

**Minutes of the 9<sup>th</sup> Council of Experts**  
**Concerning the Corporate Governance Code**

1. Time and date: 10:00–11:30 am, March 5 (Thursday), 2015
2. Place: Financial Services Agency

[Ikeo, Chairman] It's already the scheduled opening time, and all the prospective attendees are here. So I'd like to open the ninth Council of Experts Concerning the Corporate Governance Code. Thank you very much for taking time from your busy schedule for the Council.

I would like to start the proceedings. As shown in the agenda which you have, today's discussion will cover roughly two topics.

First, at the last Council, we finalized the Exposure Draft of the Corporate Governance Code to call for public comments. In the preamble of the Exposure Draft, it stipulates that the Tokyo Stock Exchange is expected to revise its listing rules and related regulations, and to take necessary institutional steps. In this regard, the Tokyo Stock Exchange will explain proposed revisions to the Securities Listing Regulations, etc. first, and then I will ask you to exchange opinions. This is Part 1.

Part 2 is about public comments to the Exposure Draft of the Corporate Governance Code. We called for public comments both in the Japanese and English languages from the end of last year to early this year, seeking feedback widely from concerned parties in and outside of Japan. The Secretariat will explain the overview of comments to the Exposure Draft, draft responses or answers to them. The Secretariat will also explain proposals for revising the Exposure Draft, taking those comments into account, and then we will exchange opinions.

After that, today, we, as the Council of Experts, will finalize the draft of the Corporate Governance Code. I'd appreciate your cooperation. So I'd like you to discuss roughly two matters.

Now I'd like to ask the Tokyo Stock Exchange to explain the revision of listing rules.

[Watanabe, Head of Listing Department, the Tokyo Stock Exchange] I'll explain it by using Material 1 at your hands.

Please turn to page 2, which shows the contents of the Material. There are 4 key points of the revision of listing rules. I'll explain them one by one.

The first point is written on page 3. It is about the commencement of the Code. The Code will come into force from June 1, this year. The existing TSE's Principles of Corporate Governance for Listed Companies are to be abolished as of May 31. And as written in the box at the bottom of the page, the existing Securities Listing Regulations stipulates that the "Principles of Corporate Governance for Listed Companies" should

be respected, so effective from June 1, they will be replaced by provisions which require [the listed companies] to respect the aim and spirit of the new “Corporate Governance Code”.

We established the Principles of Corporate Governance for Listed Companies in accordance with OECD Principles of Corporate Governance in 2004. This Corporate Governance Code is also established in accordance with the OECD Principles, and thus there are overlaps in content. Accordingly, we will abolish the existing Principles, and replace them with this newly established Code.

Please turn to the next page. The second point is about an explanation in case a company chooses not to follow a certain part of the Code. By requiring such an explanation under the Listing Rules, the ‘comply-or-explain’ discipline will work.

As for explanations under the ‘comply-or-explain’ approach, we will require listed companies to provide explanations in the Corporate Governance Report, in which they describe the situation of their corporate governance. This duty of explanation is applicable to all companies listed on the First and Second Section, Mothers and JASDAQ.

Please take a look at the next page – page 5. The chart shows the international comparison regarding companies subject to the Code, for your reference. As you can see, the countries which have the Code, such as the UK, Germany, and France, markets for start-up companies are exempt from the duty of explanation.

As just mentioned, in the majority of countries, the duty of explanation is not imposed on markets for start-up companies. Yet during our conversation with Japanese and foreign investors, we heard opinions that now that Japan has the Code, it should be somehow shared by start-up companies as well. Therefore, in order to ensure that the Code becomes widespread to reach start-up companies, we will apply ‘comply-or-explain’ approach of the Code to the companies listed on Mothers or JASDAQ.

On the other hand, the scope of the Principles subject to the duty of explanation is to be narrowed down. We plan to limit the scope to the cases where the companies do not comply with the General Principles.

As for foreign companies, based on the assumption that they are subject to corporate governance regulations in their home countries, we exclude them from the duty of explanation in Japan.

Then, the third point is about the media and timing of the explanation when companies do not comply with a certain part of the Code. First, as for the media concerning ‘comply or explain’, as I mentioned earlier, companies are required to explain the reasons in the Corporate Governance Report.

Furthermore, although it is not written in the material, this Code includes Principles that call for certain disclosure, such as disclosure of the policy on cross-shareholdings. In order to comply with these Principles, for example, companies will disclose information regarding cross-shareholdings. We plan to create a section to provide such information in the Corporate Governance Report as a tool for disclosure. Concerning

explanations in case of non-compliance with the Principles, we expect the companies to provide such explanations in the Report without fail. Regarding the disclosure for complying with the Principle requiring the disclosure, we plan to accept the so-called reference method: if required information is already disclosed elsewhere, the companies may specify, in the Corporate Governance Report, where and how they provided such information.

The next issue is the timing of submitting explanations. This year is the first year of the implementation of the Code. So we plan to require the companies to submit explanations as soon as they are ready to do so. However, it does not mean that they can postpone the submission indefinitely, by stating they are not ready. Because it is necessary to disclose the information in time for dialogue [with stakeholders] toward the next general shareholder meeting, we consider that they should submit the explanations by the end of this year at the latest.

The fourth point is the revision of disclosure concerning independence. The Corporate Governance Code stipulates that the companies should appoint at least 2 independent directors. To contribute to smooth appointments, we'd like to revise the disclosure concerning independence.

