

Secretariat's Explanatory Material

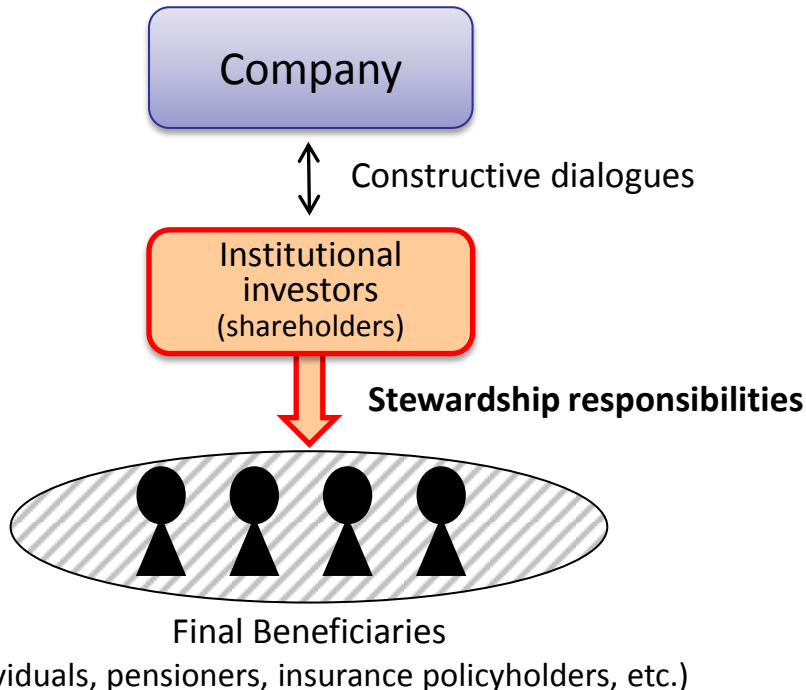
September 24, 2015

Outline of the Stewardship Code & Corporate Governance Code

Stewardship Code

Established in February 2014

- ◆ Principles of good practices for institutional investors
- ◆ Responsibilities of final beneficiaries (entrusters of assets)

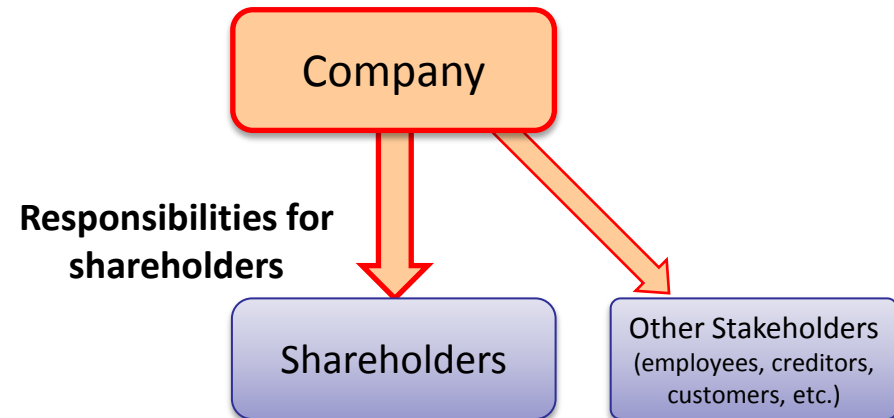


Japan's Stewardship Code was finalized in February 2014 under the Japan Revitalization Strategy (Cabinet decision in June 2013).

Corporate Governance Code

Entered into force in June 2015

- ◆ Principles of good practices for companies
- ◆ Responsibilities for shareholders and other stakeholders



Japan's Corporate Governance Code [Final Proposal] was finalized in March 2015 under the Japan Revitalization Strategy [Revised in 2014] (Cabinet decision in June 2014).

