

Listed Companies' Reaction to Japan's Corporate Governance Code

September 2015
Tokyo Stock Exchange, Inc.

Listed Companies' Reaction to CG Code

- Japan's CG Code came into effect on June 1st.
 - Listed companies that hold their AGMs in June must submit "Corporate Governance Reports" including non-compliance explanations swiftly (in the first year, the deadline is December)
- As of the end of August 2015, 111 companies submitted CG report with the statement of "Comply or Explain" with the Code.

Market Division	No. of companies	Scope of "Comply or Explain"
TSE 1st Section	66	All the 73 Principles { 5 General Principles ("GP") 30 Principles ("P") 38 Supplementary Principles ("SP")
TSE 2nd Section	2	
Mothers	8	Only the 5 General Principles
JASDAQ	35	

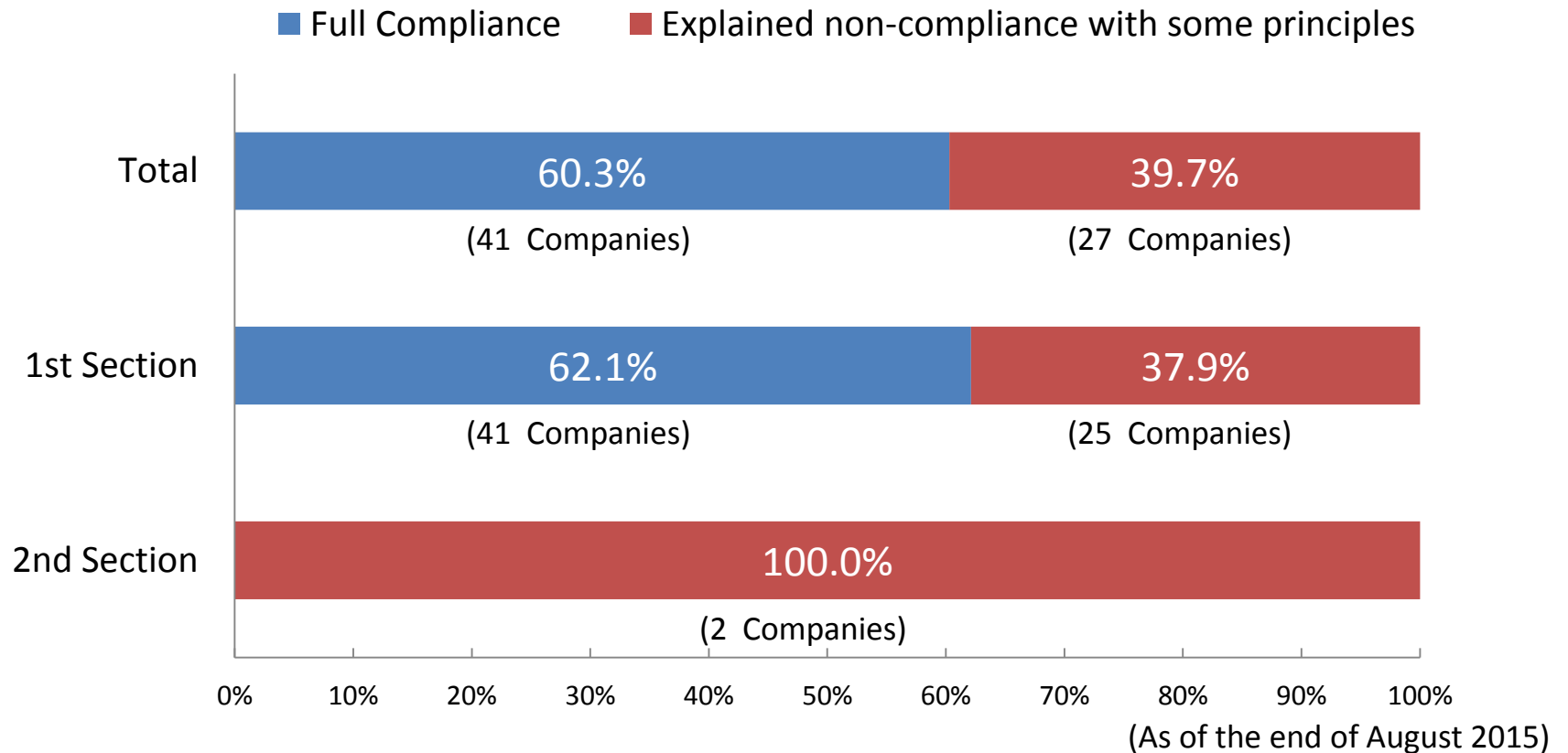
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- We analyzed 68 companies in the 1st and 2nd Section.