The chart on page 7 shows the current situation. The horizontal axis shows the attribute of a director (board member), or relationship with the company. The clusters of attributes read, from left to right, person executing business of listed company or subsidiary, person executing business of parent company, close relative, person executing business of major client, etc.

Meanwhile, the vertical axis is the time axis, showing when a director is/was in such a relationship with the company, by using such labels as present, in the past 10 years, or more than 10 years ago.

Depending on where on this matrix a director is plotted, answers to the following questions vary: whether or not the director is deemed independent; if deemed independent, whether or not information disclosure is required; and if disclosure is required, to what extent the disclosure is required.

First of all, if a director is plotted in the red area, he/she is not independent. For example, not to mention a person executing business of listed company, we cannot recognize a person executing business of parent company, subsidiary, or fellow subsidiary as independent.

Next, if a director is plotted in an area other than the red area, he/she is deemed independent, but whether or not the disclosure is required depends. In case of the non-colored area, there is no relationship which may influence his/her independence, so no disclosure is required.

On the contrary, if a director is plotted in either blue or yellow area, there may be a relationship which may influence his/her independence. So the disclosure appropriate to the extent is required.

What information needs to be disclosed? In case of the blue area, the possibility of influence on the independence is relatively low, so disclosing general description of the

relationship with the company is sufficient. In case of the yellow area, the possibility of influence on the independence is relatively high. Accordingly, in addition to the relationship with the company, they are required to explain the reason why they judged he/she is independent despite such a relationship.

This is the structure for the current disclosure. However, we heard that listed companies are more cautious about judgment of the independence at present. Specifically speaking, in case a person is plotted in the yellow area, according to the current structure, he/she is deemed independent, similarly to the cases of the blue or non-colored area. Yet, in practice, listed companies regard the person as not independent.

Upon actual appointment of independent directors, candidates most needed by listed companies would be, for example, former top management of major clients, who have business background and understand the listed companies' business to a certain extent. However, the current practice of the listed companies does not effectively allow them to appoint the most needed candidates.

Furthermore, the Code stipulates that each company should establish its own independence criteria by referring to TSE's independence criteria. It is, therefore, necessary to clear up a misunderstanding of TSE's independence criteria, which they use as a reference for developing their own criteria. So we will discontinue the usage of the type which requires explanations as shown in yellow. We integrate it with the type which requires disclosure: the relationships with the company must be disclosed, but the judgment on the independence is up to dialogue between the companies and shareholders who obtained such information. In this way, we would like to correct the excessively conservative practice.

Page 8 shows the entire picture after the said review for your reference.

Finally, page 9 shows the future schedule. On February 24, we published what I just explained, calling for public comments. The official decision on such institutional reform will be made in early May, and they will come into force on June 1. Prior to that, we plan to hold explanatory sessions for listed companies all over Japan from mid-March with the support of related organizations, and explain the overview of the Code and revision of the listing system.

[Ikeo, Chairman] Thank you very much.

Now if you have any questions or opinions related to the explanation, please voice them. Who would like to start?

[Nakamura, member] Thank you. For confirmation, I'd like to ask a question about the actual operation at the early stage of the Code implementation.

The Code will come into effect from June 1. According to the chart on page 6, companies whose general shareholder meetings are held in June are expected to submit information as soon as they are ready, but not later than the end of December. On this occasion, I assume many companies will change some parts which are not related to the Corporate Governance Code, in connection with the matters related to the decisions in the general shareholder meeting. In that case, such unrelated parts of the Report should

be filed according to the conventional schedule. Then the companies will disclose their explanations under ‘comply-or-explain’ principle as soon as they are ready.

With regard to such parts, my understanding is that, for example, if a corporate view on a certain part is developed, the company will disclose such views one after another. Please clarify whether my understanding is correct or not.

[Watanabe, Head of Listing Department, the Tokyo Stock Exchange] Your understanding is correct.

[Ikeo, Chairman] Then, disclosures are likely to be made one after another, not all at once. Do you mean such sequential disclosures are acceptable?

[Watanabe, Head of Listing Department, the Tokyo Stock Exchange] That’s right.

[Ikeo, Chairman] Are there any other comments or questions?

[Mori, member] I understood your explanation about the effective date, the scope of applicable markets, where to describe ‘comply or explain’ and the independence.

I’d like to make a comment about [*Background*] of Supplementary Principle 1.2.3 in the draft Code. It was explained that this part could not be incorporated into Supplementary Principle of the Code, and, therefore, you will take the idea into account while you implement the Code. I hope the Tokyo Stock Exchange will put into effect what is written in this [*Background*] as much as possible. I’d like to request one thing regarding the flexibility of setting the date of general shareholder meeting under General Principle 1. As for dialogue with shareholders, although regular dialogue is also important, dialogue at the general shareholder meeting is very important for many shareholders. Therefore, I’d like you [TSE] to take a measure to avoid the concentration of general shareholder meeting dates – to facilitate the diversification of the dates.

[Ikeo, Chairman] All right? Are there any other opinions or questions?

TSE will take necessary institutional steps speedily, and hold explanatory sessions or the like. So we’d like to request TSE to familiarize the companies with the purpose and background, which he just mentioned, to the companies there.

May I assume that no more comments or questions regarding the revision of the listing system and institutional steps to be taken by the Tokyo Stock Exchange? Thank you very much.

