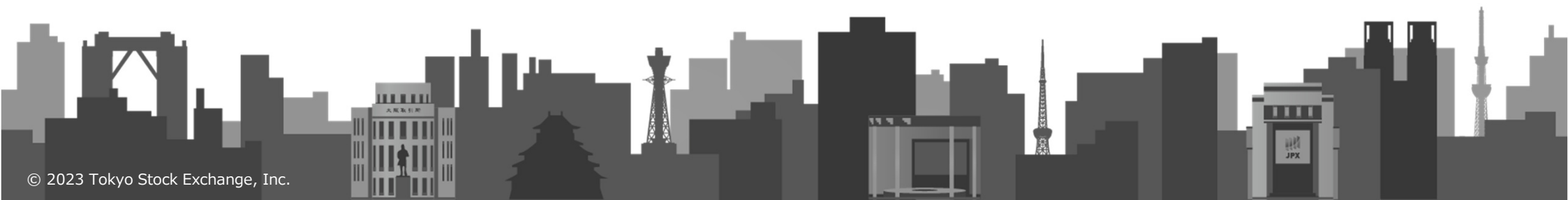




# Using "Explain" to Contribute to Constructive Dialogue

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**Exchange & beyond**  
**Tokyo Stock Exchange, Inc.**  
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- Specific measures mentioned in the Principles of the Corporate Governance Code are common methods (best practices) that may be used to realize the goals and ideas of the Principles. If there are Principles for which a listed company considers it would be inappropriate to comply in light of its individual circumstances, TSE allows instead a full explanation of the reasons for non-compliance (the "comply-or-explain" approach).

Note: It has been suggested that in many cases, a proactive explanation is preferable to superficial compliance. (See "Responses to the Corporate Governance Code and Next Steps of the "Council of Experts Concerning the Follow-Up of Japan's Stewardship Code and Japan's Corporate Governance Code" (Oct. 10, 2015)")

- From this perspective, it is important for companies using "explain" to fully describe their approach and initiatives in a way that gains the understanding of investors, but recently there have been instances of companies leaving their explanation as "under consideration" for several years, along with other similar examples, leading to suggestions that the comply-or-explain approach has lost some of its substance.
- In response to the above, in this document, TSE has compiled points to note when writing explanations that can be thought to contribute to constructive dialogue with investors. Listed companies can use these as a reference to carry out a self-review of their use of "explain."

- In order to use the "explain" option in a way that contributes to constructive dialogue, it may be useful to consider the following points.

- Clearly indicate what parts of the relevant Principle are not being implemented.
  - In particular, if there are some parts which are implemented and some which are not within one Principle, indicate these clearly
- For parts which are not implemented, explain the company's reasons for not complying at this time (reasons why it is appropriate not to comply) from the following perspectives:
  - Individual circumstances (e.g., industry, size, business characteristics, organizational structure, environment surrounding the company)
  - If alternative measures have been adopted, details of these and the reasons why they are appropriate for the company
- If the company plans to comply with the relevant Principle in the future, give specific details of the discussions and work toward compliance from the following perspectives:
  - Structure, methods and processes of discussions/work, and factors being considered
  - Progress of discussions/work, specific schedule for compliance
  - Details of transitional measures being implemented prior to compliance, if any

# Typical Types of Explanations Considered Insufficient

- TSE carried out a survey on the current usage of "explain." The following were the main characteristics observed in cases where the explanations could be considered insufficient for investors.

Type of Explanation	Main Characteristics
<b>a) Compliance Status Unclear</b>	<ul style="list-style-type: none"><li>• It is difficult to understand why the company chose to "explain" because the description of what part of the Principle is not complied with is unclear.</li></ul>
<b>b) No Statement of Reasons for Non-compliance</b>	<ul style="list-style-type: none"><li>• The company states "under consideration" without giving the reasons for non-compliance or specific details of discussions/work toward compliance.</li></ul>
<b>c) Abstract Explanation</b>	<ul style="list-style-type: none"><li>• The company gives an entirely abstract explanation, such as patching the wording of the Code together.</li><li>• It is not based on specific individual circumstances.</li></ul>

**Note:** The Japanese version of this document includes case studies to illustrate these examples.