Companies with Full-Compliance

➤ Within the 68 Companies

- 60.3% (41 Companies) declared compliance with all of the Principles
- 39.7% (27 Companies) explained non-compliance with some of the Principles

【Response to CG Code by Market Division】



Compliance / Explanation by Principles of the Code

- Within all the 73 Principles of the Code, there are
- 39 Principles that are complied with by all the companies
 - 34 Principles that are complied with by most of the companies and some companies explained the non-compliance
- (As of the end of August 2015)

No.	Principles	Compliance	Expanation	Compliance Rate
Chapter 1				
1	GP 1	68	0	100%
2	P 1-1	68	0	100%
3	SP 1-1-1	67	1	98.5%
4	SP 1-1-2	68	0	100%
5	SP 1-1-3	68	0	100%
6	P 1-2	68	0	100%
7	SP 1-2-1	68	0	100%
8	SP 1-2-2	65	3	95.6%
9	SP 1-2-3	67	1	98.5%
10	SP 1-2-4	59	9	86.8%
11	SP 1-2-5	67	1	98.5%
12	P 1-3	68	0	100%
13	P 1-4	65	3	95.6%
14	P 1-5	68	0	100%
15	SP 1-5-1	68	0	100%
16	P 1-6	68	0	100%
17	P 1-7	68	0	100%
Chapter 2				
18	GP 2	68	0	100%
19	P 2-1	68	0	100%
20	P 2-2	68	0	100%
21	SP 2-2-1	68	0	100%
22	P 2-3	68	0	100%
23	SP 2-3-1	68	0	100%
24	P 2-4	68	0	100%
25	P 2-5	68	0	100%
26	SP 2-5-1	67	1	98.5%

No.	Principles	Compliance	Expanation	Compliance Rate
Chapter 3				
27	GP 3	68	0	100%
28	P 3-1	63	5	92.6%
29	SP 3-1-1	68	0	100%
30	SP 3-1-2	66	2	97.1%
31	P 3-2	68	0	100%
32	SP 3-2-1	64	4	94.1%
33	SP 3-2-2	66	2	97.1%
Chapter 4				
34	GP 4	68	0	100%
35	P 4-1	68	0	100%
36	SP 4-1-1	67	1	98.5%
37	SP 4-1-2	66	2	97.1%
38	SP 4-1-3	65	3	95.6%
39	P 4-2	66	2	97.1%
40	SP 4-2-1	64	4	94.1%
41	P 4-3	68	0	100%
42	SP 4-3-1	67	1	98.5%
43	SP 4-3-2	68	0	100%
44	P 4-4	68	0	100%
45	SP 4-4-1	65	3	95.6%
46	P 4-5	68	0	100%
47	P 4-6	66	2	97.1%
48	P 4-7	67	1	98.5%
49	P 4-8	58	10	85.3%
50	SP 4-8-1	63	5	92.6%
51	SP 4-8-2	64	4	94.1%
52	P 4-9	67	1	98.5%

No.	Principles	Compliance	Expanation	Compliance Rate
53	P 4-10	67	1	98.5%
54	SP 4-10-1	61	7	89.7%
55	P 4-11	68	0	100%
56	SP 4-11-1	66	2	97.1%
57	SP 4-11-2	67	1	98.5%
58	SP 4-11-3	52	16	76.5%
59	P 4-12	67	1	98.5%
60	SP 4-12-1	67	1	98.5%
61	P 4-13	68	0	100%
62	SP 4-13-1	68	0	100%
63	SP 4-13-2	68	0	100%
64	SP 4-13-3	68	0	100%
65	P 4-14	68	0	100%
66	SP 4-14-1	67	1	98.5%
67	SP 4-14-2	65	3	95.6%
Chapter 5				
68	GP 5	68	0	100%
69	P 5-1	68	0	100%
70	SP 5-1-1	68	0	100%
71	SP 5-1-2	68	0	100%
72	SP 5-1-3	68	0	100%
73	P 5-2	67	1	98.5%

