

**"Responsibilities of board "**

**1. Matters relating to the independence/objectivity, knowledge/expertise/competency, etc. of independent directors**

- 1) **The most important element in a company's growth strategy is a system ensuring that independent directors and independent *kansayaku* can function effectively.** At the same time, we cannot expect to achieve more effective corporate governance unless we ensure that the independent and non-executive officers of the supervisory boards (i.e. board and the *kansayaku* board) have the relevant expert skills and work experience, are independent, and possess insight/knowledge concerning the company in question.
- 2) Undeniably, **as shown in the examples of points of consideration, the roles that independent directors are expected to play in corporate governance are many. The main one, however, lies in the provision of sound advice on mid- to long-term operating policies and other matters.** Others include checking for conflicts of interest and taking into account the opinions of shareholders, including minority ones. With regard to the functions expected of board, some maintain that it should be separated from the execution function and focus solely on the oversight function. However, it is our duty to accurately assess the features of the Japanese, management-type board, which also takes important execution decisions. Further, it should be noted that the idea that appointments/dismissals of key executives and the evaluation of top management should be board's ultimate function has not taken root in Japan.
- 3) **The importance of independence among the requirements for outside directors is self-evident.** Four and a half years on from its introduction in March 2010, the system has already obtained a certain degree of recognition. **It is now necessary to reconsider requirements such as "main clients" and "large sums", and basically to study stricter criteria for determining independence and publicly announce such criteria. In the presence, however, of special circumstances such as indicated in the examples of points of consideration, we should note that such criteria must be applied flexibly based on advance consultations, etc.; otherwise, we risk causing disruption at small and medium enterprises and hindering Japan's growth.**

**2. Points at issue concerning the appointment of independent directors**

- 1) In order to boost a company's corporate value over the long term, when considering the number of outside directors it will be essential to consider: what sort of self-regulation is desirable as a requirement for corporate governance; how to achieve high transparency when disclosing information to the company's diverse stakeholders, and most importantly to its shareholders; and, further, how to flesh out the ideal format of

Japanese-style corporate governance principles in the years to come. **Individual companies must review their governance systems, and study the introduction of independent directors in an effective and concrete fashion. If the introduction of outside directors remains a mere formality, the reform of Japanese boards of directors may be hindered.**

- 2) Awareness of the necessity of management monitoring and oversight functions by outside members is mounting. At the same time, with the revised Companies Act, enacted in June 2014, the trend toward making the appointment of outside directors compulsory in substance has gained momentum. **64% of all listed companies have appointed outside directors. However, 72% of these companies have only appointed one independent director (Tokyo Stock Exchange, July 2014).**
- 3) In many cases, outside directors (and outside *kansayaku*) are part-time. In order to preserve the independence of outside members, **it will be necessary to limit their terms of office, and I believe that it would be appropriate to also restrict the number of posts that can be held concurrently.** Outside members need to have a principal occupation, and to attend meetings of board of the organization where they are serving concurrently with sufficient information at their disposal on the matters to be discussed. Therefore, the top priority lies in developing a system for executives to provide appropriate information. At the same time, however, producing appropriate judgments would be undeniably difficult for outside members if they were unable to set aside a certain amount of time to the task.
- 4) Independent directors and *kansayaku* (including both independent *kansayaku* and in-house *kansayaku*) both share the role of non-executive officers. They must use thorough market surveys, studies of the competitive environment and risk management as necessary to verify that decisions on business judgment matters will not cause general shareholders to lose profits, and will boost corporate value over the long term. Accordingly, **those who fail to gather sufficient information or make erroneous business judgment on the grounds that they are in serving in a part-time role should be deemed to have failed to satisfactorily fulfill the role that is required of them to boost corporate value. In order to prevent such situations, it is essential for independent directors and *kansayaku* to exchange information and develop a joint understanding of issues. It is to be hoped that examples of companies that internally promote coordination between the two will be accumulated as best practices and be widely applied. It will be important to provide adequate information about such business practices to foreign institutional investors, among others.**

### 3. Presenting a Japanese-style governance model

- 1) Many Companies with *Kansayaku*Board have adopted a hybrid institutional design whereby appointments in monitoring positions, compensation committees and other advisory bodies are established on a voluntary basis while making use of the features of a management-type board.
- 2) It would be desirable to have a system whereby an outside member serves as chairperson, further ensuring that the advisory body remains independent and

that board gives weight to its recommendations.

#### 4. Training of directors and *kansayaku*

- 1) The training of board members will prove essential as a means of boosting board's effectiveness.
- 2) **Companies should guarantee training opportunities for their directors, and disclose information on training opportunities and their nature. If a company already has a training program in place for directors and *kansayaku* in place, it should disclose its training policy and course records, etc.**

#### 5. Additional notes on discussions held up to the present moment

- 1) "Reasonableness required for compliance, and scope of application"

Just as the Stewardship Code, which is already being implemented, outlines self-regulation based on the fiduciary responsibility of institutional investors, the Governance Code is a form of self-regulation that stipulates the fiduciary responsibility of business operators engaged in long-term, constructive dialogue. The drafting and diffusion of this Code must be treated as a good opportunity for each company to reconsider the role of its board.

At the same time, the Governance Code that is drafted is highly likely to prompt managers to implement self-regulation functions. Japanese companies will have to adopt universally shared philosophy in drafting regulations geared to achieve greater management efficiency and transparency.

**The Code's principles need to allow compliance by both major listed companies and by small to medium-sized enterprises, and to be appropriate as targets to pursue in the years to come. It is, however, indispensable to take into account the needs of small to medium-sized enterprises, whose management capabilities are inferior to those of major companies. The Governance Code may work against Japan's economic recovery if we do not take steps to avoid imposing the same regulatory requirements on small to medium-sized enterprises as those applied to major companies and placing excessive demands on the former, sapping their energy.**

- 2) "Continuing revisions to the Governance Code"

A Japanese-style Corporate Governance Code will be a constant work-in-progress. It will keep evolving in tandem with the companies' social environment and the state of market competition, etc. **Together with periodical revisions to the Code itself, the Code should also convey the message that it is important for individual companies to make revisions on a continuing basis.**

- 3) "Dialogue with shareholders"

While Japanese companies do attach great importance to their relationship with their various stakeholders, **it must be said that their dialogue with shareholders has thus far been limited if we compare it to that held with their employees (labor unions), clients, related parties in local communities and government offices, etc. As globalization advances, IR targeting both foreign and domestic institutional investors is becoming more common. However, we should expect listed companies to take the appropriate information disclosure concerning**

**shareholder's equity a step further.**

4) "Indicating business targets relating to capital productivity, etc."

**Management's top priority is to ensure the company's sustainable growth and boost corporate value over the long term.** However, the management indexes to be indicated are not limited to capital productivity. **If, nonetheless, a company were to set capital productivity as the target index, it should disclose information upon taking into account its industry's features, market environment and business risk, and setting related management indexes. However, the selection of target indexes should not be the same for all, but should instead depend on market assessments.**