TSE-Listed Companies White Paper on Corporate Governance 2013

Tokyo Stock Exchange, Inc.

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February 2013

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Introduction

Since discussions regarding corporate governance began in Japan, along with revisions to systems or frameworks such as strengthening the function of statutory auditors and adopting the companies with committees system, Tokyo Stock Exchange (hereinafter "TSE") has demonstrated initiatives such as formulation of The Principles of Corporate Governance for Listed Companies and institutionalization of the Corporate Governance Report (hereinafter "Report"). Individual listed companies have also taken action aimed at preventing corporate misconduct or enhancing corporate value by raising management efficiency such as adopting a framework of management monitoring by an external party. Due to these efforts, corporate governance in Japan has been steadily improved and strengthened.

TSE compiles the approach of companies listed on its market toward enhancing corporate governance and reports the progress on various aspects of the initiative from the perspective of shareholder protection on par with international standards to allow all investors to participate in the market with confidence as well as supporting listed companies efforts toward enhancing corporate governance based thereon. TSE comprehensively analyzes and presents the current state of corporate governance based on data in the Report, previously issuing "TSE Listed Companies White Paper on Corporate Governance 2007," "TSE Listed Companies White Paper on Corporate Governance 2009" and "TSE Listed Companies White Paper on Corporate Governance 2011" (hereinafter collectively "previous white papers"). The 2013 edition "TSE Listed Companies White Paper on Corporate Governance 2013" (hereinafter "this white paper") is a continuation of this series.

Today, the state of listed company corporate governance has changed dramatically worldwide after the financial crisis in 2008. The financial crisis showed that the Anglo-Saxon model of corporate governance centered upon outside directors in a board of directors cannot fulfill the role expected by shareholders and investors if it falls into formality. The crisis revealed another lesson: diligence without being overconfident is required to achieve appropriate corporate governance. This lesson was revisited in 2011 when acts by the management executives of some listed companies significantly damaged corporate value.

In order to raise global competitiveness by attracting high quality domestic and overseas risk money and investment targets, TSE has made significant changes to its listing system and framework on corporate governance such as revising the Principles of Corporate Governance for Listed Companies and rules related to corporate activity such as third-party allotment, requiring independent directors/auditors and expanding information dissemination as well as introducing measures to prevent abuse of rights by controlling shareholders.

This white paper focuses on the state of implementation of such new measures with an emphasis on data continuity by including, as far as possible, comparisons of survey results with those presented in previous white papers. We hope that this white paper allows listed companies to gain an understanding of the state of progress of corporate governance in Japan and contributes to better corporate governance in your company.

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

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Scope of Analysis

This analysis utilized data from the Reports of all domestic companies listed on TSE ("TSE-listed companies") as of September 10, 2012. Furthermore, data was compared with results from previous analyses, and changes, unless indicated otherwise, are made in comparison with the last survey.

Methodology for Analysis

Data submitted to TSE on or after July 7, 2008 is now created in XBRL files. In the same way as for the previous analysis, TSE used data in XBRL files.

Furthermore, revisions were made to the format of the Report, including streamlining item formats which were temporary until March 2011, and broadening the description matters on the content of transactions, etc. in cases where an independent director/auditor was from such transacting party in May 2012. This analysis is based on content submitted according to the modified Report.

This White Paper is basically structured by chapter corresponding to topics in the Report, extracting data from corresponding topical sections in the Report. To make it easy to capture the characteristics, comparative analysis is performed by classifying the data by capital structure or corporate attribute, and aggregating the data of each attribute.

The classification and aggregation of numerical data are based on the quantified data in the Report, and expressed as percentages (to one decimal place) by dividing the number of companies whose responses fall into certain category by the total number of companies with the attribute which the respondent companies belong to. The data on officers (collectively referring to directors, auditors, and executive officers), extracted from the Report in number of persons, is expressed as numbers of persons (to two decimal places).

To analyze the overall trends of topics in free-text description sections other than multiple choice sections, TSE defined several keywords representing directions of corporate governance in the same manner as the previous White Paper, and aggregated the number of responses containing such keywords in the descriptions. As a new feature, typical and characteristic examples of such descriptions are also cited in this White Paper.

I. Fundamental Approach toward Corporate Governance, Capital Structure, Corporate Attributes, and Other Basic Information

1.Fundamental Approach

With respect to the fundamental approach toward corporate governance, prior to the start of the Report system, Exchange required listed companies to describe, in their financial highlights, their basic policies and objectives for corporate governance, and priorities of corporate governance compared with other management issues. At that time, such disclosures did not include significant descriptions focusing on their awareness of the need for management monitoring, or descriptions about the positioning of their stakeholders including shareholders, key players in governance. As a result, shareholders/investors had difficulties to understand their position in such companies. Therefore, TSE added this chapter in the Report to clarify their perception of the above matters and purposes of corporate governance.

In the Reports, 53.3% (up 0.9 points; any up/down in this chapter refers to a change from the last survey) - more than half of the companies - describe "corporate value" in connection with fundamental policies for and/or purposes of corporate governance efforts. As consolidated sales or foreign shareholding ratio increase, the percentage also tends to increase. As improprieties at listed companies brought about widespread discussion on the state of corporate governance, there is growing awareness that the instrinsic purpose of corporate governance is to improve corporate value.

Many companies expressed that the objective of corporate governance is enhancement of corporate value, as shown in the following specific descriptions: "Basic principle of corporate governance is to enhance efficiency and transparency of management and to maximize corporate value," "We regard corporate governance as the key management issue to enhance corporate value as well as management transparency for shareholders," and "In order to continue to make profits from business activities and enhance corporate value, we consider it essential to develop corporate governance system as the framework to govern such activities."

Concerning management monitoring function, 38.4% (down 3.4 points) of all companies referred to "monitoring" or "supervision." This figure drops to 35.6% (down 1.8 points) among companies with statutory auditors, but rises to 81.6% in companies with committees (up 1.2 points). Figures for companies which referred to "execution" fell overall, with 36.5% (down 2.3 points) of all companies, 79.6% (down 0.8 points) of companies with committees, and 35.5% (down 2.3 points) of companies with statutory auditors. These figures indicate a difference between the systems adopted by listed companies. The characteristics of the system of companies with committees meant that more of such companies mentioned the terms concerning segregation between execution and supervision. With TSE implementing the independent directors/auditors system (discussed later), thereby introducing a new concept of "independence" not required by the Companies Act of Japan, companies which mentioned "independence" increased slightly by 7.0% (up 0.1 points).

Specific descriptions on management monitoring include: "Aiming at maintaining appropriateness of business execution by strengthening management monitoring function," "The management maintains a high level of corporate ethics, secures sound management and transparency, ensures that the management monitoring mechanism led by Statutory Auditors functions properly, and enhances corporate value. This is a fundamental of corporate governance." A number of companies described that strengthening the function to monitor the management is the fundamental of corporate governance.

As a significant part of corporate value, 60.0% (up 0.7 points) of the companies referred to "stakeholders," showing further growth from the last survey. The result suggests that the companies are aware to a substantial extent that it is essential to establish good relations not only with shareholders, but also with a wide range of interested parties such as employees, customers, business partners (including creditors), consumers and communities in order to achieve better corporate governance. While some companies placed greater emphasis on their shareholders as well as showing certain considerations to their stakeholders, a distinctive trend is that shareholders and other stakeholders are described on an equal basis, as shown in phrase "aiming at enhancing corporate value through relationship with the stakeholders."

In recent years, respect for stakeholders has been represented by growing attention to corporate social responsibility, or CSR. Also in this survey, 26.6% of all companies, which is lower than the last survey by 0.3 points, referred to "social responsibility." We found a distinct trend toward emphasis on activities in consideration of social responsibility as the basic policy of the companies.

In addition, even though it was not required in the preparation guidelines for "the Report on Corporate Governance" (the "Reporting Guidelines"), "compliance" was mentioned by 39.8% (down 0.5 points) of the companies from the viewpoint of sound corporate management. The high ratio would be partly because discussion on corporate governance in Japan has been provoked by efforts for prevention of corporate scandals. Conducting business activities in compliance with laws and regulations as well as social norms is the minimum requirement expected by the entire nation and society. This result shows high level of corporate awareness of this expectation as well as consideration for corporate social responsibility.

The related keyword "internal control," however, shows rather low ratio of 18.1% (down 0.7 points), even though its significance has been emphasized in the Company Act and the Financial Instruments and Exchange Act (hereinafter referred to as "FIEA"). This may be because the Report has a separate section dedicated to internal control.

Similarly, as an overall corporate management issue, 69.1% of the companies referred to "transparency," maintaining a high ratio from the last survey. It is understood that this element has been widely spread as an important concept of management. Furthermore, 7.8% of the companies mentioned "accountability." Specifically, many companies described that enhancement of or adherence to accountability is recognized as a part of strengthening corporate governance.

With regard to the fundamental approach toward corporate governance, 850 or 37.4% of the companies referred to "group" and provided description on initiatives implemented in the corporate group.

Chart 1 Fundamental Approach toward Corporate Governance

		Corporate Value		Shareholders' value		Monitoring & supervision		Execution	
		Ratio	Change from 2010	Ratio	Change from 2010	Ratio	Change from 2010	Ratio	Change from 2010
Total		53.3%	0.9	6.6%	0.2	36.6%	−1.7	36.5%	−2.3
Organizational Form	Companies with Statutory Auditors	53.1%	0.8	6.5%	0.2	35.6%	−1.8	35.5%	−2.3
	Companies with Committees	65.3%	2.6	10.2%	−1.6	81.6%	1.2	79.6%	−0.8

		Decision making		Internal control		Stakeholders		Social Responsibility	
		Ratio	Change from 2010	Ratio	Change from 2010	Ratio	Change from 2010	Ratio	Change from 2010
Total		38.1%	−1.4	18.1%	−0.7	60.0%	0.7	26.6%	−0.3
Organizational Form	Companies with Statutory Auditors	37.8%	−1.4	18.3%	−0.8	60.1%	0.6	26.7%	−0.3
	Companies with Committees	51.0%	−1.9	10.2%	2.4	57.1%	4.2	22.4%	−1.1

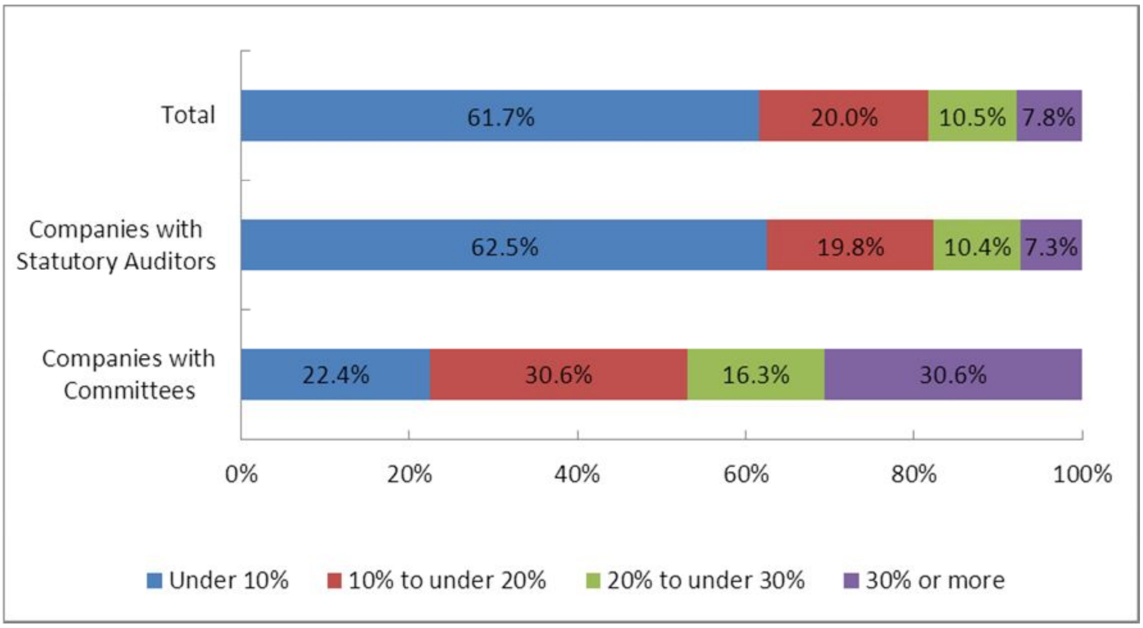
		Compliance		Transparency		Efficiency		Soundness	
		Ratio	Change from 2010	Ratio	Change from 2010	Ratio	Change from 2010	Ratio	Change from 2010
Total		39.8%	−0.5	69.1%	0.0	20.0%	0.0	23.7%	0.2
Organizational Form	Companies with Statutory Auditors	40.1%	−0.5	68.9%	0.2	19.9%	−0.1	24.0%	0.2
	Companies with Committees	26.5%	1.0	77.6%	−4.8	26.5%	5.0	8.2%	0.3

2. Capital Structure

(1) Foreign shareholding ratio

Classification by foreign shareholding ratio is as shown in Chart 2. Companies with less than 10% foreign shareholding ratio occupied 61.7% share, down 1.8 points from 63.5% in the last survey. Companies with 30% or more foreign shareholding fell to 7.8%, down 0.5 points. Results from the last survey indicated a decreasing trend in the ratio of foreign shareholdings, but this survey seems to point to a bottoming out of this trend. A comparison between companies with statutory auditors and companies with committees showed that the trend of companies with committees having a higher ratio of foreign shareholdings remains unchanged.

Chart 2 Foreign Shareholding Ratio (Overall/Organizational Form)



As for relation with market division, the percentage share of companies with higher foreign shareholding ratio tend to be greater among those listed on the TSE First Section, compared with those listed on the TSE Second Section or Mothers. 9.6% of TSE First Section companies have 30% or more foreign shareholding, above that of 2.6% for the TSE Second Section and 2.8% for Mothers. Furthermore, as for relation with consolidated sales, as shown in Chart 4, the greater the consolidated sales are, the higher percentage share of companies with higher foreign shareholding ratio account for. The same trend was seen in the last survey.

Chart 3 Foreign Shareholding Ratio (Market Division)

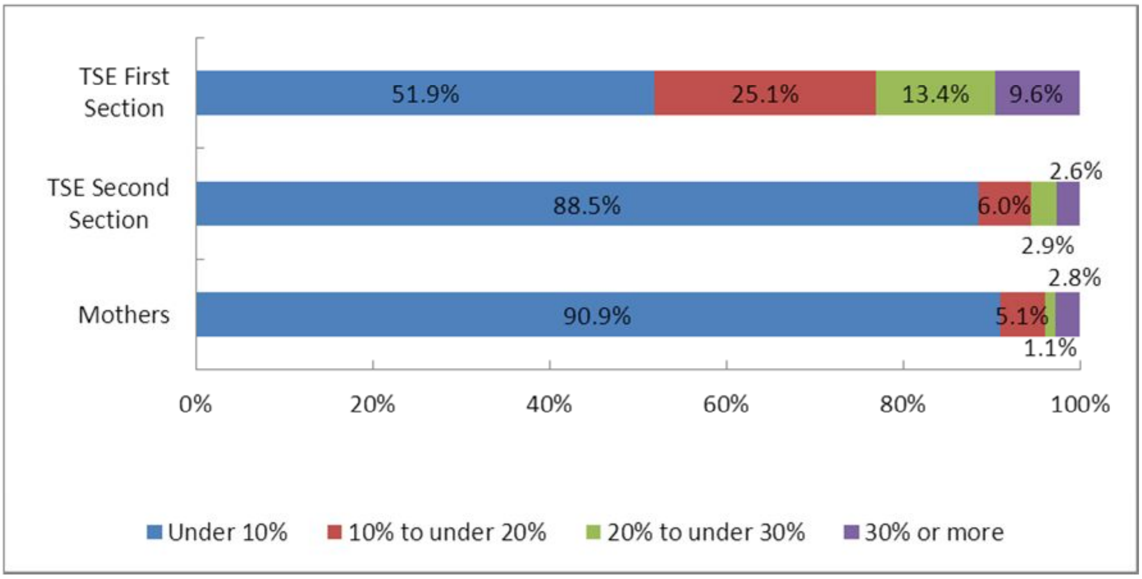
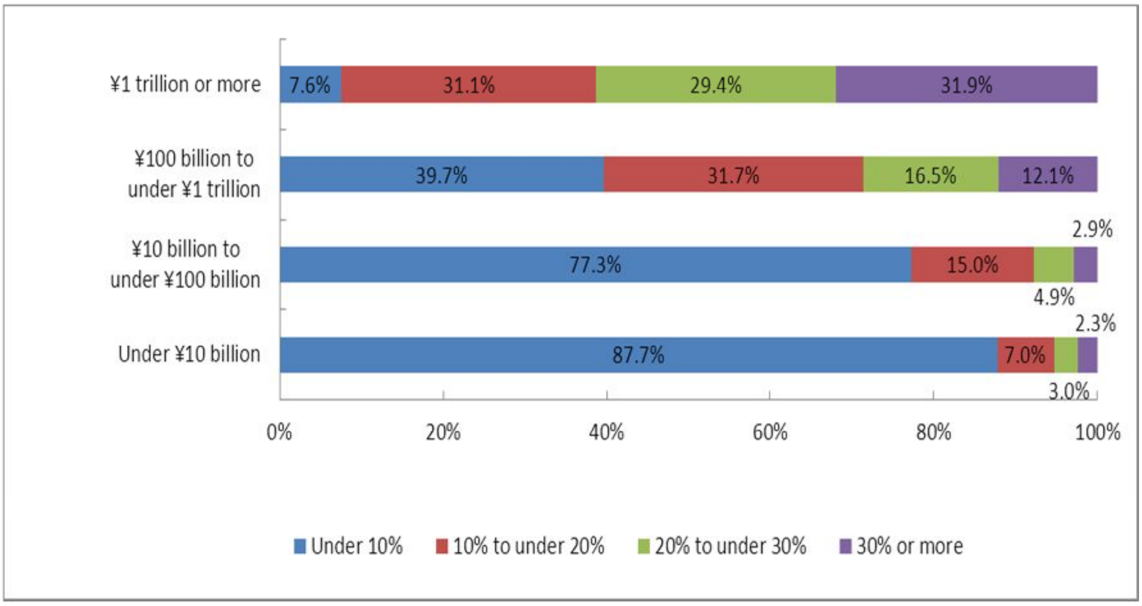


Chart 4 Foreign Shareholding Ratio (Consolidated Sales)

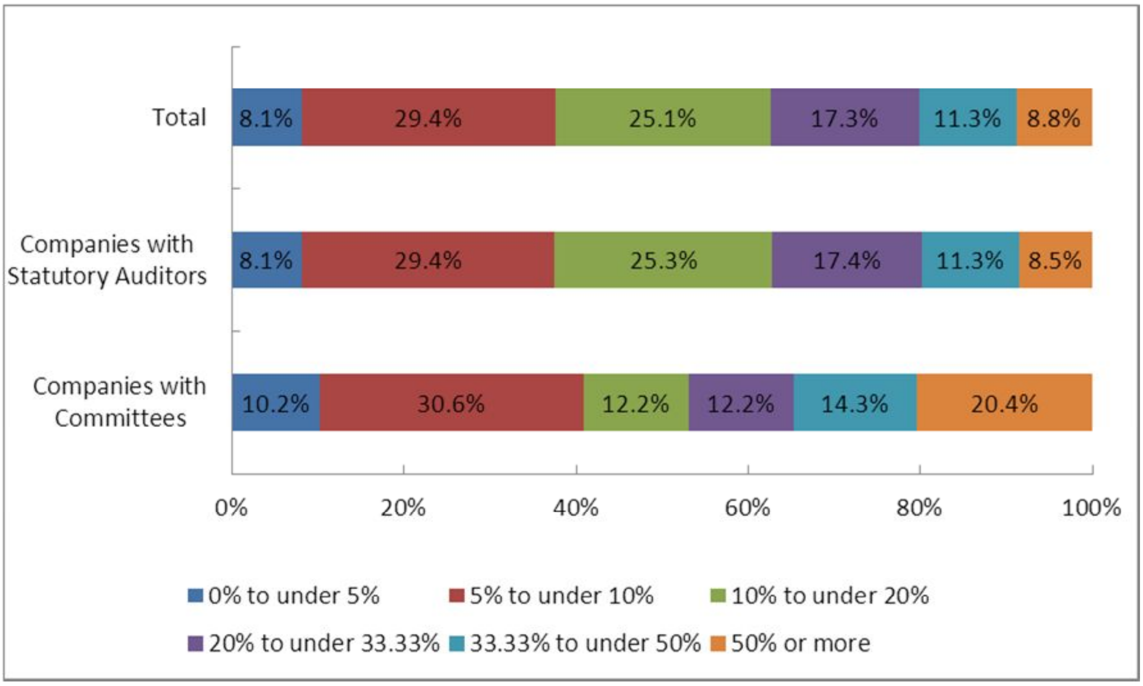


(2) Major shareholders

The Report requires companies to provide the names of the top ten shareholders, the number of shares held, and the shareholding ratio. The shareholding ratio of the largest shareholders of TSE-listed companies is as shown in Chart 5.

In the case of companies with statutory auditors, fewer companies belong to categories of higher percentage ownership held by the largest shareholder, except the category of less than 5%. On the contrary, in the case of companies with committees, companies no less than 50% of whose shares are held by the largest shareholder is high at 20.4% (down 5.1 points). This is partly due to all companies belonging to a certain corporate group making the transition to the companies with committees structure, thereby maintaining the structure of the entire corporate group. Companies falling under the category of between 0% to 5%, indicating a highly dispersed shareholder base, account for 8.1% overall (down 0.8 points), while those between 5% and 10% made up 29.4% (down 0.5 points). Both categories did not change significantly. The percentage of companies whose shareholding ratio of the largest shareholder was 20% or more also remained largely unchanged at 37.4% (down 0.8 points).

Chart 5 Shareholding Ratio of the Largest Shareholder (Overall/Organizational Form)



As shown in Chart 6 by market division, the companies listed on the TSE First Section show lower percentage ownership held by the largest shareholder than others. Chart 7 indicates that the higher consolidated sales are, the lower the percentage ownership held by the largest shareholder is. It indicates that such companies tend to show high ownership dispersion.

Chart 6 Shareholding Ratio of the Largest Shareholder (Market Division)

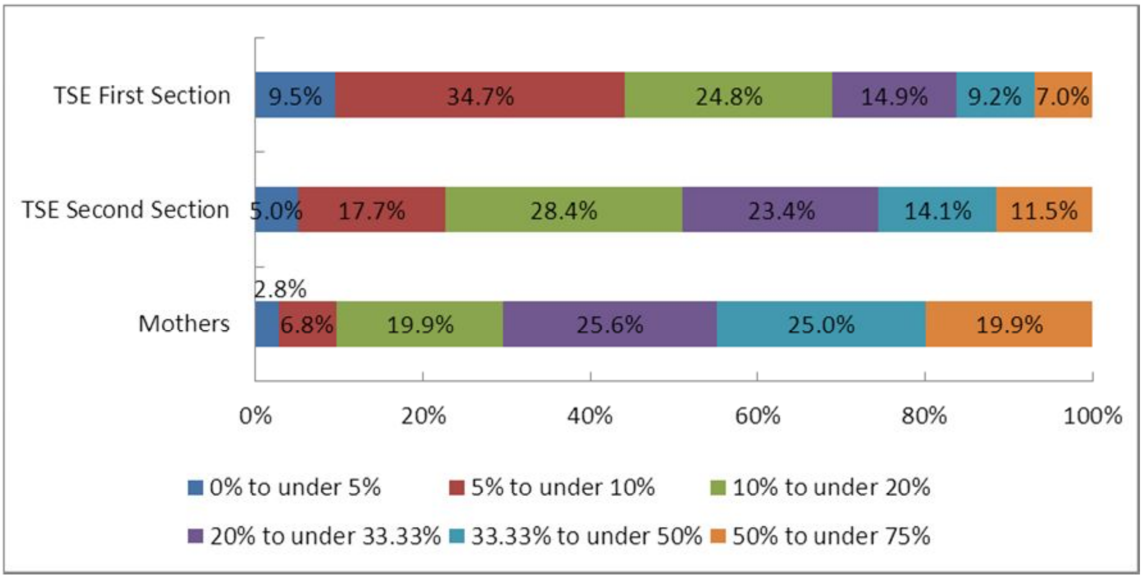
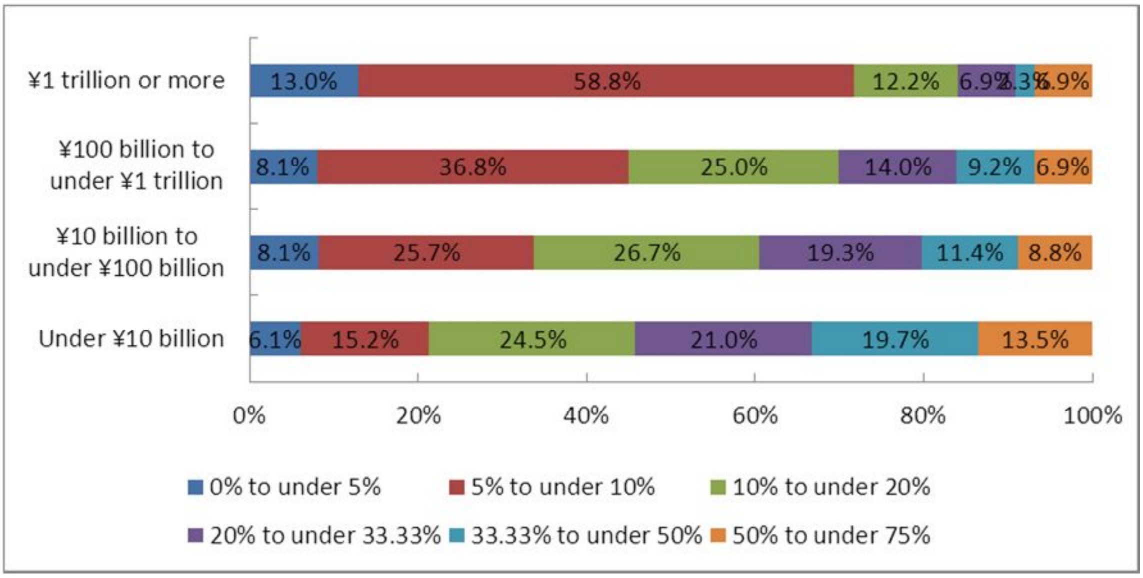


Chart 7 Shareholding Ratio of the Largest Shareholder (Consolidated Sales)



(3) Existence of controlling shareholder/parent company

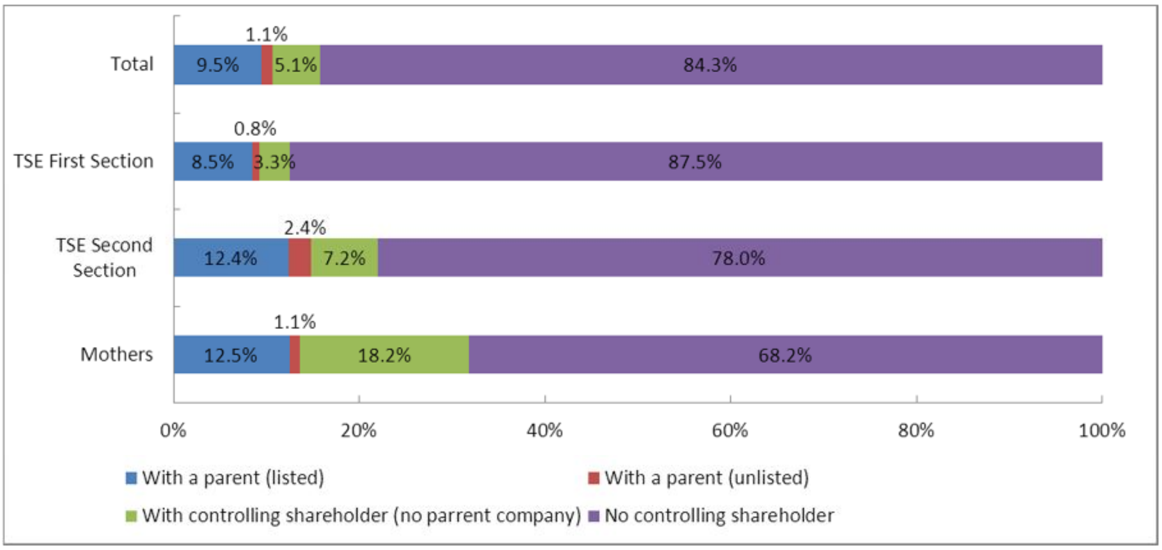
Since the March 2011 revision to the format, the Report has required companies to provide description on the presence of controlling shareholders. Together with the existing requirement for descriptions on the presence of a parent company, this section contains an analysis of these descriptions.

356 or 15.6% of TSE-listed companies have controlling shareholders. Out of these, 67.7% (10.6% overall) have parent companies, and 32.3% (5.1% overall) have controlling shareholders other than parent companies. 89.6% of companies with parent companies (9.5% overall) have listed parent companies. The reason for the large percentage of parent companies being listed is due to TSE requiring, until January 1, 1996, subsidiaries seeking a new listing to have a TSE-listed parent. Besides this, one reason is the burden on an unlisted parent to list its subsidiary, which came in the form of, among others, the TSE Securities Listing Regulations required TSE-listed companies to perform disclosure regarding its unlisted parent company at a level similar to that for a listed company.

In terms of market division, 9.2% of TSE First Section companies that have parent companies (down 0.6 points from last survey). This is low compared to high levels shown in the TSE Second Section 14.8% (down 2.4 points) and Mothers 13.6% (down 0.1 points). The same trend can be seen when the percentage of companies with controlling shareholders other than a parent company is totaled. In the TSE First Section, the percentage of companies with controlling shareholders is 12.5%, comparatively lower than the higher levels of 22.0% and 31.8% seen respectively in the TSE Second Section and Mothers.

Out of TSE-listed companies whose largest shareholder's ownership ratio is 50% or above, the percentage of those that do not have parent companies is 14.5%, a relatively low percentage of companies whose controlling shareholders are not parent companies. On the contrary, by market division, the percentage of listed companies whose largest shareholder's ownership ratio is 50% or more in Mothers is 48.6%, which is much higher than that for the TSE First Section (6.0%) and the TSE Second Section (10.2%). This is thought to indicate that there are many Mothers-listed growth companies having company founders and other individuals as controlling shareholders.

Chart 8 Existence of Controlling Shareholders/Parent Company (Overall/Market Division)



(4) Supplementary explanation regarding capital structure

412 companies provided supplementary explanations regarding capital structure. A large part of these is description regarding changes in large shareholders, deduction of treasury shares, and confirmation of large volume possession reports.

3. Corporate Attributes

(1) Listed exchange and market division

A breakdown of the number of TSE-listed companies by market division shows 1,680 companies on the TSE First Section (up 11 companies from last survey), 419 companies on the TSE Second Section (down 24 companies), and 176 companies on Mothers (down 6 companies) (see Chart 9). Out of TSE-listed companies, the total number of companies that are only listed on TSE is 1,405 (61.8%), and those cross-listed on other domestic exchanges is 870 (38.2%). The number of companies listed only on TSE by market division is 886 on the TSE First Section (52.7%), 336 on the TSE Second Section (80.7%), and 174 on Mothers (98.9%). In terms of markets for such cross-listings, 476 companies, 20.9% of TSE-listed companies, are listed on the first section of Osaka Securities Exchange, which ranks first in cross-listings, followed by the first section of Nagoya Securities Exchange where 189 companies or 8.3% of the same are listed.

Chart 9 Number of Listed Companies (Market Division)

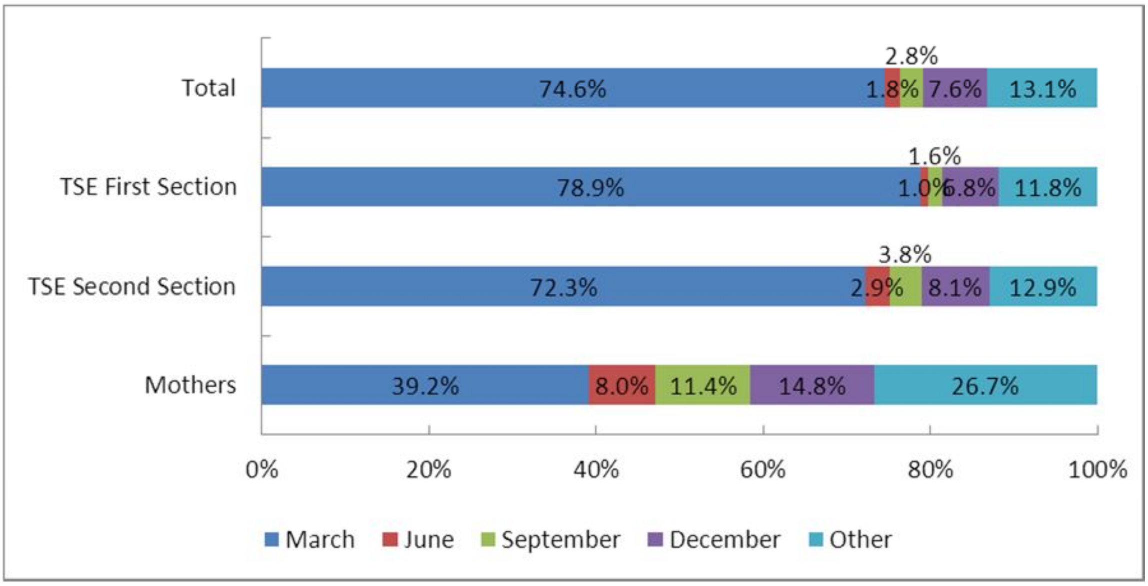
Market	Number of companies	Change from 2010	Ratio	Change from 2010
TSE First Section	1,680	11	73.8%	1.1
TSE Second Section	419	-24	18.4%	-0.9
Mothers	176	-6	7.7%	-0.2
Total	2,275	-19	100.0%	0.0

(2) Fiscal year end

The distribution of the end of the fiscal years of TSE-listed companies is as shown in Chart 10. The fiscal year of 74.6% of TSE-listed companies (down 1.1 points) ends in March. This is down by 1.1 points from 75.7% in the last survey. Rather than being simply due to corporations moving their fiscal year ends away from March, this was a result of many companies listed on the TSE First and Second Sections whose fiscal years end in March being delisted. New listings of companies whose fiscal years end in other months also contributed to this trend.

As for trends by market division, the majority of the companies listed on TSE First Section (78.9%; down 0.7 points) and TSE Second Section (72.3%; up 2.4 points) adopt a fiscal year ending March. However, only 39.2% (down 3.1 points) of Mothers-listed companies adopt a fiscal year ending March, while the remaining companies adopt a fiscal year ending December (14.8%) or September (11.4%).

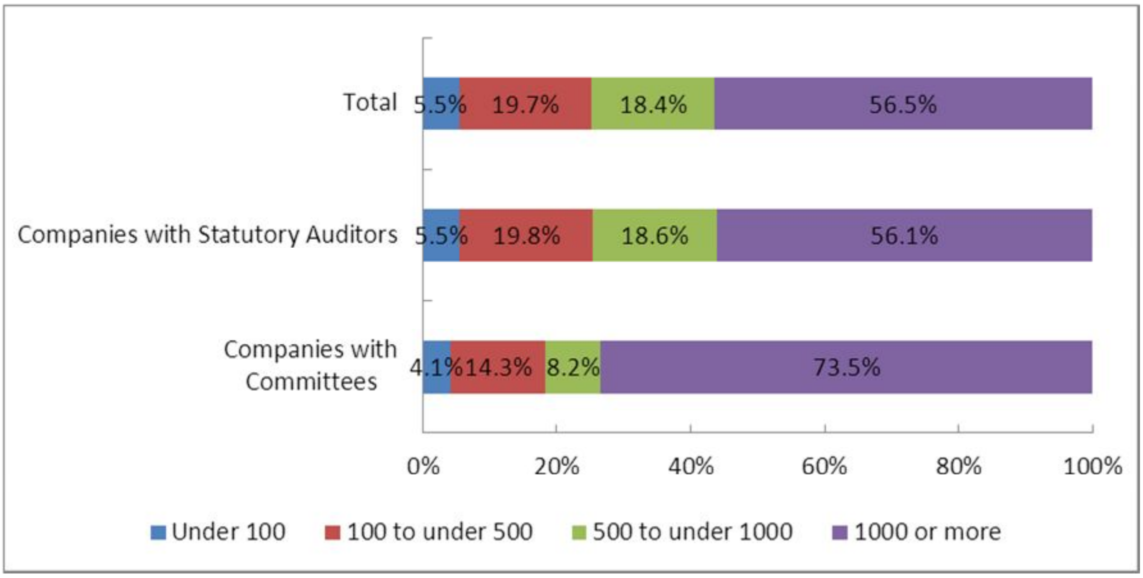
Chart 10 Fiscal year end (Overall/Market Division)



(3) Number of employees

The distribution of TSE-listed companies by number of employees (consolidated) is as shown in Chart 11. 56.5%, more than a half, of the companies have no less than 1,000 employees. Although not included in the chart, as far as companies with committees are concerned, the percentage is as high as 73.5%. There is no significant change in the trends from the last survey.