Now I’d like to move on to discussion based on public comments to the Exposure Draft of the Corporate Governance Code. First, the Financial Services Agency will explain the overview of the received public comments, draft responses, and proposals for revisions to the Exposure Draft.

Upon our solicitation of public comments, we received comments in Japanese from 80 individuals/entities, and 41 in English – 121 in total. We are grateful to have received so many comments, but we cannot introduce all of them here. Please understand that only typical comments were introduced in the material.

Now I hand it over to the Secretariat.

[Yufu, Director of the Corporate Accounting and Disclosure Division] I’ll first explain what Materials 2, 3 and 4 represent.

Material 2 includes excerpts from the received comments in Japanese and English,

which are limited to those related to general topics concerning the Exposure Draft. Material 3 includes excerpts from the selected comments in Japanese, focusing only on comments related to individual principle. Material 4 includes excerpts from the selected comments in English, focusing only on comments related to individual principle.

Please take a look at Material 2 first – a box with a dotted line on page 1 of Material 2. As the Chairman already mentioned, the number of received comments are indicated here, and I'll make a comparison with the comments for the Stewardship Code. We received comments in Japanese from 80 individuals/organizations, while we had received 26 comments for the Stewardship Code. We also received comments in English from 41 individuals/organizations versus 19 for the Stewardship Code. In total, we received comments from 121 individuals/organizations. When we called for public comments for the Stewardship Code, we received 45 comments, and were impressed by the large number. Yet this time we received nearly three times more than that.

Regarding these 121 comments, we roughly categorized them as shown in the middle of page 1. The first group is comments from those who specified their stance to welcome/support the establishment of the Code first, and then suggested revisions or removal, or asked questions. This category accounts for two-thirds of the total.

The next group is comments from those who are against the establishment of the Code. Some clearly expressed their objection; and others are assumed to be against the Code itself, judging from the overall tone, even though such an objection was not clearly expressed. There are several comments in this category – not more than five. All of them are opinions from individuals.

As for the remaining one-third, they do not show their stance as to whether they are against or for the establishment of the Code. They simply asked questions such as “what does ‘etc.’ mean here?” or stated “this part should be revised in this way.”

At the bottom of page 1, three supportive comments in Japanese are quoted. As a rule, the Financial Services Agency cannot disclose to any outside parties which entity or who submitted which comment. We, therefore, refrain from disclosing such information here.

Let me introduce only the key messages from these three comments. The first commenter appreciates descriptions about cooperation with stakeholders and disclosure of non-financial information.

The second comment is from an economic association. As stated in the latter part, the Code states that the objectives of the Code are not for shareholders who seek short-term profits, but for sustainable corporate growth and increasing corporate value over mid- to long-term, and they highly appreciate it, because it is similar to the association's long-held view.

The third commenter appreciates the Code for making a big achievement by stipulating the ideal situations of listed companies, taking into account the actual situations.

Please turn to the next page. On page 2, supportive comments submitted in English are compiled. We added provisional Japanese translation in the right column. Let me

introduce only key points by quoting the Japanese translation. Please take a look at the second line of the first comment: “we commend it for being progressive, practical and business friendly.” You may be surprised to hear that this supportive comment is from a large foreign institutional investor group.

I’ll move on to the second comment. In the last part, the appreciative commenter states that “we acknowledge that Japan’s initiatives for a robust corporate governance system have accelerated in the past few years leading to this Exposure draft.”

Then please look at the latter half of the third comment. The commenter appreciates the Code by stating that, together with the Stewardship Code, it provides a framework which should provide both the domestic and international investment communities with important information to help them in making investment decisions.

Please take a look at page 3. Out of several negative comments, we quoted excerpts from 2 comments. Here, we prepared the draft responses in the right column.

As for the first comment in the left column, the key point is the latter part of the last sentence. It reads, “(w)e don’t think there is a need to formulate the Code to guide companies in a unilateral direction.” We prepared the draft response in the right column: what you mentioned is the very reason why we decided to establish the Code in the form of a soft law, and the Code takes ‘comply-or-explain approach’ and ‘principles-based approach’, not a rules-based law.

As for the second negative comment in the left column, the point is that the commenter is strongly against the implementation schedule. If the preparation period is limited to only approximately one month, it will not be realistic. We prepared the draft response in the right column. As TSE explained earlier, in case companies are to hold the annual general meetings in June, they are, in general, required to make disclosures as soon as possible, but there actually is approx. 6-month moratorium. So I don’t think there is a need to worry about the implementation schedule.

Now please take a look at Material 3, in which comments in Japanese related to individual principles are compiled. I think we introduced 12 comments in total, and will briefly explain them.

We numbered the comments in the left column. Comment No. 1 is a request for ensuring that investors are well-informed of the intention of the Code so that they understand the intention accurately.

As for No. 2, as explained by TSE earlier, it is all right to uniformly require companies to make disclosures by means of the Corporate Governance Report. However, if the companies are required to fill in the information directly on the Report, it may lead to duplicate disclosures. For example, some companies disclose the information separately in their Annual Reports. In that case, the commenter suggests that TSE should allow the companies just to quote the relevant URL, in other words, to adopt the reference method. As explained earlier, TSE is basically considering that such a method is also acceptable.

In this connection, in the Exposure Draft of the Corporate Governance Code, we used the terms “*kaiji*” [*Translator’s note: Japanese word meaning “disclosure”.*] and

“kohyo” [*Translator’s note: Japanese word meaning “public announcement” or “disclosure”.*] with different nuances. However, considering that subject information of both terms will be made available through the Corporate Governance Report, regardless of providing information on the Report or adopting the reference method, we’d like to propose to uniformly use the term “kaiji”.