Two Wheels
of a Cart

Outline of Japan's Corporate Governance Code

Entered into force
on June 1, 2015

- Promoting “**growth-oriented corporate governance**” which stimulates healthy entrepreneurship.
 - Enhancing corporate value through **cooperation with a variety of stakeholders including shareholders.**
 - **Facilitating constructive dialogue between companies and their shareholders with mid- to long-term holdings,** such shareholders have the potential to become important partners for companies.
- Contribute to the **development and success of the Japanese economy through individual companies' self-motivated actions so as to achieve sustainable growth and increase corporate value over the mid- to long-term.**

Principles-Based Approach: Review their activities against the aim and spirit, not against the literal wording of the principles.

Comply-or-Explain Approach: Unlike laws and regulations, either comply with a principle or, if not, explain the reasons why not to do so.

<Securing the Rights and Equal Treatment of Shareholders>

Companies should fully secure **the rights and equal treatment** of shareholders.

- **Securing the rights of shareholders effectively**
 - ⇒ Measures for giving shareholders sufficient time to consider the agenda of general shareholder meetings (e.g. **Early delivery of convening notices of GSMs**)
- **Explanation of cross-shareholdings**
 - ⇒ Disclosing a policy of cross-shareholdings
 - Explanation of its objective and rationale based on examination of economic rationale** Establishment & disclosure of standards of the voting rights

<Cooperation with Stakeholders Other Than Shareholders>

Companies should **cooperate with stakeholders including employees, customers, business partners and local communities.**

- **Actions on sustainability issues** including ESG matters
- Ensuring **diversity** including **active participation of women**

<Ensuring Appropriate Information Disclosure and Transparency>

Companies should appropriately conduct statutory disclosure and also provide **accurate & useful information** beyond that required by law.

<Responsibilities of the Board>

To promote sustainable corporate growth and enhance earnings power & capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:

- (1) Setting the broad **direction of corporate strategy**
- (2) Establishing an environment where **appropriate risk-taking** by the senior management is supported
- (3) Carrying out **effective oversight of directors & the management**

- ◎ The management may become risk-avoiding due to concerns about unexpected losses resulting from its business judgment.
 - ⇒ **The Code contributes to secure the reasonableness of management's decision-making processes and supports appropriate risk-taking by companies.**
- **Effective use of independent directors**
 - ⇒ Appointment of at least 2 independent directors who are able to contribute constructive discussions
 - ※ **Disclosing a roadmap for appointment of at least 1/3 of directors as independent directors** if the company believes it necessary to do so in its own judgment

<Dialogue with Shareholders>

Companies should engage in **constructive dialogue** with shareholders in order to contribute to sustainable growth.