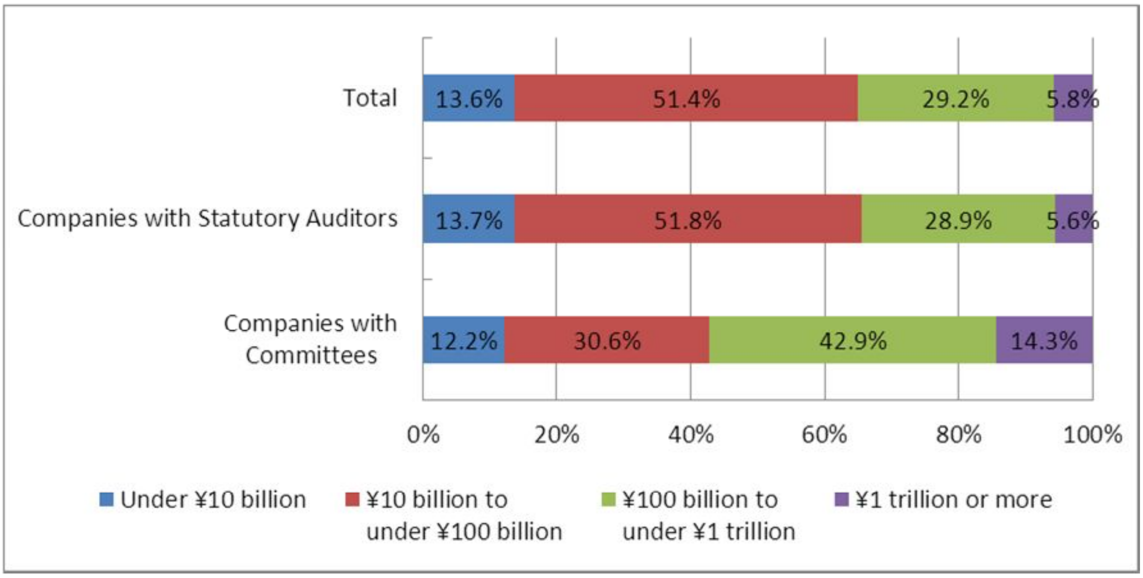
Chart 11 Number of Employees (Consolidated) (Overall/Organizational Form)



(4) Consolidated sales

The distribution of TSE-listed companies in terms of consolidated sales is as shown in Chart 12. Among companies with statutory auditors, those with 10 billion to 100 billion yen in consolidated sales lead with 51.8% (down 1.1 points from the last survey). Among companies with committees, those with 100 billion to 1 trillion yen have the largest share (42.9%; down 0.3 points). This trend remains the same as the last survey.

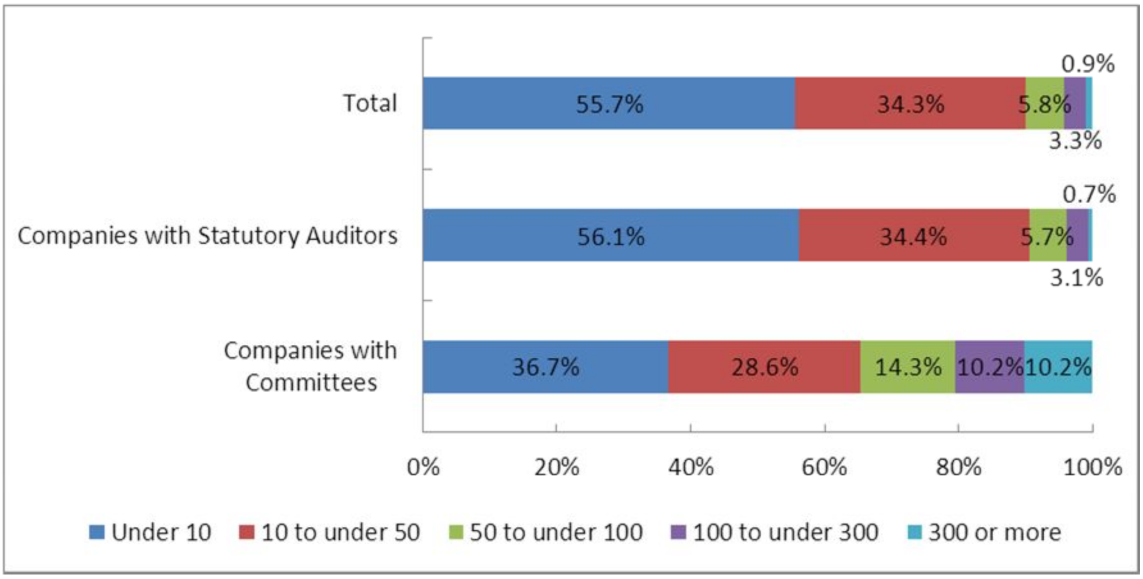
Chart 12 Consolidated Sales (Overall/Organizational Form)



(5) Number of consolidated subsidiaries

The number of consolidated subsidiaries of TSE-listed companies is as shown in Chart 13.

Chart 13 Number of Consolidated Subsidiaries (Overall/Organizational Form)



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

With the March 2011 revision to the format, the Report now has a separate item on the policy at the company regarding the protection of minority shareholder interests when conducting transactions or other activities with the controlling shareholder. The Report requires listed companies that have a controlling shareholder to provide concrete description on matters such as policies on internal frameworks and systems, the internal decision-making process, and the use of external agencies, with the aim of preventing company and, eventually, minority shareholder interests from being undermined by transactions or other actitivites which were made, under the influence of the controlling shareholder, to favor such controlling shareholder.

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

Out of the companies included in this analysis, 356 companies, equivalent to 15.6% of TSE-listed companies, have controlling shareholders (down 2 companies from the last survey). Of these companies, 241 have parent companies, and 115 have controlling shareholders that are not parent companies (see Chart 8). 320 companies provided description on their policies on protection of minority shareholder interests. The specific descriptions contain approaches that can be largely divided into two categories. One is to describe their policies for transaction conditions, and another is to refer to their procedures of transactions with the controlling shareholders.

Out of these two approaches, 217 companies, or 60.6% of TSE-listed companies with controlling shareholders, referred to their guidelines for such transaction conditions. Specifically, 94 companies described their policies that stipulate transactions with the controlling shareholder are to be carried out in a fair and equitable manner as in those with other business partners taking into account the terms of such contracts and market prices, so that they do not conduct any transactions which adversely affect minority shareholder interests.

Some companies stated that while not having business relationship with their controlling shareholders at the moment, they would adopt a similar policy for future transactions. Other than some descriptions on having checks by outside directors or statutory auditors, or putting the contents of transaction up for internal approval and circulating it internally, there are companies which expressed their policy to not conduct any transactions with their controlling shareholder in principle.

303 companies, or a relatively high 84.6%, referred to their procedures for transactions with the controlling shareholder. Specifically, the procedures described include: a company asks for opinions of outside directors/auditors other than those from the parent company for more objective decision-making in order to prevent any transaction which benefits the parent company and also undermines the interests of minority shareholders (94 companies); a company makes a decision by consulting with external specialists, when needed, to ensure that transaction conditions in question are reasonable and appropriate (11 companies); and as a difference from ordinary transactions, a company requires a resolution of the board of directors regardless of transaction amount in question. However, rather than taking instructions from parent companies, many have policies on protecting minority shareholder interests which involve the board of directors at the subsidiary

having separate discussions and decisions on matters concerning the transaction such as the appropriateness of the conditions and making independent executive decisions. Yet they are expected to explain more about whether directors under the parent companies' influence can make a fair decision. Other descriptions include the stipulation of rules on internal procedures related to decision-making on the transaction conditions to ensure appropriateness of transactions, and appropriate audit by statutory auditors or the operations audit group, etc.

Aside from transaction conditions and procedures, in case a controlling shareholder assumes a role of director, company rules such as code of ethics prohibit such a director to conduct conflict of interest transactions, which cause or may cause conflicts between the director's interests and the company's interests. There are certain companies which prohibit unfairly favorable or unfavorable transactions compared with transactions with third parties, or transactions for the purpose of transferring profits or losses/risks, clearly in their rules as policies to protect minority shareholders.

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

The Report contains a section titled "other special circumstances which may have material impact on corporate governance" for free-text descriptions of company-specific circumstances which are not directly linked to each section in the Report but may significantly affect corporate governance, or supplementary explanation to other sections. In this survey, 703 companies included descriptions on special circumstances. As described in the Reporting Guidelines, the matters applicable to optional free-text descriptions in the subject section include the following matters: (i) in the case where a company has a parent company - views on, and measures and policies for, maintaining independence from the parent company; (ii) in the case where a company has a listed subsidiary - views on, and measures and policies for, maintaining independence of the subsidiary.

Concerning (i), out of 241 companies which have the parent companies in this survey, 152 companies (63.1%) referred to independence from the parent companies. Specifically they explained independence from the parent companies showing such examples as whether or not there are matters for approval in business activities, pricing power with regards to conditions of transactions (sales, procurement, etc.) with enterprise groups including parent companies, and the situation of companies with committees where a number of directors sent from the parent companies in each committee must be less than the majority.

Concerning (ii), out of the listed companies with subsidiaries, while there has been an increase of 5 companies from the last survey, only 29 companies specifically referred to considerations for minority shareholders. Such companies described that respect for minority shareholder interests are included in the basic internal control policy, that the parent company is committed to respect managerial independence of its listed subsidiary to the maximum extent in the agreements of capital subscription and others, and that transaction conditions are determined in accordance with appropriate procedures or as the same conditions with other companies.

II. Business Management Organization and other Corporate Governance Systems regarding Decision-making, Execution, and Oversight in Management

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

1. Organizational Form

As for organizational forms of the listed companies, those who adopted the companies with committee system account for only 2.2% of TSE-listed companies. An overwhelming majority of the companies (97.8%) are companies with statutory auditors. This trend has not changed since the Report system began in 2006. Background factor behind the results would be that Japanese stock companies (kabushiki kaisha) have traditionally adopted the statutory auditor system under the former Commercial Code, and that only large companies or those deemed so were allowed to shift to the companies with committees system at the time when the committees system was first introduced as "Companies with Committees, etc." Currently a company, regardless of the company size, may adopt the companies with committees system by stipulating so in its articles of incorporation.

In analysis of the ratio of the companies with committees by market division as shown in Chart 14, the TSE First Section shows a slightly higher ratio (2.5%). With respect to the number of employees (consolidated), consolidated sales, and the number of consolidated subsidiaries, the results of each of these elements show that the higher the figure (meaning, the larger the companies), the more likely the companies have adopted the committees system. As mentioned earlier, this would be under the influence of the fact that only large companies and those deemed so were allowed to adopt the committees, etc. system at the time the system was introduced.

With regard to foreign shareholding ratio (see Chart 15), there is a trend of a higher ratio wth a higher percentage among companies with committees.

Even though no clear correlation can be seen in terms of the shareholding ratio of the largest shareholder, where it exceeds 50%, the percentage of companies with committees appears to be higher (see Chart 16).

The background to this trend includes cases of all companies under certain corporate groups making the transition to the companies with committees system.

Chart 14 Organizational Form (Overall/Market Division)

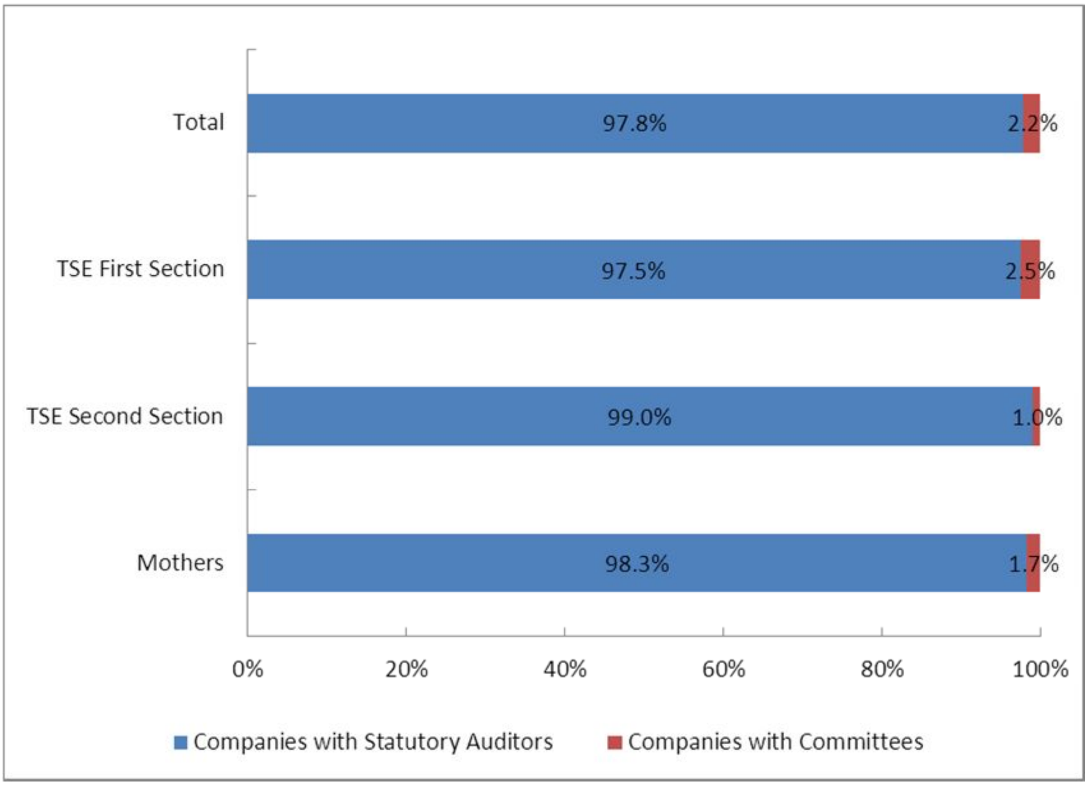


Chart 15 Organizational Form (Foreign Shareholding Ratio)

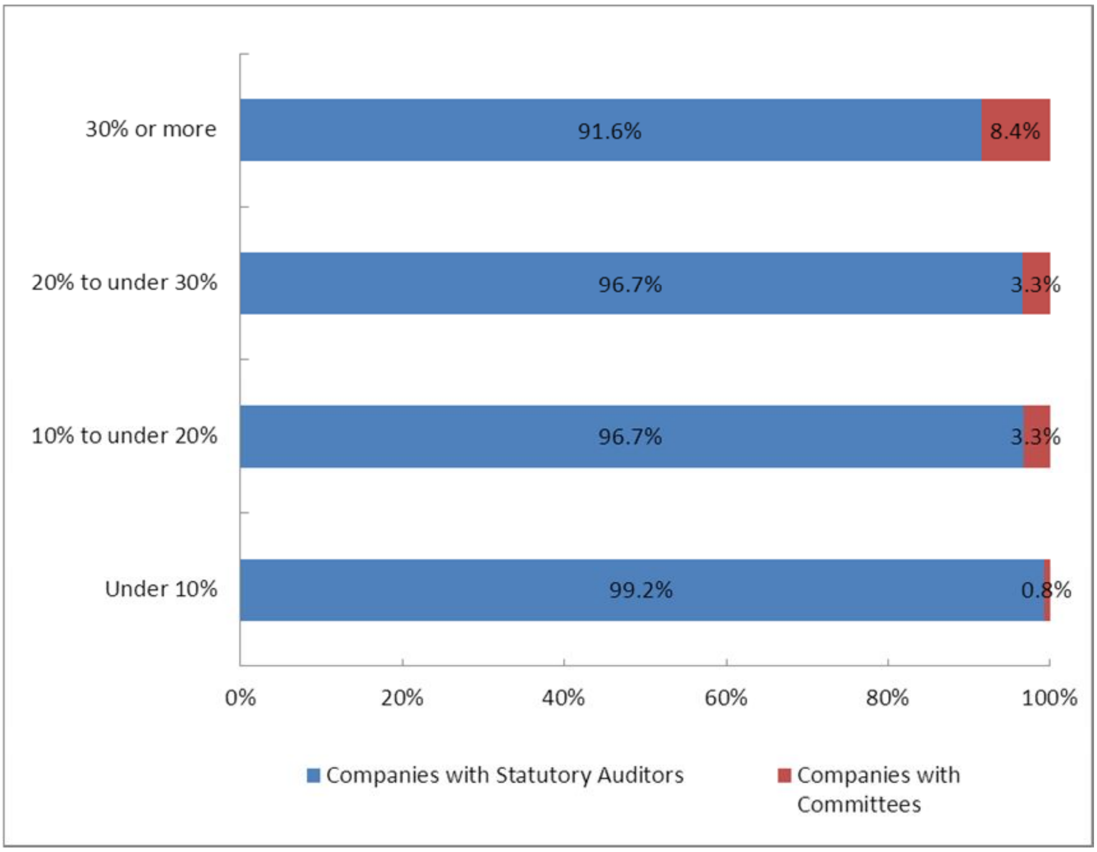
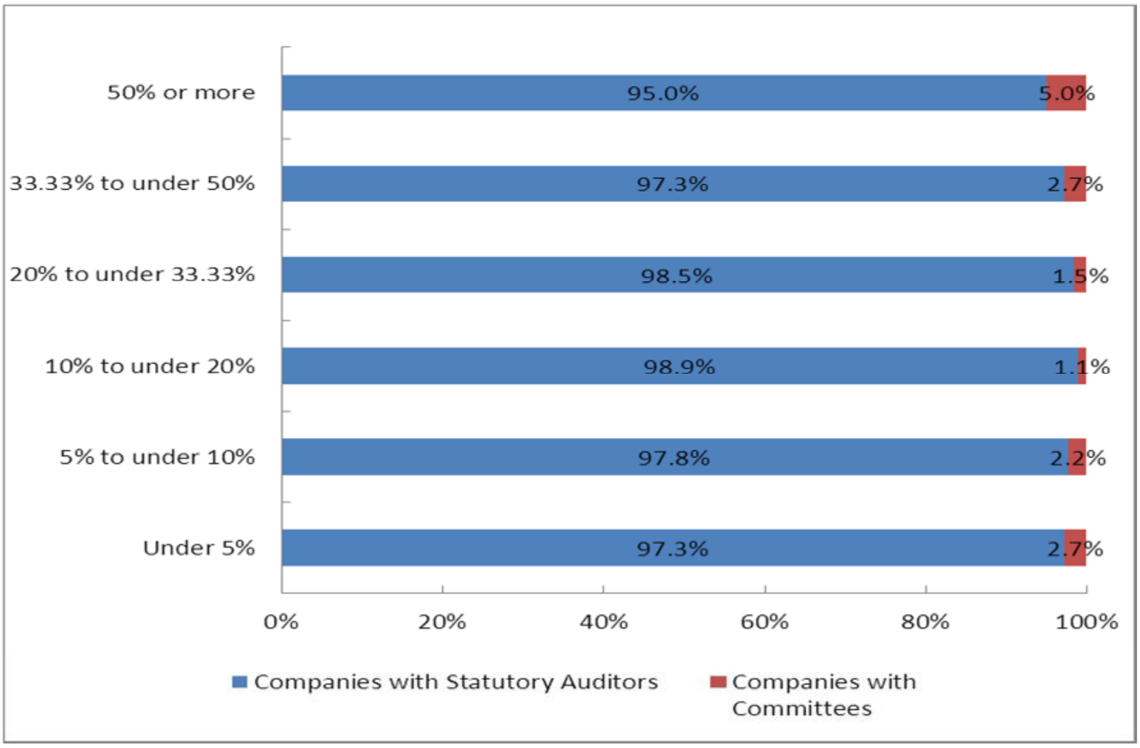


Chart 16 Organizational Form (Shareholding Ratio of Largest Shareholder)



2. Directors and the Board of Directors

(1) Number of directors in the articles of incorporation

With the March 2011 revision to the format, listed companies are now required to provide description on the number of directors in the articles of incorporation and the term of directorships.

If a company appoints close to the maximum number of directors provided for in its articles of incorporation, when newly appointing another director for some reason, it will need to put forth an agendum and obtain an extraordinary resolution to amend the articles of incorporation.

Chart 17 shows a comparison between the number of directors in the articles of incorporation and the actual number of directors appointed. The most number of companies, 18.6% overall, fall under the category of the number in the articles of incorporation being 1.2 to 1.4 times of the number of directors appointed. However, no significant trend is seen among the categories between 1 to 2 times.

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

No. of Directors allowed for in Articles of Incorporation as Multiple (n) of Actual No. Appointed	Companies with Statutory Auditors	Companies with Committees	Total
n=1	8.4%	2.0%	8.3%
1<n≦1.2	11.6%	10.2%	11.5%
1.2<n≦1.4	18.5%	24.5%	18.6%
1.4<n≦1.6	15.1%	28.6%	15.3%
1.6<n≦1.8	13.8%	8.2%	13.7%
1.8<n≦2	10.5%	6.1%	10.4%
n>2	18.0%	8.2%	17.8%

(2) Term of directorships in the Articles of Incorporation

Article 332, Paragraph 1 of the Companies Act stipulates that the term of directorships at a company with statutory auditors shall, in principle, continue until the conclusion of the annual general shareholders meeting for the last business year which ends within two years from the time of their election. However, it also provides for the shortening the term of directorships by the articles of incorporation or by a resolution of a general shareholders meeting. Article 459 of the Companies Act specifies that in the case of specifying the term of directorships to be until the conclusion of the annual shareholders meeting for the last business year which ends within one year (hereinafter referred to simply as "one year" in this section), the company's articles of incorporation may provide that the board of directors may decide on matters such as surplus dividend. It is thought that specifying the term of directorships as one year will enhance the authority of the board of directors and work to the benefit of the company. It will also bring a sense of urgency to directors and, through this, contribute to better corporate governance.

Out of TSE-listed companies with statutory auditors, 58.1% of the companies specify their terms of directorships at one year. 63.4% of these companies are listed on the TSE First Section, while 45.5% and another 37.6% are listed on the TSE Second Section and Mothers respectively (see Chart 18). In terms of consolidated sales, the top share of 73.4% comes from the 1 trillion yen or above category. Going down the consolidated sales category, there is a declining percentage of companies whose directorships are specified at one year (see Chart 18). In terms of foreign shareholdings, the 20% and above to less than 30% category accounts for the highest percentage of 70.1%, followed by the 30% and above category. This shows a decreasing number of companies with a lower percentage of foreign shareholdings (see Chart 20). This seems to indicate a certain correlation between the term of directorships, company size, and foreign shareholding ratios.

Turning to the relationship with the existence of outside directors, 68.4% of companies with outside directors have terms of directorships set at one year, while this was 50.3% among those without outside directors. This shows a tendency in companies with outside directors toward shorter terms of directorships (see Chart 21).

Chart 18 Term of Directorships in Articles of Incorporation (Overall/Market Division)

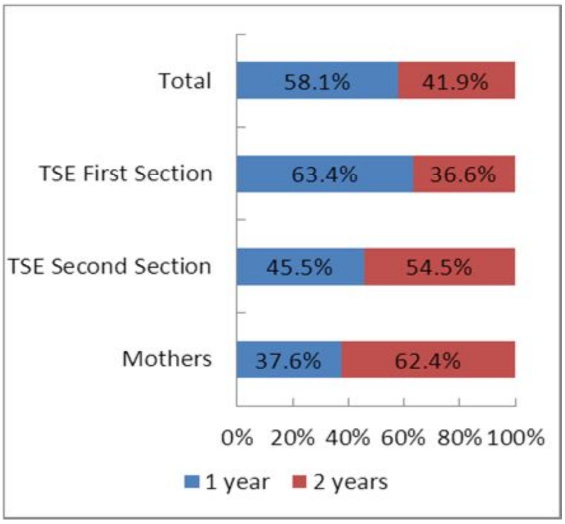


Chart 19 Term of Directorships in Articles of Incorporation (Consolidated Sales)

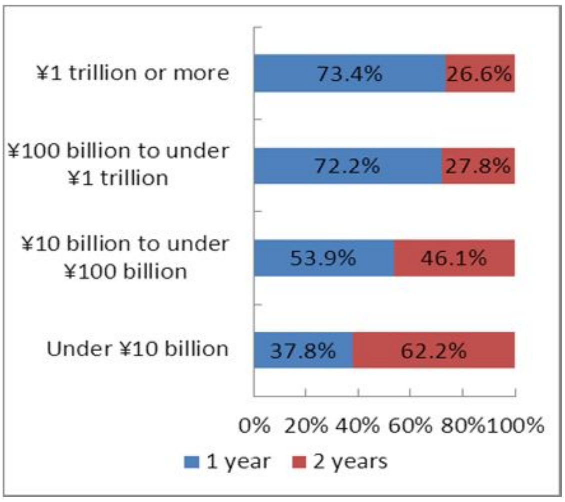


Chart 20 Term of Directorships in Articles of Incorporation (Foreign Shareholding Ratio)

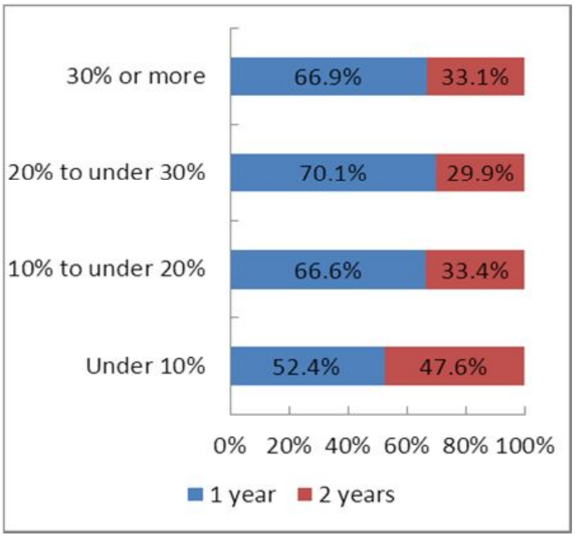
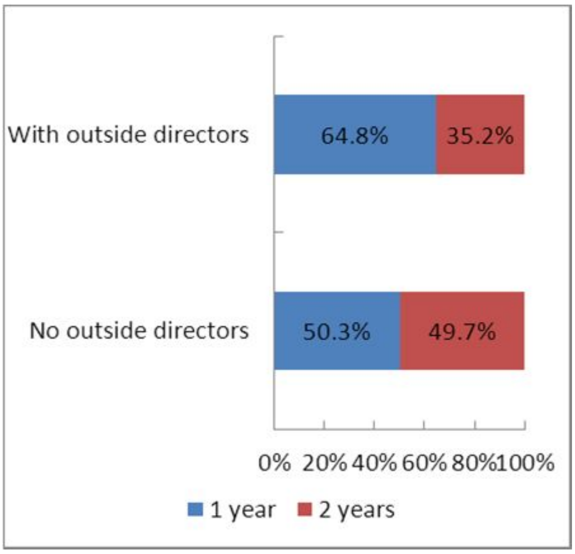


Chart 21 Term of Directorships in Articles of Incorporation (Outside Directors)



(3) Chairperson of Board of Directors meetings

Concerning chairperson of the board of directors meetings, the Report requires each company to inform whether or not a chairperson exists, and an attribute of the chairperson, if any, by checking an appropriate answer among the following categories: (1) president (shacho), (2) company chairperson (kaicho) (excluding a person who concurrently assumes the position of president; hereinafter the same shall apply), (3) representative director other than company chairperson/president, (4) outside director, (5) other director or (6) not applicable.

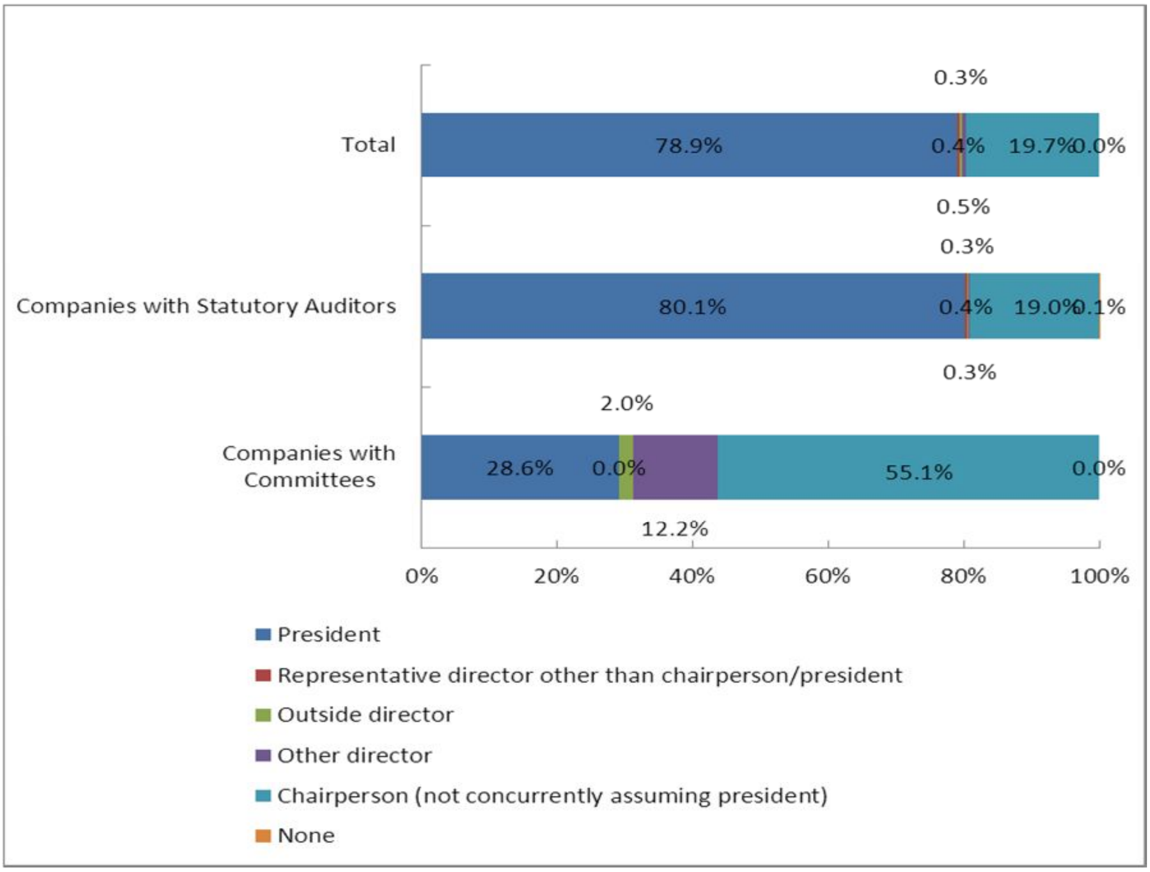
Out of TSE-listed companies, 99.9% have a chairperson of the board of directors and only 0.1% do not.

As for the attributes of chairperson of the board of directors, the overall trend is that the president chairs the board of directors in 78.9% of TSE-listed companies (down 1.3 points), followed by the company chairperson in 19.7% (up 1.0 points) of the companies. In 98.8% (down 0.2 points) of the companies, either president or company chairperson chairs the board of directors.

In analysis by market division, whereas the president chairs the board of directors in 74.1% (company chairperson: 24.2%) of companies listed on the TSE First Section, such ratios of the TSE Second Section and Mothers are 90.2% (company chairperson: 9.8%) and 98.3% (company chairperson: 1.1%), respectively. As the number of employees (consolidated), consolidated sales, and the number of consolidated subsidiaries increases (in other words, in larger companies), the percentage of boards chaired by the president tends to decline, while percentage of those chaired by the company chairperson tends to increase.

In a comparative analysis of the chairpersons' attributes between the companies with statutory auditors and the companies with committees (see Chart 17), while boards chaired by the president and the company chairperson at companies with statutory auditors comprise 80.1% (down 1.2 points) and 19.0% (up 0.9%), respectively, the respective ratios in companies with committees are 28.6% (down 6.7%) and 55.1% (up 6.1%). In the latter companies, boards chaired by the company chairperson shows a higher ratio. This is not solely due to the difference between a company with statutory auditors and a company with committees, but can be thought that larger companies have the tendency to choose the company with committees structure (see the above 1. Organizational Form). Among companies with committees those that have "Other directors" account for a moderately high 12.2%. This includes five companies that use the title "Chairperson."

Chart 22 Chairperson of Board of Directors (Overall/Organizational Form)



(4) Number of directors

In this survey, the average number of directors per TSE-listed company was 8.13 persons overall (down 0.23 persons). In the 2006 survey, this was 8.99 persons per company, and the trend of decreasing figures since the the survey began has continued.

This overall trend of decreasing number of directors is also affected by the structure of the board of directors. There are 6 companies which have more than 20 directors and 2 of these do not have any outside director.

In contrast, there are 472 companies which have no more than 5 directors. Among them, 6 companies have more statutory auditors than directors, and the size of the board of directors is equal to the size of the board of statutory auditors in 79 companies; and the number of directors exceeds the number of statutory auditors by only 1 person in 206 companies. Furthermore, upon dividing the number of directors by the number of statutory auditors, 1,246 companies shows no more than double, including 461 companies showing no more than 1.5 times, indicating a decreasing trend despite a certain presence of statutory auditors compared to directors.

In analysis by market division (see Chart 23), figures declined across the board, with companies listed on the TSE First Section having 8.71 directors on average (down 0.26 persons) in contrast to 7.02 directors (down 0.28 persons) in the TSE Second Section and 5.06 directors (down 0.18 persons) in Mothers.

