for 38.8% of TSE-listed companies. In 11.6% of these companies, company representatives make presentation.

In analysis by market division, Mothers shows the highest ratio of 74.2%, followed by TSE First Section at 43.4%, JASDAQ at 21.2%, TSE Second Section at 19.2%. As for JPX-Nikkei 400 companies, 53.8% prepared and published disclosure policies, which is 10.4 points higher than TSE First Section (Chart 137).

Supplementary explanations were provided by 1,425 companies, and many companies stated that they were conducted regularly. There were also companies that described when informational sessions are held, the number of times they are held, and the venue. In addition, some companies mentioned that they participated in briefing events for individual investor sponsored by securities exchanges or the Securities Analysts Association of Japan. Some companies mentioned that they posted the materials for such briefings on their website in order to disclose information to individual investors that did not participate in briefings from the perspective of fairness of information. Furthermore, there were companies that described the representative director and president using slides at briefings to provide their own explanations, and the representative director and president providing their own response to questions.

(2) For analysts and institutional investors

Companies which hold regular informational sessions for analysts and institutional investors accounted for 75.4% of TSE-listed companies, and in 19.1% of these company representatives make presentations.

In analysis by market division, the ratio of companies which hold briefings for analysts and institutional investors was higher for Mothers (96.9%) and TSE First Section (86.7%), than for JASDAQ (56.2%) and TSE Second Section (37.7%). Among JPX-Nikkei 400 companies, nearly all of them (99.5%) hold regular briefings (Chart 137).

2,773 companies provided supplementary explanations. 144 companies mentioned holding informational sessions following the release of financial results and second quarter financial results, and posting the materials for informational sessions on their website. In addition, some companies stated that, in light of the impact of COVID-19, they had cancelled briefings and put in place alternative measures such as posting material on their websites or distributing videos.

(3) For foreign investors

Companies which hold regular informational sessions for foreign investors accounted for 20.5% of TSE-listed companies. In 11.1% of these companies, company representatives make presentations.

⁹²“Regular informational sessions” refer to the case where a company holds informational sessions with certain frequency throughout a year (at least once a year).

In analysis by market division, Mothers shows the highest ratio at 46.9%, followed by TSE First Section at 24.8%, JASDAQ at 5.6% and TSE Second Section at 4.8%. As for JPX-Nikkei 400 companies, 62.6% hold briefings for foreign investors, 37.8 points higher than TSE First Section (Chart 137). As for the relation with foreign shareholding ratios, the percentage of companies that hold informational sessions is higher as the foreign shareholding ratio increases. In the case of companies with foreign shareholding ratios of 30% or more, the figure is 53.4% (Chart 138).

754 companies provided supplementary explanations. Many companies stated that executives go abroad to speak at such briefings or individual meetings. Destinations are mainly the US and Europe, but some companies reported that they also held such sessions in Asian countries such as Hong Kong and Singapore. There were also cases of companies mentioning the number of times informational sessions and meetings with investors were held, participation in conferences for overseas institutional investors hosted by securities firms, distributing information with English translations over the website, and arranging visits to overseas factories. Among companies that did not hold informational sessions for overseas investors, there were companies that mentioned it as an issue for future consideration.

5-4. Posting on the company website

The disclosure of IR materials via company websites is already generally known as a tool for providing information to investors and market participants. The CG Report requires companies to state whether they post IR materials on their own websites and to explain the types of information they post on company websites and their URLs as supplemental explanations on IR activities, if they do post such data.

TSE-listed companies which post IR information on company websites reached 98.4%, and accordingly, this is already considered to be a generally used method (Chart 137).

In terms of the types of IR materials posted on company websites, the majority of companies mention financial results information and other timely disclosure materials, etc. A high percentage of companies mentioned keywords related to financial results, as 55.3% mentioned “earnings summary”, 50.2% mentioned “annual securities reports”, and 19.3% mentioned “convening notice”. There were also descriptions containing instances of corporate governance information, CSR reports, environment reports, intellectual property reports, fact books, and sustainability reports. 187 companies also posted videos.

5-5. Department (or person) responsible for IR

In total, 92.1% of TSE-listed companies mentioned that they have a department or person responsible for IR activities. In terms of the results by market division, 98.2% of Mothers-listed companies have such a department, higher than 95.5% of TSE First Section companies, 80.2% of TSE Second Section companies and 86.8% of JASDAQ companies. 99.5% of JPX-Nikkei 400 companies have such a department (Chart 137).

Among the companies which have a department responsible for IR, while the majority have a

department solely for the purpose of investor relations, some companies stated that the (management) planning, PR, or financial accounting department had IR functions or operations.