No. 3 points out the incorrect use of the word “subekaraku” [*Translator’s note: Japanese word meaning “naturally”.*]. We used the word to express “in all cases”, but it was incorrect. We are deeply ashamed of this mistake.

Please turn to page 2. I’ll skip No. 4 and move on to No. 5. In case so-called beneficial owners express an interest in attending the general shareholder meeting or exercising voting rights, the Code requires companies to work with trust banks (*shintaku ginko*) to consider such possibility. In response, the commenter stated that trust banks (*shintaku ginko*) are considering the way to deal with such cases, for example, by issuing a letter of proxy to institutional investors who are beneficial owners. In the right column, we wrote that we’d like them to take reasonable actions in that regard.

Please turn to page 3. No. 6 shows two opposite opinions concerning cross-shareholdings: one suggests the requirements should be stricter, and another suggests the requirements are too strict and not reasonable. Our response to both comments is the same, as shown in the right column: We hope to maintain the current version. Regarding this issue, we hope the companies will solve the issue through dialogue with the market under enhanced disclosure requirements.

No. 7 is about the terminology. The commenter suggests the use of “katsuyaku” instead of “katsuyo” of women [*Translator’s note: In English version, both words are translated as “active participation” of women. Please note that this discussion is applicable only to the Japanese version. The English version remains unchanged.*] We’d like to make a revision accordingly.

No. 8 also shows two opposite comments regarding mid-term business plan: one suggests that the Code should clearly require the companies to develop mid-term business plans, and another expresses a concern that it may be misunderstood as if the Code uniformly requires development of a mid-term business plan.

As written in the right column, the draft Code does not specify whether or not the so-called mid-term business plan should be formulated in the first place. The Code only states that if companies develop the plan and make it available to the public, they should commit to the plan.

No. 9. The Exposure Draft refers to the meetings consisting solely of independent officers (i.e. executive session). We received comments that appear to be stemming from misunderstanding. We consider such misunderstanding may be reasonable, so we prepared a draft response. We received some comments which imply the commenters misunderstand that such a meeting must be held without allowing the participation of any inside directors or staff members. In response, we plan to explain that it is quite possible that the attendees of the meeting, which consists of independent officers, make

their own decision to invite insiders such as the Department Head or President to exchange opinions or ask for explanations, and the Code does not intend that the meetings must be held without any presence of insiders in every instance.

Let me skip No. 10 and move on to page 5. Please take a look at the last part of No. 11. It is about the internal audit department. The Exposure Draft refers to the internal audit department several times to encourage cooperation, for example, with directors. The commenter suggests that the Code should mention not only cooperation but also maintenance of the internal audit department.

As written in the right column, principles included in this Code are written in accordance with principles-based approach. Certainly, the Code stipulates that the internal audit department should cooperate with the board and *kansayaku*, but of course, the cooperation itself is not the final goal. To gain positive effect through such cooperation, we naturally assume that the internal audit department is well-organized to a certain degree. That is the outline of our answer.

I'll skip No. 12, and move on to Material 4. In Material 4, comments in English related to individual principles are compiled. We added provisional Japanese translation in the central column for reference. The key point of comment No. 1 is written from the bottom of page 1 to the next page. The commenter advised that we should be extremely careful about the end result being superficial compliance or explanations using boilerplate explanations. Certainly, we will make efforts to ensure this point is widely known and understood.

Comment No. 2 on page 2 is about facilitating disclosure in English.

Let me skip No. 3, and move on to No. 4 on page 3. Comment No. 4 is about separation of the CEO/President and the chairman of the board. I think the commenter is suggesting such separation should be clearly stipulated. We prepared the draft response in the right column. Please take a look at the second paragraph. While the OECD Principles encourage the separation of CEO and chairman, they also provide alternatives for the companies which do not separate the roles, including executive sessions or appointment of lead independent director. Our proposed response is that Japan's Code basically takes a stance to use these alternatives.

I'll skip No. 5 and turn to page 4. Our responses to comment Nos. 6, 8 and 9 are actually the same.

No. 6 refers to the executive session, where only independent officers meet. The commenter suggests that the Code should require executive sessions itself in this version or when the Code is revised in the future as the Exposure Draft refers to executive sessions only as an example.

In response to this kind of opinions, as shown in the right column of No. 6, we plan to reply, "(w)ith regard to what you have pointed out, we need to build up further debate and practice in Japan. Therefore, we will take note of your opinion as a valuable input for future discussion."

Our responses to comment Nos. 8 and 9 on page 5 are the same. Comment No. 8 refers to optional advisory committees. I understand this is a suggestion for the next

version – a revised version in the future. The commenter recommends that such a committee should be included in the next version of the Code as an individual principle.

Comment No. 9 is a suggestion for setting a number limit for outside positions such as outside director or independent directors. Our draft response is as written in the right column.

Comment No. 10 on page 6 is the last comment. The Exposure Draft allocates a chapter for discussing dialogue with shareholders which includes the conclusion of discussions in the council of experts as individual principle. I'll introduce a comment about it from the third line. This is an opinion from an international institutional investor group. It reads, "(a) 'true dialogue' is one in which there is mutual respect and understanding, which can be achieved over the course of time and effort. A long-term relationship between the company and its investors will benefit all stakeholders." In the right column, we wrote that the Council of Expert is of the exact same opinion.