Compliance Rate by the layers of the Principles

	Complied by all	Explained	Compliance Rate
General Principles (GP)	5	0	100%
Principles (P)	20	10	66.7%
Supplementary Principles (SP)	14	24	36.8%

Principles with Higher Explanation Rate

➤ Principles with higher Explanation rate are following

(As of the end of August 2015)

Principles	Content	No. of Companies Complying	No. of Companies Explaining	Explanation Rate
SP 4-11-3	Board evaluation and disclosure of summary	52	16	23.5%
P 4-8	Two or more independent directors	58	10	14.7%
SP 12-4	Electronic voting / English AGM notices	59	9	13.2%
SP 4-10-1	Involvement and advice from independent directors on remuneration / nomination	61	7	10.3%
P 3-1	Disclosure on corporate governance i) Company objectives , business strategies and business plans; ii) Basic views and guidelines on corporate governance based on each of the principles of the Code; iii) Board policies and procedures in determining the remuneration of the senior management and directors; iv) Board policies and procedures in the appointment of the senior management and the nomination of directors and kansayaku candidates; v) Explanations with respect to the individual appointments and nominations based on iv).	63	5	7.4%
SP 4-8-1	Information exchange among independent directors	63	5	7.4%
SP 3-2-1	Standards for external auditor selection / independence	64	4	5.9%
SP 4-2-1	Remuneration reflecting mid-long term growth	64	4	5.9%
SP 4-8-2	Independent director / board / kansayaku / cooperation framework	64	4	5.9%

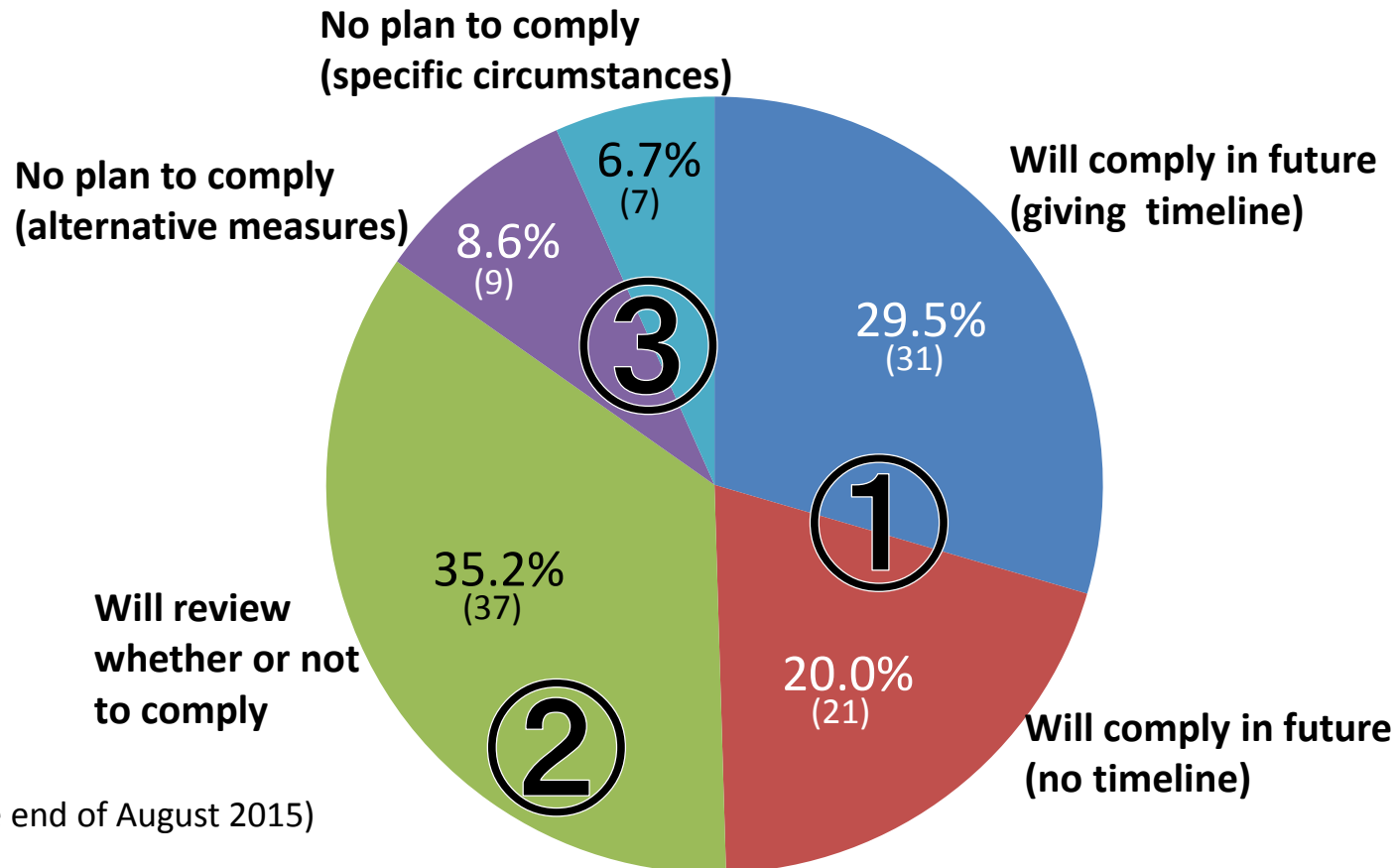
* Principles that more than 5% of companies chose to “explain”

