

Provisional
Translation

Summary of Public Consultation on Revisions to
Japan's Corporate Governance Code and
Guidelines for Investor and Company Engagement

June 11, 2021

Tokyo Stock Exchange, Inc./Financial Services Agency

Summary of the Public Consultation: Overview

- Public Consultation was held from April 7, 2021, with respect to the revisions on “Japan’s Corporate Governance Code” and “Guidelines for Investor and Company Engagement.”

【Period】

April 7, 2021 ~ May 7, 2021

【Number of Letters】

the Code →To the Japanese version: 77 individuals/entities
To the English version: 26 individuals/entities
the Guidelines →To the Japanese version: 24 individuals/entities
To the English version: 10 individuals/entities

Summary of the Public Consultation	
1	The Whole Picture of the Revisions
2	Enhancing Board Independence
3	Promoting Diversity in Core Human Resources
4	Attention to Sustainability
5	Group Governance
6	Ensuring Confidence in Audits
7	Matters Related to General Shareholder Meetings
8	Others

Summary of the Public Consultation (1): Whole Picture of the Revisions

- ❑ With respect to the whole picture of revision drafts, **the majority of the comments agree with the direction of the Revision Drafts.**
- ❑ There were the following comments regarding the revisions, among others.

Comments (excerpt)

<Agree with the Revision Drafts>

- The Revision Drafts indicate the direction of the advancement of corporate governance in Japan.
- These revisions will encourage further improvement of the corporate governance of Japanese companies.

<The Revision Drafts should be strengthened>

- The contents of some principles had better be made mandatory.
- What is required for the prime market listed companies should also be required for the standard market listed companies.

<Other comments>

- The significance and purpose of the "comply or explain" and "principle-based approach" of the Code should be thoroughly disseminated again to encourage non-formalistic responses.
- The Guidelines should be thoroughly disseminated so that they can be used more widely.
- The outcome of the reform should be assessed.
- Disclosure items required by the Code should be disclosed in the annual securities reports.

Summary of the Public Consultation (2): Enhancing Board Independence

- ❑ With respect to ensuring board independence, **the majority of the comments agree** with the direction of the Revision Drafts.
- ❑ While a few comments suggest that the Code should maintain the wording of the current version, there were the following comments regarding the revisions, among others.

Comments (excerpt)

<Agree with the Revision Drafts>

- We agree to require companies listed on the Prime Market to appoint at least one third of their directors as independent directors.
- We agree to require disclosure of the skills of the board, such as the skills matrix.

<The Revision Drafts should be strengthened>

- In line with global standards, the Code should require companies to appoint the majority of directors as independent directors.
- Listed companies other than those listed on the Prime Market should appoint at least one third of their directors as independent directors.

<The Code should maintain the wording of the current version>

- “The majority of the directors are independent directors” is covered by “at least one third are independent directors,” so there is no need to encourage companies to appoint a majority of their directors as independent directors.

<Other comments>

- It should be noted that there is not yet a sufficient pool of human resources or a sufficient pipeline for listed companies to simultaneously select independent directors with sufficient qualifications.

Summary of the Public Consultation (3): Promoting Diversity in Core Human Resources

- ❑ With respect to promoting diversity in core human resources, **the majority of the comments agree** with the direction of the Revision Drafts.
- ❑ While a few comments suggest that the Code should maintain the wording of the current version, there were the following comments regarding the revisions, among others.

Comments (excerpt)

<Agree with the Revision Drafts>

- It is important to seek disclosure of policies and goals for ensuring diversity, and we hope that it will help ensure greater diversity.

<The Revision Drafts should be strengthened>

- A quota system should be introduced to promote women to core human resources and executive posts, which requires listed companies to achieve a uniform standard.
- Companies listed on the Prime Market should be required to appoint more than one female executive.

<The Code should maintain the wording of the current version>

- There is concern about the appointment of foreigners to important posts in Japanese listed companies.

<Other comments>

- With regard to disclosure related to promoting diversity, consideration should be given to ensuring that disclosure is not in a formulaic and boiler-plate manner, but is in line with the company's goals and current condition.
- Stakeholders should focus on each company's unique approach to the background of target setting and the policies and progress.

Summary of the Public Consultation (4): Attention to Sustainability

- ❑ With respect to attention to sustainability, **the majority of the comments agree** with the direction of the Revision Drafts.
- ❑ While a few comments suggest that the Code should maintain the wording of the current version, there were the following comments regarding the revisions, among others.

Comments (excerpt)

<Agree with the Revision Drafts>

- The revisions are appropriate in light of the Paris Agreement and the 2050 Carbon Neutral Declaration.