Taking the introduced comments into account, please take a look at Material 5. We'd like to propose some revisions to the Exposure Draft in response to the public comments.

First, please take a look at the front cover. We will remove the words [Exposure Draft] on top of the title. When this proposal is approved today as a conclusion of the Council of Expert, the words [Exposure Draft] will be removed.

Nonetheless, as you can see the title is now "Japan's Corporate Governance Code [Final Proposal]", we consider that we should still use the word "proposal". It is because, as a formality, we assume the Code itself is to be established by securities exchanges by incorporating this final proposal of the Code. Of course, the content would be the same as this final proposal, but the issuer of the Code itself will be securities exchanges. Therefore, we'd like to keep the expression, [Final Proposal].

Now I'll explain proposed revisions to the text. Please turn to page 2. There are some administrative changes concerning the grammatical tense, and in connection with the fact that we have completed the public comments process. I won't introduce the details here. Please turn to a revision on page 9.

In the middle of page 9 [*Translator's note: The English version p.11, Background of Supplementary Principle 1.1.2*], we deleted the word "subekaraku" as mentioned earlier. [*Translator's note: This revision is applicable only to the Japanese version.*]

The next one is on page 12 [*Translator's note: The English version p.15, Principle 1.7.*]. Although "the common interests of its shareholders" is one set of phrase, some people who read the Exposure Draft read it as the common interests of the company and its shareholders. Therefore, we added a minor revision to prevent such a reading mistake. [*Translator's note: This revision is applicable only to the Japanese version.*]

Please turn to page 14 [*Translator's note: The English version p.18, Principle 2.4*]. As mentioned earlier, the expression "katsuyo" is changed to "katsuyaku sokushin". [*Translator's note: In the English version, both words are translated as "active participation" of women. This revision is applicable only to the Japanese version and the English version remains unchanged.*]

I'll move on to page 17 [*Translator's note: The English version p.20, Principle 3.1.*]. As I mentioned in my explanation about the public comments, we originally tried to use the terms "kaiji" [*Translator's note: Japanese word meaning "disclosure".*] and "kohyo" [*Translator's note: Japanese word meaning "public announcement" or "disclosure".*] with different nuances. However, as TSE made a decision on handling of companies' disclosure pursuant to the Code, in principle, we are considering the sole use of the term "kaiji" except for the cases the term "kohyo" must be used contextually. [*Translator's note: In English version, the term "disclosure/disclose" is used for both cases.*]

The remaining revisions are the same as what I already explained. On page 22 [*Translator's note: The English version p.26, Principle 4.5.*], there is a minor change to the phrasing related to "the common interest of its shareholders". On page 23 [*Translator's note: The English version p.28, Principle 4.9.*] and page 28 [*Translator's note: The English version p.33, Principle 5.1.*], we changed the term "kohyo" to "kaiji". [*Translator's note: This is applicable only to the Japanese version.*] These are proposed revisions.

That's all for the explanation of the Materials from the Secretariat.

[Ikeo, Chairman] Thank you very much.

Taking these explanations into consideration, I'd like you to share your opinions or ask questions. I assume this would be our last meeting, so please also share your remarks on what we have done by reflecting the past discussions, or opinions regarding the future steps and so on.

[Oguchi, member] Thank you very much. I'd like to share my impression first. Today I read public comments, especially those submitted in English, and found that we generally received positive and supportive comments, together with expectations for the next version. When this Council was established in the first place, the Japan Revitalization Strategy (Revised in 2014) called on the Council to gain international reputation, and I was wondering how it would go. Now, thanks to the efforts of the Secretariat and the members, we could offer a certain answer in such a short period. Frankly, as a member of the Council, I am pleased and proud of it.

From now on, we will move into the implementation phase, where companies are expected to take self-motivated actions as well as have constructive dialogue with shareholders/institutional investors, as stated in Preamble 8. When I talk with foreign investors and explain revisions of TSE's listing rules and regulations, which were explained in the first part of this meeting, the most common feedback was a request for information dissemination in English, as shown as No. 2 in Material 4, although I think it was skipped during the earlier explanation. Supplementary Principle 3.1.2 stipulates "Bearing in mind the number of foreign shareholders, companies should, to the extent reasonable, take steps for providing English language disclosures." Many [foreign investors] would like to see some progress in this aspect after the Code comes into effect.

Now I'd like to make a request. As explained earlier, the Securities Listing

Regulations will require the companies to provide explanations in the Corporate Governance Report. There has always been demand for the disclosure of the Corporate Governance Report itself in English. Now that the companies are required to provide explanations in this Report, I assume such demand will become even stronger. So taking this opportunity, I'd like you [the Secretariat] to consider making progress in that direction, although I won't say "immediately."

Preamble 8 also refers to shareholders with mid- to long-term holdings, and describes such mid- to long-term shareholders who usually can wait until the improvements of the corporate governance are achieved. This point is highly evaluated by foreign investors, as well. Actually, such mid- to long-term shareholders, who can wait until the improvements of the corporate governance are achieved, include many institutional investors who understand only the English language. The disclosure of information is the premise of dialogue. I am aware of various issues arising from the disclosure in English, including burdens on the companies. However, in order to make the Code practical in the future, I believe that the disclosure in the English language will be absolutely necessary to have constructive dialogue with such investors. So I'd like to ask for your consideration here.

That's all.

[Ikeo, Chairman] Thank you very much. Are there any other comments?