Content of Explanation

➤ There are in total 105 Explanations provided by 27 companies

【Types of Reasons of Non-compliance】

- ① Approx. 50% indicate future compliance
- ② Approx. 35% state that they will review whether or not to comply
- ③ Approx. 15% have no plan to comply, giving company-specific reasons



(As of the end of August 2015)

Explanation Examples

① Examples where compliance is planned

➤ Clear compliance timeline

Company A

[Supplementary Principle 4.11.3] (Summary of results of analysis and evaluation of board effectiveness as a whole)
“A” is taking appropriate steps as necessary to improve the effectiveness of the Board. Analysis and evaluation based on self-assessments by each director will be carried out **beginning in FY 2015**; a summary of the results will be disclosed in FY 2016.

➤ Without compliance timeline

Company B

[Supplementary Principle 4.1.3] (Succession plan for chief executive officers and other top executives)
In accordance with the “B’ Group Philosophy” and our specific management strategy, **the Company is revising its current succession plan. The Board will make the final determination following deliberation by the selection and remuneration committees.**

② Examples where compliance is still under review

Company C

Supplementary Principle 1.2.4
We are still considering whether to translate convening notices into English, taking into account the proportion of foreign investors.

Company D

<Principle 4.8: Approach concerning the Ratio of External Directors at the Board of Directors and the Roadmap for the Implementation>
As of June 30, 2015, the Board of Directors of the Company is comprised of a total of six members, three executive directors and three independent directors. The ratio of independent directors at the Board of Directors is 50%.
However, the Company **has not yet reached a conclusion at this point, as to whether the Company believes it needs to appoint at least one-third of directors as independent directors, and a roadmap for the case in which it is believed this would be necessary.** The Company believes that the ratio of independent directors at the Board of Directors is a matter that would be directly related to decisions as to whether the Board of Directors should be positioned as a body specifically designed for monitoring functions, or as a body responsible for a considerable part of business execution functions. Because this could lead to discussions on which form of organizational structure the Company should adopt, namely a committee-based form such as a company with nominating committee, etc. and a company with audit and supervisory committee, or the type of company with Audit & Supervisory Board, **we are currently reviewing it carefully.**
The Company’s view and the policy will be notified upon being determined.

Explanation Examples(cont'd)

③ Examples where no compliance is planned

➤ Goal to be achieved by alternative measures

Company E

Supplementary Principle 4.1.2 stating that recognizing that a mid-term business plan is a commitment to shareholders, the board should do their best to achieve the plan.