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

Chart 23 Number of Directors (Overall/Market Division)

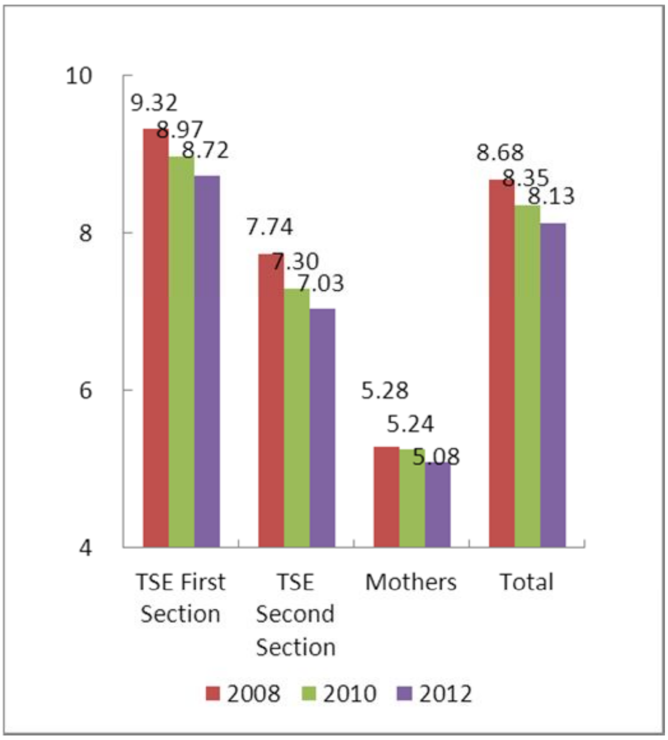
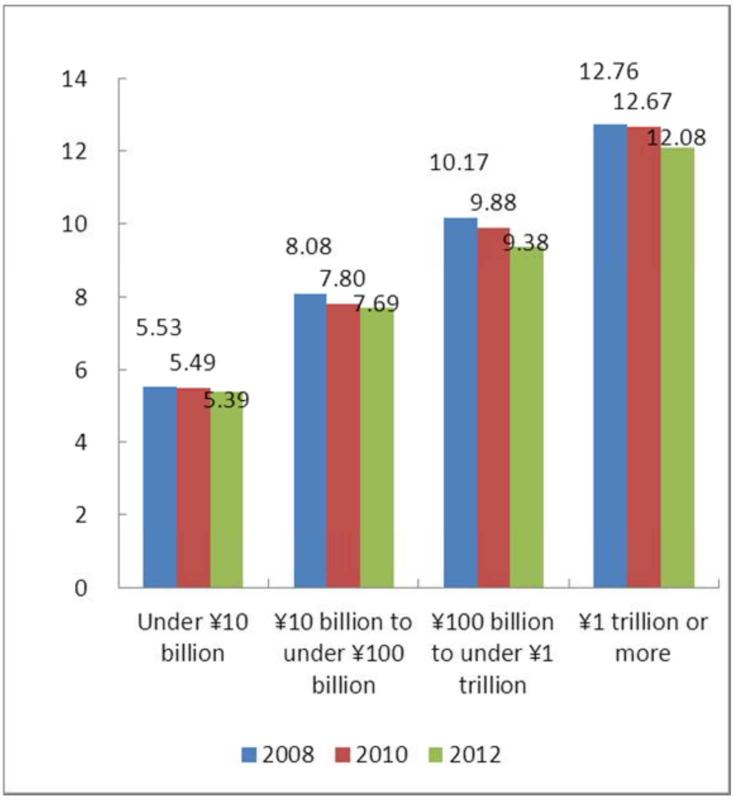


Chart 24 Number of Directors Consolidated Sales



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

As for major shareholders, the lower the shareholding ratios of the largest shareholder are, the more likely it is for a company to have directors. This would be due to the trend of the largest shareholder having a lower shareholding ratio with larger company size (see the above II.1. (2) Major Shareholders).

(5) Appointment of outside directors

① Appointment of outside directors and number appointed

(i) Overview

The number of TSE-listed companies appointing outside directors has reached more than half the number of TSE-listed companies, increasing to 54.7% (up 5.9 points). Among companies with statutory auditors, this has also reached more than half, increasing to 53.7% (up 6.1 points). In comparison with the 42.3% overall and 40.8% among companies with statutory auditors when the survey began in 2006, there is an increasing trend toward appointing outside directors. While companies with committees are required to have a majority of outside directors in each committee under the Companies Act, companies with statutory auditors, which are not subject to such a requirement, are increasingly appointing outside directors voluntarily.

As for the average number of outside directors per company, it is 1.02 (up 0.11 persons) for TSE-listed companies, 0.94 (up 0.11 persons) for companies with statutory auditors, and 4.61 (down 0.18 persons) for companies with committees. The average figure for TSE-listed companies has exceeded 1 for the first time since the survey began in 2006. When limited to those who have outside directors, the average number of outside directors per company is 1.86 for TSE-listed companies.

Chart 25 and 26 show percentages of companies classified by numbers of outside directors in companies with statutory auditors and companies with committees, respectively. The data shows that 24.5% of companies with statutory auditors (or 45.6% of those who have outside directors) have 2 or more outside directors.

The percentage of companies whose number of outside directors having a seat on the board of directors occupies more than one-third or are in the majority is as shown in Chart 27.

In accordance with the Companies Act, the majority of each committee in companies with committees must be made up of outside directors. Most of the companies (93.9%) have secured outside directors to make up at least one-third of the board of directors and 51.0% have outside directors who are in majority on the board of directors. On the other hand, among companies with statutory auditors, there were only 10.4% of companies which have outside directors making up at least one-third of the board of directors and 1.1% which have outside directors occupying a majority on the board of directors. A comparison based on foreign shareholding ratio shows that with a rising shareholding ratio, there is a marked increase in the percentage of companies that have outside directors making up at least one-third of the board of directors or in majority (see Chart 28).

Chart 25 Ratio of Companies by Number of Outside Directors (Companies with Statutory Auditors)

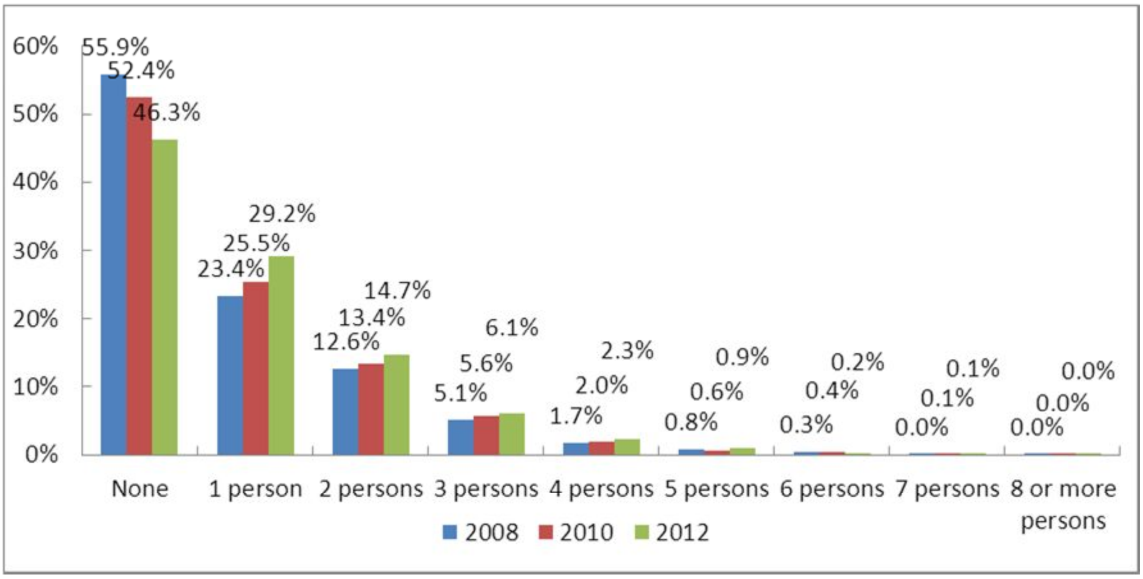


Chart 26 Ratio of Companies by Number of Outside Directors (Companies with Committees)

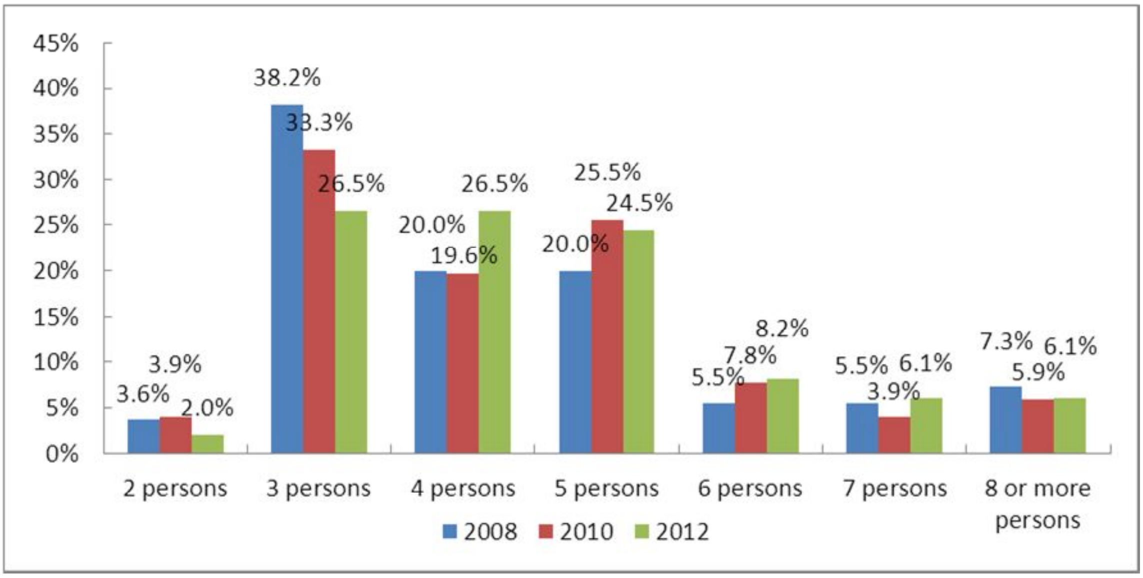
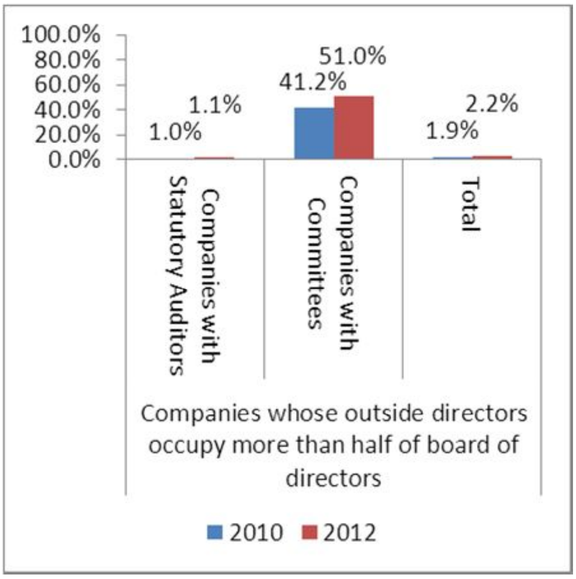


Chart 27 Ratio of Outside Directors in Board of Directors (Overall/Organizational Form)



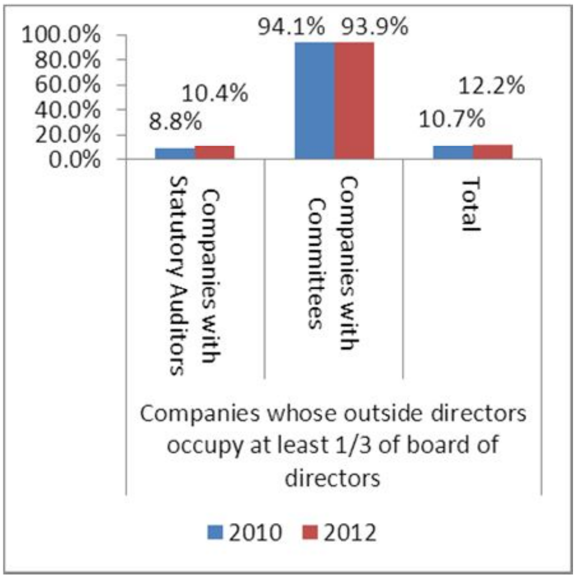
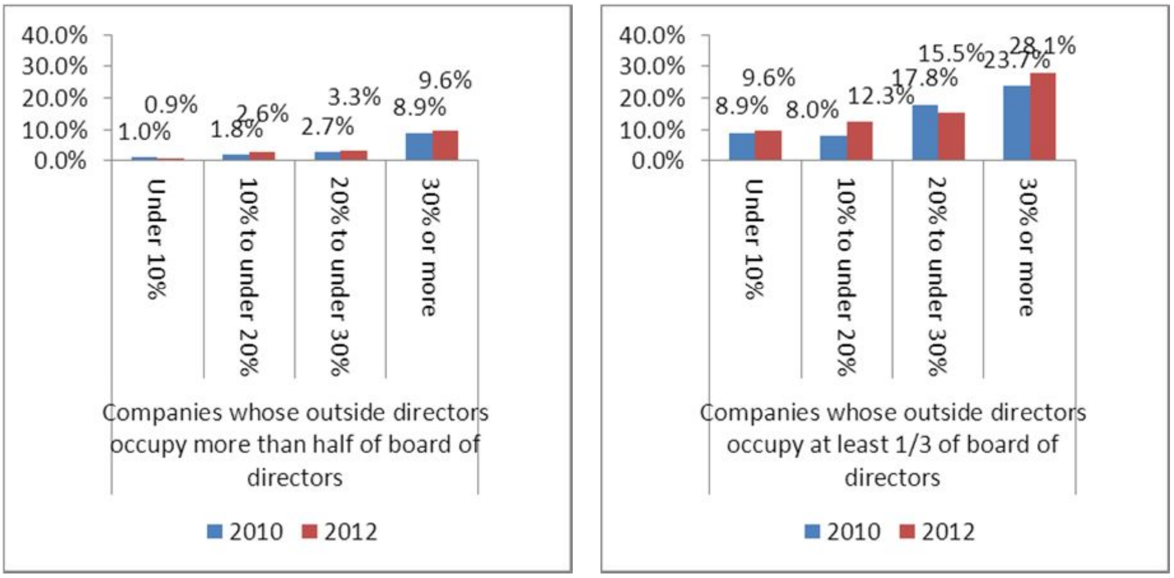


Chart 28　Ratio of Outside Directors in Board of Directors (Foreign Shareholding Ratio)



(ii)　Relation with market division

In analysis by market division, outside directors are appointed in 55.4% (up 6.9 points) of all companies listed on the TSE First Section (54.2%, when limited to those with statutory auditors), with the average number at 1.08 outside directors (0.98, as above). On the other hand, Mothers-listed companies show a higher ratio of appointment of outside directors at 64.8% (64.2%, as above), with the average number of 1.06 (1.00, as above). The background to this is that Mothers is a market for growing companies so the listed companies tend to be young and were listed after discussions on corporate governance began. Furthermore, we can infer that they were relatively less hesitant toward bringing in talent from outside the company for their boards of directors, because the management teams of these start-up companies generally include many from outside the company.

Chart 29　Appointment of Outside Directors (Companies with Statutory Auditors; Market Division)

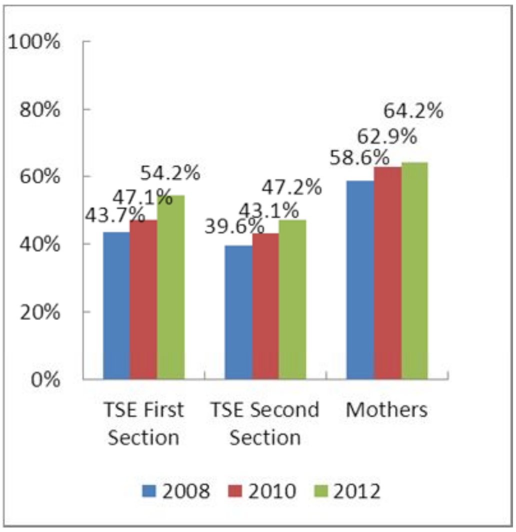


Chart 30 Number of Outside Directors (Companies with Statutory Auditors; Market Division)

(iii) Relation with shareholding ratio of the largest shareholder

In the case of companies with statutory auditors, from the analysis on relation between appointment/ number of outside directors and shareholding ratio of the largest shareholder, other than 5% and above but less than 10% category, we found that as the shareholding ratios of the largest shareholder declines, the percentages of companies with outside directors as well as the number of outside directors tend to decline (see Chart 31 and Chart 32).

As a possible reason for such trends, it is assumed that companies with higher shareholding ratios of the largest shareholder need to appoint outside directors to project an image of independence of the board of directors from the companies. On the other hand, as the shareholding ratio of the largest shareholder increases, the ratio of outside directors appointed from parent or affiliated companies to the number of outside directors appointed tends to increase. Accordingly, we can also attribute the rise in the ratio of companies with outside directors as well as the number of outside directors to such outside directors. Among companies falling under the 5% and above but less than 10% category, the high percentage of appointing outside directors is thought to be a reflection of the trend among those with larger sales amounts in this category (see Chart 7).

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Chart 31 Appointment of Outside Directors (Companies with Statutory Auditors; Shareholding Ratio of Largest Shareholder)

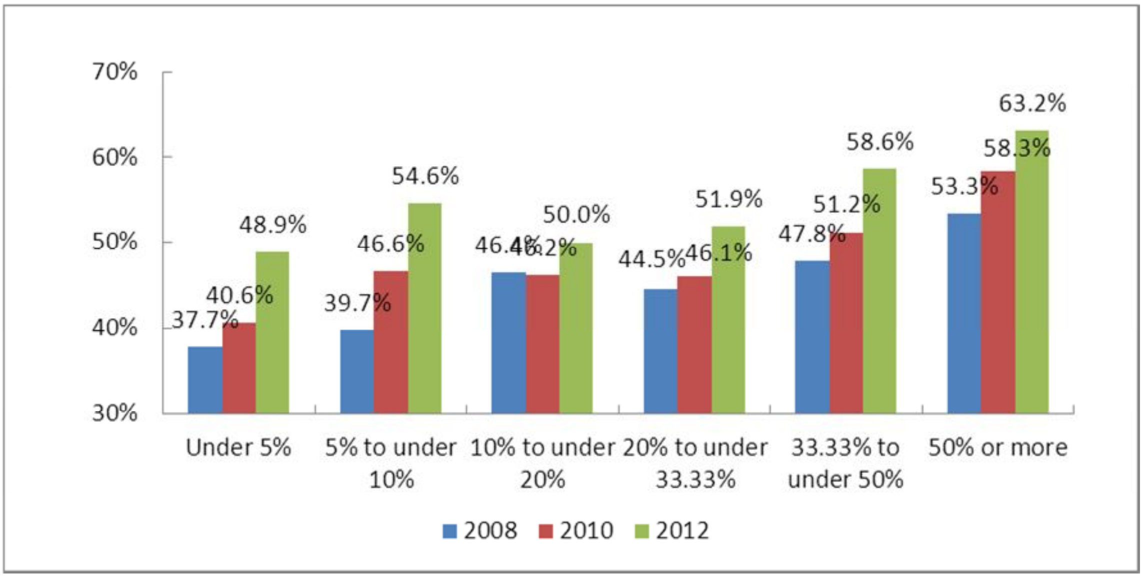
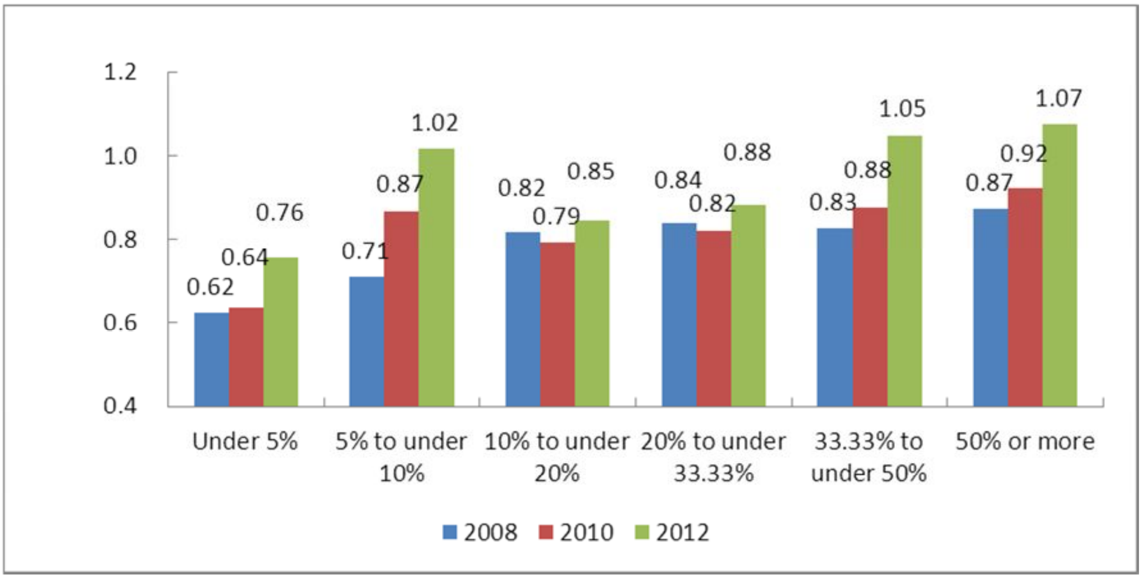


Chart 32 Number of Outside Directors (Companies with Statutory Auditors; Shareholding Ratio of Largest Shareholder)



(iv) Relation with company size

In the case of companies with statutory auditors, analysis on the relation between appointment/number of outside directors and company size revealed that larger companies do not necessarily have more outside directors. Especially in relation with the number of employees (consolidated), the lowest category, that is companies with less than 100 employees, include the largest number of companies with outside directors (65.3% of companies with statutory auditors). This is interpreted as being due to more companies on Mothers, where relatively smaller companies are listed, appointing outside directors.

On the contrary, concerning the relation between appointment/number of outside directors and foreign shareholding ratio among companies with statutory auditors, there is a distinctive trend that the higher the foreign shareholding ratio, the higher the percentage of the companies with outside directors and the more the number of outside directors. (In the category of companies with statutory auditors whose foreign shareholding ratio is no less than 30%, 69.9% (up 4.5 points) have outside directors, with an average number of 1.72 (up 0.19 persons) (see Chart 33 and Chart 34)). In a comprehensive review of the problems and issues of the listing system, TSE has conducted surveys to gather opinions from both domestic and overseas investors in 2008 and 2010. Both surveys revealed that the appointment of outside directors is the most highly requested item by overseas investors, and the trend in listed companies indicates a response to such strong requests from institutional investors.

Chart 33 Appointment of Outside Directors (Companies with Statutory Auditors; Foreign Shareholding Ratio)

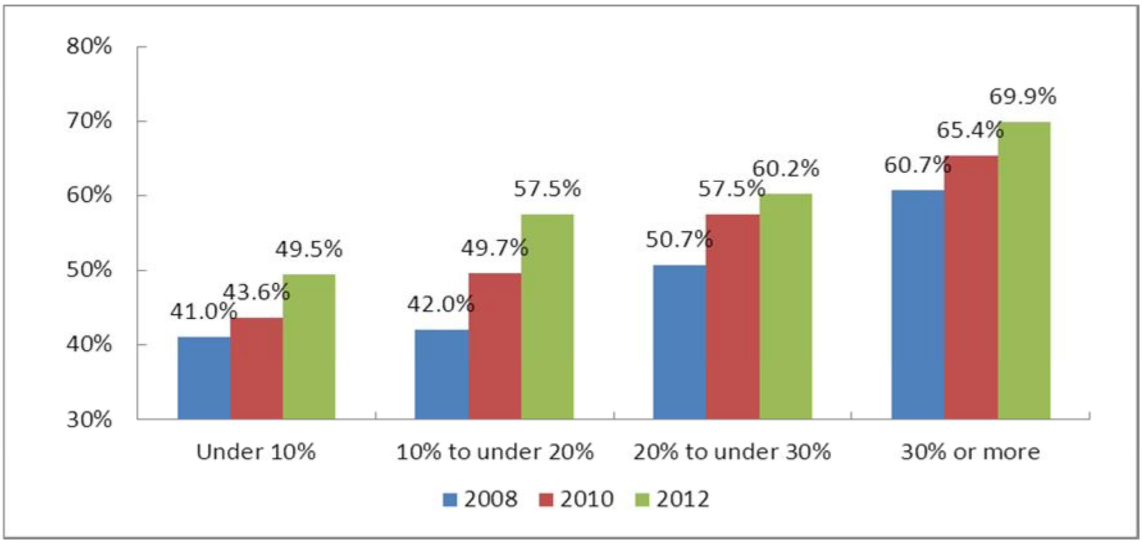
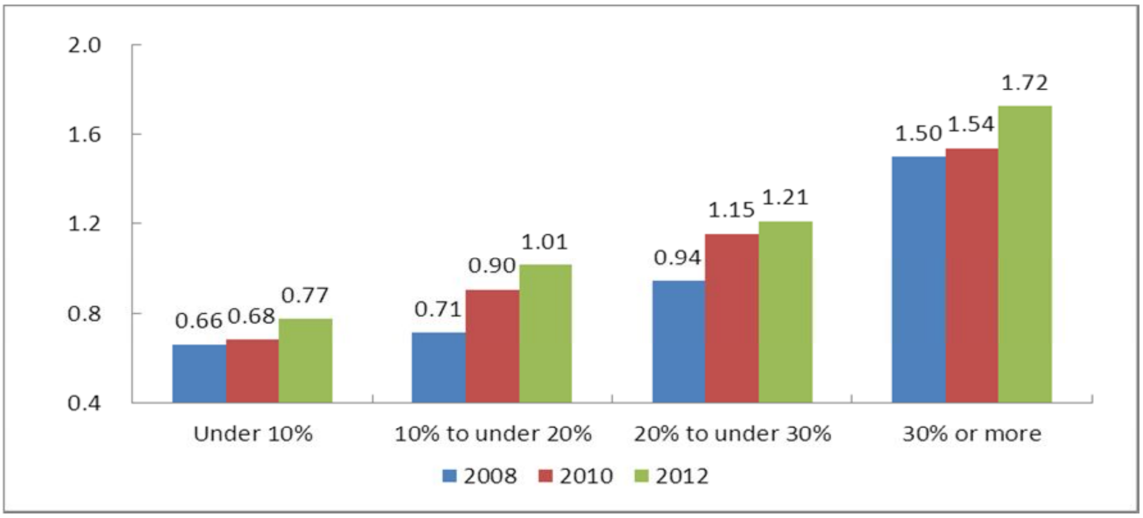


Chart 34 Number of Outside Directors (Companies with Statutory Auditors; Foreign Shareholding Ratio)



② Number of outside directors appointed as independent director

With the March 2011 revision to the format, the Report now requires listed companies to provide description on the number of outside directors appointed as independent director. Of the 2,311 outside directors appointed by 1,244 TSE-listed companies, 1,280 (55.4%) outside directors were notified as independent director. An analysis on independent directors/auditors can be found in a separate chapter (5. Independent Directors/Auditors).

③ Attributes of outside directors

The Report is designed to have companies select each outside director's attribute from the following categories: "from other company," "attorney-at-law," "certified public accountant," "tax accountant," "academic," and "other."

In this respect, the overwhelming majority of outside directors of TSE-listed companies are appointed "from other company," making up 77.3% (down 1.1 points). While companies with statutory auditors shows an even higher percentage, 78.1% (down 1.6 points) for this category, companies with committees shows a lower 69.9% (up 1.8 points) for those from other company in contrast to higher percentages for certified public accountants (7.1%; up 0.4 points) and academics (8.0%; up 0.4 points) (see Chart 35 and Chart 36).

Chart 35 Attributes of Outside Directors (Companies with Statutory Auditors)

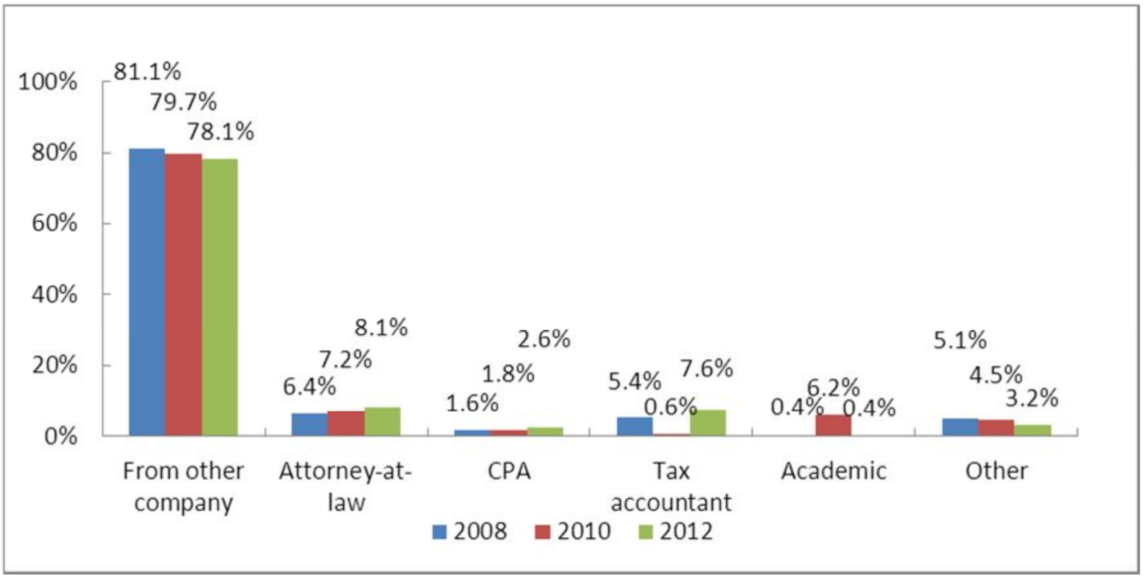
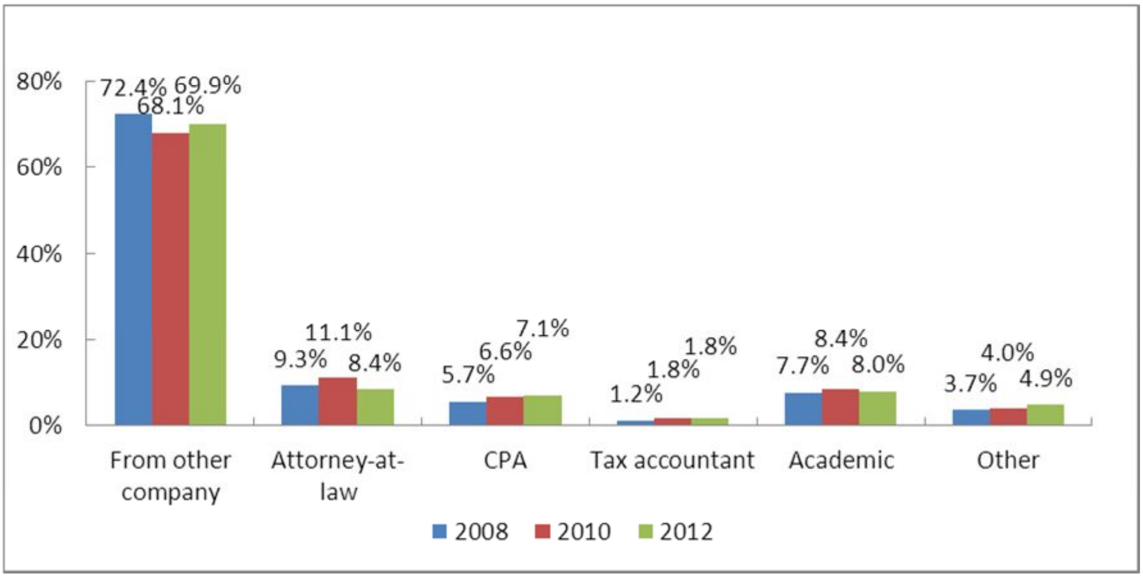


Chart 36 Attributes of Outside Directors (Companies with Committees)



④ Relation between outside directors and company

The Report requires detailed disclosure of relations between outside directors and the company. Before the Report system was introduced, TSE required the listed companies to disclose, in their financial highlights, the qualitative information including human, capital, and business relationships. This information is considered essential for judging the independence/neutrality of outside directors under the Companies Act, and enhanced disclosures are required in their annual business reports and reference materials for general shareholders' meetings where outside directors are to be elected. Under these circumstances, the Report provides the following list of relations, among which the respondents make a choice (multiple answers allowed), so that readers of the Reports can understand relations between outside directors and companies at a glance, unlike judging the same from statutory documents, and also comprehend whether outside directors meet certain independence criteria. (The following list of relations is also used for "Relation between outside statutory auditors and company" in this chapter.)

a. Appointed from the parent company;
b. Appointed from other affiliated company;
c. Major shareholder of the company;
d. Concurrently assumes a position of outside director or outside statutory auditor of other company;
e. Assumes executive director or executive officer or the like of other company;
f. Spouse or relative within the third degree or their equivalent of an executive director and/or executive officer or the like of the company or a special related entity of the company;
g. Receives compensation, etc. as an officer from the parent company, or a subsidiary of the parent company;
h. Has entered into a limited liability agreement with the company; or
i. Other

(i) Overview

Charts 37 and 38 show which of the above-mentioned categories the outside directors of TSE-listed companies belong to. (As multiple answers are allowed, an outside director may be included in multiple categories.)

According to the charts, outside directors of TSE-listed companies, who concurrently assume executive directors or executive officers or the like, account for 40.5% (down 3.4 points) of companies with statutory auditors, and 31.9% (up 4.4 points) of companies with committees. Declines were seen in the percentages of those who concurrently assume outside directors or outside statutory auditors of other companies was 43.7% (down 3.7 points) of companies with statutory auditors, and 58.4% (down 3.5 points) of companies with committees.

Chart 37 Relation between Outside Director and Company (Companies with Statutory Auditors)

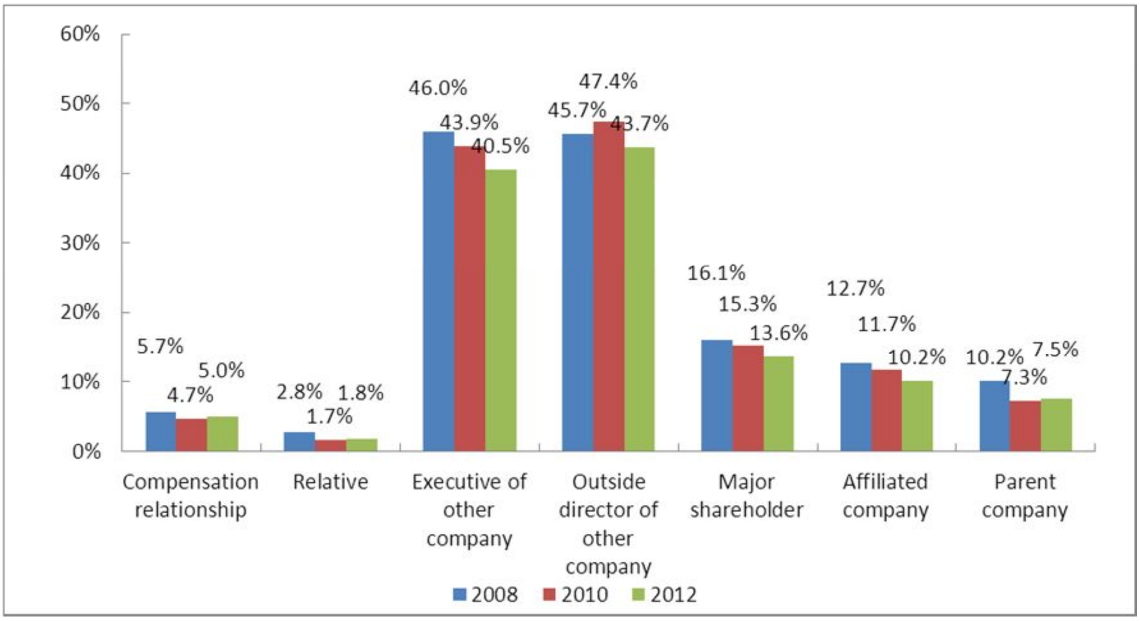
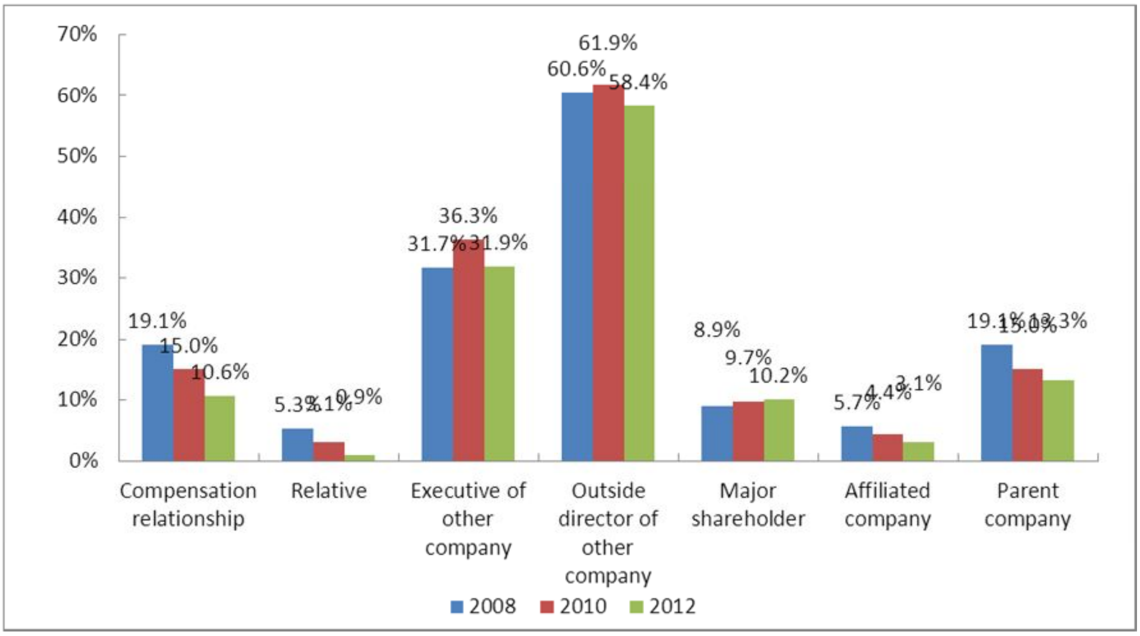


Chart 38 Relation between Outside Director and Company (Companies with Committees)



(ii) Outside directors from parent or affiliated company

In companies with statutory auditors (see Chart 37), outside directors from parent companies and "other affiliated companies" account for 7.5% (up 0.2 points) and 10.2% (down 1.5 points), respectively, of all outside directors. As for outside directors who are major shareholders or are from companies which are major shareholders, the ratio decreased to 13.6% (down 1.7 points). Also in companies with committees (see Chart 38), declines were seen across all categories of relations, except that of outside directors from major shareholders. In both types of companies, ongoing efforts to maintain outside directors' independence/neutrality can be observed.