[Horie, member] From the standpoint of institutional investors, in connection with Stewardship Code, I have a request for listed companies regarding how to describe statements. As explained earlier, 175 institutional investors have already signed up for the Stewardship Code. In terms of the signing up, quite a large number of institutional investors accepted the Code. On the other hand, among them, there are some institutional investors who need to improve the way they describe the necessary matters. For example, according to Principle 1, the institutional investors are expected to clearly describe their investment philosophy, etc. and clearly stipulate their stance on investment. However, there are some institutional investors, who simply state that they comply with the Principle without sufficiently describing the said points, I'm afraid the same thing may happen with the Corporate Governance Code.

Let me apply it to the Corporate Governance Code. In my opinion, descriptions about the top management's perspectives of the corporate value and the way to enhance it would be equivalent to the descriptions about the investment philosophy of the institutional investors.

Accordingly, it will be meaningless unless the top management sufficiently describes their view of the corporate value first, and then describes how to increase such corporate value. If the companies merely state "we comply" without clearly describing the measures to achieve it, as pointed out by the earlier-introduced public comment, I strongly believe that constructive dialogue with investors will not be facilitated. First, the top management articulates how they perceive the corporate value, and then clearly describes what actions are to be taken for improvement and how it should be improved. Otherwise, no matter how much the companies may say they comply, such compliance

will be meaningless from the viewpoint of investors. In this regard, I'm afraid some people may consider that mere superficial compliance would be sufficient. Please ensure to avoid such cases.

I'd like to request the Financial Services Agency and the TSE to familiarize listed companies with this point. That's all.

[Ikeo, Chairman] Thank you very much. Mr. Takei also raised a similar point in the previous meeting, and Comment No. 1 in Material 4 in English was also made for the same purpose. Please make sure that the companies will not leave everything to their legal department.

Who else would like to make a comment?

[Toyama, member] I'd like to talk from the standpoint of the industry and economic community. As other members have also said earlier, I also think it is great that such an excellent Code was developed concerning the theme to cover such deep and wide issue areas within the limited time constraints.

In some ways, I think the result we achieved exceeded expectations. However, in mature liberal economies including current Japan, what regulatory bodies can do in terms of policy is only to develop a framework, and thus it is inevitable that what they do is formal. Conversely speaking, if what they do is substantive, it will be a socialist economy. So I believe that formal intervention is the right way. We often hear criticisms against policies for being just formalistic without substance. Such arguments do not make sense in the first place. In mature liberal economies like Japan, substantive policy interventions are rather questionable. Therefore, in that sense, to have formal discussion is quite natural. It should be formal.

Conversely speaking, from now on, the discussions are expected to become more substantive to enhance the substance of the Code. It, sort of, depends on how both investors and companies can achieve results. Similarly, mere formal dialogue is not sufficient. Such superficial dialogue should not be used as evidence of compliance.

The reason why this theme [corporate governance] was included in the Japan Revitalization Strategy (Revised in 2014) was because there is a natural expectation that Japanese companies can grow even further. As I mentioned in the previous meeting, Japanese companies lost their sales share in the world in the past 20 years or 25 years, unfortunately – but at least, this is an objective fact. Fortune 500 used to include 140 Japanese companies, but the number declined to approx. 60 now. During the same period, the number of the US/European companies declined by only approx. 10 to 20 percent, actually. It means that the gain realized by emerging economies was mostly because of the loss suffered by Japanese companies.

Then do Japanese companies lack potential? No, that is not true. At least as far as I know, for example, from my experience of visiting their production sites, I believe that perhaps the physical productivity at Japan's manufacturing sites is the highest in the world. Therefore, considering such factors, I wonder if or how the number [of Japanese companies in Fortune 500] can increase again from the current 60 to the levels of 70, 80, or 90.

And, regarding ROS and ROE, at least according to the Ito Report, I absolutely believe the companies can achieve ROE of the level exceeding 8%, or ROIC of the level of 8% or 10% level. From my experience in *gemba* (on-the ground experience), or from my actual sense and experience as a management executive, I believe they can do it. I just wonder whether it is actually going to happen.

In addition, I'd like to refer to employment, which is extremely important to society. The issue is the quantity and quality of employment. Right now, the level of wages is significantly increasing. Is this rise in wages sustainable? There is another objective fact that the share of employment by listed companies has been declining. It is necessary to regain the share. Basically, the sector with high productivity is large companies and listed companies. Their productivity and wage levels are higher than those of unlisted small and medium enterprises. Can they generate employment gains again or not? Everything will depend on the outcome of the growth strategies.

Therefore, whether or not they can do it is the substance in a real sense. The monitoring from this viewpoint would be necessary from now on. As the level of substance increases, the formality should be continuously revised and improved accordingly. I believe it is important that using this opportunity, we ensure that such dynamism, or interactions which cause multiplied positive effect, continues to work. Therefore, of course, the Code should be constantly reviewed, starting from now. The final assignment for us would be to raise the level of both substance and formality in parallel. It is, therefore, essential that all concerned parties including the economic community, investors, the Financial Services Agency and the TSE, make ceaseless efforts. Finally, this is partly a comment to myself – it is important for us ourselves to have that awareness and make the necessary efforts.

That's all.

[Ikeo, Chairman] Thank you very much.

I'd like to hear some more opinions. Who would like to make comments?

[Callon, member] Thank you very much. Since the Exposure Draft was published and called for public comments, I have been meeting with domestic and global investors and asset owners and have encouraged them to submit their views as part of the public comment process before the Code is finalized.