In order to make the optimum business judgment promptly and flexibly in today's constantly changing business environment and at the same time to disclose information in an ideal way for shareholders and investors to help them understand the Company's business strategies and financial performance correctly, the Company announces the long-term business strategy, its visions and business outlook for the single fiscal year.

The Company's midterm targets are not announced currently: however, the Executive Council decides on a company-wide midterm policy including the midterm targets, checks the progress, conducts analysis, and revises the midterm targets and policies as necessary. **The Board of Directors** passes the resolution on a company-wide midterm policy planned by the Executive Council, **receives reports on the progress and analysis, and monitors/supervises the conditions.**

➤ Cites company-specific circumstances

Company F

[Supplementary Principle 1.2.4]

In light of the makeup of "F's" body of shareholders (foreign shareholders comprise less than 1% of total), the Company is not implementing electronic voting or translating convening notices into English at this time. "F" will revisit this issue as necessary in the future

Company G

[Supplementary Principle 4.8.1: Effective use of independent directors]

"G" has decided not to institute meetings consisting solely of independent directors for the following reasons:

- Meetings consisting solely of independent directors can be effective in ensuring outside directors' opinions are reflected when they make up only a small proportion of all directors. However, **"G" has named four outside directors, ensuring their voices can be heard.**
- Outside directors are chosen for their ability to bring outstanding individual expertise to the table. However, **instituting meetings consisting solely of independent directors could foster shared views among them and make it difficult to express opinions that challenge those shared views, thereby reducing their independence.**
- Minutes and reports from key "G" meetings are distributed in equal amounts and content to outside directors, ensuring that each individual is equally informed and all directors share the same awareness.

Other Responses

④ Example where reasons for not complying with certain principles are accompanied by specific descriptions of how the company is complying with the other principles

Company H (excerpt)

[Supplementary Principle 4.3.1]

The board should ensure that the appointment and dismissal of the senior management are based on highly transparent and fair procedures and reflect the results of company performance.

As described below, the Company evaluates Directors and appoints candidates for the Directors using fair and highly transparent procedures based on the mutual evaluation of Executive Directors conducted in the third quarter of every year that is led by an Evaluation Committee that comprises all Outside Directors and all Audit & Supervisory Board Members and is chaired by an Outside Director.

1) Mutual evaluation of Directors

Representative Directors and Executive Directors below them conduct presentations on the business results for the period, the outlook for the end of the period, and the vision for the next fiscal year and onward in their respective business areas. A mutual evaluation is conducted based on the following evaluation items, and the evaluation materials are collected and confirmed by the Evaluation Committee Chair. In addition, Outside Directors conduct interviews with each Director.

[Evaluation items]

- Evaluation items related to business execution

Quantitative evaluation of area responsible for, qualitative assessment of area responsible for, additional appropriate measures during the period, incorporation of advice from other officers, efforts to inspire the organization and provide appropriate guidance, and development of upcoming personnel

- Evaluation items related to strengthening the management-oversight function

Demonstration of the oversight function, presentation of vision for advancing management and demonstration of sound logic, leadership at the Board of Directors and the Committee of Respective Business Divisions, implementation of compliance and law observance, provision of ideas and recommendations for all areas of management, influence on and communications with external parties and stakeholders

2) Verification of the evaluation results by Representative Directors

The Evaluation Committee Chair submits the evaluation results to the Representative Directors, and based on these results the Representative Directors study matters including the evaluation of each Director for the current fiscal year, the appropriateness of remaining in office as a Director during the next fiscal year, whether Directors should be reappointed at the expiration of their term, and candidates for next Director when a Director is to resign due to reaching retirement age.

3) Reporting the results of studies to the Evaluation Committee

The Representative Directors will explain their proposal for the Director's system for the next year based on the results of these studies and gain the approval of the Evaluation Committee. Furthermore, if there are alternative opinions from the Evaluation Committee, the proposal for the Director's system for the next year is subject to modification, etc. as necessary.

4) Submission of the proposal for the Director's system for the next year to the Board of Directors for a resolution

After approval by the Evaluation Committee, the Representative Directors will submit their proposal for the Director's system for the next year to the Board of Directors and hold a resolution.

In conjunction with this, the aggregated results of evaluations and interviews will be disclosed and each Director will be notified of individual mutual evaluation results at a later date.