[Column 9] Management awareness of cost of capital

The objective of corporate governance reform is to achieve sustainable corporate growth and enhance corporate value over the medium to long term. However, in order to realize this objective, it is necessary to be decisive in making management decisions, including reviews of the business portfolio and allocation of management resources (for example, capital spending, R&D and human resource investment), based on an accurate understanding of the company's capital costs.

"Management based on cost of capital" is also a key area of interest for institutional investors. The Life Insurance Association of Japan, an industry group of life insurance companies that is a leading long-term investor in Japan, calls on listed companies to "set ROE targets adjusted for cost of capital and target higher ROE levels" in its report on initiatives to reinvigorate the equity market and achieve a sustainable society.

The cost of capital is the cost of raising capital (interest-bearing debt and shareholders' capital). While the cost of raising interest-bearing debt is clearly stated in the financial statements as "interest expense", the cost of procuring shareholders' capital (cost of shareholders' capital) is not shown in the financial statements. Over the years, many managers of Japanese companies have understood the "dividend burden" to be the cost of raising shareholders' capital, which is different from finance theory. Therefore, although the cost of shareholders' capital is essentially the expected return of equity investors, and expected returns are as high as 8%-10%⁹³ because of the high level of risk borne, there is a tendency to consider low capital efficiency as acceptable based on the management perceptions described above. This has led to Japanese companies retaining low margin business with poor asset efficiency in their portfolios, with no attempt to weed out underperforming assets and improve returns. This appears to be one of the factors reducing the international competitiveness of Japanese companies.

One of the reasons why the management of listed companies are now more conscious of capital efficiency indicators, such as ROE, is that ISS, a major proxy advisory company, has had a policy⁹⁴ of voting against proposed appointments for top management positions in companies with low ROE (5-year average and most recent ROE of less than 5%) at general shareholder meetings since February 2015. Since then, major institutional investors in Japan have regularly laid down ROE criteria for proposed directors' appointments, and listed companies in Japan have become more conscious of the importance of improving capital efficiency by setting ROE-based management objectives, for example in their medium-term management plans.

The 2018 revision of the Code clarified the concept of the "cost of capital". Specifically, Principle 1.4 requires companies to specifically examine whether the benefits and risks associated with cross-shareholdings are commensurate with their cost of capital, and Principle 5.2 requires companies to

⁹³ According to a survey by the Life Insurance Association of Japan (FY 2019), over 76% of investors indicated that their target ROE level was 8% or more.

⁹⁴ ISS is suspending its application of ROE standards from June 2020 in light of the COVID-19 pandemic

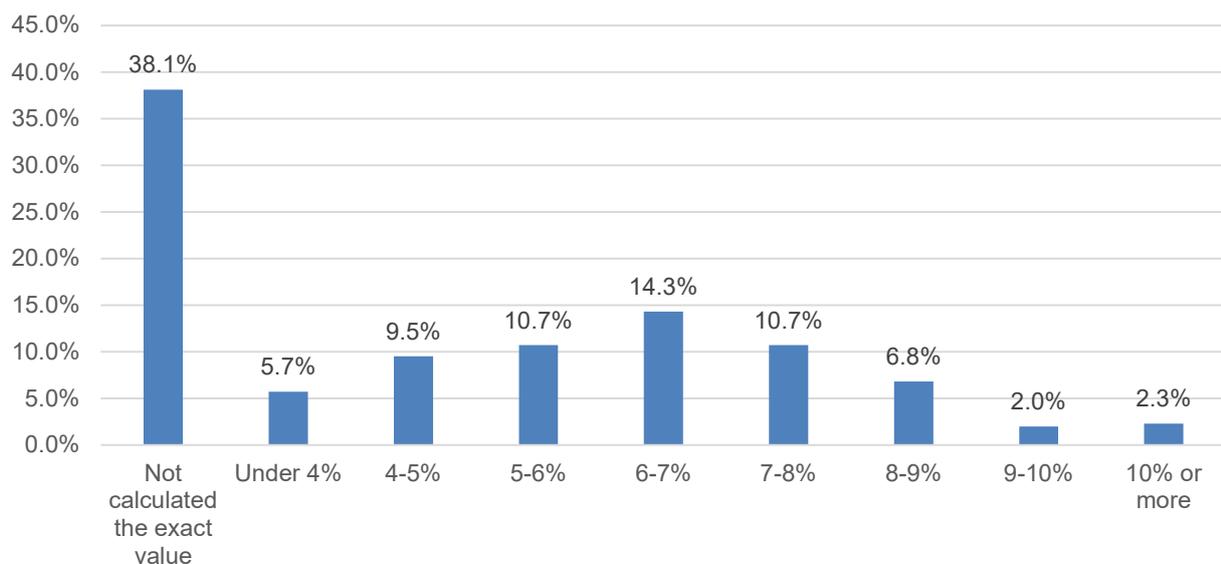
accurately identify their own cost of capital when formulating and announcing management strategies and plans.