For analysis of companies with parent companies, Chart 39 shows the number of outside directors per company and the number of outside directors from parent companies per company. According to this data, even though it has fallen to 55.9% (down 3.4 points), more than half of outside directors of TSE-listed companies with parent companies continue to come from such parent companies. Out of such outside directors of listed companies with parent companies, those who receive compensation, etc. as officers from parent companies or their subsidiaries account for 66.7% (down 2.6 points), still maintaining a high level despite of a decline from the last survey.

Chart 39 Relation between Company with a Parent Company and Outside Director

		Number of listed companies with parent companies		Number of outside directors, per company		Number of outside directors from parent companies, per company		Number of paid outside directors from parent companies, per company	
			Ratio to listed companies		Ratio to directors		Ratio to outside directors		Ratio to outside directors from parent company
Companies with Statutory Auditors	2008	286	12.3%	0.93	11.9%	0.63	67.5%	0.34	54.2%
	2010	222	11.1%	0.87	11.3%	0.58	61.1%	0.36	62.2%
	2012	203	10.2%	1.17	15.8%	0.71	56.3%	0.44	64.1%
Companies with Committees	2008	13	23.6%	3.77	51.0%	2.54	67.3%	2.23	87.9%
	2010	15	31.4%	4.00	53.3%	2.20	53.1%	2.20	97.1%
	2012	13	28.6%	3.85	55.4%	2.31	53.6%	1.85	80.0%
Total	2008	299	12.6%	1.05	13.5%	0.71	67.5%	0.42	59.4%
	2010	237	11.6%	1.07	13.8%	0.68	59.3%	0.48	69.2%
	2012	216	10.6%	1.33	17.9%	0.81	55.9%	0.53	66.7%

(iii) Outside Directors Meeting Certain Independence Criteria

Focusing on the independence of outside directors (see Chart 40), the ratios of "independent outside directors" (meaning outside directors who do not fall under any of the above categories a, b, c, f, and g; hereinafter the same shall apply) to all outside directors are high both in companies with statutory auditors and companies with committees, making up 76.6% (up 2.7 points) and 83.6% (up 6.6 points), respectively. When limited to outside directors of companies with takeover defense measures, the independence ratio is even higher, at 93.9% (up 4.1 points), over nine-tenths. Yet when limited to companies with parent companies, the independence ratio still remains at a low level of 35.7% (up 5.9 points).

The ratio of companies whose outside directors all meet certain independence criteria is more than half at 63.3% (up 8.4 points) of companies with committees, yet the same ratio for companies with statutory auditors shows a low 38.3% (up 6.4 points). Furthermore, when limited to companies with parent companies, such ratio is only 14.1% (up 5.4 points), which suggests that the outside directors of companies with parent companies are less independent. In a time-series comparison, we found that the ratios of appointing independent outside directors have increased in each case, therefore it is considered that the awareness of independence has been increasing in general.

Chart 40 Appointment of Outside Directors Meeting Certain Independence Criteria

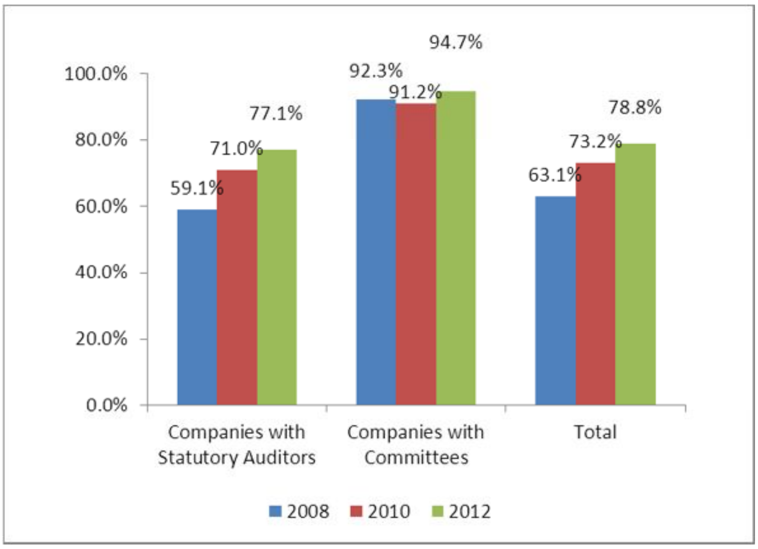
	Average number of outside directors, per company		Average number of independent outside directors, per company		Ratio of independent outside directors out of all outside directors		Ratio of companies with outside directors		Ratio of companies all of whose outside directors are independent	
		Change from 2010		Change from 2010		Change from 2010		Change from 2010		Change from 2010
Companies with Statutory Auditors	0.94	0.11	0.72	0.11	76.6%	2.7	53.7%	6.1	38.3%	6.4
Companies with Committees	4.61	0.18	3.86	0.45	83.6%	6.6	100.0%	0.0	63.3%	8.4
Companies with outside directors	1.86	−0.01	1.44	0.05	77.3%	3.1	100.0%	0.0	71.0%	4.5
Companies with parent companies	1.38	0.31	0.49	0.17	35.7%	5.9	68.5%	11.1	14.1%	5.4
Companies with takeover defense measures	1.08	0.06	1.01	0.10	93.9%	4.1	59.2%	5.2	53.8%	7.3

(iv) Limited liability agreement

Outside directors who concluded limited liability agreements with the companies account for 78.8% (up 5.7 points) of all outside directors of TSE-listed companies. This is mainly due to a significant increase in companies with statutory auditors, which account for 77.1% (up 6.1 points). Companies with committees shows a moderate increase to 94.7% (up 3.5 points), yet still a much higher ratio than companies with statutory auditors (see chart 41).

One of the reasons would be that appointment of outside directors is mandatory for companies with committees, and they often make use of limited liability agreements when appointing outside directors. A company cannot conclude a limited liability agreement with an outside officer without relevant provisions in their articles of incorporation. While companies which intend to adopt the committees system are required to amend their articles of incorporation, many companies used such amendment opportunities to include provisions on limited liability agreement in their articles of incorporation as well.

Chart 41 Conclusion of Limited Liability Agreements with Outside Directors



3. Statutory Auditor and Board of Statutory Auditors

(1) Existence of Board of Statutory Auditors

The Report requires TSE-listed companies to include information on whether a company has a board of statutory auditors. Under the Companies Act, large companies that do not have restrictions on transfer of shares must establish a board of statutory auditors or audit committee. Since November 2007, TSE has required all listed companies, even if they do not fall under the category of large companies under the Companies Act, to establish a board of statutory auditors or committee. As this Report shows, all listed companies are already companies with board of statutory auditors, i.e., there are no companies which do not have a board of statutory auditors.

(2) Number of Statutory Auditors in the Articles of Incorporation

With the March 2011 revision to the format, companies are now required to provide description on the number of statutory auditors in the articles of incorporation. Chart 42 is a comparison between the number of directors in the articles of incorporation and the actual number of directors appointed. Overall, the category for the comparison of the number of directors in the articles of incorporation to that actually appointed of 1.2 to 1.4 times makes up the highest share of 41.1%, with the 1 time category following with 36.4%. This result shows a totally different situation from that found in a similar analysis of directors which revealed a spread of 10% to 20% across the different categories (in 2. (1) Number of directors in the Articles of Incorporation above).

Chart 42 Number of Directors in Articles of Incorporation and Actual Number Appointed

No. of Statutory Auditors allowed in Articles of Incorporation as Multiple (n) of Actual No. Appointed	Companies with Statutory Auditors
n=1	36.4%
1<n≦1.2	1.3%
1.2<n≦1.4	41.1%
1.4<n≦1.6	1.1%
1.6<n≦1.8	12.0%
1.8<n≦2	0.4%
n>2	0.1%

(3) Number of statutory auditors and outside statutory auditors

In analysis by market division (see Chart 44), while the average number of statutory auditors per company listed on the TSE First Section is 3.91 including 2.53 outside statutory auditors, the average numbers are 3.46 (including 2.46 outside statutory auditors) for companies listed on the TSE Second Section, and 3.17 (including 2.64 outside statutory auditors) for Mothers-listed companies.

As for relation with company size (see Chart 45), the higher the consolidated sales (or the larger the company size), the more statutory auditors are appointed. The same trend can be seen in relation to the number of employees (consolidated) and the number of consolidated subsidiaries. Such trend can also be observed in the relation between the number of outside statutory auditors and company size, although less distinct. This trend is similar to that for directors (see the above III 2. (5)①Appointment of Outside Directors and Number Appointed).

With respect to the shareholding ratio of the largest shareholder (see Chart 46), the lower the shareholding ratio of the largest shareholder, the more statutory auditors tend to be appointed. In contrast, there is no such trend in the case of outside statutory auditors. As the average number of statutory auditors continues to decline among companies whose shareholding ratio of the largest shareholder is high, this trend is similar to that of appointing outside directors, and companies are securing a certain number of outside statutory auditors to raise the profile of the company's external oversight.

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

Chart 43 Number of Statutory Auditors and Outside Statutory Auditors (Companies with a Board of Statutory Auditors)

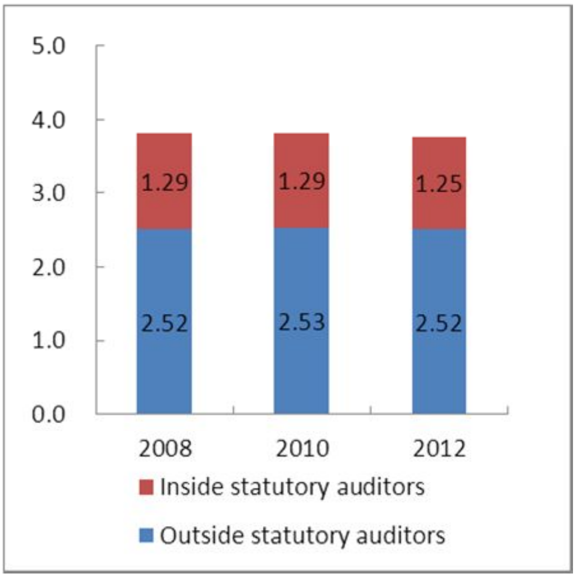


Chart 44 Number of Statutory Auditors and Outside Statutory Auditors (Companies with Statutory Auditors; by Market Division)

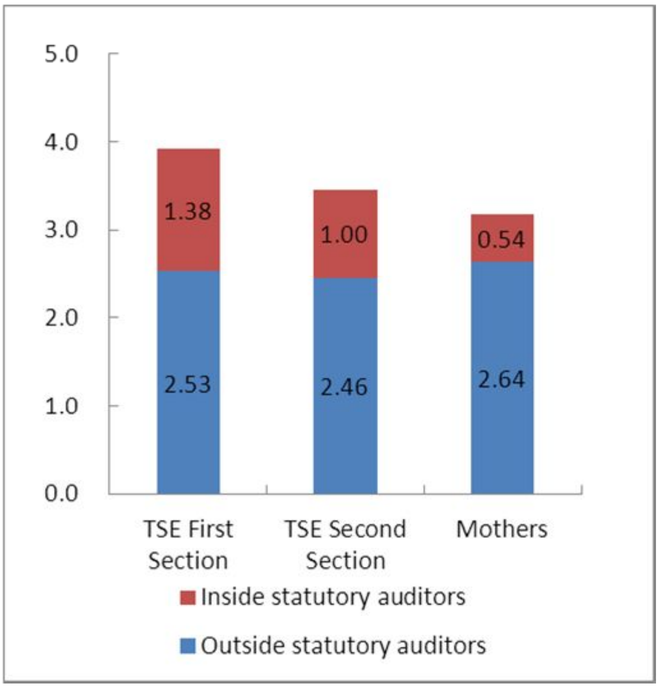


Chart 45 Number of Statutory Auditors and Outside Statutory Auditors (Companies with Statutory Auditors; Consolidated Sales)

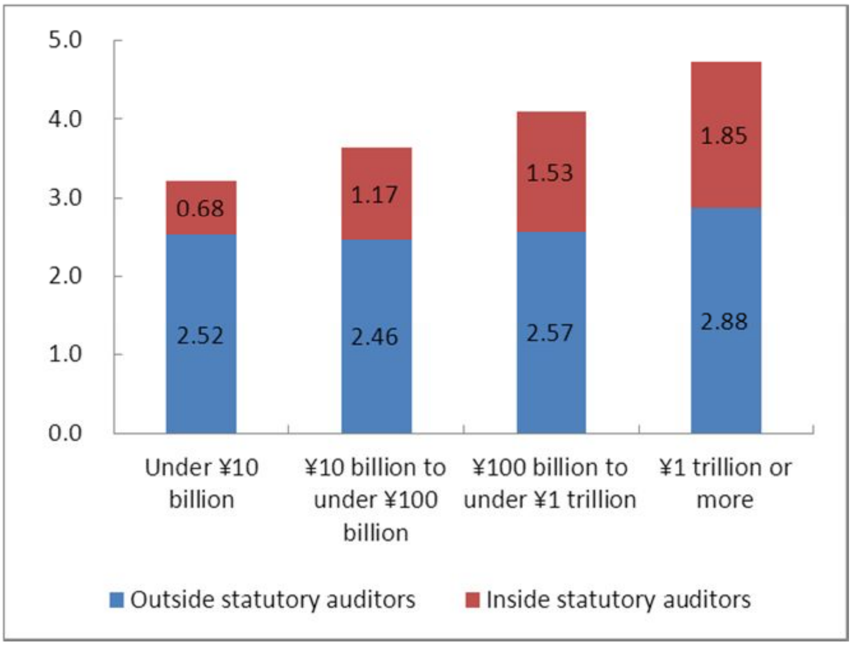
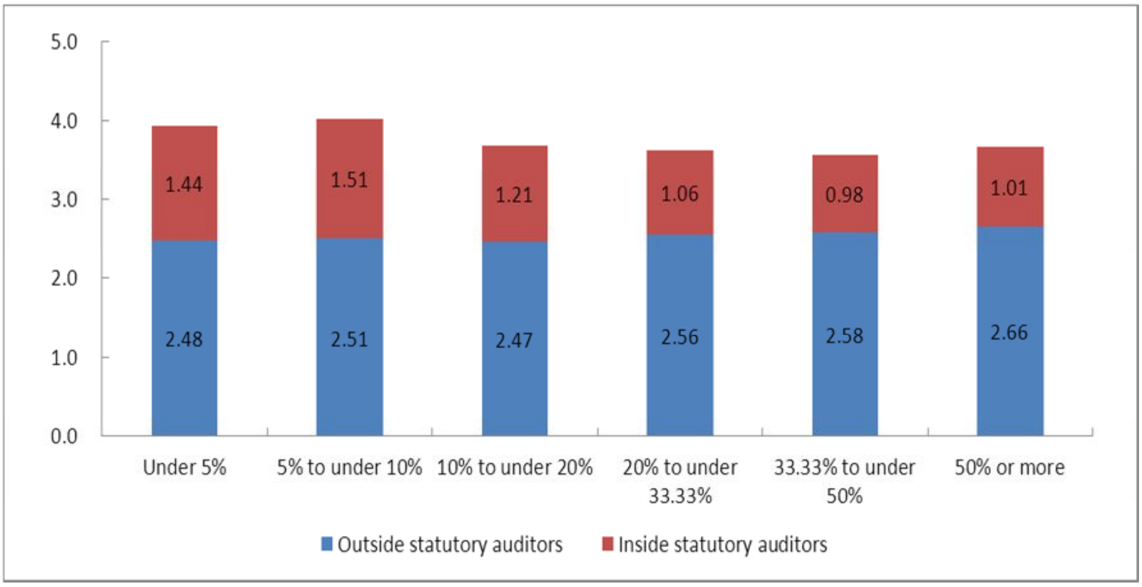


Chart 46 Number of Statutory Auditors and Outside Statutory Auditors (Companies with Statutory Auditors; Shareholding Ratio of Largest Shareholder)



(4) Number of outside auditors appointed as independent auditor

With the March 2011 revision to the format, companies are now required to provide description on the number of outside auditors appointed as independent auditor. Of the 5,620 outside statutory auditors appointed at 2,226 TSE-listed companies, 3,535 auditors (62.9%) were notified as independent auditor. An analysis on independent directors/auditors can be found in a separate chapter (5. Independent Directors/Auditors).

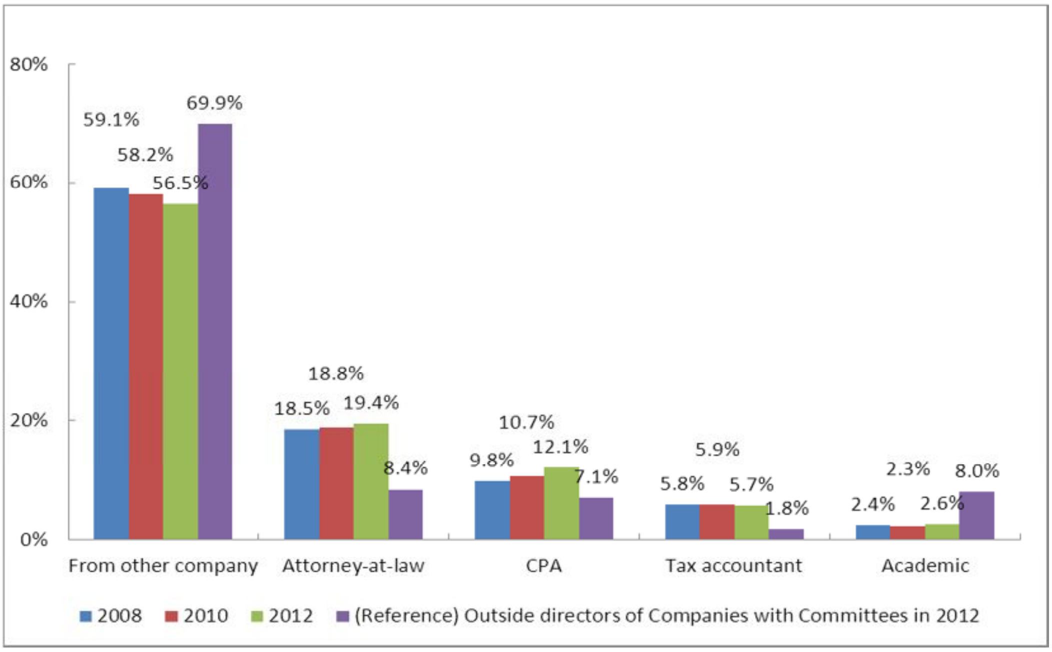
(5) Attributes of outside statutory auditors

Similarly to the attributes of outside directors (see III.2.(5)③ Attributes of outside directors), the Report is designed to select each outside statutory auditor's attribute from the following categories: "from other company," "attorney-at-law," "certified public accountant," "tax accountant," "academic," and "other."

In this respect, among all statutory auditors of the TSE-listed companies with statutory auditors, those "from other companies" account for 56.5% (down 1.7 points), followed by attorney-at-law (19.4%; up 0.6 points), certified public accountant (12.1%; up 1.4 points), tax accountant (5.7%; down 0.2 points), and academic (2.6%; up 0.4 points) (see chart 47).

Outside statutory auditors of companies with statutory auditors and outside directors of companies with committees play similar roles, yet the comparative analysis of their attributes found that outside statutory auditors show lower percentage of those "from other companies," and "academic," and higher percentages of attorney-at-law, certified public accountant, and tax accountant. The same trend was observed in the last survey. The reasons would be that while an outside statutory auditor is expected to fulfill the basic responsibilities of a statutory auditor, check the legality of the execution of duties by directors, and to have knowledge of finance and accounting, an outside director of a company with committees not only audits business execution as an audit committee member, but also is engaged in decision-making on business execution including basic management policies as well as supervision of executive officers' execution of duties, and therefore the position of outside director requires a higher level of expertise in management.

Chart 47 Attributes of Outside Statutory Auditors



(6) Relation between outside statutory auditors and the company

① Overview

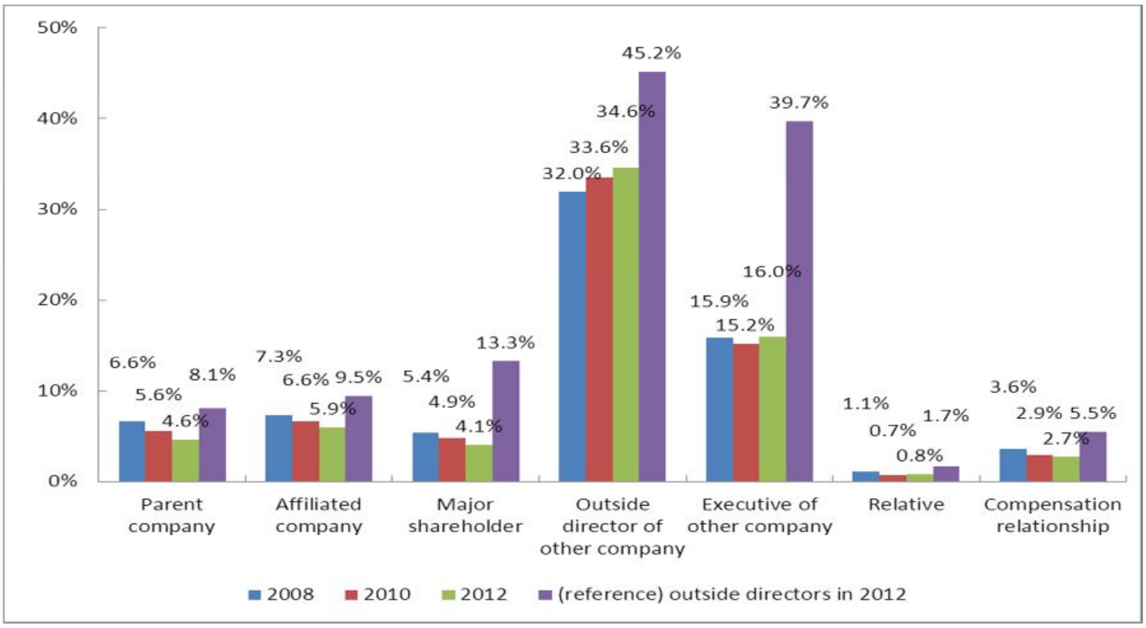
Concerning relation between each outside statutory auditor and a company, the Report requires each company to select applicable relation(s) (multiple answers allowed) from the list of relations introduced in the section of relation between outside directors and company (see the above III.2.(5)④ Relation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

Chart 48 shows which categories of relations outside statutory auditors of TSE-listed companies falls under. As multiple answers are allowed, an outside statutory auditor may be included in multiple categories.

Compared with the results of the relations between outside directors and companies, each category shows a lower percentage. One reason would be that higher percentages of outside statutory auditors are attorneys-at-law and certified public accountant, who have generally not worked for other companies, compared with outside directors.

Out of outside directors of TSE-listed companies, those who concurrently assume the positions of outside directors or outside statutory auditors of other companies account for 34.6% (up 1.0 points), and those who concurrently assume positions as executive directors or executive officers or the like account for 16.0% (up 0.8 points).

Chart 48 Relation between Outside Statutory Auditors and the Company



② Outside Statutory Auditors from parent or affiliated company

In companies with statutory auditors, outside statutory auditors from parent companies account for 4.6% (down 1.0 points) and those from "other affiliated companies" account for 5.9% (down 0.7 points) of outside statutory auditors. The cases where outside statutory auditors are either major shareholders or work for companies which are the major shareholders show 4.1% (down 0.8 points). The percentages of these categories are decreasing.

Limited to companies with statutory auditors which have parent companies, Chart 49 shows the number of outside statutory auditors per company and the number outside statutory auditors from parent companies, per company. According to the chart, as for outside statutory auditors of companies with statutory auditors which have parent companies, 42.6% (down 5.6 points), or the majority, of them come from parent companies. As mentioned earlier, almost two thirds of outside directors of companies with parent companies come from the parent companies (see the above III.2.(5)④ Relation between outside directors and company). These results illustrate that the majority of outside directors/auditors are appointed from parent companies, when the companies have parent companies.

Furthermore, 50.0% (up 2.8 points) of outside statutory auditors of companies with statutory auditors which have parent companies receive compensation or other property interest as officers from parent companies or subsidiaries of such parent companies.

Chart 49 Relation between Outside Statutory Auditors with a Parent Company and the Company

		Number of listed companies with parent companies		Number of outside statutory auditors, per company		Number of outside statutory auditors from parent companies, per company		Number of paid outside statutory auditors from parent companies, per company	
			Ratio to listed companies		Ratio to statutory auditors		Ratio to outside statutory auditors		Ratio to outside statutory auditors from parent company
Companies with Statutory Auditors	2008	286	12.3%	2.60	69.9%	1.35	51.7%	0.64	47.3%
	2010	249	11.1%	2.67	70.1%	1.29	48.2%	0.61	47.2%
	2012	227	10.2%	2.67	71.4%	1.14	42.6%	0.57	50.0%

③ Outside statutory auditors meeting certain independence criteria

Similarly to the analysis of outside directors meeting certain independence criteria, TSE analyzed the independence of outside statutory auditors (see Chart 50). The ratio of "independent outside statutory auditors" (means outside statutory auditors who do not fall under any of the earlier-mentioned categories a, b, c, f, and g in terms of relations with the company; hereinafter the same shall apply) to all outside statutory auditors currently serving companies with statutory auditors is as high as 87.2% (up 1.8 points). This figure is higher than the 76.6% for outside directors, which have a certain degree of independence (see the above 2. (5) ④). When it is limited to outside statutory auditors of companies with takeover defense measures, the independence ratio even exceeds nine-tenths, showing 96.4%. On the other hand, when it is limited to outside statutory auditors of companies with parent companies, the ratio falls to 48.2% (up 5.4 points). This trend is also seen for outside directors, which have a certain degree of independence.

In 78.8% (up 1.7 points) of companies with statutory auditors, all of the outside statutory auditors satisfy certain independence criteria. This ratio reaches 91.3%, when limited to companies with takeover defense measures. On the contrary, when limited to companies with parent companies, the same ratio is as low as 18.7% (up 1.3 points). Compared with the same analysis of outside directors, the aforementioned percentage is not lower, but the trend of relatively low independence of outside statutory auditors of companies with parent companies is similar.

On the other hand, in a time-series comparison, the ratio of appointing outside statutory auditors with a certain degree of independence in all companies with statutory auditors remains at a high level.

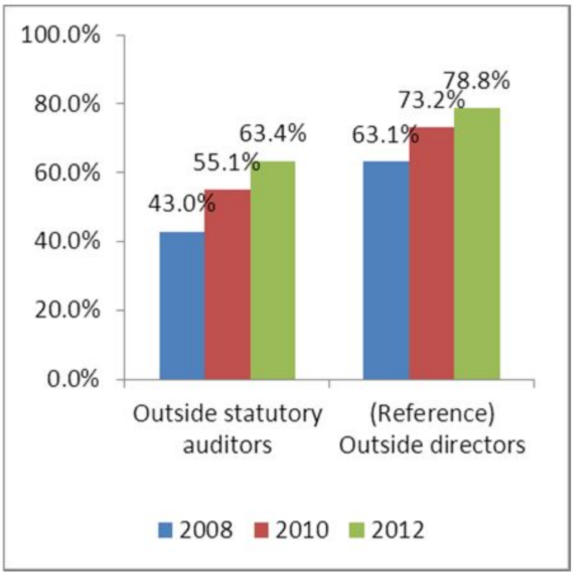
Chart 50 Appointment of Outside Statutory Auditors Meeting Certain Independence Criteria

	Average number of outside statutory auditors, per company		Average number of independent outside statutory auditors, per company		Ratio of independent outside statutory auditors out of all outside statutory auditors		Ratio of companies all of whose outside statutory auditors are independent	
		Change from 2010		Change from 2010		Change from 2010		Change from 2010
Companies with Statutory Auditors	2.52	0.00	2.20	0.04	87.2%	1.8	78.8%	1.7
Companies with parent companies	2.51	0.01	1.21	0.14	48.2%	5.4	18.7%	1.3
Companies with strategies of takeover defense	2.44	−0.02	2.35	0.00	96.4%	0.7	91.3%	1.2

④ Limited liability agreement

Outside statutory auditors who concluded limited liability agreements with the companies account for 63.4% (up 8.3 points), which is rather low considering that outside directors who concluded the same account for 78.8% (77.1% of outside directors of companies with statutory auditors). This would be because the former Commercial Code allowed companies to conclude limited liability agreements only with their outside directors, and limited liability agreements with outside statutory auditors were permitted only upon enactment of the Companies Act. In addition, it suggests that outside directors have been increasingly appointed by companies with statutory auditors, the gap is being significantly narrowed down by efforts toward alignment.

Chart 51 Conclusion of Limited Liability Agreements with Outside Auditors



(7) Cooperation among statutory auditors, accounting auditors and internal audit departments

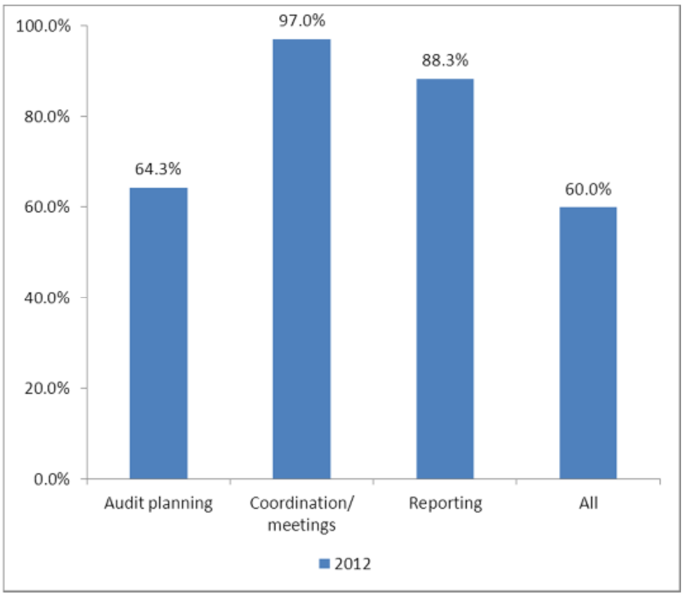
The Report requires companies with statutory auditors to describe existing cooperation among their statutory auditors, accounting auditors and internal audit departments. As the Reporting Guidelines suggest descriptions of frequency and details of meetings between them, if any, the majority of descriptions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

Furthermore, some referred to involvement of internal audit departments for enhanced exchange of information. Some also referred to statutory auditors' capacities in evaluation of accounting auditors such as verification of accounting audit qualities by (the boards of) statutory auditors, or requests for submission of a proposal to dismiss accounting auditors (in the case of companies with statutory auditors) or rights to dismiss accounting auditors if they violate or neglect their duties.

Analyzing keywords included in the above descriptions (see Chart 52), keywords related to audit planning are used in the descriptions of 64.3% of the companies; keywords related to coordination are used by 97.0% and keywords related to reporting are used by 88.3% of the companies; and companies which used keywords from all three categories account for 60.0%.

The March 2011 revision to the format consolidated separate items on cooperation between statutory auditors and accounting auditors and that between statutory auditors and internal audit departments, and requires companies to provide description on cooperation among statutory auditors, accounting auditors, and internal audit departments. An analysis of descriptions based on the new format revealed higher levels across all categories when compared with the last survey. There is a clear trend toward enhancing cooperation among statutory auditors, accounting auditors, and internal audit departments.

Chart 52 Cooperation among Statutory Auditors (or Audit Committees), Accounting Auditors and Internal Audit Departments



4. Committees and Executive Officers

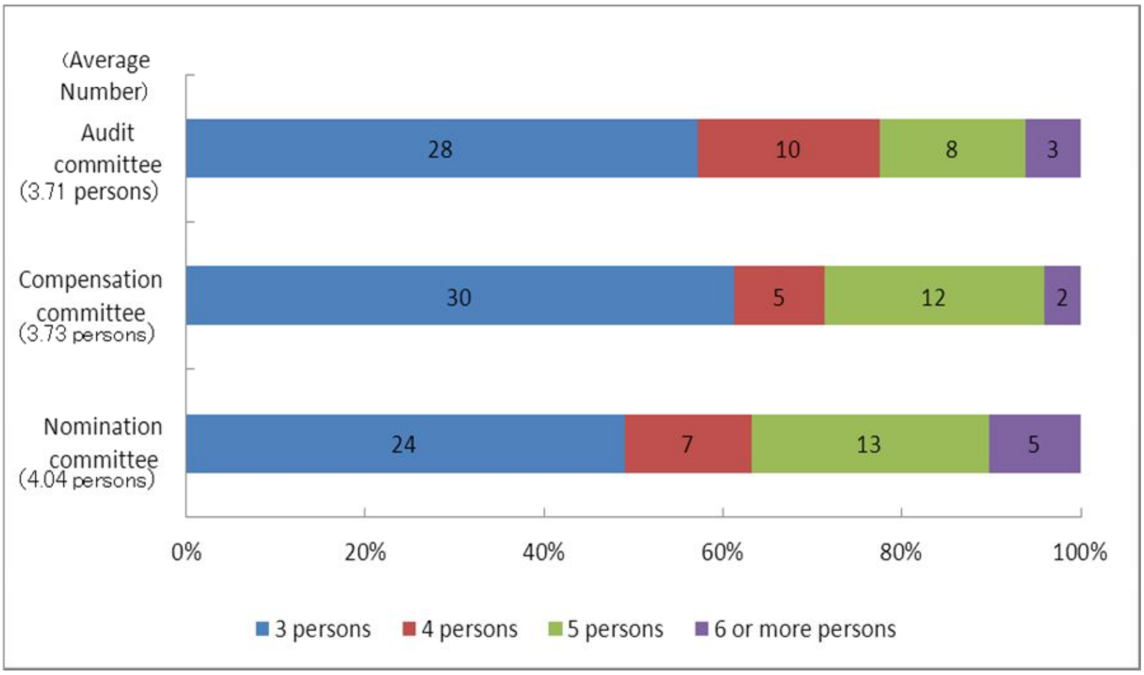
Companies with committees are required to establish three committees, namely a nomination committee, compensation committee, and audit committee, each of which consists of 3 or more directors, the majority of which must be outside directors. Furthermore, in companies with committees, the board of directors may delegate decisions on business execution substantially to executive officers whom it appointed. The Report requires companies with committees to describe the composition of each committee and executive officers' other capacities such as directors or employees, from the perspective to find the status related to distinctive features of the committees system. The status of and trends in unique features of companies with committees are introduced below.

(1) Each Committee

① Number of committee members

Chart 53 shows the number of directors in each committee. In most cases, each committee comprises of 3 to 5 members. As for average number of its members, nomination committees show 4.04 (down 0.10 persons), which is the largest, followed by 3.73 (down 0.09 persons) in compensation committees, and 3.71 (up 0.02 persons) in audit committees. As an overall trend, committees consisting of 3 directors are most frequently observed across all categories.