The Framework of the Code

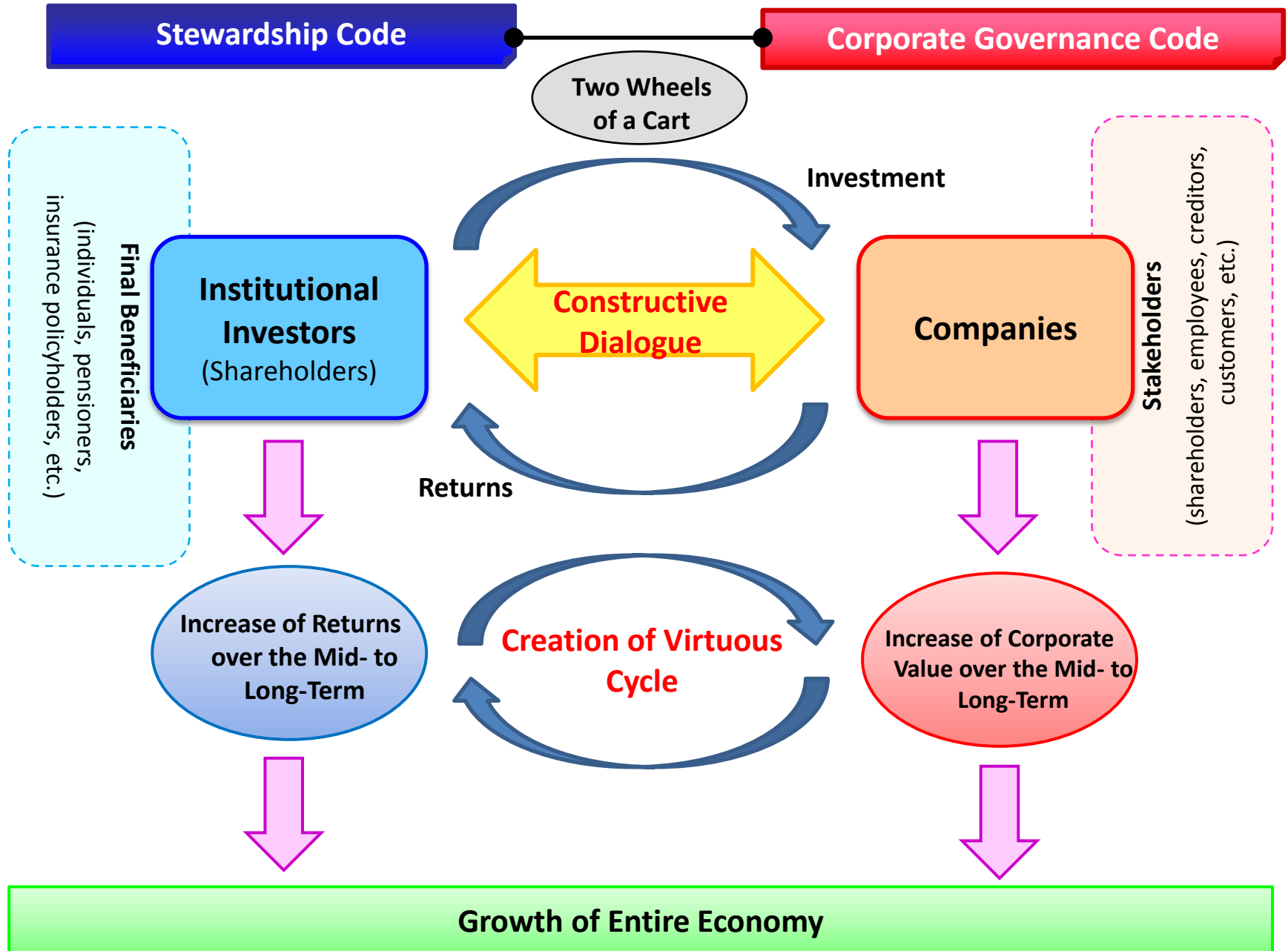
- The Code allows each institutional investor to apply the code in a manner suited to its own specific conditions and situations (as in the UK code).
 - Expects each institutional investor to decide whether to accept the Code or not.
The FSA will **publish the list of signatories, and thereby encourage more institutional investors to accept the code.**
 - ※197 institutional investors have signed up to the Code on September 11, 2015.
 - Adopts a “**principles-based approach**” instead of a “rule-based approach”.
 - Adopts the “**comply or explain**” (comply with the principles or explain why they are not complied with) approach as opposed to mandatory requirements like laws/regulations.

Principles

Institutional investors should:

1. disclose a clear **stewardship policy**,
2. properly manage **conflicts of interest**,
3. **monitor** investee companies,
4. arrive at an understanding in common with investee companies and solve problems through **engagement**,
5. have a clear **voting policy** and disclose voting activity,
6. **report** to clients/beneficiaries, and
7. have **skills & resources necessary for engagement.**

Japan's Stewardship Code and Corporate Governance Code



Japan Revitalization Strategy - Revised in 2015 (abstract)

Cabinet Decision, June 30, 2015

II. Three Action Plans

I. Industry Revitalization Plan

1. Speed up the restructuring of industries

(3) Specific new measures to be taken

i) Promotion of "Proactive Management"