As a result, many listed companies now know their cost of capital. For example, according to a survey by the Life Insurance Association of Japan, 95% of listed companies in its 2019 survey are aware of their own cost of capital, up from 89% in the same survey the previous year. Chart 139 shows the level of the cost of shareholders' capital as perceived by Japanese companies. 60% of listed companies have detailed figures for the cost of capital, and most of the figures are in the range of 5% to 7%.

There are also companies that voluntarily disclose their own cost of capital as well as targets related to profitability and capital efficiency based on this cost. In Example 1, the company sets its weighted average cost of capital (WACC) at 5%, with ROIC and ROE targeted to exceed this. It states that it uses WACC as the hurdle rate for investment projects. In Example 2, the company conservatively estimates its cost of shareholder capital at 8% and discloses that it aims to achieve ROE in excess of its cost of capital.

According to a survey by the Life Insurance Association of Japan, 35.1% of institutional investors view cost of capital (WACC, etc.) as an important management indicator, while only 2.1% of listed companies clearly refer to their cost of capital in their medium-term management plans. In addition to improving their disclosure of cost of capital, listed companies should actively utilize this cost of capital in their decision-making processes (M&A and capital investment, financial and capital policies, including the enhancement of shareholder returns, etc.).

Chart 139 Japanese Companies' Understanding of the Cost of Capital



(Source: The Life Insurance Association of Japan, "Questionnaire on Initiatives to Improve Corporate Value 2020")

Example 1

The Company's business model aims to efficiently generate returns on a slim asset base. We believe the current capital structure is sufficient to support the future growth of the Group's business without a significant reliance on external procurement.

The Company has set its WACC at 5% and has established demanding targets for ●VA ("● Value Added"), ROIC (Return on Invested Capital) and ROE (Return on Equity), which are well ahead of this cost of capital. The Company discloses its progress against these objectives at its semi-annual results briefings. In particular, with regard to the efficiency and reduction of working capital, we have set a target for CCC (cash conversion cycle), which the entire Group is focused on achieving. A WACC of 5% is used as the base hurdle rate for our investment projects. (Part below omitted)

(Other products)

Example 2

The Company has adopted equity spread (ROE in excess of shareholders' cost of capital) as a KPI of corporate value, and aims to create a positive equity spread (10-year average) over the medium- to long-term. While pharmaceutical company shares are classified as defensive, the Company conservatively assumes a cost of equity of 8%. Furthermore, the Company has set investment selection criteria for strategic investment (VCIC: Value-Creative Investment Criteria), and ensures value creation by using NPV with approximately 200 types of risk-adjusted hurdle rates, and Internal Rate of Return (IRR) spread as KPIs.

Pursuing value creation in excess of positive-equity spread over the medium to long-term, under the medium-term business plan '●● 2025' , the Company aims to attain ROE at the 10% level and an equity spread at the 2% level for fiscal 2020, as the midpoint of the plan. For fiscal 2025, the final year of the plan, the Company is mindful of attaining ROE at the 15% level and an equity spread at the 7% level.

(Pharmaceuticals)

Outlook - conclusion

This is the third edition of the White Paper on Corporate Governance since the application of the Corporate Governance Code (the “Code”) in 2015.

Japan's corporate governance reforms have made significant progress in terms of board independence and the use of optional nomination and remuneration committees, thanks to the efforts of listed companies, investors and other market participants. On the other hand, to truly bring about sustainable growth and medium- to long-term enhancement of corporate value through such changes, it is necessary and indispensable for listed companies to be more proactive in improving the effectiveness of their efforts in accordance with the environment, corporate culture and corporate climate.

This White Paper analyzes statistical data on listed companies' compliance with the Code, based on comparisons with the previous survey published immediately after the Code's revision in 2018. At present, discussions are underway at meetings of the "Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code." This White Paper refers to the progress of these discussions. In addition, we have shown examples of disclosures where companies have made a substantial effort to comply with requirements and where the content is presented to investors in an easy-to-understand format. We hope that this information provides cues and materials for dialogue between listed companies and shareholders and investors, as well as a reference point for listed companies in accordance with their existing circumstances.

In an effort to improve the medium to long-term corporate value of listed companies and improve the appeal of the Japanese market to investors going forward, the Tokyo Stock Exchange will actively work in an ongoing manner to improve the effectiveness of corporate governance and develop an environment which facilitates constructive engagement between listed companies and investors. It would be a great pleasure if this White Paper could in some way be helpful for listed companies and stakeholders including investors in enhancing corporate governance and contribute to the advancement of corporate governance in Japan.