Chart 53 Number of Committee Members

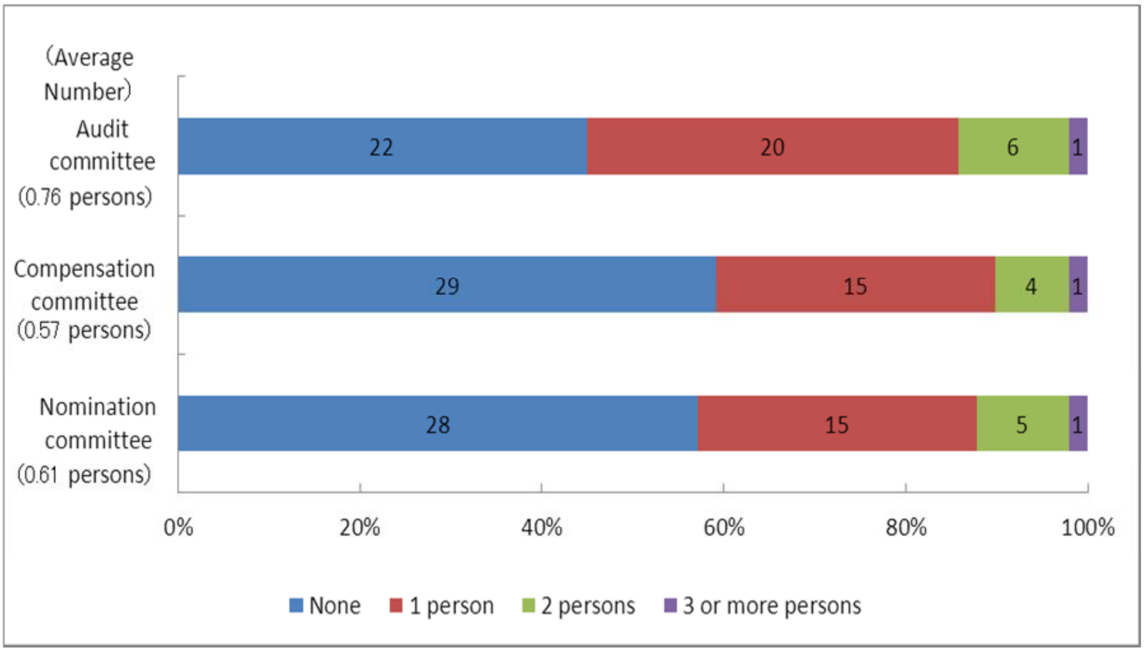


② Ratio of full-time members

Analyzing the ratio of full-time member in each committee, audit committees show the highest ratio of 20.5% (up 0.8 points) among these 3 committees. On the other hand, nomination committees and compensation committees show relatively low percentages, 15.1% (down 1.0 points) and 15.3% (down 0.6 points), respectively.

Unlike full-time auditors of companies with statutory auditors, it is not mandatory for companies with committees to have full-time committee members. However, as shown in Chart 54, a significant number of companies have at least 1 full-time audit committee member. In terms of average number of full-time member per company, audit committees show a higher number of 0.76 (up 0.03 persons) than nomination committees (0.61) and compensation committees (0.57). This trend was also observed in the last survey. Among the three committees, audit committees would meet more frequently, and smooth information distribution would be required for close cooperation with accounting auditors and internal audit departments. In addition, it also shows that a recognition, to some extent, of the necessity for directors who monitor business execution on a day-to-day basis like "full-time auditors."

Chart 54 Number of Full-Time Members in Each Committee



③ Composition of directors in each committee

Chart 55 shows numbers of outside directors and inside directors as well as their percentage shares in each committee of TSE-listed companies. Percentage shares of outside directors in each committee are 80.8% (up 1.5 points) in audit committees, while being 70.7% (up 0.1 points) in nomination committees and 72.1% (down 0.5 points) in compensation committees. The results here also remain unchanged from the last survey.

One of the reasons would be that audit committees are expected to be more independent from the companies than others, as demonstrated by a requirement that any audit committee member should not be an executive officer or employee of the company, or executive director, executive officer or employee of the subsidiary company. In addition, 21 companies (42.9% overall) (up 5.6 points) have audit committees which do not have inside directors.

As shown in Chart 58, in terms of the attribute of the chairperson of each committee, the ratio of outside directors appointed as chairperson of a committee are 67.3% (up 12.4 points) in audit committees, 53.1% (up 2.1 points) in compensation committees and 53.1% (up 6.0 points) in nomination committees. These figures are higher than the last survey.

Chart 55 Composition of Inside Directors and Outside Directors in Each Committee, and Average Number

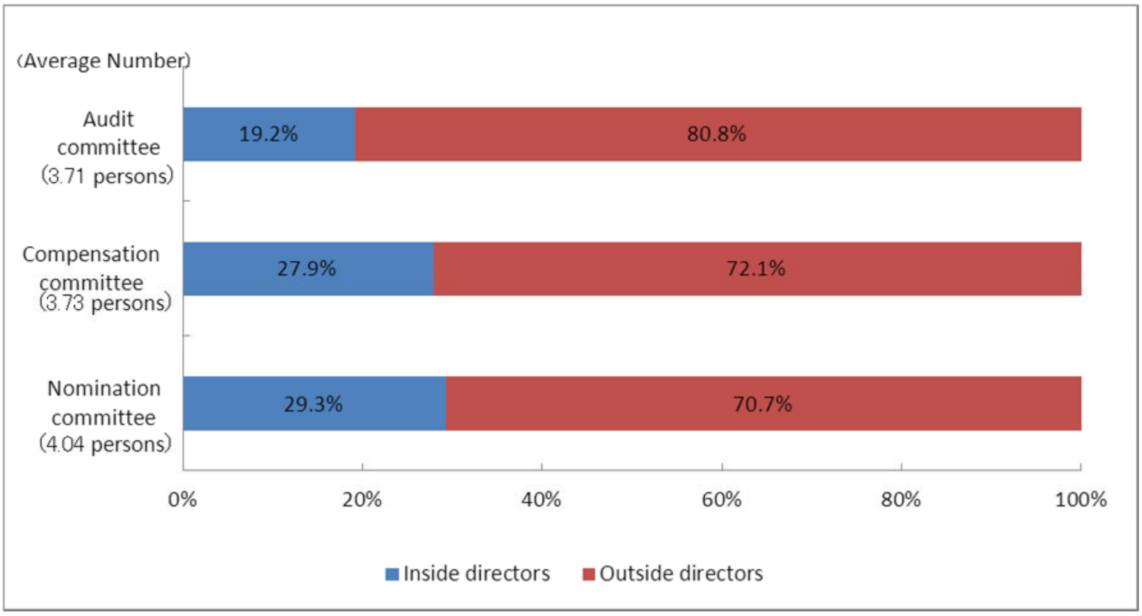


Chart 56 Number of Inside Directors in Each Committee

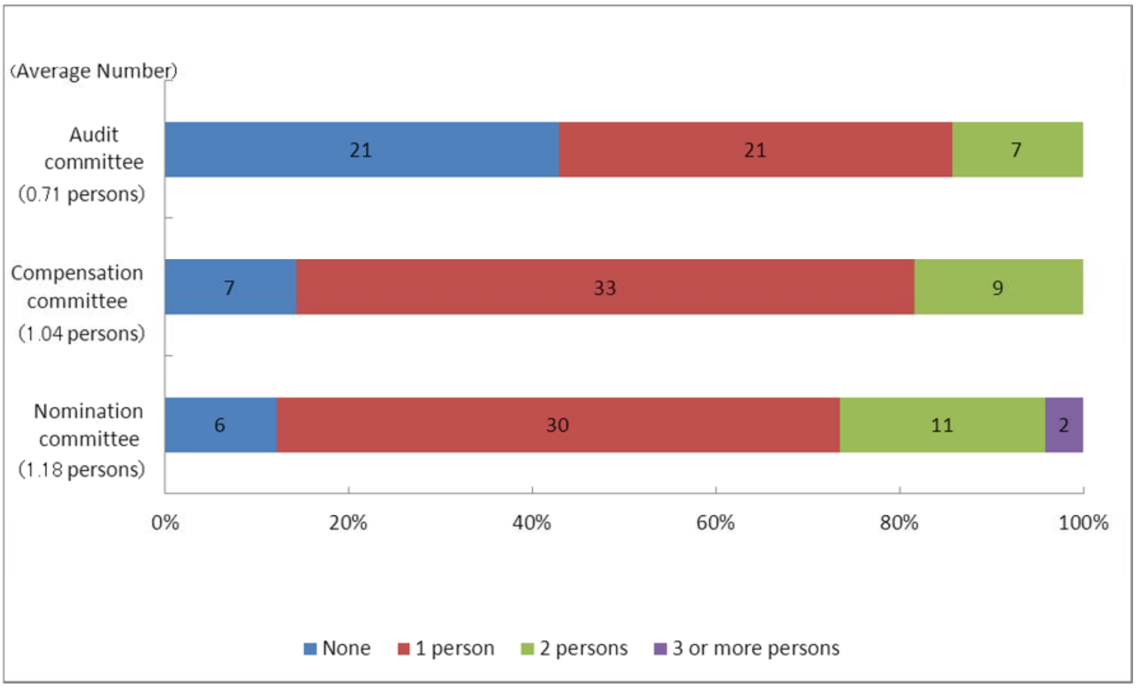


Chart 57 Number of Outside Directors in Each Committee

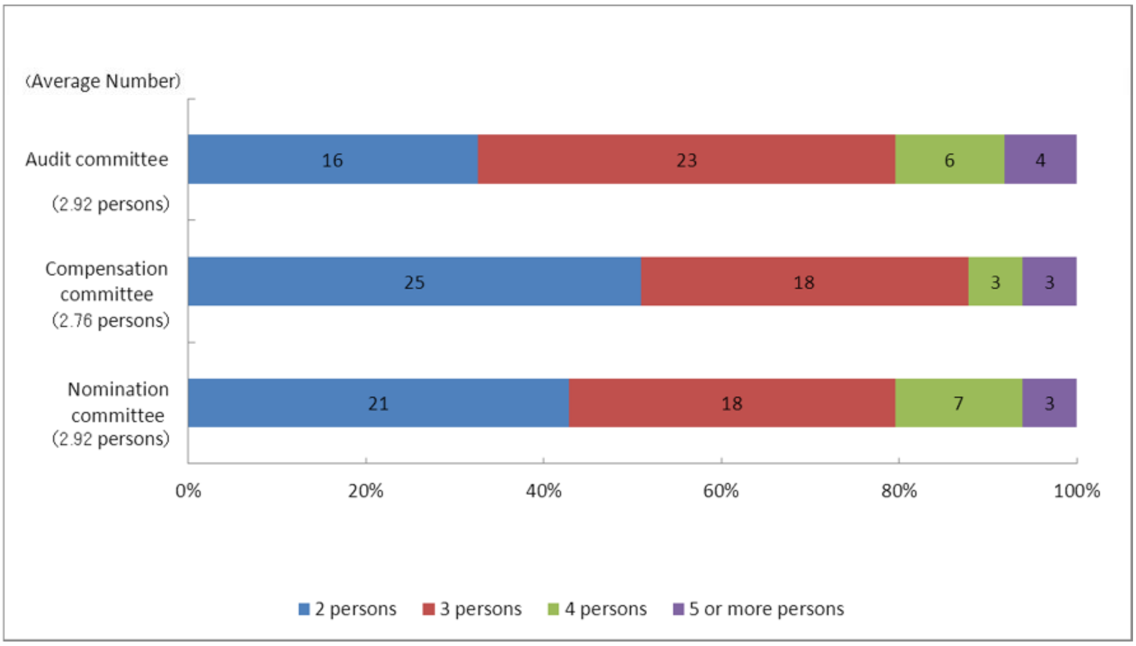
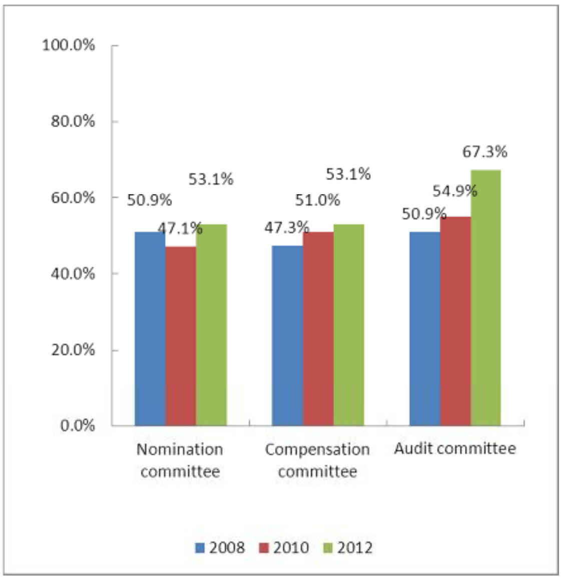


Chart 58 Attributes of the Chairperson of Each Committee (Ratio of Outside Directors)



(2) Executive officers

The average number of executive officers among TSE-listed companies with committees is 11.29 persons (down 0.26 persons).

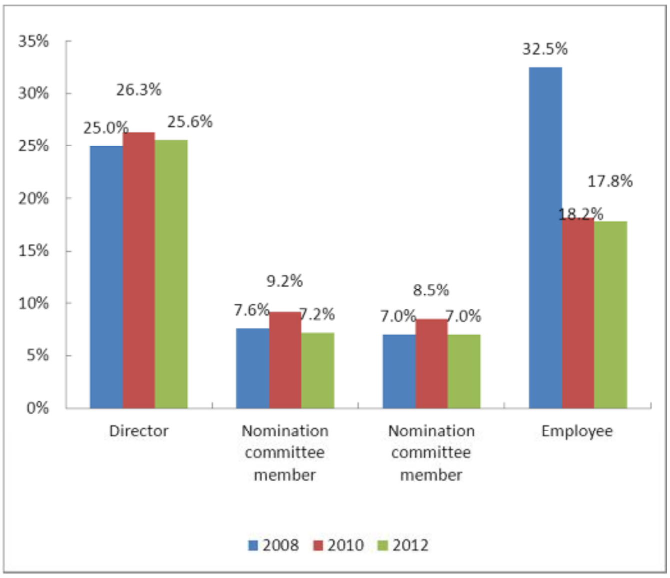
Executive officers with representative authority (CEO: chief executive officer) account for 18.4% (up 0.9 points) of all executive officers, and a company has 2.08 CEOs (up 0.06 persons) on average.

An executive officer may concurrently assume the position of director. In this respect, the survey found that more than one-fourth of executive officers (25.6%; down 0.7 points) concurrently assume positions as directors.

Furthermore, 7.2% (down 2.0 points) of executive officers concurrently assume positions as nomination committee members in their capacity as directors, and 7.0% (down 1.5 points) of executive officers concurrently assume positions as compensation committee members in their capacity as directors. As for audit committee members, executive officers are prohibited to assume concurrent positions.

17.8% (down 0.3 points) of executive officers also hold positions as employees. This is about the same level as that seen in the last survey.

Chart 59 Cross-appointments of Executive Officers



(3) Audit framework

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

Unlike companies with audit committees, companies with committees are not required to appoint full-time members in their audit committees. Due to this, other than cooperation with the internal audit department, the framework for collaboration with directors, etc. whose duties are to gather information is important. This item was established to provide insight on the frameworks under which outside directors fulfill their roles in the company. All companies have dedicated frameworks and there are instances of appointing dedicated staff in the form of board of directors' offices, audit committee offices, and corporate governance offices, on top of existing divisions such as secretary's offices, business management departments, and management control groups. There was also description explaining operational aspects such as using e-mails to enhance information sharing among directors and launching directors-only websites. 14.3% (up 4.5 points) of companies described support content concerning "information dissemination, correspondence, and collaboration" while 79.6% (up 3.1 points) mentioned "prior distribution of materials, etc. and explanation."

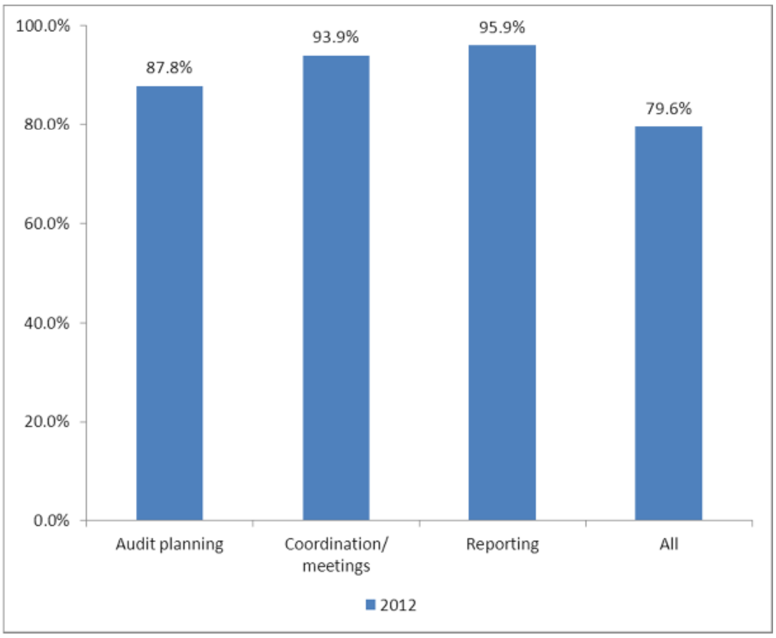
② Cooperation among audit committee members, accounting auditors, and internal audit departments

In the Report, companies with committees are required to describe cooperation among the audit committee members, accounting auditors, and the internal audit department in the same way as that for statutory auditors at companies with statutory auditors. The Reporting Guidelines also require description on meetings, where applicable, as well as matters including the frequency and content of such meetings. Companies mentioned efforts toward sharing opinions and information, and receiving reports from accounting auditors on matters such as overall plans, focus, and progress of audit, as well as internal control systems and risk management.

Besides these, there was also description on cooperation with the internal audit department to improve information sharing, audit committee members or the audit committee being responsible for checking the quality management of accounting audit, description related to removal or non-reappointment of accounting auditor, and that mentioning the appraisal of accounting auditors. This is also seen among companies with statutory auditors.

Analyzing the keywords in the above paragraphs (see Chart 60), 87.8% of companies mentioned "audit plan," 93.9% "cooperation," and 95.9% "report." Companies that mentioned all three keywords accounted for 79.6%. The March 2011 revision to the format consolidated separate items on cooperation between audit committees or such committee members and accounting auditors and that between audit committees and internal audit departments, such that companies are now required to provide description on cooperation among audit committees, accounting auditors, and internal audit departments. An analysis of descriptions based on the new format revealed higher levels across all categories when compared with the last survey. There is a clear trend toward enhancing cooperation among audit committees or such committee members, accounting auditors, and internal audit departments.

Chart 60 Cooperation Among Audit Committees, Accounting Auditors, and Internal Audit Departments



5. Independent Directors/Auditors

(1) Appointment of independent directors/auditors

TSE revised the Securities Listing Regulations on December 30, 2009, and stipulated in the Code of Corporate Conduct "Matters to be Observed," that an issuer of listed domestic stocks must secure at least one independent director/auditor (hereinafter "ID/A") (meaning an outside director/auditor who is unlikely to have conflicts of interest with general investors; hereinafter the same) for the protection of general investors. The provisions apply after the annual general shareholders meeting in June 2010 for the companies whose fiscal year end in March.

As of the period included in this survey, TSE-listed companies (2,275 companies, 100%) had secured ID/As (last survey 2,146 companies, 93.5%).

With the March 2011 revision to the format, companies are now required to provide description on the number of ID/As. The distribution of companies by number of ID/As is as shown in Chart 61. 1,252 companies, 55% overall (up 190 companies, up 8.7 points) secured 2 or more independent directors/auditors. The ID/A system requires companies to designate at least 1 outside director or outside statutory auditor as an ID/A and notify TSE of such designation. In the case of a company with multiple outside directors/auditors who satisfy the criteria for ID/As, whether to designate all or some of such outside directors/auditors is left to the discretion of the company. Therefore, in terms of complying with the rules, a company may choose to designate only 1 ID/A, however, there is actually a significant number of companies which have designated multiple ID/As. Some reasons behind this phenomena include being a means to avoid being left without an ID/A if the sole designated outside director/auditor resigns for some reason, and concerns over giving the negative impression of non-independence of other outside directors/auditors when only some of the eligible outside directors are designated as ID/As. In the "Expected Role of Independent Directors/Auditors" publication compiled by TSE's Advisory Group on Listing System Improvement, the role of ID/As is portrayed as being able to be performed by just 1 person. However, due to the risk of isolation on the board of directors, there are also cases of companies which secure more than 1 ID/A with the intent of creating the presence of a team.

The aggregate number of persons notified as ID/As is 4,815 persons (up 624 persons), of which 4,651 persons (up 602 persons) are accounted for by companies with statutory auditors, while 164 persons (up 22 persons) are by companies with committees. The average number of ID/As secured per listed company is 2.12 persons (up 0.29 persons). This is 2.09 persons at companies with statutory auditors and 3.35 persons at companies with committees.

An analysis of the average number of ID/As by market division, as shown in Chart 62, reveals the greatest number of appointments by First Section companies (average 2.30 persons, up 0.30 persons), followed by Mothers (average 1.73 persons, up 0.20 persons) and Second Section companies (1.53 persons, up 0.25 persons). Appointments as seen by the shareholding ratios of the largest shareholder show the highest average number of 2.64 persons for the 5% to 10% category. This is common in both companies with statutory auditors (2.59 persons) and companies with committees (4.67 persons). The next highest average number is seen in the less than 5% category. As the shareholding ratios increase beyond 10%, the number appointed decreases. This trend is again shared by both companies with statutory auditors and companies with committees. Results from the last survey showed a similar trend, however, the large number in the 5% to 10% category could be attributed to many companies with large sales figures or employee numbers falling into this category. Further analysis by foreign shareholding ratio shows the highest number of 3.42 persons in the 30% and above category and a relation of decreasing appointments with smaller shareholdings. This trend is again common in both companies with statutory auditors and companies with committees.

Of the listed companies which secured ID/A, 219 companies (9.6%) only appointed outside directors as ID/A, of which 170 companies are companies with statutory auditors. 1,493 companies (65.6%) only appointed outside statutory auditors as ID/A, while 563 companies (24.8%) appointed more than 1 outside director and 1 outside statutory auditor.

Among ID/A, 1,280 persons are outside directors (26.6% of all ID/A, up 254 persons), 3,535 persons are outside statutory auditors (73.4%, up 370 persons) (see Chart 65). 55.4% of outside directors (up 6.2 points) are appointed as ID/A while 62.9% of outside statutory (up 7.1 points) auditors are similarly appointed. Looking at the total figures and percentages of appointment, a majority of outside directors and outside statutory auditors are designated as ID/A. As analyzed in a later section, many outside directors and outside statutory auditors from major shareholders, company clients, or such entities that have relationships with the company are not designated as ID/A.

Chart 61 Number of Independent Directors/Auditors

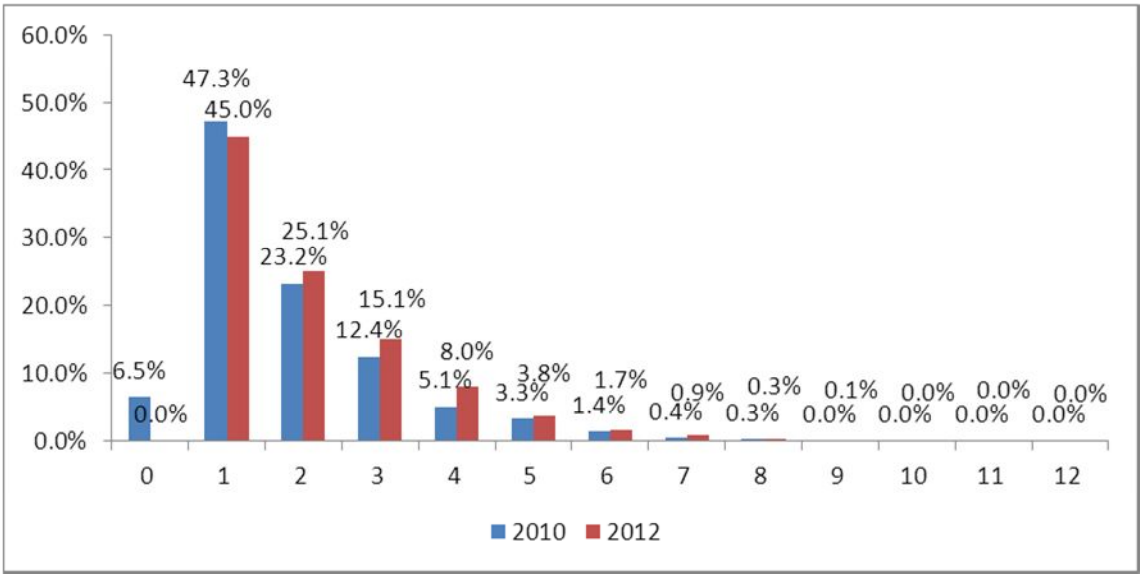


Chart 62 Average Number of Independent Directors/Auditors (Overall/Market Division)

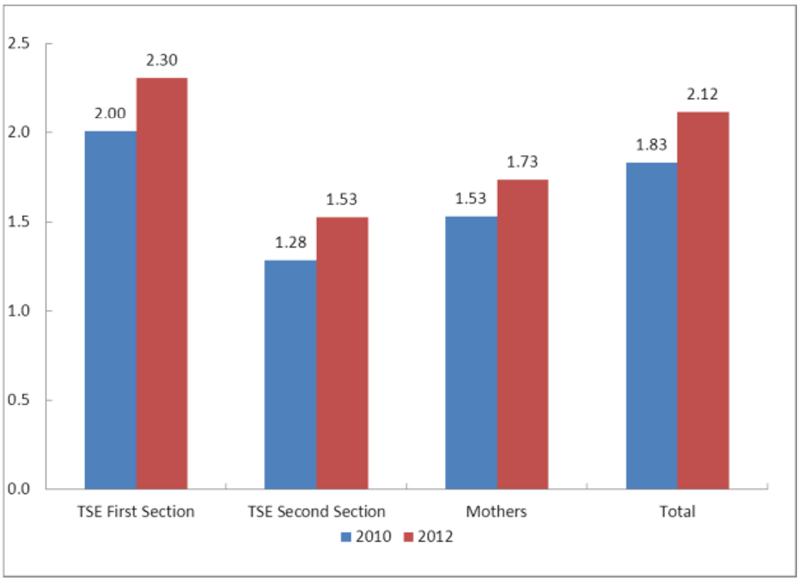


Chart 63 Average Number of Independent Directors/Auditors (Shareholding Ratio of Largest Shareholder)

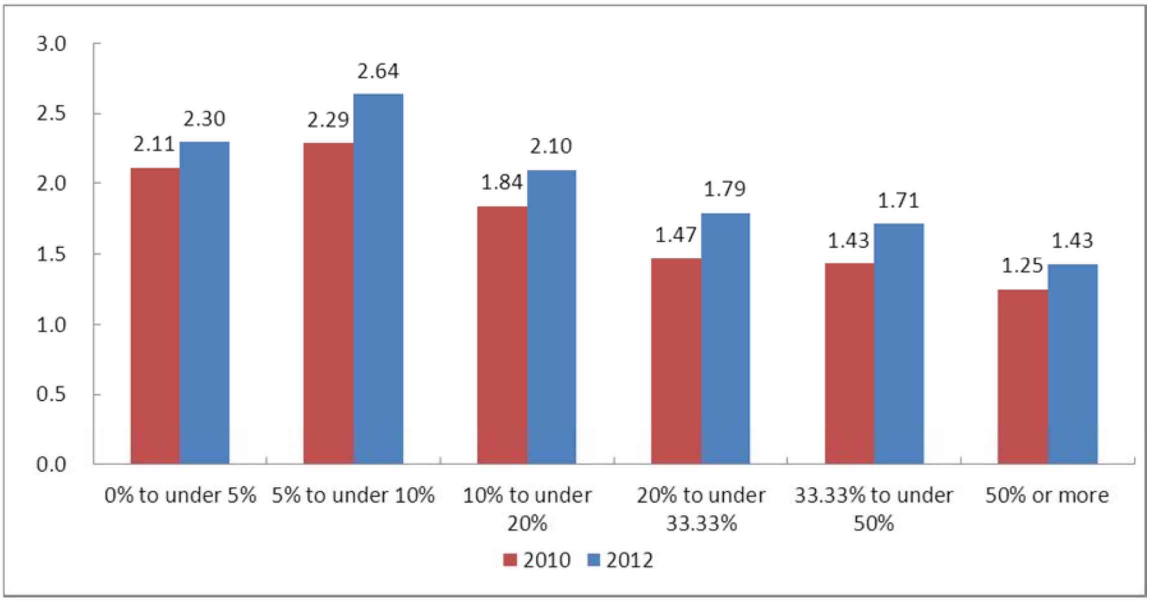


Chart 64 Average Number of Independent Directors/Auditors (Foreign Shareholding Ratio)

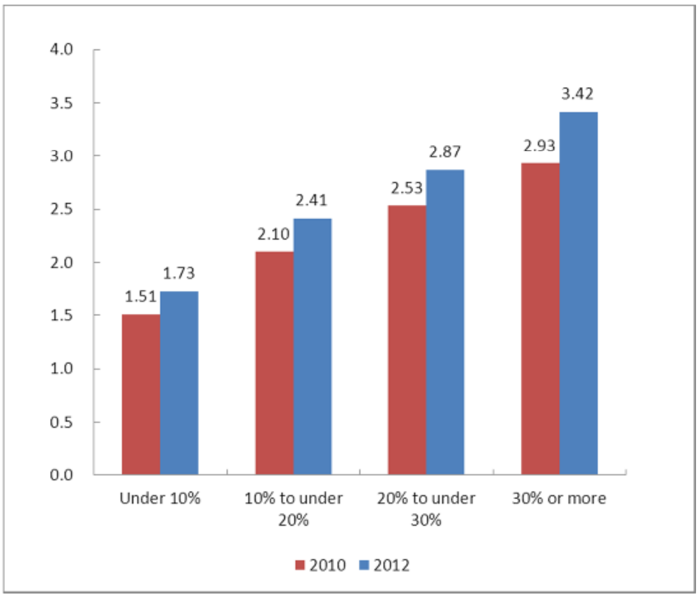
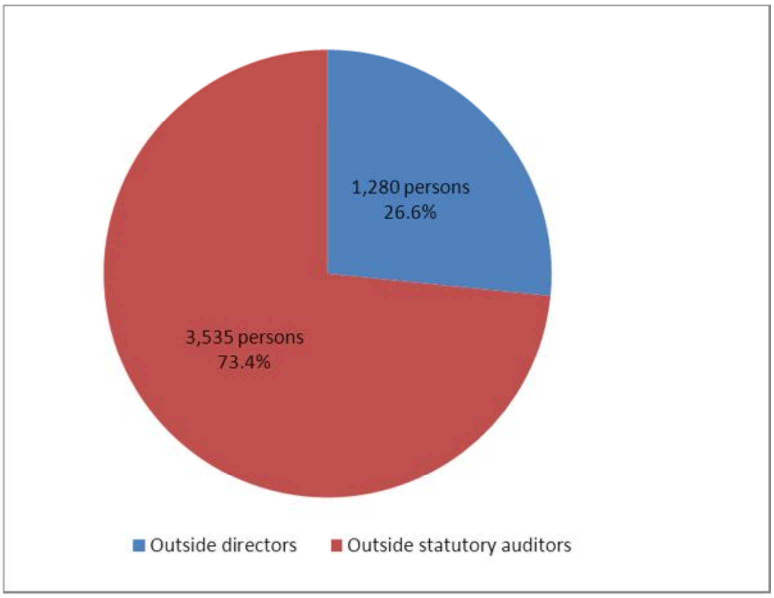


Chart 65 Number of Outside Directors and Outside Statutory Auditors Appointed as Independent Directors/Auditors



(2) Attributes of independent directors/auditors

Chart 66 shows a summary of attributes of ID/As and compares this with attributes of outside directors/auditors (outside directors and outside statutory auditors).

The attributes of ID/As are, out of 2.12 persons on average per company, 1.09 persons (51.7%) are from other companies, followed by attorneys (0.43 persons, 20.5%), certified public accountants (0.26 persons, 12.4%), academics (0.12 persons, 5.6%), tax accountants (0.10 persons, 4.9%), and others (0.09 persons, 4.3%).

On the other hand, for the attributes of all outside directors/auditors, out of the 3.49 persons on average per company, 2.18 persons (62.6%) are from other companies, followed by attorneys (0.56 persons, 16.1%), certified public accountants (0.33 persons, 9.4%), tax accountants (0.15 persons, 4.2%), academics (0.14 persons, 4.1%), and others (0.12 persons, 3.6%). Among ID/A, in comparison with other outside directors/auditors, there is a lower percentage of persons from other companies and a clear tendency toward appointing professionals such as lawyers and accountants.

Turning to the percentage of eligible outside directors/auditors by attribute who are appointed as ID/A, of the 60.7% overall (up 6.9 points), academics have the highest percentage of appointment (84.2%, down 0.2 points), followed by certified public accountants (79.7%, up 7.5 points) and lawyers (77.3%, up 1.8 points), and finally persons from other companies (50.2%, up 5.9 points) (see Chart 67).

Among companies with parent companies, 46.8% of all ID/A (down 4.0 points) are persons from other companies, a level similar to that seen for TSE-listed companies. However, only 22.4% of outside directors/auditors (up 2.6 points) from other companies were appointed as ID/A, a lower percentage than that for TSE-listed companies (50.2%). This indicates that there are many outside directors/auditors at listed companies who do not satisfy ID/A criteria.