[1] Enhancement of corporate governance

- We need to work actively to prevail and to promote the adoption of Japan's Stewardship Code, established and released in February 2014, and Japan's Corporate Governance Code, which entered into force in June 2015, as 'the two wheels of a cart' such that the sustainable growth of companies will be promoted by both sides of investors and companies. To that end, the Government will, in collaboration with international organizations including the OECD, actively and globally disseminate the approach of Japan's Corporate Governance Code, which seeks "growth-oriented governance" by properly ensuring accountability and encouraging sound risk-taking, while ensuring full explanation and publication of the said approach in Japan. Also, to facilitate dialogue between listed companies and shareholders in adherence with the aim and spirit of the Corporate Governance Code, the Government will assess the overall situation and publish the results in cooperation with the Stock Exchange. In addition, to ensure that institutional investors' application of the Stewardship Code is firmly established based on their full understanding on its purpose, etc., the Government will assess and publish institutional investors' acceptance of the Code, while sending messages to them as necessary.

Strategic Direction and Priorities (abstract)

[Secretariat provisional translation]

Announcement on September 18, 2015

II. The Goal of the Financial Administration and Priority Policies

1. Realization of Vital Capital Markets and Stable Asset Formation, as well as Securing Fair and Transparent Markets

■ Priority Policies:

(1) Realization of better cash flow which contributes to sustainable economic growth

[2] Improving the reform of corporate governance from “forms” to “substances”

- Regarding reform of corporate governance, we have formulated Japan’s Stewardship Code and Japan’s Corporate Governance Code. However, it is just a starting point, not a goal. As it was pointed out that the measures taken remain merely a formality, we need to improve the dimension of the reform from “forms” to “substances”. In this respect, we will establish the “Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code” and will encourage further improvement of corporate governance of all listed companies, by disseminating information regarding discussions, proposals and best-practices from experts including corporate executives, local and foreign investors, and academics.

Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code (Press release)

August 7, 2015
Financial Services Agency
Tokyo Stock Exchange, Inc.

Establishment of “Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code”

1. Purpose

The Japan Revitalization Strategy as revised in 2015 (Cabinet Decision, June 30, 2015) states that “we need to work actively to prevail and to promote the adoption of Japan's Stewardship Code, established and released in February 2014 (“JSC”), and Japan's Corporate Governance Code, which entered into force in June 2015 (“JCGC”), as ‘the two wheels of a cart’ such that the sustainable growth of companies will be promoted by both sides of investors and companies.

Further improvements of corporate governance, e.g., making governance function not only formally, but also effectively, continue to be a major agenda, and we need to link such efforts to the establishment of a virtuous economic cycle.

In this respect, for the purpose of **following up with the prevalence and adoption** of JSC and JCGC as well as **further improving corporate governance of all listed companies**, we hereby announce the establishment of the “Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code” (the “Council”).

2. Organization

- (1) The Council will be composed of outside experts; including members from corporate managers, local foreign investors, and academics (the member list will be released later).
- (2) The general affairs of the Council shall be handled jointly by the Corporate Accounting and Disclosure Division of the Planning and Coordination Bureau, Financial Services Agency and the Listing Department, the Tokyo Stock Exchange, Inc.

Items for Discussion in Follow-Up Council

- Follow up on status of breadth and depth of implementation of both Codes
 - ✓ Is the substance of the codes being implemented, not just the form?
 - ✓ Are enhanced governance systems creating a virtuous economic cycle?
 - ✓ Are companies and investors engaging in dialogue in a constructive manner?
 - Discuss and advise on ways to spread adoption and raise awareness of Codes
 - Discuss ways to further enhance Corporate Governance and Stewardship responsibilities
- * For the time being, the Follow-up Council will be held about once a month.
- * Public comments on future discussions/issues to be investigated and measures for enhancing corporate governance will be broadly invited.