Cross-Shareholding Policies (Disclosure)

- **Some companies indicate they have no cross-shareholdings**, but a large majority of these **have declared their holding policy** in case they acquire such holdings.
 - Holding policies
 - ① In terms of overall policies, some companies have declared **their orientation toward non-holding in principle or liquidation**, but a large majority have not declared their orientation.
 - ② In terms of individual discretionary policies, in general, companies decide based on **economic rationale**.
 - * In general, companies cite ① **profit through enhanced business relationships** as the basis for decisions, but many also say they consider ② **investment efficiency** (dividends, capital gains, increased corporate value, etc.).
- ➔ In either case, **maintaining cross-shareholdings without any economic rationale is more difficult**

<Examples>

1. Declaration of non-holding

Company I

“I” **does not hold** any listed shares for any purpose other than pure investment purpose.

Company J

“J” **does not hold** any cross-shareholdings.

* Some companies without cross-shareholdings have not disclosed their policies at all because they consider it unnecessary

Cross-Shareholding Policies (cont'd)

2. Declaration of orientation toward non-holding in principle or liquidation

Company K

In principle, "K" does not hold the shares of other listed companies where "the rationale" to hold those shares cannot be recognised. This policy is in place in order to help maintain K's financial soundness, taking into consideration the standards of globally operating financial institutions and our proactive response to global regulation. We determine "the rationale to hold" as where the shareholding will contribute to increase K's corporate value in the medium to long term. We determine this with comprehensive consideration based on (a) the profitability - through an appropriate assessment and understanding of relevant factors, such as associated risks, costs and returns of the holding; (b) the objectives to hold - such as maintaining and strengthening our relationship, capital and business alliance, restructuring support, and (c) other relevant factors. We examine "the rationale to hold" on a regular basis. We will continue to hold shares where we recognise there is good rationale for doing so. Where an appropriate rationale no longer exists, we will sell them by taking into consideration various factors, such as market impact and the financial strategy of the issuers.

Company L (*)

As a basic policy, unless we consider these holdings to be meaningful, "L" and our core subsidiaries **will not hold the shares of other companies as cross-shareholdings**. This reflects factors including the changes in the environment surrounding corporate governance and the potential impact on our financial position associated with stock market volatility risk.

We consider cross-shareholdings to be meaningful if they contribute to maintenance and improvement of the corporate value of issuers and the "L" group based on their growth potential, outlook, or revitalization perspectives or as a result of studies on present and future economic feasibility and profitability.

We will regularly and continually examine whether shares held as cross-holdings are meaningful, and we will dispose of holdings we determine deficient in meaning with due regard to the impact on the market and

* Company L separately announced its process for determining whether cross-shareholdings are meaningful on 9 September 2015.

Company M

The circumstances surrounding strategic shareholdings have changed greatly in recent years due to, among other things, the tightening of international financial regulations and the introduction of the Corporate Governance Code in Japan. Based on these changes, **"M" has adopted a basic policy that its Group banks**, taking into account shareholding risk, capital efficiency and international financial regulations, **shall reduce the amount of shares held for the purpose of strategic investment**, following sufficient consultation with the relevant corporate business clients. (redacted)

Economic rationale is examined based on M's overall business RORA, which is based on its ROE target, as a target value. (redacted) Regarding economic rationale, the total amount of overall business RORA of the relevant shareholdings has exceeded the target value. On a company by company basis, the target value has been exceeded for approximately 80 percent of the relevant corporate business clients. **For the approximately 20 percent falling below the target value, we will aim to improve profitability but will consider selling these shareholdings if profitability does not improve within a set period of time.**

* RORA = Return on Risk-Weighted Assets, an indicator of how much the risk assumed by a financial institution increases revenue

Company N

"N" deems investment shares with the objective other than purely financial as cross-shareholdings, which **in principle is restricted**. However, for listed shares considered necessary to be acquired or held in view of the respective business status including the need to maintain business relations, the appropriateness of acquiring and holding the shares is verified according to predefined procedures, and the name, number, the balance sheet amount, and the objective of the shares as specific investment shares is disclosed in the securities report.