Chart 66 Attributes of Independent Directors/Auditors

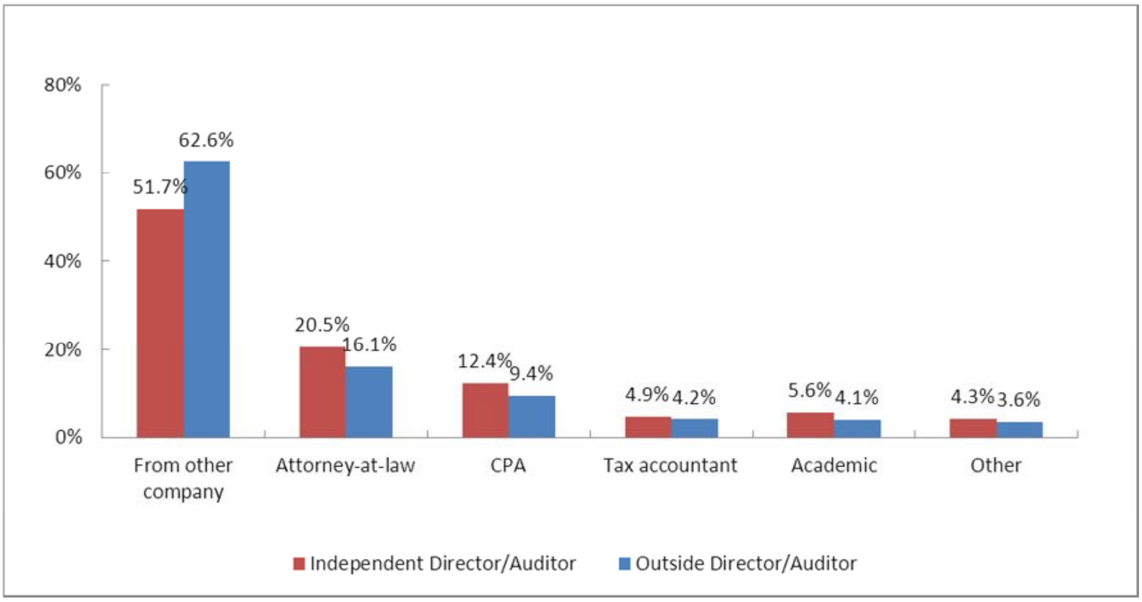
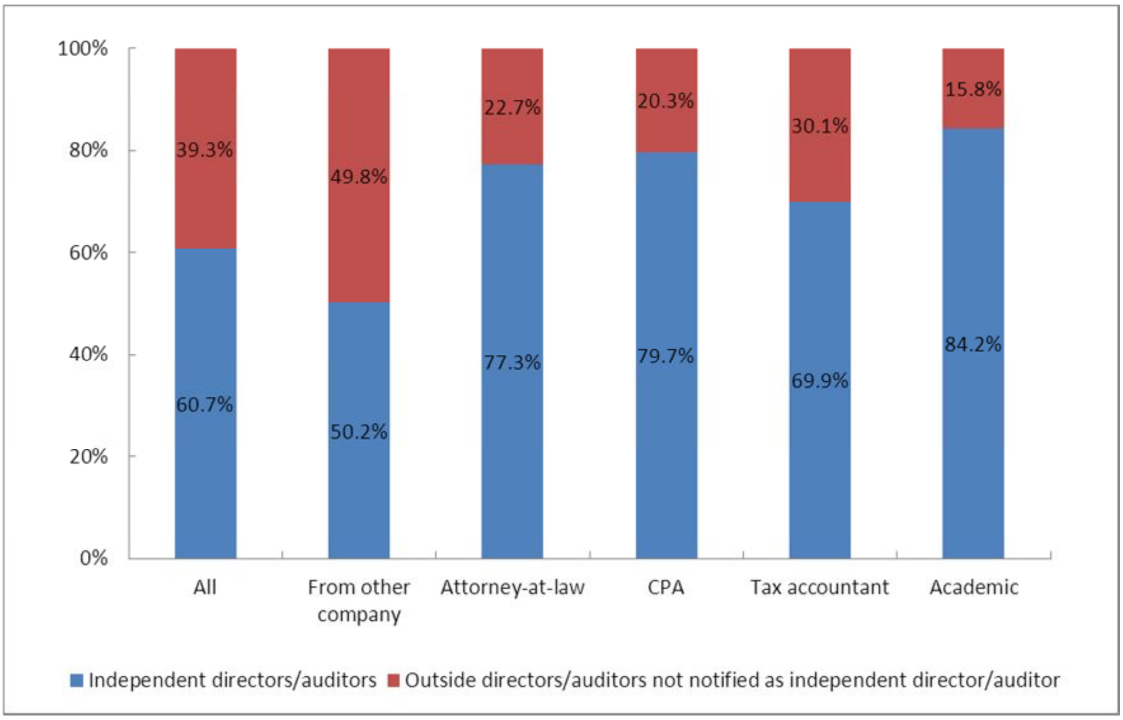


Chart 67 Ratio of Independent Directors/Auditors to the Total Number of Outside Directors/Auditors (Attribute)

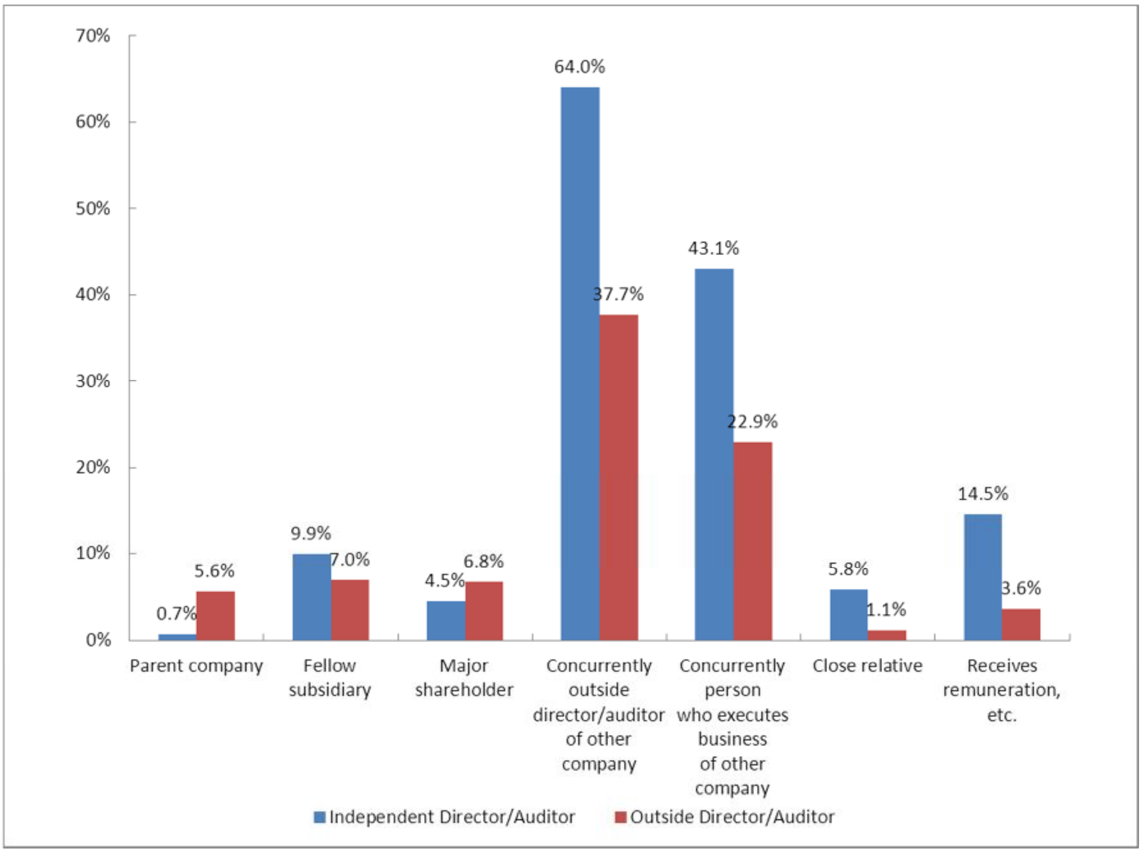


(3) Relation between independent directors/auditors and the company

An analysis of the relation with the company reveals a lower percentage, as compared to outside directors/auditors, of ID/A from parent companies and major shareholders. This shows that the ID/A system is being adopted in line with its original intent (see Chart 68).

The Report requires companies to provide supplementary description on the relation between outside directors and outside statutory auditors with the company. Based on such descriptions, there are 880 outside directors/auditors from financial institutions (11.1% of all outside directors/auditors), of which 598 are appointed as ID/A (68.0% of persons from financial institutions). Among such ID/A, there are 115 independent directors (67.3% of outside directors from financial institutions) and 483 independent auditors (68.1% of outside statutory auditors from financial institutions). There are 150 outside directors/auditors from government agencies (1.9% of all outside directors/auditors), of which 125 are appointed as ID/A (83.3% of persons from government agencies). Among these, 55 are independent directors (87.3% of outside directors from government agencies) and 70 are independent auditors (80.5% of outside statutory auditors from government agencies).

Chart 68 Relation between Independent Directors/Auditors and the Company



(4) Description of reason for appointment of independent directors/auditors

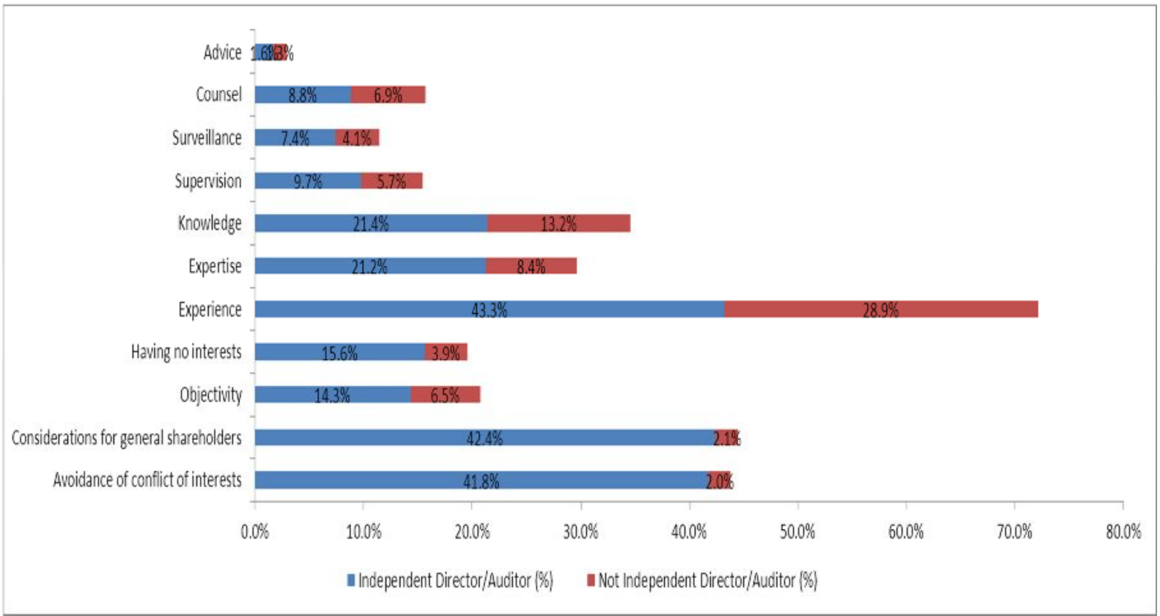
① Reason for appointment of independent directors/auditors

The Report requires companies to describe the reason for appointment of outside directors and outside statutory auditors, and if such outside director or outside statutory auditor is appointed as ID/A the reason for such appointment. First, in descriptions on outside directors/auditors, the keywords that appeared often are experience (72.1%), expertise (29.7%), and knowledge (34.6%), which highlighted the person's attributes and career. Companies also frequently mentioned avoidance of conflict of interests (43.8%), considerations for general shareholders (44.5%), objectivity (20.8%), and having no interests (19.6%), which shows intent to secure neutrality.

In terms of expected functions, outside directors/auditors were expected to offer counsel (54.6%) and advice (2.9%) in an advisory role, and provide supervision (15.5%) and oversight (11.5%) in a monitoring role (see Chart 69).

An analysis of the percentage of occurrence of the various keywords in outside directors/auditors appointed as ID/A revealed a high rate of occurrence of avoidance of conflict of interests (95.4%), consideration of general shareholders (95.3%), objectivity (68.9%), and having no interests (79.9%). This clearly shows that the reason behind appointing ID/As was to secure neutrality. In comparison, the rate of occurrence of experience (60.0%), expertise (71.6%), and knowledge (61.8%) related to the person's attributes and career, as well as monitoring-related supervision (63.1%) and oversight (64.5%), and advisory-related counsel (56.1%) and advice (56.0%) is rather low. This was interpreted as a reflection of listed companies' tendency toward describing avoidance of conflict of interests and consideration for general shareholders as a reason for appointing ID/As.

Chart 69 Reason for Appointment of Outside Directors/Auditors and Reason for Designation as Independent Directors/Auditors



① **Transactional relationship and cross-appointments, as well as receipt of donations by independent directors/auditors**

In the May 10. 2012 partial revision to the Enforcement Rules for Securities Listing Regulations and other rules, TSE modified the format for ID/A notifications so that listed companies are required to partially disclose transactional relationships, cross-appointments, as well as donations by ID/A under information discosed in such notifications. In connection with this, from companies whose fiscal year ended March this year onward, listed companies also began to include explanations on changes in ID/As under descriptions on outside directors/auditors in the Report. We verified the newly submitted data on ID/A transactional relationships, etc. in the ID/A notifications with that in the Report, and then compiled and analyzed it. Please note that analysis on this item is based on data submitted based on the new ID/A notification format by 541 listed companies (1,987 ID/As), and is not a market-wide analysis of all 2,275 listed companies (7,931 ID/As).

Transactional and other relationships of ID/A were analyzed based on the separate categories of persons designated as ID/As and further analysis was conducted based on industrial sectors to understand the trends in companies that designated those with relationships. Descriptions subject to the respective analyses were based on those included in the Reports.

(i) Analysis of each independent director/auditor

The ratio of ID/A falling under those with transactional relationships is as shown below in Chart 70. The total number of ID/As with such relationships is 487, or 10.2% of all ID/As. Of these, persons from other companies were the largest in number with 73.9%, followed by lawyers at 10.1%, and certified public accountants at 9.7%.

There were 21 ID/As with cross-appointments, or 0.4% of all ID/As. As the category implies, all of them were from other companies.

ID/As who fell under having received donations numbered 26, or 0.5% of all ID/As. Academics, accounting for 50.0% (1 was classified as a lawyer), leads the other categories, followed by 26.9% from other companies.

In descriptions related to donations, actual amounts were included for 2 ID/As (6.9%), while 8 persons (27.6%) were mentioned as making donations of negligible amounts. 15 persons (51.7%) donated to "universities" while other instances mentioned charity contributions to post-quake recovery efforts.

The 541 companies subject to analysis based on descriptions in the new format for ID/A notifications account for 25.1% of TSE-listed companies. Other than these companies, there were another 14 persons making donations, taking the total of number of persons designated as ID/As making donations to 40.

Chart 70 Ratio of Independent Directors/Auditors that fall under having Transactional Relationship, etc.

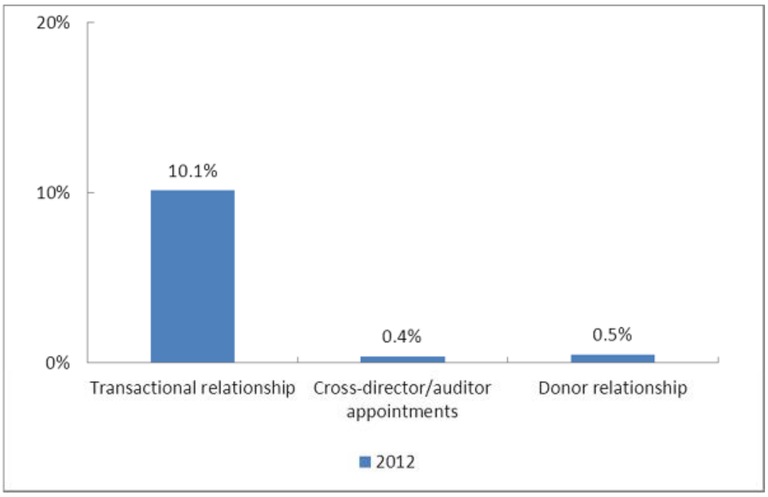
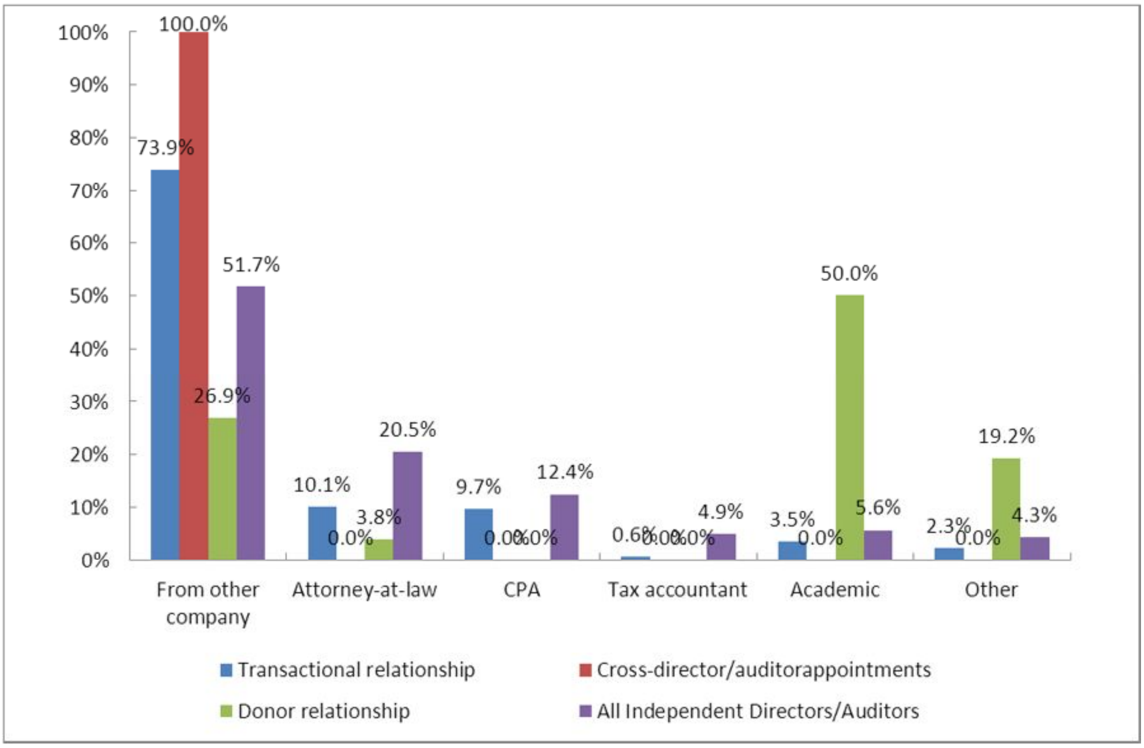


Chart 71 Comparison of Attributes of Independent Directors/Auditors and Those that fall under having Transactional Relationship, etc.



(ii) Analysis by company category

Chart 72 shows the distribution of ID/As with transactional relationships, cross-directorship, or donations by company category. Based on the submitted data, 264 or 11.6% companies mentioned transactional relationships. In terms of market division, TSE First Section companies accounted for 15.8%, followed by TSE Second Section companies with 7.9% and Mothers companies at 4.0%. In terms of consolidated sales, the higher the figure, the more likely there are such ID/A at the company. The percentage of such ID/A also rises in proportion to a higher foreign shareholding ratio, except for the 30% and above category.

Analysis based on industrial sectors revealed high percentages among land transport (31.7), rubber products (25.0%), banks (24.4%), and oil and coal products (23.1%), while metal products (3.9%), retail trade (5.0%), and real estate (5.9%) showed low percentages.

Companies which mentioned cross-appointments accounted for 1.2%. While the small sample size (28 companies, 33 persons) may not prove an accurate reflection of the market-wide trend, there is a clear correlation between larger corporate size and higher consolidated sales, foreign shareholding ratios, and the number of consolidated subisiaries.

Companies which mentioned donations accounted for 1.1%. As with cross-appointments, the sample size is small (24 companies, 29 persons) and a correlation is seen between larger corporate size and higher consolidated sales, foreign shareholding ratios, and the number of consolidated subsidiaries.

14 companies mentioned "de minimis criteria," that are ratios or such absolute figures for transactions which were deemed to infringe on the criteria for independence related to transactional relation, cross-appointments, or receiving donations. Numerical criteria mentioned fell between 0.1% to 10% of sales, while absolute amounts varied widely from 1 million to 20 million yen.

The 541 companies subject to this analysis based on descriptions in the new format for ID/A notifications only account for 23.8% of TSE-listed companies. In addition, many of these are large corporations. Further analysis of descriptions made by the rest of the listed companies based on the new format for ID/A notifications will be needed to determine whether the results of this analysis are a reflection of a broader market trend.

Chart 72 Ratio of Independent Directors/Auditors that fall under having Transactional Relationship, etc. (Overall/Market Division)

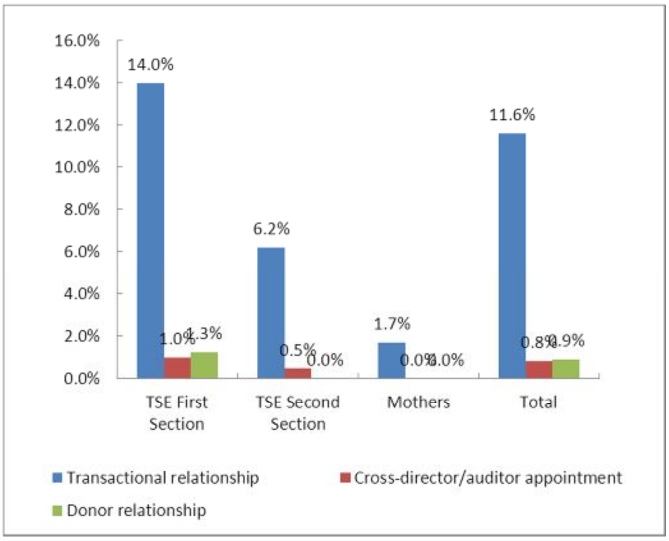


Chart 73 Ratio of Companies with Independent Directors/Auditors that fall under Having Transactional Relationship, etc. (Consolidated Sales)

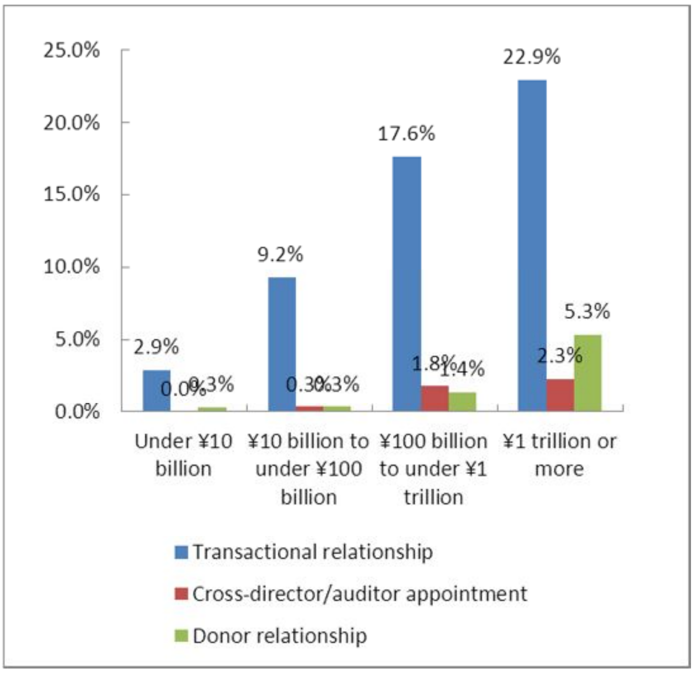
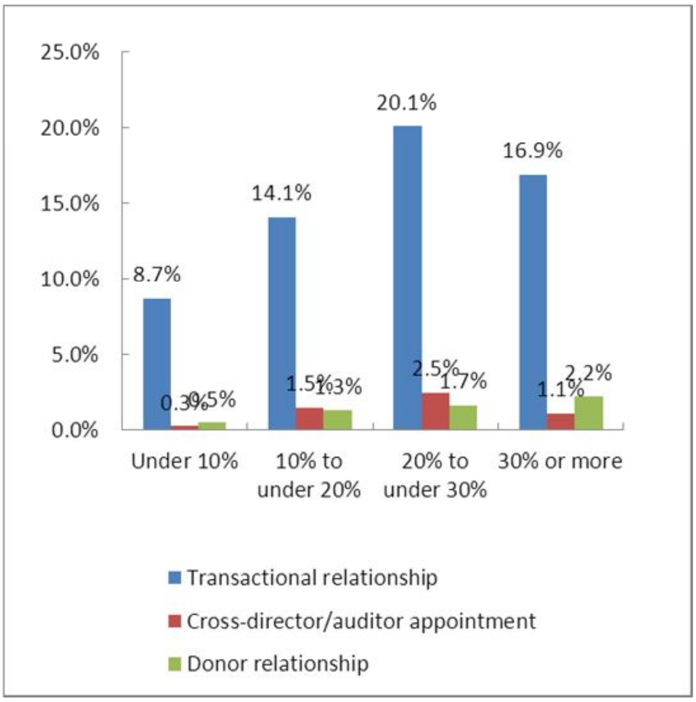


Chart 74 Ratio of Companies with Independent Directors/Auditors that fall under Having Transactional Relationship, etc. (Foreign Shareholding Ratio)



(iii) Description on "designating all eligible persons as ID/A"

As a means to differentiate outside directors/auditors that satisfy the requirements for designation as ID/A from those that do not, TSE requests listed companies to, as a general rule, perform a similar level of information disclosure on outside directors/auditors that are not designated as ID/A as those that are. However, another acceptable approach toward this is to clearly state in ID/A notifications that all eligible outside directors/auditors were designated as ID/A. In such cases, in the eyes of shareholders and investors, there is no issue with identifying which outside directors satisfy ID/A requirements and which do not. Since this means that there is no need to provide, for outside directors/auditors that fall under the latter category, descriptions on attributes and whether they fall under disclosure requirements, listed companies would omit such descriptions.

In line with such intent, 572 companies or 24.9% of TSE-listed companies provided descriptions in the Report which mentioned that all eligible persons were designated as ID/A. In terms of market division, TSE First Section companies accounted for 29.3%, followed by TSE Second Section companies with 13.6%, and Mothers companies at 9.7%. The percentage of companies rises with higher consolidated sales, and is also proportionate to higher foreign shareholding ratios. By industrial sector, high percentages are seen across the financial sector, with 55.6% for insurance, 47.7% for banks, and 54.5% for securities and commodity futures.

III. Incentives and Remuneration

1. Implementation of Initiatives to Offer Incentives

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

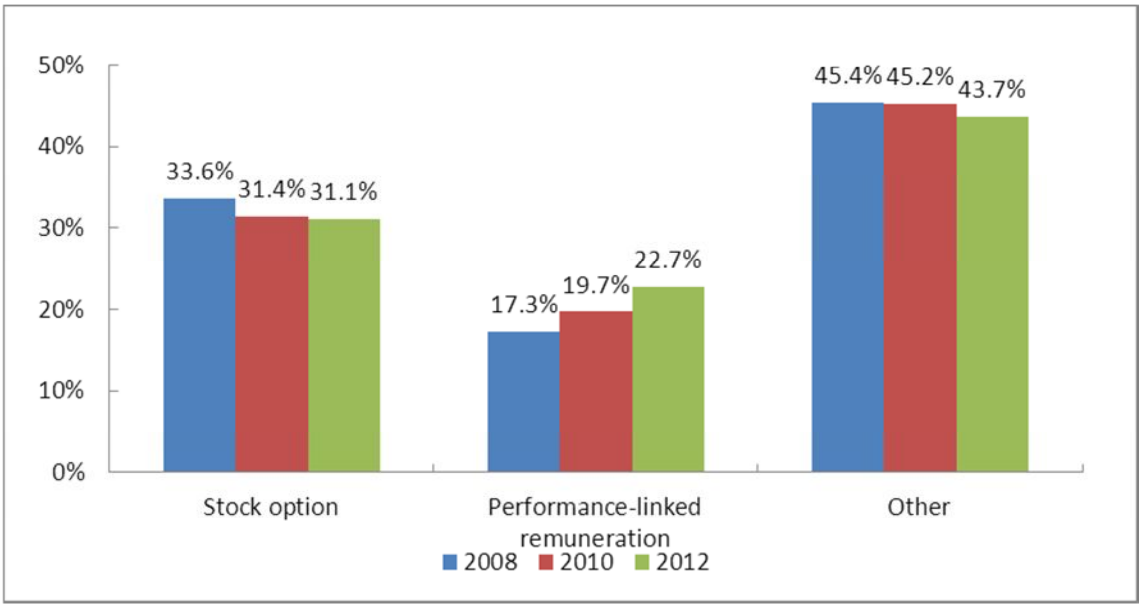
(1) Overview of incentives

Companies implementing any initiative to offer incentives account for 87.2% (up 0.1 points) of TSE-listed companies.

Regarding each category of initiatives to offer incentives, stock option plans are introduced in 31.1% (down 0.4 points (changes in this chapter are indicated in comparison with the last survey)) of TSE-listed companies, while performance-linked remuneration system and other initiatives are introduced in 22.7% (up 3.0 points) and 43.7% (down 1.6 points), respectively, of companies (see Chart 75).

2,120 companies (93.2% overall) provided supplementary explanations on implementing initiatives to offer incentives.

Chart 75 Implementation of Initiatives to Offer Incentives



(2) Introduction of stock option plans

In analysis of companies adopting stock option plans by market division as shown in Chart 76, Mothers-listed companies show an outstandingly higher ratio, 77.3% (down 2.9 points), than the TSE First Section (29.6%; up 0.2 points) and TSE Second Section (17.7%; down 1.3 points). This trend was also clear in the last survey. As shown by Chart 77 on the relationship with the number of employess on a consolidated basis, we see a general trend where the number of employees decreases, that the corporate size gets smaller, the number of companies introducing stock option plans increases. The same relationship can be seen in consolidated sales, where lower figures mean a higher tendency to adopt such plans.

In contrast, as for the relation with the number of consolidated subsidiaries, companies which have more subsidiaries tend to show a higher level of adoption of stock option plans. Regarding the relation with foreign shareholding ratio (see Chart 78), the higher the foreign shareholding ratio, the higher the ratio of implementing stock option plans. Again, these trends were also observed in the last survey.

Chart 76 Implementation of Initiatives to Offer Incentives (Market Division)

	Stock option		Performance-linked remuneration		Other	
		Change from 2010		Change from 2010		Change from 2010
TSE First Section	29.6%	0.2	27.4%	3.2	41.3%	−2.2
TSE Second Section	17.7%	−1.3	9.5%	1.4	64.9%	0.8
Mothers	77.3%	−2.9	9.1%	2.5	15.9%	1.1

Chart 77 Implementation of Initiatives to Offer Incentives (Number of Employees (Consolidated))

	Stock option		Performance-linked remuneration		Other	
		Change from 2010		Change from 2010		Change from 2010
Under 100	67.7%	1.6	8.9%	3.8	26.6%	−3.9
100 to under 500	33.3%	−1.7	11.8%	2.1	52.0%	0.6
500 to under 1000	22.2%	−1.2	18.9%	−0.5	54.3%	−0.2
1000 or more	29.6%	0.1	29.1%	4.5	39.0%	−2.5

Chart 78 Implementation of Initiatives to Offer Incentives (Foreign Shareholding Ratio)

	Stock option		Performance-linked remuneration		Other	
		Change from 2010		Change from 2010		Change from 2010
Under 10%	27.3%	−0.4	16.1%	2.4	50.5%	−1.4
10% to under 20%	31.9%	−3.1	29.9%	4.1	37.4%	−0.5
20% to under 30%	38.5%	2.4	33.9%	2.4	30.1%	−1.4
30% or more	48.9%	0.4	41.6%	1.9	24.7%	−0.7

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

While 68.9% of the companies have not adopted such stock option plans, they stated reasons for non-adoption from various angles. Specifically, some companies are currently preparing for introducing the plans, while there are companies which had once adopted but then abandoned the plans, finding it inappropriate as incentives due to factors such as low stock price and varied strike prices. Some companies consider that their current remuneration structures are sufficient, and some question the idea of stock option plans on the grounds that remuneration should not be offered from a short-term perspective. As a reason for judging it inappropriate as incentives, there was an explanation that the stock option plan is a program to receive capital gains without taking risks associated with a drop in stock price, and therefore is in conflict with shareholder interests.

(3) Implementation of performance-linked remuneration system

In analysis of implementation of performance-linked remuneration system by market division, the TSE First Section clearly shows a higher ratio of adoption at 27.4% (up 3.2 points) than the TSE Second Section (9.5%; up 1.4 points) and Mothers (9.1%; up 2.5 points), similarly to the last survey (see Chart 76).

In terms of a relation with company size, as shown in Chart 77, companies with a larger number of employees (consolidated) (meaning larger companies) tend to show a higher ratio of implementing a performance-linked remuneration system. In addition, there is a trend of the higher the foreign shareholding ratio, the higher the ratio of implementing a performance-linked remuneration system (see Chart 78). These results show a similar trend as that in the last survey.

Along with the widespread adoption of the performance-linked remuneration system, an increasing number of companies decided to abolish the retirement benefits system based on seniority. In the Reports, 176 companies referred to abolition of their retirement benefits systems. In addition, some clearly stated that they would cut officer compensation in the event of deteriorating business performance.

(4) Other

Companies which selected "other" as their initiatives to offer incentives mostly described that they consider business performance and officers' contributions/efforts when deciding on officer compensation or bonuses. In fact, out of 994 companies which selected "others," 42.4% (421 companies) referred to either "remuneration" or "bonus" in their supplementary explanations of the initiatives.

In the said supplementary explanations, 3 companies (down 10 companies) of those that selected "other" referred to "employee shareholding association." This result shows a downward trend which has continued from the last survey.

(5) Eligible persons for stock options

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

Chart 79 and Chart 80 show the composition of eligible persons, when the sample is limited to TSE-listed companies with stock option plans. It is found that the companies offer their stock option plans mostly to inside directors (97.2% of companies with statutory auditors, and 84.6% of companies with committees) and employees (67.7% of companies with statutory auditors, and 80.8% of companies with committees). In addition, companies that offer stock option plans to outside directors only accounted for 19.9% of those that appointed outside directors (down 2.0 points).

640 companies provided supplementary explanation on persons eligible for stock option plans. Of these, 299 companies described their intent to contribute to the morale and ambition of such eligible persons, while 379 companies mentioned the basis for selecting those eligible for such plans so as to secure talented persons, and also contribute to better corporate performance and improved corporate value. There were also instances of descriptions on expanding the scope of eligible persons from directors to statutory auditors, employees, employees of subsidiaries, and others. With regard to the eligibility of outside directors/auditors, some Reports mentioned stock options are not appropriate for persons who have an auditory role or support it.

Chart 79 Eligible Persons for Stock Options (Companies with Statutory Auditors; Companies with Stock Options System)

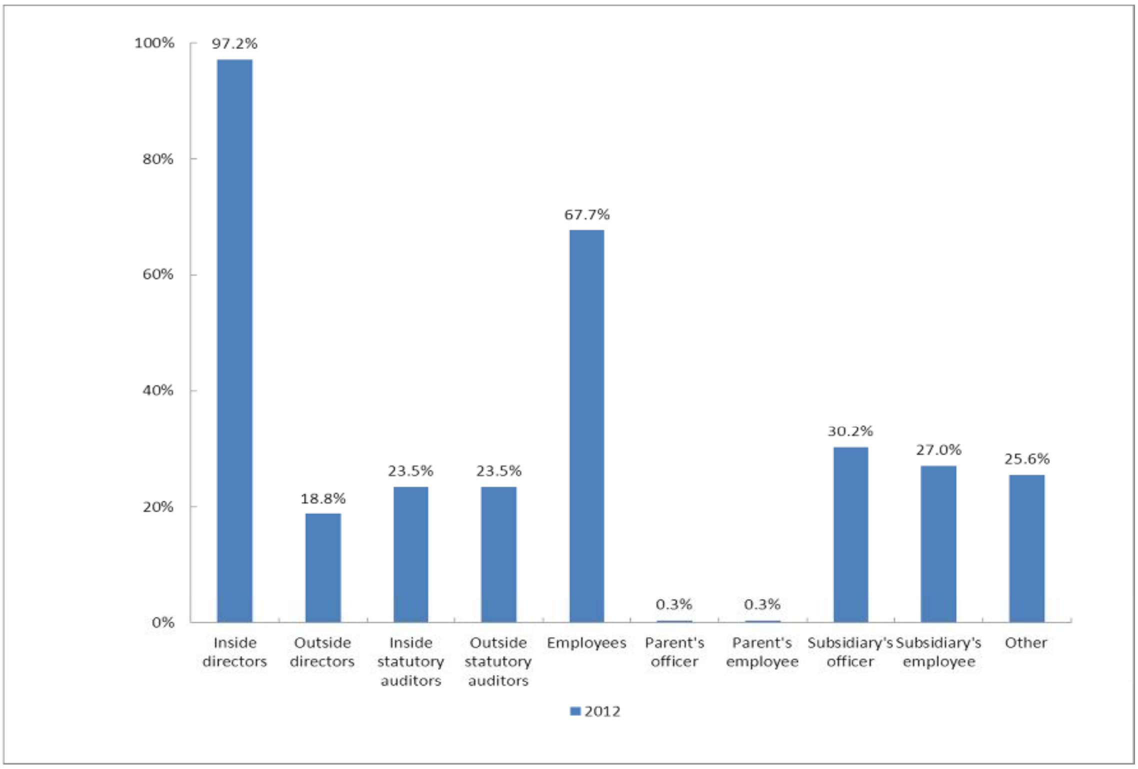
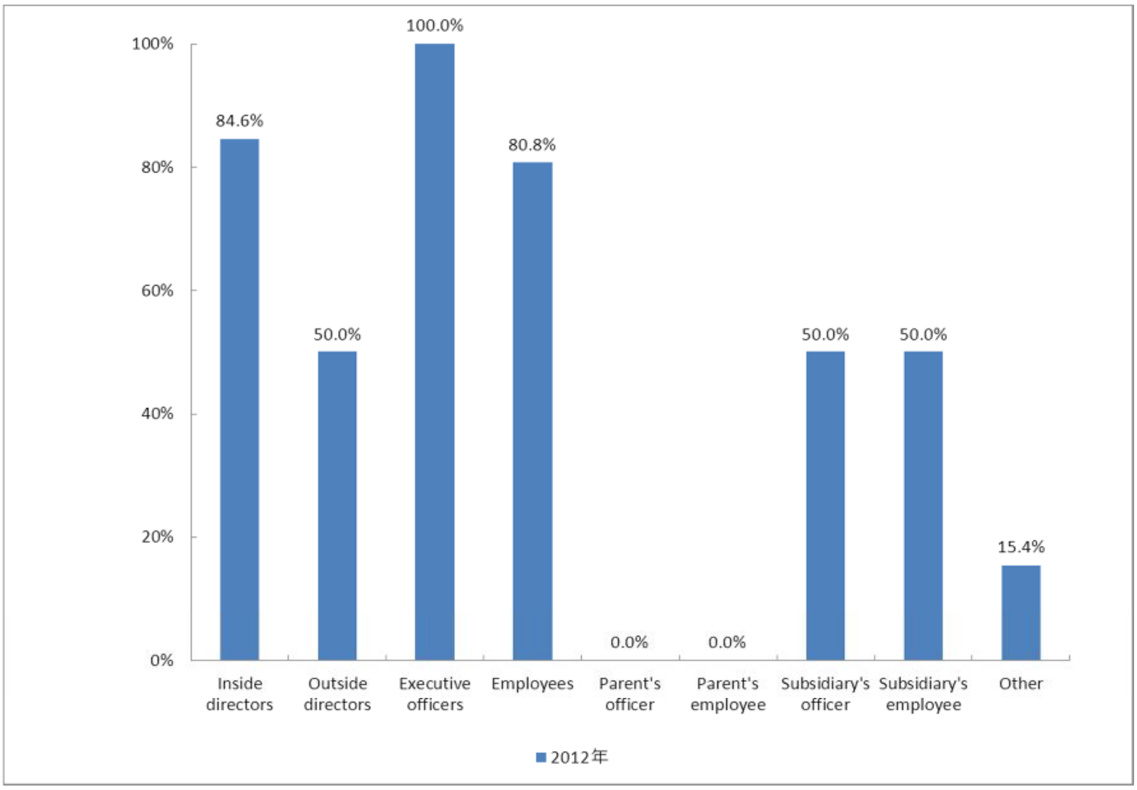


Chart 80 Eligible Persons for Stock Options (Companies with Committees; Companies with Stock Options System)



2. Disclosure of Director Remuneration

(1) Disclosure of individual director remuneration

On March 31, 2010, the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc. was amended to require companies to disclose, in annual securities reports, the total amount of officer, etc. remuneration and the subtotals by category, the total amount of remuneration of officers. whose remuneration exceeded 100 million yen, and the policy for determining officer remuneration. The format of the Report was then changed in March 2011 so that listed companies chose from "full individual disclosure," "partial individual disclosure," or "no individual disclosure on remuneration" under disclosure of individual director remuneration and provided corresponding description. Listed companies are also required to provide additional explanation in the case where disclosure on individual director remuneration is made, including the case where it is made for only directors who received higher amounts.