In these conversations, all of those who had read the Exposure Draft expressed support for it, primarily for two reasons. The first reason is that the Code constitutes major reform and great progress in Japan's corporate governance. The second reason is that the Code is realistic. It would be meaningless, to have a Code that is unrealistic by being in conflict with Japanese values or commercial practices. In short, this Code is well-balanced. As a member of the Japanese community, I am proud that Japan has created a Code which earns such high marks globally. I'd like to express my thanks and gratitude to my fellow Council members, the Secretariat, and the Chairman – and to all of you gathered here today.

I'd like to make a second point if I may. Because we are in Japan, we would not normally read the English version of the Code. I'd like to point out that the language in

the English version is very beautiful, and I thank the Secretariat for this. Japanese and English are structurally very different languages. The vocabulary is also different. It is thus extremely difficult to translate Japanese into natural English while being faithful to the meaning of the original Japanese text. Nonetheless, the English translation of the Code is beautiful, easy to read and understand, and successfully sends a message to the world that Japan is determined to carry out reform. Japan's values and the importance of stakeholders are also fully described. I'd like to request that all of you communicate to members of the global community with confidence that this Code is evidence of Japan's on-going reforms. The English version of the Code is at a high level, and we can be proud of it.

Finally, I'm delighted to have participated in such a meaningful Council, that seeks to contribute to Japan's revitalization. Thank you very much  
[Ikeo, Chairman] Thank you very much.

I'd like to hear some more opinions. Mr. Oba, please.

[Oba, member] As I've been appointed to make comments, I'd like to make two points.

The first point is that as President of an asset management company, I feel two big changes are taking place. One is a significant increase in the number of visits by foreign investors. They are feeling that the stance or views of Japanese companies is changing, and ask me whether this change is real.

Another perceivable change is dialogue with listed companies. Of course, as Mr. Horie pointed out, some may argue it is still insufficient, but some companies are becoming very serious about it. They seem to have started specific discussions regarding how they work toward value creation, and which measures should be taken. Therefore, I think that the global community is paying attention to how this initiative expands and how widely it spreads.

The goal of the Code is not just facilitating dialogue. The objective is to increase corporate value over mid- to long-term, so it is essential that investors and companies try to work to achieve the objective by learning from each other.

Who is the actor to create value in the capitalism market economy? Nobody but companies. Because companies work toward value creation, investors can be rewarded. As such, I expect sincere discussions focusing on that point to be deepened in the future.

Another point is about ourselves – investors. This is the Code for listed companies. Then what about investors? What about [corporate governance of] investors who accept the Stewardship Code? I think such a discussion will eventually emerge. Both parties also need to consider their own governance in such dialogue, and that leads to a Win-Win relationship – we need to ensure that both parties realize this point. Thus, investors are expected to accept the Code, while facing the challenge of how they improve it. This Council was an opportunity for me to realize that point. That's my impression. That's all.

[Ikeo, Chairman] Thank you very much.

[Mori, member] Thank you. As for my impression, I totally agree with other members.

Although I'd like to make some more requests, the fact that it [the Exposure Draft] gained international reputation indicates that an initial objective under the Japan Revitalization Strategy was achieved.

As other members discussed earlier, the most important thing would be that each company makes the best use of the Corporate Governance Code, in a way suitable for its own particular situation, toward mid- to long-term growth or continued value creation.

I'd like to tell you one thing. To facilitate in-depth constructive dialogue with investors, as written in General Principle 3, I think the key would be the enhancement of non-financial information. Regarding such non-financial information, various considerations are being made in other countries as well. Also in Japan, we need to thoroughly consider such areas as the basic framework and how to take responsibilities in the future.

Anyway, I'm very much satisfied with the great outcome of the Council of Experts. That's all.

[Ikeo, Chairman] Thank you very much.

[Uchida, member] Let me share my impression. One of the achievements of the Code is that the "cooperation with stakeholders" is clearly stipulated in the Code as a keyword. Furthermore, the Code clearly states that companies should seek "increasing corporate value over mid- to long-term", not short-term profits. The Code also refers to "constructive dialogue".

These 3 factors are what companies were already aware of in terms of the direction which they should move in. The fact they are stipulated in the Code in this way would facilitate companies to take actual steps.

Recently, I had an individual meeting with a foreign investor. We had not discussed Japan's corporate governance so much in the past, but this time, the investor was very much interested in it, and we spent almost a half of the meeting time on talking about the Code. This investor did not know much about the Code, so I explained various points. The investor seemed to have good impression about it. Especially, regarding the cooperation with stakeholders, although recently I haven't heard much tangles about it, there are still some investors who do not consider that such cooperation is necessary. When companies have dialogue with such investors, the fact that the companies can explain the existence of the Code and Japanese companies' attitudes in line with the Code would be a big help.

As for the future steps, as pointed out by the public comments, the companies should fully understand the intention of the Code and truly comply with the Code, avoiding superficial compliance. I assume that just determining how to interpret each Principle requires tremendous efforts. At the moment, I assume each company established a project to consider the Code, and has a strong interest, wondering what they should do. I believe it is a mission for companies to think deeply about the matters, even though it takes great pains, to ensure the compliance which is not superficial.

We still have time until end-December as the deadline of disclosing information

filled in the Corporate Governance Report, so we will make serious efforts. Thank you very much.

[Ikeo, Chairman] Thank you very much.