Cross-Shareholding Policies (cont'd)

3. No orientation declared, but economic rationale used as criterion for decisions

Company O

“O” bases decisions to hold listed shares for purposes other than pure investment on an overall consideration of a variety of factors related to **investment profitability**, to include whether the holdings will lead to increased revenue in the mid- to long term by **maintaining and strengthening business relationships** with the investee company. “O” regularly examines the goals and rationale of its major shareholdings for purposes other than pure investment and reports the results to the board.

Company P

Separate to the aim of receiving dividends and capturing capital gains, the “P” group **owns shares of some of its counterparties** as cross-shareholdings **to strengthen business relationships**. The Company evaluates the appropriateness of such investments from a comprehensive viewpoint considering benefits that the Group may receive through a strengthened business relationship and the investment amount.

Company Q

As a matter of principle, the “Q” group holds shares of partner companies when there is a reason to do so from a business operations perspective. The “Q” Group considers several factors, including the size of the investment and the profit gained from **strengthening the relationship**, when deciding whether to make such investments.

Criteria for Exercising Voting Rights on Cross-Shareholdings (Disclosure)

- A large majority of companies now base decisions on whether the investment increases the corporate value of the investee company
- Some also consider the investee company's business policies

➔ In either case, unconditional votes in favor of company proposals are more difficult

<Examples>

1. Decision based solely on increase in investee company's corporate value

Company R

When exercising voting rights related to cross-shareholding, we vote in favor of proposals that are judged to contribute to increasing the value of the shares held by the Company and vote against those that are judged to damage the value.

Company S

When exercising its voting rights on cross-shareholdings, "S" bases its judgment on whether the cross-shareholdings will contribute to sustainable growth and improving the mid- to long-term corporate value of the issuing company.