As we can see from Chart 81 for companies with statutory auditors, the percentage of that do not disclose the remuneration of individual directors reaches 91.6%, while only 0.3% disclose such information on all directors. 7.7% disclosed information on some directors. Of these companies, there were many that performed disclosure only on officers who received more than 100 million yen. Many of these seem to be large companies. As for the ratio of companies that disclosed remuneration for some officers, we can see a distinct relationship with higher sales and foreign shareholding ratio.

Chart 82 shows the situation among companies with committees. Companies that disclosed the remunerations for only some directors accounted for 14.3%, while those that did it for executive officer remuneration reached 28.6%. The reason behind this is that many of those who received more than 100 million yen are executive officers.

With regard to supplementary explanation related director remuneration, 1,957 companies or 86.2% provided such description. As for officer remuneration, since it is mandatory to provide such description in annual securities reports, there were many instances of companies providing similar content.

Chart 81 Disclosure of Director Remuneration (Companies with Statutory Auditors)

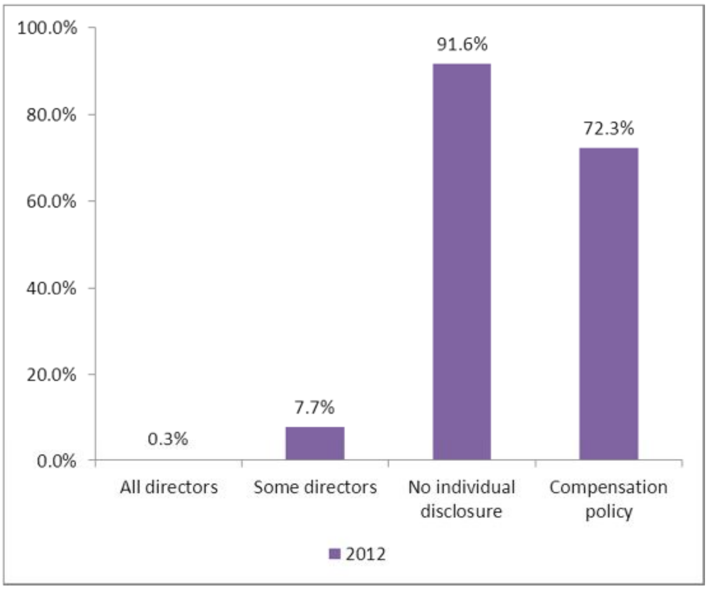
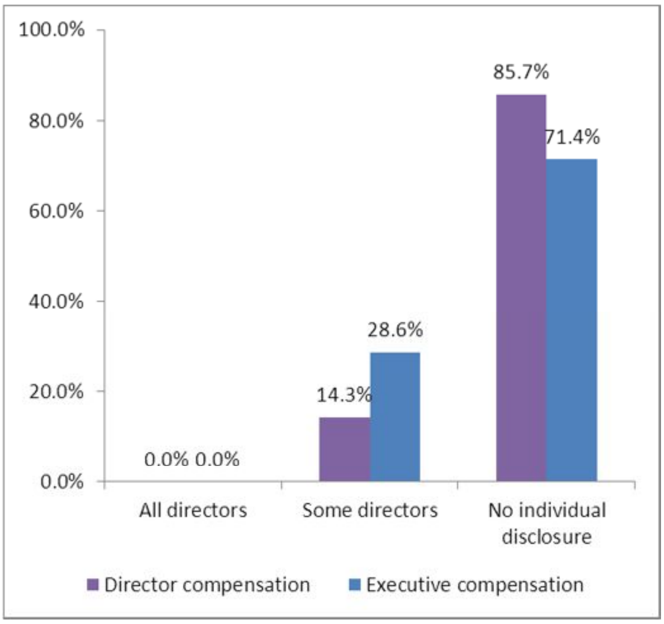


Chart 82 Disclosure of Director/Executive Officer Remuneration (Companies with Committees)



(2) Policy for determining remuneration amounts and calculation method

With the amendment to the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc., for cases where a company has a policy on officer remuneration amounts, etc. and its calculation method, the company is required to provide description on the method of deciding on and the content of such policy. The format of the Report was then changed in March 2011 to require companies to describe their policy for determining director remuneration amounts and its calculation method, where such policies are in place. Companies revealing the fact that they had a policy on director remuneration amounts, etc. and its calculation method accounted for 72.3%. There is a clear positive correlation between this ratio and company size, with higher percentages accompanying higher sales (93.1% for the more than 1 trillion yen sales category), employee numbers (79.1% for the more than 1,000 persons category), and foreign shareholding ratio (84.3% for the more than 30% category).

In supplementary explanations on the policy on determining the method for calculating remuneration, other than keywords describing measures toward increasing transparency, such as "involvement of outside directors/auditors" (356 companies), "ensuring objectivity" (97 companies), and "medium- to long-term perspectives" (162 companies), there were also keywords like "considering the management environment" (90 companies) and "balance with that of employees, etc." (57 companies).

IV. Items in Relation to Respective Decision-Making Functions with Respect to the Execution of Business, Audits, Supervision, Nominations, and Remuneration

1. Overview of Current Corporate Governance System

(1) Overview of Current Corporate Governance System

With the March 2011 revision to the format of the Report, where previously the "Overview of current corporate governance system" and "Reason for selection of current corporate governance system" were to be described under a single item, companies can now describe them as separate items.

Under the overview of the current corporate governance system, companies are required by the Reporting Guidelines to provide a detailed overview of the current system of governance including the board of directors, such as business execution, method of audit and oversight. The guidelines also requests companies to provide description on processes to enhance business execution, oversight, or other aspects, where they are implemented. Among companies with statutory auditors, a significant number included description on systems aimed at swift decision-making other than the board of directors, referring to important decision-making organs such as management meetings. The ratio of companies which mentioned management meetings and managing officer meetings, a feature of Japanese corporations, accounted for 47.3% (up 0.9 points) and 10.3% (down 0.9 points) respectively (see Chart 83). Such meetings seem to be more common with larger corporate size. They also seem to be introduced from the perspective of facilitating smooth business execution and positioned at the stage before inclusion in agenda for board of directors meetings.

Companies which mentioned introducing a non-statutory executive officers system from the perspective of hastening decision-making by company management, raising the efficiency of business execution, and clarifying the scope of responsibility due to growing corporate scale accounted for 53.1%, an increase of 1.8 points from the last survey. This indicates a move toward clearly segregating oversight and executive roles. There is a trend of larger companies being more likely to mention executive officers. They also tend to mention streamlining the board of directors by reducing the number of directors and clearly segregating the management decision-making of the board of directors and business execution aspects. These trends were also seen in the last survey.

Companies which mentioned third party advisory and such committees accounted for 12.4% (same as last survey). The tendency to appoint external experts and management professionals to establish organs for the purpose of obtaining advice or evaluating overall management was seen to a certain degree, as in the last survey, and increased with larger company size. While stopping short of adopting the companies with committees system, by taking the initiative to establish third party advisory committees and the like, companies showed growing understanding of actively utilizing advisory and other committees comprised of third party persons as an advisory organ to the board of directors or as a means to enhance its functions. We can also interpret this as an assertion of the stance that the running of committees should be based on company discretion on how to modify the decision-making process and their wish for it not to be constrained by regulation.

There are also cases of companies taking the initiative to establish committees and adopting an organizational structure very similar to that of a company with committees. Out of companies with statutory auditors, 29 companies have an audit committee and provided explanation on its role, 116 companies have compensation committees, and another 68 companies offered description on nomination and human resource committees. There were 822 companies that have various "committees" and such panels for discussion, with many positioning such organizations as advisory bodies for the board of directors on special issues such as internal control.

With regard to audit by statutory auditors or audit committees, 333 companies mentioned "audit system," 385 companies "audit policy," and 181 companies "audit standard." In descriptions on audit systems, there were many instances explaining that the audit policy and audit plan were drafted based on the audit standard to perform audit on the execution of duties by directors.

Description on the selection of candidates for directors and auditors was provided by 272 companies. This can be interpreted as, effectively, an objective nomination process being established without a having dedicated nomination committee.

1,369 companies provided description on certified public accountants. Most of it comprised of the name of audit firms, the names of the certified public accountants, and the number of consecutive years of conducting audit.

Chart 83 Items in Relation to Respective Decision-Making Functions with Respect to the Execution of Business, Audits, Supervision, Nominations, and Remuneration (Consolidated Sales)

	Management Committee		Executive Officer		Executive Committee		Advisory Committee	
		Change from 2010		Change from 2010		Change from 2010		Change from 2010
Under ¥10 billion	36.5%	0.6	27.7%	1.7	2.6%	−0.4	5.2%	−0.7
¥10 billion to under ¥100 billion	47.0%	2.1	50.6%	1.0	12.7%	−0.9	7.8%	0.1
¥100 billion to under ¥1 trillion	51.6%	−0.6	64.8%	3.8	10.5%	−1.0	19.7%	−0.2
¥1 trillion or more	54.2%	−1.8	76.3%	−1.3	5.3%	−1.1	32.8%	−1.6

(2) Descriptions regarding reinforcement of functions of statutory auditors

As an initiative to enhance the functions of statutory auditors, the Reporting Guidelines require listed companies to describe the state of securing personnel and systems to support audit by statutory auditors, the state of appointing outside statutory auditors who are highly independent, and the state of appointing statutory auditors with knowledge of finance and accounting. The main contents of the descriptions include appointing outside statutory auditors who are highly independent, strengthening collaboration among the board of directors, accounting auditors and the internal audit department, and conducting regular audit. Additionally, the contents of the descriptions do not only cover measures to secure the appropriateness of internal control or financial reports, but also legality audit and even validity audit.

Descriptions on monitoring and supervision are classified into such categories as matters mainly related to statutory auditors and the board of statutory auditors, matters related to internal audits, and matters related to accounting audits. Specific example of the matters mainly related to statutory auditors and the board of statutory auditors include frequency of the board of statutory auditors meetings and their resolutions, and activities of each statutory auditor such as attendance to important meetings, examination of documents, and inspections of the subsidiaries. Descriptions on matters related to internal audits include personnel allocation, audit activities, reporting lines of audit results, and authority concerning recommendations for improvement. As for the matters related on accounting audits, the majority are mere routine descriptions showing the names of audit corporations and certified public accountants in charge, as well as absence of special interest, while few companies referred to cooperation between accounting auditors and the companies.

In addition, descriptions under this subject include specific risk management measures and compliance systems which have been increasingly drawing attention of corporations, as well as importance of ensuring the effectiveness of such measures and systems.

2. Reason for Adoption of Current Corporate Governance System

With the March 2011 revision to the Report format, companies can now describe "Reason for Adoption of Current Corporate Governance System" as a separate item. The Report classifies companies by organizational form into either companies with committees or companies with statutory auditors, and whether there are outside directors, and requires companies to describe the reason for adopting the current governance structure, including the board of directors.

(1) Companies with committees

Given that the companies with committees made decisions to convert their organizational form from the traditional statutory auditors system to the committees system, the Report requires those companies to describe the reasons for adopting such organizational form. The content included speeding up the decision-making process, increasing the transparency of management, comparisons with companies with statutory auditors that highlighted aspects such as growing approval from overseas investors, overviews of measures being considered to enhance governance functions, and the roles and functions of outside directors.

Reasons for adopting the committees system (49 companies in total) include: aiming at clear division of duties between supervision and execution (46 companies; 95.9%); to strengthen execution function (49 companies; 100.0%); quick and speedy decision-making by executive officers as top management (39 companies; 79.6%); delegation of authority to execution function (19 companies; 38.8%); strengthening checking function by outside directors (29 companies; 59.1%) and securing management transparency as a consequence.

(2) Companies with statutory auditors and with outside directors

Companies with statutory auditors and with outside directors are required to provide description on reasons for adopting their governance structures with reference to the situation at the company. The content included the roles and functions of outside directors at the company.

Some descriptions provided by the companies with outside directors mentioned that they were the best way to supervise and monitor business execution, and also that their roles were to provide opinion and advice to the management. Even as discussions are being carried out on the advisory and monitoring functions expected of outside directors, it is also evident from the descriptions that companies are already considering both aspects.

(3) Companies with staturory auditors and without outside directors

Companies with statutory auditors and without outside directors are also required to provide description on reasons for adopting their governance structures with reference to the situation at the company. In particular, the Report requires these companies to provide detailed description on establishing, improving, and implementing unique corporate governance systems aimed at substituting the role expected of outside directors. The guideline provides the following examples of such descriptions: (i) companies that used outside statutory auditors in place of outside directors mention the content of alternate frameworks that bridge the gap between directors and statutory auditors which have different roles under law; (ii) others give detailed descriptions on systems to enhance management oversight and their state of implementation, and their stance toward securing objectivity and neutrality of management oversight; and (iii) companies that had previously considered appointing outside directors describe reasons for not adopting such a system.

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

In terms of keywords, even though these companies did not appoint outside directors, terms like supervision (398 companies, up 11 companies), execution (635, up 6 companies), enhanced collaboration (161, down 80 companies), shortening the term of directorships (19, down 39 companies), and description on non-statutory executive officers (158, up 24 companies) indicated efforts toward enriching the functions of the board of directors.

Majority of the descriptions mentioned mutual check-and-balance centered on outside statutory auditors with boards of auditors or boards of directors, that segregation of oversight and execution by adopting the non-statutory executive officers system, and that the governance system with an advisory board or other organ was functioning properly. Some descriptions mentioned that the idea of a check by shareholders due to a reduction in the term of directorships to 1 year, that the 4-year tenure of auditors allows them to offer advice and highlight issues based on the big picture without being swayed by short-term perspectives brought about effective systems. Furthermore, 160 companies mentioned that the presence of independent directors/auditors likely led to more effective oversight.

Out of these companies, among companies with statutory auditors that did not appoint outside directors, 83.3% (down 7.7 points) mentioned the keyword "outside auditor," and many companies mentioned management oversight by outside auditors as the reason for not appointing outside directors. However, actual figures for statutory auditors reveal that at companies with outside directors there is an average total of 3.83 statutory auditors, of which outside auditors accounted for 67.1%. In contrast, at companies without outside directors, this figure is 3.71 persons, and the ratio of outside auditors only reaches 66.6%. As such, even as companies mention the effectiveness of management oversight by outside auditors as the reason for not having outside directors, the difference in the number and ratio of auditors between companies with and without outside directors does not necessarily show a clear trend. From the perspective of enhancing accountability to investors, for example, even when outside directors are not appointed, explanations such as securing effective governance by outside auditors should be backed up by efforts by such companies to clearly differentiate themselves from those that appoint outside directors. In addition, there is strong opinion among, in particular, foreign investors that outside auditors do not have voting rights on the board of directors or rights to elect or dismiss the representative director, and cannot possibly be substitutes for outside directors. This view was also seen in our survey of investors conducted in 2010 and remains to be addressed.

Among the reasons given for governance in a system of checks-and-balances among directors, some companies stated that by bringing in persons from outside entities, such as financial institutions, who did not satisfy the criteria for outside directors under the Companies Act, they were able to incorporate an external perspective into business execution.

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

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

(4) Description concerning enhancing the authority of statutory auditors

As for statutory auditors, the revision in December 2009 required descriptions on the status of securing personnel and establishing systems in support of enhancing the functions of statutory auditors. As a support system to statutory auditor, 227 companies (10.0%) have a dedicated section named "Corporate Audit Office." Some reported special arrangements for staff members of the department in terms of assignment or treatment, in order to maintain independence of statutory auditors and Statutory Auditor Office. For instance, they have arrangements so that staff members are company employees who are not required to follow orders by directors, and that personnel transfer and performance appraisal of such employees require prior consultation between the human resources department and full-time auditors. Specific support methods reported include: coordination for productive on-site audits and inspection visits by statutory auditors, including support for establishing cooperative relations with site managers and attending on-site inspections; and explanation given by full-time auditors concerning the company's financial condition, audit status, discussions in management meetings, activities of management audit department, and activities of the corporate ethics/CSR committee.

3. Support System for Outside Directors and Outside Statutory Auditors

This item requires descriptions on the outline of the support system for communicating information to outside directors and outside statutory auditors including ID/As. In order for ID/As to appropriately fulfill their responsibilities, as described in "Expected Role of ID/As" published in March 2010, it is indispensable to develop appropriate means of communication for ID/As, collaborate with related departments, and secure the support personnel.

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

The majority of the companies reported that they have a department in charge. Regarding support contents, "distribution of information, communication, and cooperation related to information" are mentioned by 23.6% (up 1.5 points), and "prior distribution of and/or briefing on reference materials" are mentioned by 49.5% (up 2.1 points) of the companies.

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

V. Implementation of Measures for Shareholders and Other Interested Parties

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

It is fundamental for the stock company system that shareholders proactively exercise their rights pertaining to proposals for resolution at general shareholders meetings. TSE has requested each listed company to create an environment to facilitate the exercise of shareholders' voting rights at general meetings in the past. Furthermore, in November 2007, TSE incorporated the Corporate Code of Conducts into the Securities Listing Regulations, which stipulates obligations to make efforts for facilitating the exercise of voting rights at general shareholders meetings, including scheduling of the meetings avoiding the peak day, early notification of general shareholders meeting, English translation of convocation notices, and exercise of voting rights by electronic means.

Creation of a better environment for the exercise of shareholders' voting rights is considered essential also from the perspective of making corporate governance work more effectively. In particular, achieving better corporate governance through the exercise of voting rights by shareholders and investors has recently become an important issue for companies, and we can expect better bilateral communications between listed companies and investors.

This section in the Report is designed to assess the progress of the efforts to create an environment conducive to shareholders' active participation in general meetings and proper exercise of their voting rights, assessing how the listed companies communicate with their shareholders and investors on a routine basis, and ensuring that the shareholders and investors have fair and easy access to information.

(1) Early notification of general shareholders meeting

From the data in the Reports, we found that 47.4% (up 6.3 points; any changes indicated are from the last survey) of the companies send convocation notices of general meetings to their shareholders well in advance. This continues the upward trend from the last survey. As for the period for delivery of convocation notices, 319 companies stated approximately 3 weeks prior to the general shareholders meeting, and 5 companies stated about 4 weeks in advance. Securing sufficient time for shareholders to make decisions and increasing the period of availability for exercising voting rights were mentioned as reasons for early notification of general shareholders meetings. In addition, some included descriptions that the company tries to make sure the notices for convening are sent as soon as possible in consideration of the high ratio of foreign shareholding.

In analysis by market division as shown in Chart 84, companies providing early notification account for 55.2% (up 7.3 points) of companies listed on the TSE First Section, showing a much higher ratio than compared with the TSE Second Section (25.8%; up 3.0 points) and Mothers (23.9%; up 1.3 points). As shown in Chart 85, companies with higher consolidated sales are more likely to provide early notification. In terms of number of employees (consolidated) and number of consolidated subsidiaries, the larger the company, the more likely it is to send out convocation notices early. These trends indicate that so called large companies tend to send convocation notices well in advance. Another notable feature is, as shown in Chart 86, that companies with higher foreign shareholding ratios are more likely to provide early notification. With respect to early notification of notices for convening, both domestic and overseas investors responding to the TSE questionnaires in 2008 and 2010 continued to show a demand for early notification.

Chart 84 Efforts for Active General Shareholders Meetings (Market Division)

	Early notification of general shareholders meeting		Scheduling general shareholders meetings avoiding peak day (FY end: March)		Exercise of voting rights by electronic means	
		Change from 2010		Change from 2010		Change from 2010
TSE First Section	55.2%	7.3	48.9%	5.3	33.0%	2.7
TSE Second Section	25.8%	3.0	39.6%	2.7	3.8%	−1.8
Mothers	23.9%	1.3	68.6%	10.3	14.8%	5.4

	Participation in electronic voting platform		Preparation of convocation notice in English	
		Change from 2010		Change from 2010
TSE First Section	22.6%	−	20.4%	−
TSE Second Section	0.2%	−	1.0%	−
Mothers	1.1%	−	1.7%	−

Chart 85 Efforts for Active General Shareholders Meetings (Consolidated Sales)

	Early notification of general shareholders meeting	Change from 2010	Scheduling general shareholders meetings avoiding peak day (FY end: March)	Change from 2010	Exercise of voting rights by electronic means	Change from 2010
Under ¥10 billion	25.2%	5.0	50.6%	5.8	11.6%	3.5
¥10 billion to under ¥100 billion	40.2%	6.7	45.9%	5.2	12.1%	0.3
¥100 billion to under ¥1 trillion	62.7%	5.8	48.1%	3.9	45.3%	3.4
¥1 trillion or more	86.3%	4.7	61.0%	7.4	89.3%	6.1

	Participation in electronic voting platform	Change from 2010	Preparation of convocation notice in English	Change from 2010
Under ¥10 billion	1.9%	–	1.9%	–
¥10 billion to under ¥100 billion	3.8%	–	4.4%	–
¥100 billion to under ¥1 trillion	33.7%	–	28.7%	–
¥1 trillion or more	83.2%	–	77.1%	–

Chart 86 Efforts for Active General Shareholders Meetings (Foreign Shareholding Ratio)

	Early notification of general shareholders meeting	Change from 2010	Scheduling general shareholders meetings avoiding peak day (FY end: March)	Change from 2010	Exercise of voting rights by electronic means	Change from 2010
Under 10%	36.6%	5.5	43.4%	4.7	12.5%	1.7
10% to under 20%	62.0%	9.6	51.9%	4.8	39.1%	2.4
20% to under 30%	67.4%	4.4	60.2%	8.8	53.6%	1.5
30% or more	68.5%	−0.7	54.8%	−1.2	64.6%	−1.1

	Participation in electronic voting platform	Change from 2010	Preparation of convocation notice in English	Change from 2010
Under 10%	3.1%	–	2.4%	–
10% to under 20%	27.3%	–	20.9%	–
20% to under 30%	47.7%	–	46.4%	–
30% or more	57.3%	–	62.4%	–

(2) Avoidance of peak day

74.6% (down 1.1 points; see Chart 10) of TSE-listed companies close their books at the end of March. Since fiscal years ending in March remain predominant, most companies hold their ordinary general meetings of shareholders around the end of June. Consequently, setting the ordinary general shareholders meeting on such a "peak day" - the date most other listed companies also hold ordinary general meetings of shareholders - is considered to hinder shareholders' participation, and TSE stipulated an obligation to make efforts to diversify the dates of general shareholders meetings in the Corporate Code of Conduct.

Out of all companies whose fiscal years end in March, 48.1% (up 5.0 points) of the companies schedule general shareholders meetings on days other than the peak day. The reason stated for avoiding the peak day is so that many shareholders can attend the meeting (191 companies, 11.3%). Moreover, there were also descriptions on holding general shareholders meetings on Saturdays for shareholders' convenience.

Analyzing companies whose fiscal years end in March by market division, companies avoiding the peak day account for 68.6% (up 10.3 points) in Mothers, showing the higher ratio than those of the TSE First and Second Sections which show 48.9% (up 5.3 points) and 39.6% (up 2.7 points), respectively (see Chart 84). On the contrary, no distinct correlation was found between the size (expressed by consolidated sales, etc.) of companies whose fiscal year ends in March and avoidance of the peak day, similarly to the last survey (see Chart 85). Likewise, the higher the foreign shareholding ratio, the more likely the companies are to avoid the peak day (see Chart 86).

(3) Exercise of voting rights by electronic means

The exercise of voting rights by electronic means has been permitted since the revision of the Commercial Code in 2001, subject to a resolution by the board of directors.

Companies which have established infrastructure for the exercise of voting rights by electronic means account for 26.2% (up 2.4 points) of TSE-listed companies. Despite of an increase from the last survey, most companies are still in the process of developing such infrastructure. Yet it can be also interpreted that development efforts are gradually going ahead led by large companies as mentioned below.

In analysis by market division, companies allowing the exercise of voting rights by electronic means account for 33.0% (up 2.7 points) in the TSE First Section, higher than those of the TSE Second Section (3.8%; down 1.8 points) and Mothers (14.8%; up 5.4 points) (see Chart 84). Companies with higher consolidated sales (meaning larger companies) shows a much higher ratio of allowing exercise of voting rights by electronic means (see Chart 85). For example, among companies with consolidated sales exceeding ¥100 billion, 89.3% (up 6.1 points) of them allow the exercise of voting rights by electronic means. This trend is also seen in terms of number of employees (consolidated) and number of consolidated subsidiaries.

Furthermore, with respect to relation with the foreign shareholding ratio, similarly to the last survey, companies with higher ratios are more likely to allow the exercise of voting rights by electronic means except for those over 30% (see Chart 86).

(4) Use of Electronic Voting Platform for Institutional Investors

Tokyo Stock Exchange has striven to foster an environment where institutional investors may accurately exercise their rights via ICJ, Inc. (ICJ) which operates Electronic Voting Platform for Institutional Investors. To promote the use of the platform, the revision of the Securities Listing Regulations in June 2010 clearly stipulates "to provide an environment in which the shareholders (where such shareholder holds stocks for others, including beneficial shareholders having instructional rights pertaining to the exercise of voting rights and other rights equivalent thereto to the shareholders) can exercise their voting rights by an electromagnetic method." Due to such developments, with the March 2011 revision to the format, the Report requires listed companies to select a checkbox to indicate the use of electronic voting platforms, such as those operated by ICJ, as an initiative toward raising participation in general shareholders meetings and facilitating voting rights exercise.

Descriptions in Reports showed that 16.8% of all companies use electronic voting platforms for institutional investors. For each market division, this is 22.6% of TSE First Section companies, 0.2% of TSE Second Section companies, and 1.1% of Mothers companies. Since this is a system which allows foreign shareholders to exercise their voting rights more easily, by foreign shareholdings, the 30% or above category leads other categories with 57.3%, and a decreasing percentage of use is seen with decreasing foreign shareholdings. The same trends are seen in terms of company size indicated by consolidated sales or employee numbers (consolidated). As such, company size and foreign shareholdings are clearly seen to contribute to an increase in the use of electronic voting platforms for institutional investors.

(5) Preparation of Convocation Notices, etc. in English

Some features of general shareholders meetings in Japan include the fact that Japanese companies send out convocation notices relatively later than their overseas counterparts, and that general shareholders meetings tend to be held in the last week of June. These are seen by foreign shareholders as factors that hinder the exercise of voting rights. In light of the increase of foreign shareholdings in recent years, there is a growing number of companies that prepare convocation notices in English and release them on their websites. Due to such developments, with the March 2011 revision to the format, the Report requires listed companies to select a checkbox to indicate preparation of convocation notices of general shareholders meetings, etc. or summaries of such notices, etc. in English as an initiative toward raising participation in general shareholders meetings and facilitating voting rights exercise. Based on descriptions in corporate governance reports, the ratio of companies that prepared convocation notices for general shareholders meetings, etc. (including their summaries) in English is 15.5%. By market division, this is 20.4% of TSE First Section companies, 1.0% of TSE Second Section companies, and 1.7% of Mothers companies. Similar to the previous section, this is a measure which allows foreign shareholders to exercise their voting rights more easily, by foreign shareholdings, the 30% or above category leads other categories with 62.4%, and a decreasing likelihood of preparation was seen with decreasing foreign shareholdings. The same trends are seen in terms of company size indicated by consolidated sales or employee numbers (consolidated). These could be interpreted as a reflection of higher ratio of foreign shareholdings at larger companies.

(6) Other

In cases where companies make efforts for active general shareholders meetings and smooth exercise of voting rights in addition to the above-mentioned measures, they are supposed to check the category "other" and provide supplementary explanations on such efforts. Specifically, these include posting convocation notices on company websites, and measures taken in terms of venue or scheduling. In cases where the companies have implemented measures for active general shareholders meeting and smooth excersise of voting rights, such companies supporsed to provid description on such measures. For notices for annual general shareholders meetings, from the general shareholders meeting of companies for the fiscal calendar ending March 2010, it is mandatory for listed companies to submit the notice and its attached documents to TSE by the day they are sent to shareholders. TSE will then post such notices on the TSE website.

In a review of the supplementary explanations in the Reports, we found that 27.1% (up 3.9 points) of TSE-listed companies referred to the use of company websites. Descriptions related to visual presentation account for 13.1% (up 1.2 points). Both ratios indicate the companies' active efforts.

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

As for efforts to facilitate communication with shareholders, some companies hold events such as receptions or factory tours after the general shareholders meetings in the presence of representative directors and/or other management; or provide unique services or entertainment to the participants of the general shareholders meetings, taking advantage of their own products or services. For the convenience of shareholders to attend the general meetings, various explanations were presented including: setting the dates on weekends, location selection criteria such as convenient access and large capacity, facilitating participation not only by increasing meeting locations by preparing a satellite room but also by making the best use of communication tools.

2. Investor Relations (IR) Activities

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

Amidst rapid changes in the environment surrounding companies in recent years, corporate management faces an unprecedented need to find more appropriate methods for helping their shareholders and investors understand their actual corporate conditions, as well as to fulfill their public responsibility of explaining management decision-making processes. TSE asserts that activities to enhance this public accountability form an integral part of any plan to promote corporate governance.

"IR activities" is a simple phrase, but individual companies have applied a variety of approaches for the purpose. In order to capture the overall trend, this part of the Report is comprised of the following topics to enable companies to respond with a focus on contact with investors: "regular seminars for individual investors," "regular seminars for analysts and institutional investors," "regular seminars for overseas analysts," "the posting of IR data on the company website," and "the formation of a department (or responsible person) responsible for IR activities."

With the March 2011 revision to the format, the Report requires listed companies to select a checkbox to indicate the preparation or publication of a disclosure policy. 474 companies (20.8% overall) indicated that they prepared or published a disclosure policy. Detailed explanations on policies included fundamental concepts such as "transparency" and "fairness," and general policies toward proactively disclosing incidents and facts that would influence investment decisions while stopping short of mentioning laws and regulations.

(1) Regular investor briefings

Investor briefings or sessions are an important means for establishing direct contact between listed companies and investors. TSE has required companies listed on Mothers to hold sessions with investors at least twice a year for three years subsequent to listing and have thereby improved their communications with investors.

① For individual investors

In total, 26.5% (up 1.4 points) of TSE-listed companies have held regular sessions for individual investors. Of these companies, those who mentioned that a representative attends the sessions as a speaker account for 71.9% (down 3.0 points), comprising 19.1% (up 0.3 points) of TSE-listed companies.

By market division (see Chart 87), as mentioned earlier, Mothers companies are required by TSE rules to hold investor briefing sessions on a regular basis. As such, the proportion of Mothers companies that hold regular sessions for individual investors is comparatively higher than their counterparts in other divisions with 40.3% (down 0.3 points), while this is 27.6% and 16.7% respectively for TSE First and Second Section companies.

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

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

Chart 87 Regular Investor Briefings (Market Division)

	For individual investors		For analysts and institutional investors		For foreign investors	
		Change from 2010		Change from 2010		Change from 2010
TSE First Section	27.6%	2.0	79.5%	1.5	18.9%	0.0
TSE Second Section	16.7%	−0.2	39.9%	−3.3	1.2%	−0.4
Mothers	40.3%	−0.3	90.3%	−0.3	4.0%	−1.5

Chart 88 Regular Investor Briefings (Foreign Shareholding Ratio)

	For individual investors		For analysts and institutional investors		For foreign investors	
		Change from 2010		Change from 2010		Change from 2010
Under 10%	22.8%	1.3	61.9%	−0.4	2.9%	−0.9
10% to under 20%	28.4%	0.7	88.8%	0.4	24.0%	1.9
20% to under 30%	36.8%	0.3	95.4%	3.2	36.4%	−4.7
30% or more	37.6%	3.3	90.4%	1.1	51.7%	−0.4

② For analysts and institutional investors

Companies which have held regular briefing sessions for analysts and institutional investors account for 73.1% (up 0.7 points) of TSE-listed companies. Of these companies, those that mentioned that a representative attends the sessions as a speaker account for 93.0%, comprising 67.9% (down 0.1 points) of TSE-listed companies.

In analysis by market division (see Chart 87), as TSE rules require Mothers companies to hold regular investor briefings, ratios of companies which have held seminars are higher in Mothers: those that held seminars for individual investors account for 40.3% and that held seminars for analysts and institutional investors account for 90.3% (down 0.3 points) in contrast with TSE First Section (27.6% and 79.5% respectively) and TSE Second Section (16.7% and 39.9% respectively).

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

In the supplementary explanations, 1,658 companies reported about regular sessions, and companies mainly provided the dates and attributes of institutional investors. As for dates of holding meetings for institutional investors, while an overwhelming majority stated that they held the meetings after announcements of the final financial results, 827 companies stated that they conduct sessions on a quarterly basis, a dramatic increase from 642 companies in the last survey. Efforts for enhancing investors' understanding on their companies through factory tours, etc. are also observed.

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

③ For foreign investors

Companies which held regular briefings for foreign investors account for 14.5% (no change) of TSE-listed companies. Of these companies, those that mentioned that a representative attends the seminars as a speaker account for 81.8%, comprising 11.8% of TSE-listed companies.

In analysis by market division, the TSE First Section shows the highest ratio of 18.9% (no change), followed by Mothers at 4.0% (down 1.5 points) and the TSE Second Section at 1.2% (down 0.4 points) (see Chart 87). As shown in Chart 88, companies with higher foreign shareholding ratio are more likely to have held regular briefings for foreign investors.