Anybody else? Mr. Takei, would you like to share your thoughts?

[Takei, member] I agree with other members. When PDCA cycle is applied to the creation process of the Code, this year is at P (plan) stage, and from now are the years of D (do). It is absolutely important how we ensure concerned parties understand the essence of the Code. While Corporate Governance Code is a bit lengthy document, I do expect that Japanese public corporations will understand why and how the Code can be used to increase their corporate value over mid- to long-term.

I think that the Code provides a common language or platform for the corporate governance. So I often hear some comments from business people to the effect that the Code is a good guidebook for management when considering business challenges or business strategies from the mid-to-long term perspectives. The Code will function as a platform for consolidated report, governing the non-financial information including corporate governance issues which lead to sustainable corporate growth.

I think that one way to lead principle-based approaches to be successful is showing to public good examples of information disclosure or explanation from various corporations. That's all from me.

[Ikeo, Chairman] Thank you very much. Please go ahead.

[Ota, member] I was thinking I should refrain from speaking today, but... In the past couple of months, and also in the following couple of months, I hear that there will be relevant symposiums and various sessions at many venues, so I understand that there have been and will be various PR and training opportunities with regard to issues around the Corporate Governance Code, the relation with the Stewardship Code, corporate attitudes toward disclosures, and responsibilities – especially the board responsibilities. As explained earlier, I'm afraid a large majority of companies may not necessarily be committed to considering significant parts of the said topics. As pointed out earlier, in not a few companies, only the legal department is considering these issues. This is not based on empirical data, but just my impression.

Accordingly, I assume that the members of the Council of Experts may participate in such symposiums; or the Financial Services Agency and the TSE organize such opportunities and attend those events as panelists. There would be many such occasions. Again, I'd like to request you to ensure that the intention of the Code is understood by the audience through such activities, which should be performed repeatedly.

I'd like to make two more points. There have been discussions over hard law versus soft law. This year is a turning point involving both. The revised Companies Act will come into force on May 1, and the Corporate Governance Code will come into force on June 1. In that sense, now is a significant turning point for laws, rules or codes governing companies. In the future, this year is likely to be recognized as a turning point. As mentioned earlier, I'd like you to promote adequate activities to obtain understanding. Of course, I am aware that the responsibility for the implementation lies

with the companies or their people in charge of corporate governance.

In addition, as a representative of Japan Audit & Supervisory Board Members Association, I was wondering how we could incorporate in the Code and facilitate proper understanding of the *kansayaku* system, which has been adopted by the vast majority of the companies as an institutional design. In this regard, Principle 4.4, although very brief, clearly stipulates issues around *kansayaku* system, its expected roles, and how to complement its shortfall.

At present there are many *kansayaku* throughout Japan. I'm sorry for the repetition, but 98% of companies have adopted the *kansayaku* system. Taking it into account, I'd like to declare that the Association will work on reviewing how *kansayaku* should be in the future. Thank you very much.

[Ikeo, Chairman] Thank you very much.

[Nakamura, member] I'd like to make a brief comment. First, as already discussed in this meeting, I think that Japanese companies, including our company, should not leave everything only to the legal department on considering how to correspond with the Code, but involve the top management, and they should discuss the content of the Code at the board. Based on such sufficient discussion, we should decide what and how the company would do.

Generally, although this is my personal opinion, Japanese companies are not good at expressing themselves compared to foreign companies. They are somewhat reluctant to explain their good points to outside audience, and hardly could do so, in my impression.

For example, regarding the *kansayaku* board system which was just discussed, the companies consider it is the right system for them, but could not explain it properly, I suppose. I hope that the Code can motivate Japanese companies to actively explain the virtue or excellence of Japanese companies as a whole or as individual companies. Furthermore, through dialogue with stakeholders, Japanese companies may recognize certain areas which are not quite right, and thus make improvements. In this way, I hope that Japanese companies will be stronger in the future. That's all.

[Ikeo, Chairman] Thank you very much.

Are there any other opinions or questions? Anybody?

If there are no other opinions, I'd like to confirm with you about our decision on our draft response to the public comments and Materials 5 and 6, the revised proposal of the Corporate Governance Code, which were prepared in response to the public comments. May I assume you agree with this final proposal?

Thank you very much. Now I declare that the Final Proposal was approved.

The Council of Experts has met 9 times since August 7, 2014. Today we achieved a milestone thanks to you. I really appreciate your cooperation and active discussions, despite your busy schedule. Taking this opportunity, I'd like to express my sincere gratitude.

As other members already mentioned uniformly, I also consider that we could establish the proposal of the Code, which can get a passing score as a starting point.

I'd like to repeat that this could not have been achieved without the members'

efforts and the Secretariat's hard work. Thank you very much. However, I think the passing score was given to the Code only as the starting point. In the near future, the companies will implement the Code and enhance the substance. Then, as pointed out earlier, the Code itself will be reviewed accordingly. We cannot tell the future economic conditions or the speed of corporate activities and implementation, so we cannot specify the cycle time of the review in the Code. Yet the Code stipulates that it will be regularly reviewed. Going through such a cycle would hopefully improve Japan's corporate governance. Furthermore, unless various systems related to corporate governance are also reviewed in a consistent manner, the mere establishment of the Code will not solve all the problems. Therefore, I expect that reforms and amendments of the related issues will be also promoted. With such expectations, I'd like to conclude the meeting. I declare today's Council of Experts closed.

Thank you very much.

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