<The Revision Drafts should be strengthened>

- The Code should require the disclosure to be quantitative.
- Sustainability should be taken into account also in executive remuneration.

<The Code should maintain the wording of the current version>

- The description of the environment in the Code should be limited to the same level of reference as in the current version since many scientists have raised doubts about the status and causes of global warming.

<Other comments>

- The meaning of the framework equivalent to the TCFD should be specified / an assumed framework should be added.
- The terms "investment in human resources" and "investment in human capital" should be unified.
(=> "Investment in human resources" in the Code and the Guidelines is revised to "investment in human capital".)

Summary of the Public Consultation (5): Group Governance

- ❑ With respect to group governance, **the majority of the comments agree** with the direction of the Revision Drafts.
- ❑ While a few comments suggest that the Code should maintain the wording of the current version, there were the following comments regarding the revisions, among others.

Comments (excerpt)

<Agree with the Revision Drafts>

- Given the strong influence of controlling shareholders, it is necessary for companies listed on the Prime Market to appoint the majority of their directors as independent directors who are independent from the controlling shareholder.
- It is significant that the Code clarifies the responsibilities of a controlling shareholder to minority shareholders as we felt it was difficult to share our awareness about such responsibilities with companies during the engagement.

<The Revision Drafts should be strengthened>

- Listed companies with a controlling shareholder should appoint the majority of their directors as independent directors regardless of the market on which they are listed.

<The Code should maintain the wording of the current version>

- It is excessive to require listed subsidiaries in the Prime Market to appoint the majority of their directors as outside directors.

<Other comments>

- The issue of parent and subsidiary listings should be addressed by listing rules, not by the Code.

Summary of the Public Consultation (6): Ensuring Confidence in Audits

- ❑ With respect to ensuring confidence in audits, **the majority of the comments agree** with the direction of the Revision Drafts.
- ❑ While a few comments suggest that the Code should maintain the wording of the current version, there were the following comments regarding the revisions, among others.

Comments (excerpt)

<Agree with the Revision Drafts>

- We agree with the Revision Drafts that require the establishment of a system for the internal audit department to appropriately report directly to the board and the *kansayaku* board.
- We welcome the mention of the use of the internal audit department in the development of the enterprise risk management, which reflects recent international trends.

<The Revision Drafts should be strengthened>

- The code should require that the *kansayaku* board or the audit committee have the authority to direct the internal audit department.

<The Code should maintain the wording of the current version>

- I do not understand the reason for specifying the enterprise risk management in the code.

<Other comments>

- It is desirable to add more specific principles regarding the development and utilization of the internal audit department.

- ❑ With respect to general shareholder meetings related matters, **the majority of the comments agree** with the direction of the Revision Drafts.
- ❑ While a few comments suggest that the Code should maintain the wording of the current version, there were the following comments regarding the revisions, among others.

Comments (excerpt)

<Agree with the Revision Drafts>

- We support the use of the Electronic Voting Platform from the perspective of securing time for voting decisions and increasing efficiency.
- We welcome the revision regarding disclosure in English, as disclosure to domestic and overseas institutional investors leads to an increase of corporate value.

<The Revision Drafts should be strengthened>

- Companies with foreign shareholder ratios above a certain level should be required to disclose information in English, including annual securities reports.
- Disclosure of annual securities reports before the AGM should be stipulated also in the Code.
- The company should be required to disclose the results of its consideration of responses to company proposals with a high rate of opposition.
- For a company proposal against which a considerable number of votes have been cast, the standard rate of opposition should be set at 20 percent, for example.

<The Code should maintain the wording of the current version>

- As overseas listed companies do not disclose information in Japanese, Japanese listed companies should not be required to disclose information in English.

<Other comments>

- We hope the Code will clarify the scope of "necessary information" to be disclosed in English.
- We hope the Code will ask companies to respond when a large number of votes agree with a shareholder proposal.

Summary of the Public Consultation (8): Others

□ There were also the following comments, among others.

Comments (excerpt)

- It is appropriate to refer to outside directors and *kansayaku* as a person to engage in dialogue.
- For example, if the chair is not an outside director, it would be beneficial for the lead independent director to engage in dialogue with shareholders.
- In light of the current business environment, economic security must be taken into account.
(=> Added "response to changes surrounding international economic and security environments (throughout the supply chain)" to the Guidelines 1-3.)
- Efforts are needed to develop a financial strategy for improving capital efficiency.
- Efforts should be made to further reduce cross-shareholdings by, for example, establishing a principle of non-possession thereof.
- It should be made clear that collaborative engagement is a useful tool.