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

In addition, 329 companies provided supplementary explanations for foreign investors. A common method reported is that officers go abroad to speak at such seminars or individual meetings. Destinations are mainly the US and Europe, followed by Hong Kong and Singapore reflecting the recent growth of Asia. The frequency is generally reported to be once a year. Similarly to seminars held in Japan, some companies described that they have held factory orientation sessions at local factories, or during events or fairs abroad, to enhance investors' understanding of the companies. Such measures as Internet-based seminars and improvement of annual reports were also reported. In the last survey, the Reports mentioned a negative effect on IR activities for foreign investors due to reasons such as a large decline in foreign shareholding ratios in the previous survey. This survey seems to indicate that this trend has been halted.

(2) Posting on the company website

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

TSE-listed companies that post IR information on company websites reached 96.3% (up 4.2 points). This high ratio proves that they have striven to improve their activities using any channel easily and widely available to general investors.

As for IR materials posted on company websites as supplementary explanation, an overwhelming 82.5% of the companies mentioned "financial results," 45.6% stated "annual securities reports," 55.8% listed "earnings reports," and 14.8% (up 2.9 points) included "convocation notices" for general shareholders meetings. Almost all of the companies which provided supplementary explanations reported that they post annual securities reports, timely disclosure materials, and annual reports. There were also descriptions containing instances of corporate governance information or policy, CSR reports, environmental reports, intellectual property reports, fact books, and sustainability reports. It is assumed that this trend is also shared by most of the companies which did not provide supplementary explanations this time, and that company websites are widely used. Furthermore, cases of posting videos on the websites in addition to documents were reported as efforts in visualization.

(3) Department responsible for IR (responsible person)

In total, 80.7% (up 2.8 points) of TSE-listed companies mentioned that they have a department responsible for IR activities (including responsible persons). In terms of market division, 85.2% (down 1.0 points) of Mothers-listed companies have such a department. This is the highest ratio, while the TSE First Section and Second Section show corresponding ratios of 84.4% (up 3.5 points) and 63.7% (up 1.2 points), respectively (see Chart 89).

The majority of the companies which have a department responsible for IR stated that it is a department dedicated to IR. In terms of organizational structure, such a department is reported to be under the direct control of Executive Secretary's Office, or under a Business Planning Division or Corporate Strategy Division.

Chart 89 Posting of IR Data on Company Websites and Formation of IR Department (Market Division)

	Posting of IR Data on the Company Websites		Formation of IR Department	
		Change from 2010		Change from 2010
TSE First Section	97.1%	4.1	84.4%	3.5
TSE Second Section	92.4%	5.0	63.7%	1.2
Mothers	98.3%	3.2	85.2%	-1.0

Chart 90 Posting of IR Data on Company Websites and Formation of IR Department (Foreign Shareholding Ratio)

	Posting of IR Data on the Company		Formation of IR Department	
		Change from 2010		Change from 2010
Under 10%	95.2%	4.8	75.7%	3.5
10% to under 20%	97.6%	2.9	88.4%	0.2
20% to under 30%	99.2%	4.2	90.4%	3.2
30% or more	97.8%	1.9	87.1%	0.7

3. Measures to Ensure Due Respect for Stakeholders

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

(1) Rules on Respect for the Positions of Stakeholders under Internal Regulations

Companies which responded to the above (1) account for 66.0% (up 4.0 points) of TSE-listed companies. By market division, the TSE First Section leads other divisions with 72.1% (up 3.6 points), followed by the TSE Second Section with 53.0% (up 4.5 points), and Mothers with 39.2% (up 4.0 points) (see Chart 91). In relation to foreign shareholding ratios, companies with higher foreign shareholdings are more likely to have such provisions. The same trend can also be seen with larger company size in terms of the number of employees (consolidated) and consolidated sales.

1,501 companies provided supplementary explanations on provisions in internal regulations. Among the stakeholders that were mentioned, there were many explanations that included shareholders (415 companies), employees (540 companies), clients (234 companies), regional communities (202 companies), and consumers and customers (193 companies). There were also instances of suppliers (12 companies) and banks (15 companies). Companies stated respect for position (408 companies), contribution to society (43 companies), trust (228 companies), expectations (66 companies), and ethics (24 companies), among other purposes. In addition, there was also description that mentioned specific measures such as distributing booklets to group company employees worldwide.

Chart 91 Measures to Ensure Due Respect for Stakeholders (Market Division)

	Stipulation in Internal Regulations		Environmental Preservation and CSR Activities		Development of Policies on Information Provision	
		Change from 2010		Change from 2010		Change from 2010
TSE First Section	72.1%	3.6	79.8%	2.5	52.7%	2.8
TSE Second Section	53.0%	4.5	61.1%	3.1	32.7%	4.0
Mothers	39.2%	4.0	21.6%	2.4	47.2%	5.4

Chart 92 Measures to Ensure Due Respect for Stakeholders (Consolidated Sales)

	Stipulation in Internal Regulations		Environmental Preservation and CSR Activities		Development of Policies on Information Provision	
		Change from 2010		Change from 2010		Change from 2010
Under ¥10 billion	41.0%	4.5%	34.8%	1.3%	40.0%	4.2%
¥10 billion to under ¥100 billion	62.6%	3.7%	68.1%	2.9%	42.1%	3.0%
¥100 billion to under ¥1 trillion	78.6%	5.0%	90.2%	3.5%	57.6%	4.5%
¥1 trillion or more	91.6%	−1.2%	99.2%	0.0%	80.9%	−3.1%

(2) Environmental Preservation Activities and CSR Activities

Companies which responded to the above (2) account for 71.8% (up 2.9 points). In terms of market division, the TSE First Section accounted for the largest share with 79.8% (up 2.5 points) followed by the TSE Second Section with 61.1% (up 3.1 points) and Mothers with 21.6% (up 2.4 points) (see Chart 91). In relation to foreign shareholdings, in general, the proportion of companies conducting such activities increased with higher ratios. Also the higher the consolidated number of employees and consolidated sales, the more likely the company was to conduct such activities.

1,633 companies reported offering explanation on aspects such as environmental protection and CSR activities. Of these, 324 companies (up 76 companies) reported obtaining ISO14000 or ISO14001 certification while 586 companies (up 223 companies) published environmental or CSR reports, indicating heightened awareness of such issues. There were also many companies providing explanations that emphasized initiatives aimed at tackling environmental issues such as the personal involvement of the CEO (45 companies), global warming countermeasures (108 companies), and CO2 emission figures (64 companies). In addition to these, responses included mentions of activities directly related to the 2011 Great Japan Earthquake disaster, such as disaster support (36 companies), reconstruction support (23 companies), and volunteering (65 companies). New topics such as disaster prevention and contingency measures (68 companies), power saving (183 companies), solar power generation (34 companies), recycling (141 companies), and reducing use of natural resources (84 companies) were also seen.

(3) Development of Policies in Relation to the Provision of Information to Stakeholders

Companies which responded to the above (3) account for 48.6% (up 3.7 points). By market division, the TSE First Section led other divisions with 52.7% (up 2.8 points), followed by Mothers with 47.2% (up 5.4 points), and the TSE Second Section with 32.7% (up 4.0 points). Unlike the previous two items, the figure for Mothers exceeds that for the TSE Second Section (see Chart 91). In relation to foreign shareholding ratio, as it increases, generally a greater proportion of companies that establish such policies. In relation to company size, analysis based on the number of employees (consolidated) and consolidated sales, show a general tendency toward higher likelihood of such policies with larger size, even though this trend is not as obvious as that seen in the previous two items.

1,104 companies provided supplementary explanation to stakeholders. Many of them mentioned incorporating the policies or rules described in the previous item into their stance or policy on corporate governance by means such as including them in the charter, regulations, codes of conduct, rules or policies, and disclosing them in a timely manner to external parties or including such matters in their disclosure policy.

These initiatives that aim at ensuring respect for the stance of stakeholders indicate a move by companies toward taking responsible action as a member of society, and can also be seen as a trend toward proactive initiatives that go beyond compliance. We can see a gradual market-wide spread of awareness toward environmental protection and community work which transcend business activities.

VI. Basic Policy of Internal Control Systems and the Progress of System Development

1. Basic Policy of Internal Control Systems and the Progress of System Development

Under the Companies Act, large companies or companies adopting a committee system are required to develop a "system to ensure appropriate company management" (a so-called internal control system). In light of this situation, recognizing that companies need to inform general investors of the basic policy characterizing their internal control systems, TSE requires listed companies to describe relevant items in the Report. TSE also requires companies to describe the concepts (basic policies) they implement to ensure the appropriate fulfillment of operations. These concepts should illustrate how a company can manage organizations to attain management strategies or business purposes, and how a company can comply with laws, regulations, and its articles of incorporation.

With respect to the basic concept of internal control systems and the development of the systems themselves, many companies have made descriptions according to the items prescribed in the Companies Act and the Enforcement Rules for the Companies Act.

Specifically, 27.8% (down 1.7 points; changes indicated are from the last survey) of TSE-listed companies referred to the term "the Companies Act." In total, 78.4% (up 1.0 points) of the companies referred to "risk management," and more companies, reaching 94.7% (down 0.3 points), referred to "compliance."

As for "system to store and manage the information related to the operations of directors/executive officers,"79.3% (up 1.5 points) of TSE-listed companies reported documented rules as most information is stored in document format.

Concerning "rules and system for management of risk of loss," 95.0% (up 17.6 points) of TSE-Listed companies reported that rules on risk management have been adopted. Specific descriptions include establishment of individual rules addressing each specific risk, and preparation of measures to be taken when risk situations arise including establishment of a risk management committee.

Regarding "system to ensure proper execution of duties by directors/executive officers," 88.4% (up 1.9 points) of TSE-listed companies provided a wide variety of descriptions. Generally, such descriptions focused on management system taking corporate governance into account, and management procedures with management cycle in mind.

"System to ensure that employees' execution of duties comply with relevant laws and regulations as well as the articles of incorporation" was mentioned by 90.6% (up 1.9 points) of TSE-listed companies. Most frequently observed descriptions are formulation of guidelines including codes of conduct and compliance rules. To enhance effectiveness of such rules, some companies further referred to the establishment of responsible committees and implementation of related training, as well as consultation services for employees and internal reporting systems (whistle blowing programs). Furthermore, some described that internal audit office or the like conducts internal audits to judge effectiveness of the subject system and provide feedback to management. In that connection, some made reference to the roles of statutory auditors and outside directors, and outside attorney's check of legal compliance as well as compliance with the articles of incorporation.

"System to ensure proper business operations of the stock company and the business group consisting of its parent company and subsidiaries" was referred to by 91.1% (down 0.7 points) of TSE-listed companies. While being generally the same as descriptions concerning the headquarters, the descriptions include formulation of group management rules, formation of compliance department responsible for managing affiliated companies, internal control system overseeing subsidiaries and overseas business, and consultative meetings of statutory auditors 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 statutory auditors of such subsidiaries from the parent company; and others emphasized the independence of subsidiaries from parent companies.

As for "matters concerning employees who assist statutory auditors when requested" and "matters concerning independence of the employee from directors set forth in the preceding item," descriptions were generally in line with the Act. The companies made due consideration of their independence in terms of appointment and discharge, performance evaluation, and personnel transfer. Similar explanations were made concerning Audit Committee member of the Companies with Committees.

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

Chart 93　Basic Policy of Internal Control Systems and the Progress of System Development

		Companies Act		Risk management		Compliance	
		Ratio	Change from 2010	Ratio	Change from 2010	Ratio	Change from 2010
All the data		27.8%	−1.7	78.4%	1.0	94.7%	−0.3
Organizational form	Companies with Statutory Auditors	27.8%	−1.6	78.6%	1.0	94.7%	−0.3
	Companies with Committees	28.6%	−4.8	71.4%	0.8	91.8%	−0.3
Market section	TSE First Section	29.4%	−1.6	79.6%	1.2	95.5%	−0.7
	TSE Second Section	23.4%	−1.4	75.4%	0.7	93.3%	1.2
	Mothers	23.3%	−3.6	73.9%	−0.9	90.3%	−0.3

		Information management		Ethics		Decision making	
		Ratio	Change from 2010	Ratio	Change from 2010	Ratio	Change from 2010
All the data		20.2%	−0.7	55.1%	−2.9	61.6%	2.3
Organizational form	Companies with Statutory Auditors	20.4%	−0.6	55.3%	−2.7	61.9%	2.5
	Companies with Committees	14.3%	−1.4	46.9%	−9.9	46.9%	−6.0
Market section	TSE First Section	21.4%	−0.8	56.9%	−3.1	61.5%	1.8
	TSE Second Section	16.0%	−1.2	51.8%	−2.6	59.2%	3.4
	Mothers	19.3%	1.2	46.0%	−2.3	68.2%	3.9

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

TSE has been striving for elimination of anti-social forces, centering its efforts on initial listing examinations. Recently, adoption of measures to tackle with anti-social forces in securities trading and crime prevention has become pressing issues. For the purposes of preventing abuse of securities market by anti-social forces and maintaining order and confidence of securities market, TSE established a new system in February 2008. Specifically, in relation with the "Basic Policy of Internal Control Systems and the Progress of System Development" section in the Report, TSE requires companies to provide additional information on their efforts for elimination of anti-social forces. In line with "the guideline to prevent private corporations from anti-social forces" announced by the Japanese government in June 2007 incorporating a recommendation which reads "it is necessary to clearly include prevention of damages caused by anti-social forces in internal control system," TSE added this subject in the Report as a matter related to internal control. In principle, TSE expects companies to describe their policies 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. With the March 2011 revision to the format, this is now a separate item in the Report, to which all companies have responded.

Concerning policies for eliminating anti-social forces, companies generally described that they have no relationship with such anti-social forces as corporate extortionists or organized crime syndicates, and stand firmly against them. Concerning systems for eliminating anti-social forces, 1473 companies mentioned cooperation with police agencies. In addition to police agencies, a number of companies referred to the exchange of information with organizations against such special crimes (i.e., crimes against corporations) and consultation with corporate lawyers. Furthermore, development of basic policies and manuals, implementation of employee trainings, and appointment of responsible persons were also mentioned.

VII. Matters Concerning Takeover Defense Measures

The Report requires companies to indicate whether there are takeover defense measures, and for those that have takeover defense measures, they are required to give an overview of the scheme and describe the reasons for its introduction. Many companies have been concerned about hostile takeovers and a growing number are now introducing takeover defense measures. These types of measures have a large impact on the rights of shareholders and investors, and they have the potential to be abused to serve the interests of officers. In this respect, the Report requires companies with these measures to describe both the schemes and propriety of the scheme structures.

1. Number of companies which adopt takeover defense measures

From the Reports, the number of companies which adopt takeover defense measures accounted for 19.4% of TSE-listed companies, or 441 companies (down 0.9 points or 24 companies), which is lower than the last survey. Since the start of this survey in 2006, there has been a steady climb in the adoption of takeover defense measures, however, this figure has fallen after passing the 20% mark in the last survey. With 49 companies explaining the abolition of takeover defense measures or their discontinuance, we observe a change in perspective toward adoption of such measures in Japan.

The ratios by market division show 23.5% (down 0.7 points) for the TSE First Section, 9.3% (down 1.5 points) for the TSE Second Section, and 4.5% (down 3.1 points) for Mothers (see Chart 94). In relation to company size, larger companies are more likely to have introduced takeover defense measures (in terms of relation with consolidated sales; see Chart 95). As for relation with foreign shareholding ratio (see Chart 96), the highest adoption ratio is among companies in the range of "20% to under 30%," which account for 28.0% (down 3.9 points), followed by companies in the range of "10% to under 20%," which account for 27.5% (down 2.4 points). From the fact companies with foreign shareholding ratio exceeding 30% comprise as low as 12.4% (down 2.4 points), it is confirmed that higher foreign shareholding ratios do not translate into adoption of takeover defense measures.

In relation to the shareholding ratio of the largest shareholder (see Chart 97), the overall trend is that companies with lower shareholding ratio are more likely to have introduced these measures. With the shareholding range from 5% to less than 10% seeming to be a guideline to consider takeover defense measures, the adoption ratio in this range is the highest 34.4% (down 1.0 points). This trend remains unchanged from the last survey.

As for the relationship with parent companies, companies which have parent companies did not introduce takeover defense measures since there is, naturally, a lower risk of being acquired. However, 6 companies which have controlling shareholders have takeover defense measures.

For the different industrial sectors, the rate of adoption is high among fishery, agriculture, and forestry (33.3%), foods (37.2%), textiles & apparels (30.4%), pulp & paper (40.0%), chemicals (34.4%), rubber products (37.5%), glass & ceramic products (44.7%), iron & steel (44.2%), precision instruments (33.3%), other products (37.1%), and land transportation (41.5%). On the other hand, the air transportation, banks, insurance, and other financing business sectors did not report takeover defense measures, while the rate of adoption is low among the electric power & gas (4.2%), warehousing & harbor transportation services (6.5%), oil & coal products (7.7%), and construction (8.0%) sectors.

Chart 94 Adoption of Takeover Defense Measures (Market Division)

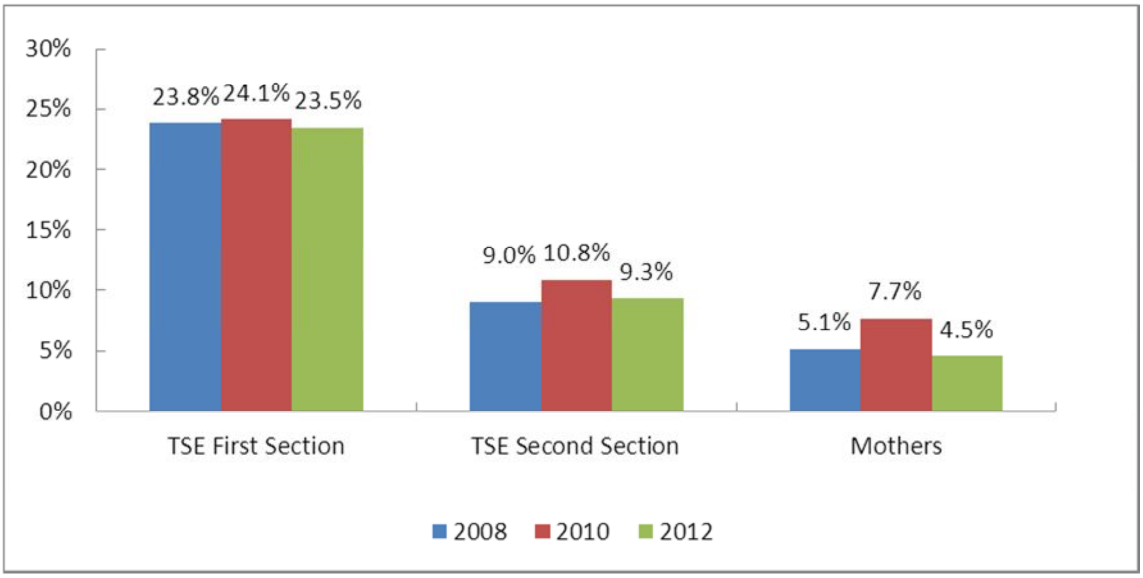


Chart 95 Adoption of Takeover Defense Measures (Consolidated Sales)

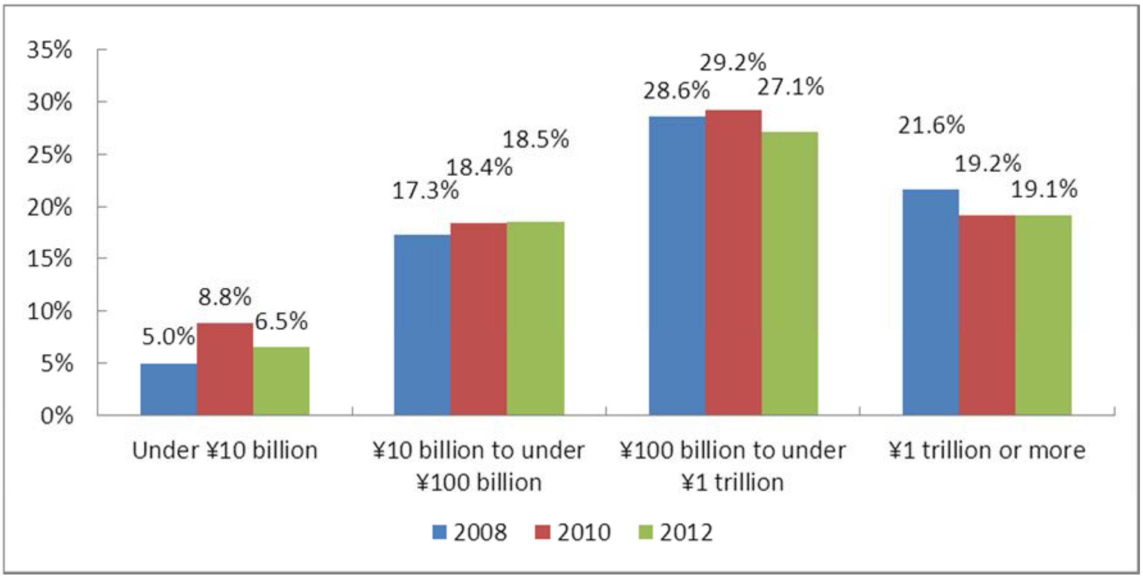


Chart 96　Adoption of Takeover Defense Measures (Foreign Shareholding Ratio)

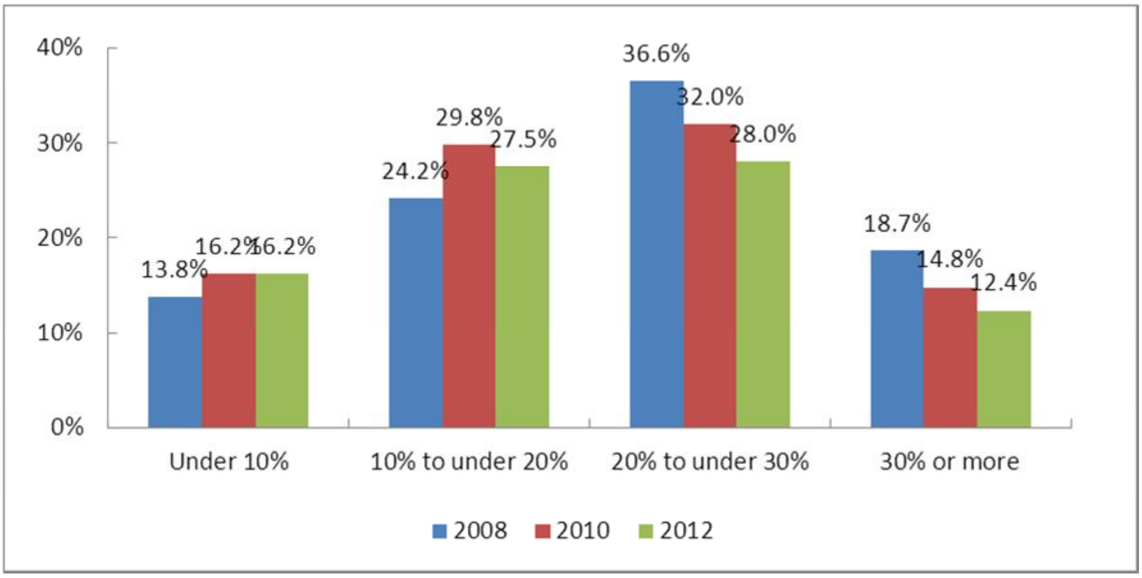
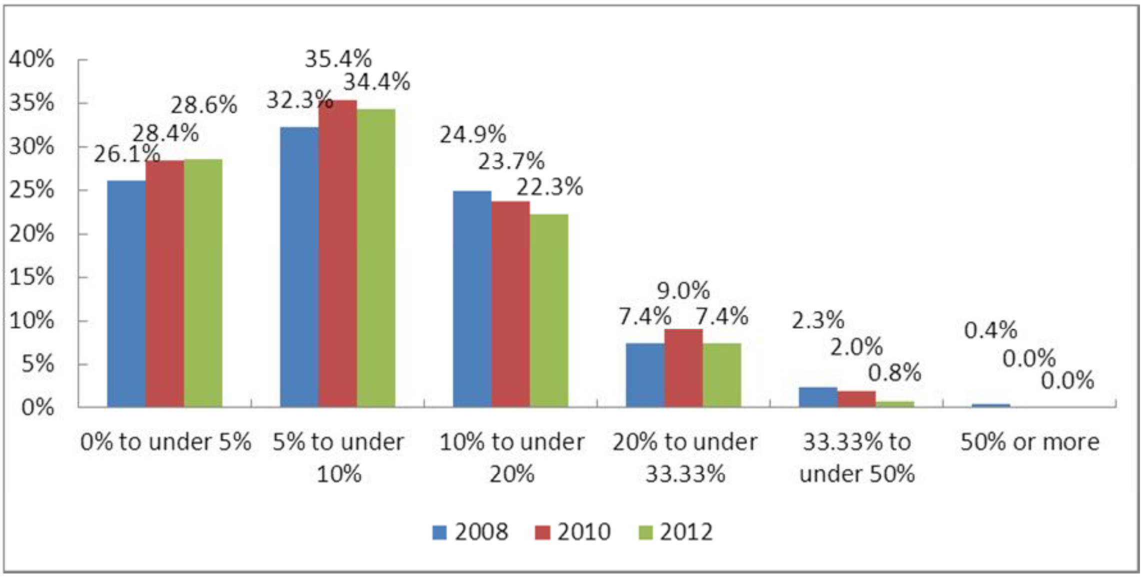


Chart 97　Adoption of Takeover Defense Measures (Shareholding Ratio of the Largest Shareholder)



2. Corporate governance structure, etc. of companies which adopt takeover defense measures

Chart 98 shows the state of corporate governance by classifying companies depending on whether or not they have adopted takeover defense measures. With respect to the average number of directors per company, adopting companies have 9.06 directors, surpassing the average number of 7.90 at non-adopting companies (at the time of the last survey, the numbers were 9.29 and 8.11, respectively). As for appointment of outside directors, 59.4% (up 5.4 points) of adopting companies appointed outside directors, whereas 53.5% (up 6.1

points) of non-adopting companies appointed outside directors.

The average number of outside directors is higher in adopting companies, showing 1.08 compared with 0.99 in non-adopting companies. The average number of ID/As is 2.16, and 2.11 in non-adopting companies. Adopting companies display a trend of establishing monitoring systems by independent outsiders as well as promoting the appointment of outside directors.

With respect to measures for shareholders and investors implemented by adopting companies, as efforts for active general shareholders meetings, those who send convocation notices well in advance account for 65.3% (vs. 43.1% for non-adopting companies), those that schedule general shareholders meetings avoiding the peak day account for 39.8% (vs. 50.3%), and those that allow the exercise of voting rights by electronic means account for 34.0% (vs. 24.3%). The results suggest that adopting companies are generally proactive in these efforts other than avoiding the peak day (see Chart 99). Concerning seminars for investors (see Chart 100), companies which have held seminars for individual investors account for 25.9% (vs. 26.7%), companies which have held seminars for analysts and institutional investors account for 79.6% (vs. 71.5%) and companies which have held seminars for foreign investors account for 15.6% (vs. 14.2%). Higher ratios are marked in two of these three cases. Moreover, with respect to IR activities, 97.1% (vs. 96.1%) of adopting companies post IR information on their company websites, and 82.1% (vs. 80.3%) have a responsible department: high percentages here as well. In connection with such policies, whether or not presentations are given by top management of a company indicates the company's attitude toward shareholders and investors. Analyzing ratios of companies whose top management have directly given messages in regular seminars or on the company website, adopting companies show higher ratio than non-adopting companies, indicating that adopting companies are more proactive in these efforts for shareholders and investors.

While quite a few companies emphasized that they take due account of stakeholders other than shareholders upon adoption of takeover defense measures, companies which adopted such defense measures show higher ratios in the following categories: 73.9% (vs. 64.1% of non-adopting companies) stipulated rules to respect the positions of stakeholders in their internal regulations; 85.9% (vs. 68.4%) implement environmental preservation or CSR activities; and 51.2% (47.9%) developed policies on information provision. The results prove that companies which introduced takeover defense measures are more inclined to take measures to respect the positions of stakeholders (see Chart 101).

Chart 98 Relation between Adoption of Takeover Defense Measures and Governance

	Average number of directors	Change from 2010	Ratio of adopting outside directors	Change from 2010	Average number of outside directors	Change from 2010
Companies adopting takeover defense measures	9.06	−0.24	0.59	5.43	1.08	0.07
Companies not adopting takeover defense measures	7.90	−0.21	0.54	6.14	0.99	0.11

	Average number of statutory auditors	Change from 2010	Average number of outside statutory auditors	Change from 2010	Average number of outside ID/A	Change from 2010
Companies adopting takeover defense measures	3.91	−0.04	2.44	−0.02	2.16	−0.09
Companies not adopting takeover defense measures	3.68	0.00	2.47	−0.01	2.11	0.39

Chart 99 Relation between Adoption of Takeover Defense Measures and Efforts for Active General Shareholders Meetings

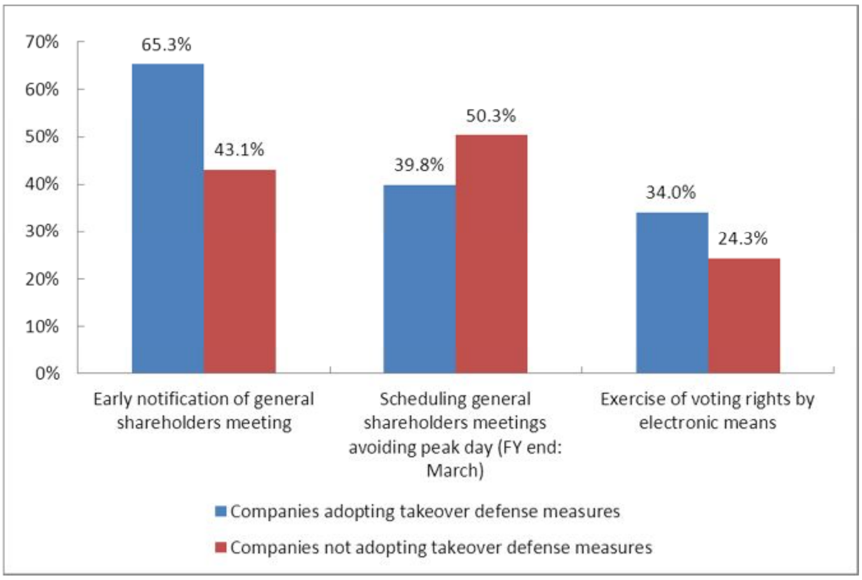


Chart 100 Relation between Adoption of Takeover Defense Measures and Regular Investment Seminars

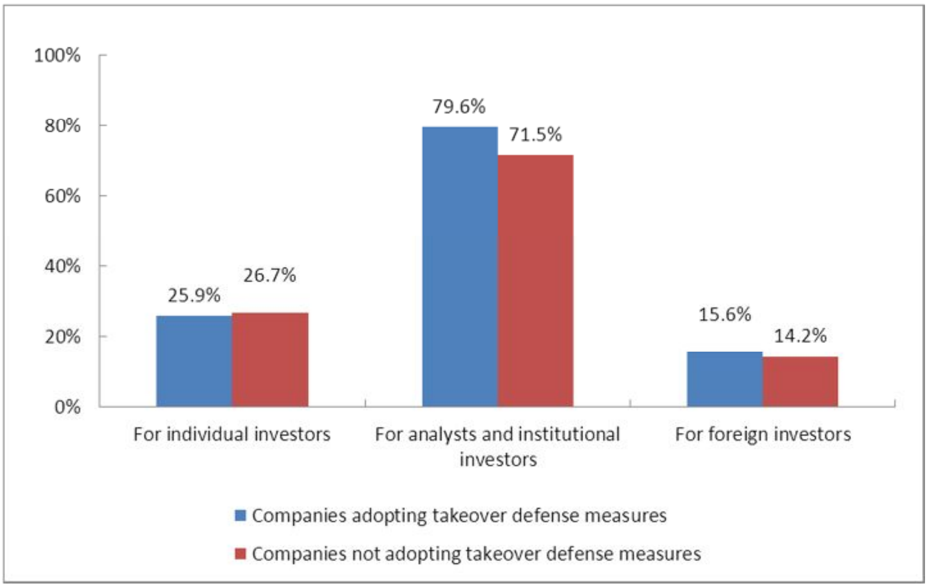
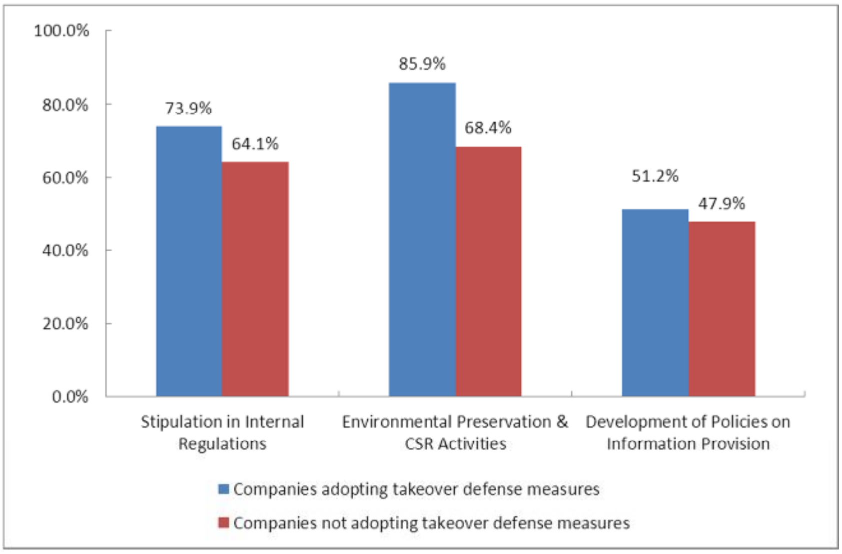


Chart 101 Relations between Adoption of Takeover Defense Measures and Respect to Stakeholders



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

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

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

49 companies, which had previously adopted takeover defense measures, reported that they would discontinue such measures after careful consideration. The reasons for that include the company believing that shareholders should be the ones to decide whether takeover defense measures are adopted, and that the company's efforts to execute the mid-term management plans would maximize corporate value, and in turn secure shareholder interests and improve their benefits. Others pointed out improvements to the regulatory environment through amendments of the Financial Instruments and Exchange Act. In addition, after the financial crisis in 2008, investment funds which were known as activists became less active in investment activities.

■ Prospective Challenges - Concluding Remarks

Similar to the previous white paper, this white paper conducts a broad and objective analysis on the various aspects of listed company corporate governance based on their Reports. On the other hand, as data used in analysis is based only on descriptions in the Reports, there is no comparative analysis of corporate governance information described in statutory disclosure documents such as securities reports and extraordinary reports. Analysis from such perspectives will be necessary in future to gain a better understanding of the state of corporate governance of listed companies in Japan.

Corporate governance in Japan is undergoing dramatic change. Since 2010, amendments to the Companies Act centered on the form of corporate governance have been discussed in the Companies Act Sub-committee of the Legislative Council of the Ministry of Justice. These discussions culminated in the general assembly of the Legislative Council adopting, on September 7, 2012, the outline of amendments to the Companies Act along with the accompanying resolution that there is the need to establish discipline in the rules and regulations of financial instruments exchanges to the effect that listed companies shall strive to secure at least one independent board member that is an outside director. In these circumstances, as a market operator, it is TSE's duty and responsibility to create an environment which allows shareholders and investors to gain a better understanding of the corporate governance of listed companies. With this in mind, other than providing a corporate governance information service which will make Reports by listed companies available to the public, TSE will strive to expand information provision aimed at providing information that can be compared, with the hope of further raising its usability as investment information.

Preparing the surrounding environment is indispensable for establishing good corporate governance practices. However, it is without doubt that such environment is organically formed by all parties involved with listed companies, starting from the management level and extending to its shareholders and investors. TSE hopes that this white paper will help such parties to establish appropriate and effective corporate governance and contribute to the development of corporate governance in Japan.