2. Investee company's policies also considered

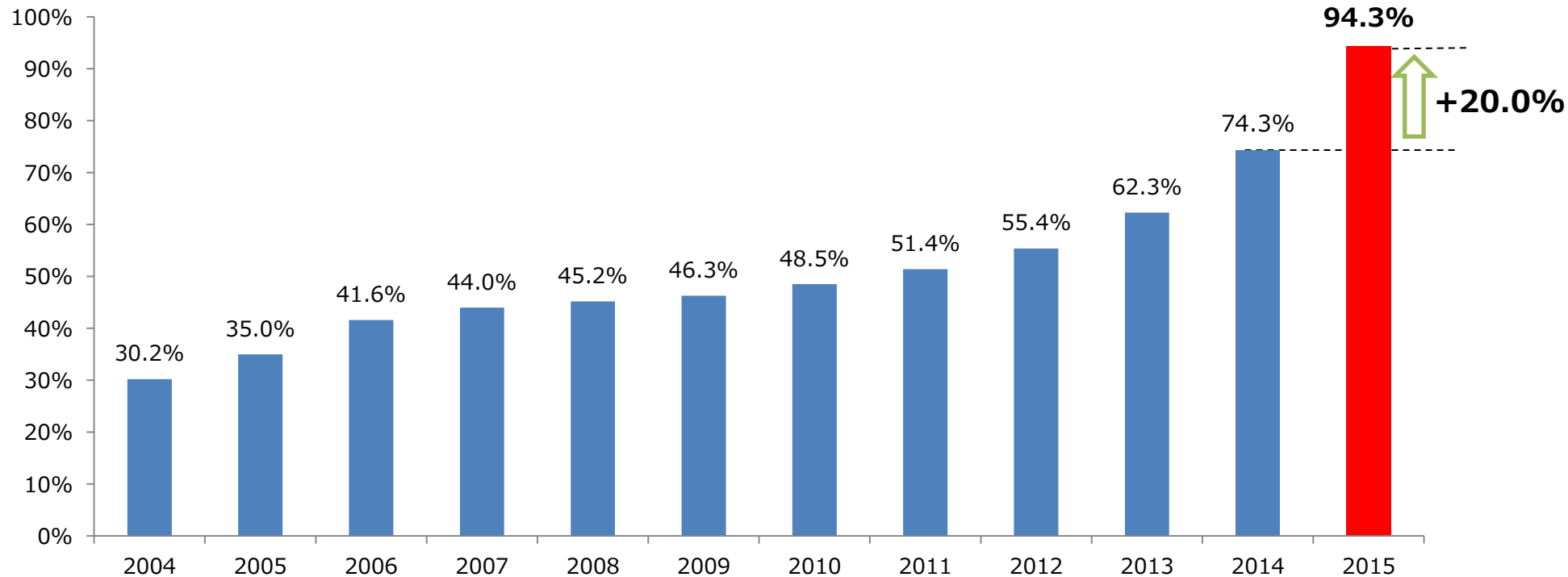
Company T

"T" does not exercise voting rights as a mechanical yes or no decision based on formalized, short-term standards. Rather, decisions attempt to fully respect business policies and strategies of the issuer and facilitate the improvement of corporate value and returns to shareholders over the medium and long-term.

Appointment of Outside Directors

- 94.3% of the 1st Section appoint outside directors.

[Ratio of 1st Section Companies with Outside Directors]

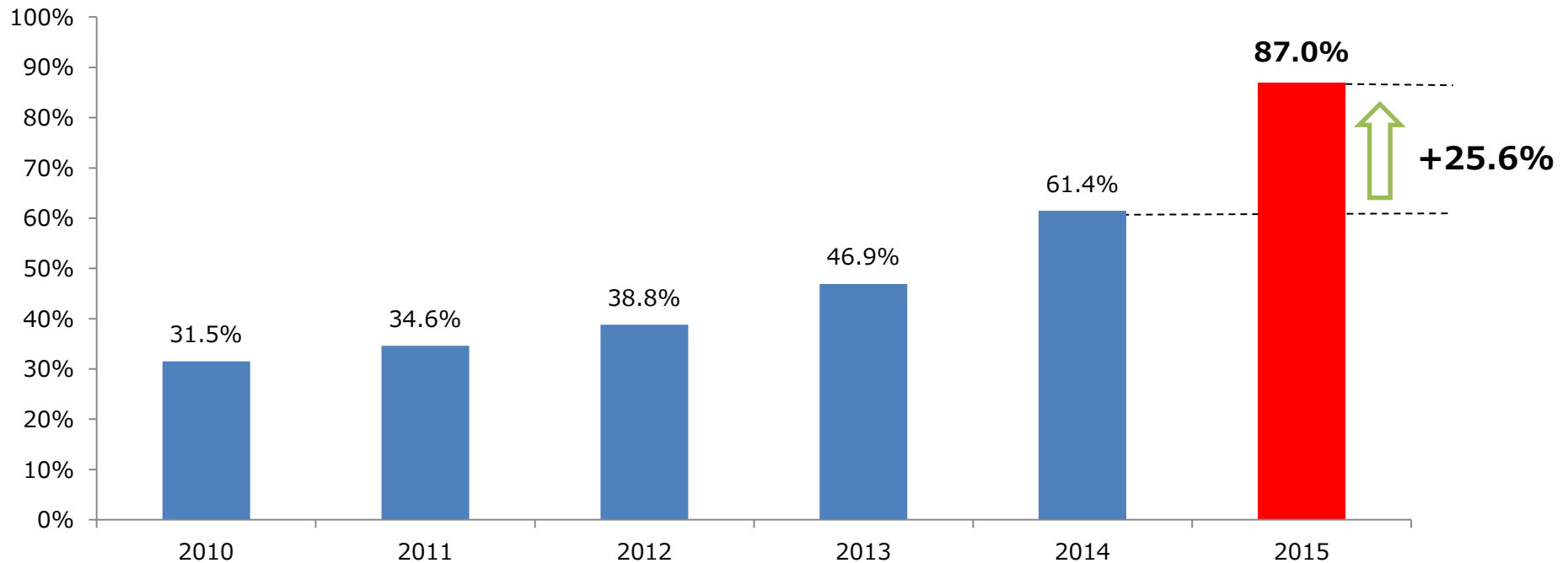


* Excerpted from "Appointment of Outside Directors by TSE-Listed Companies [Final Report]" (July 29, 2015)

Appointment of Independent Directors

- 87.0% of the 1st Section appoint independent directors.

[Ratio of 1st Section Companies with Independent Directors]

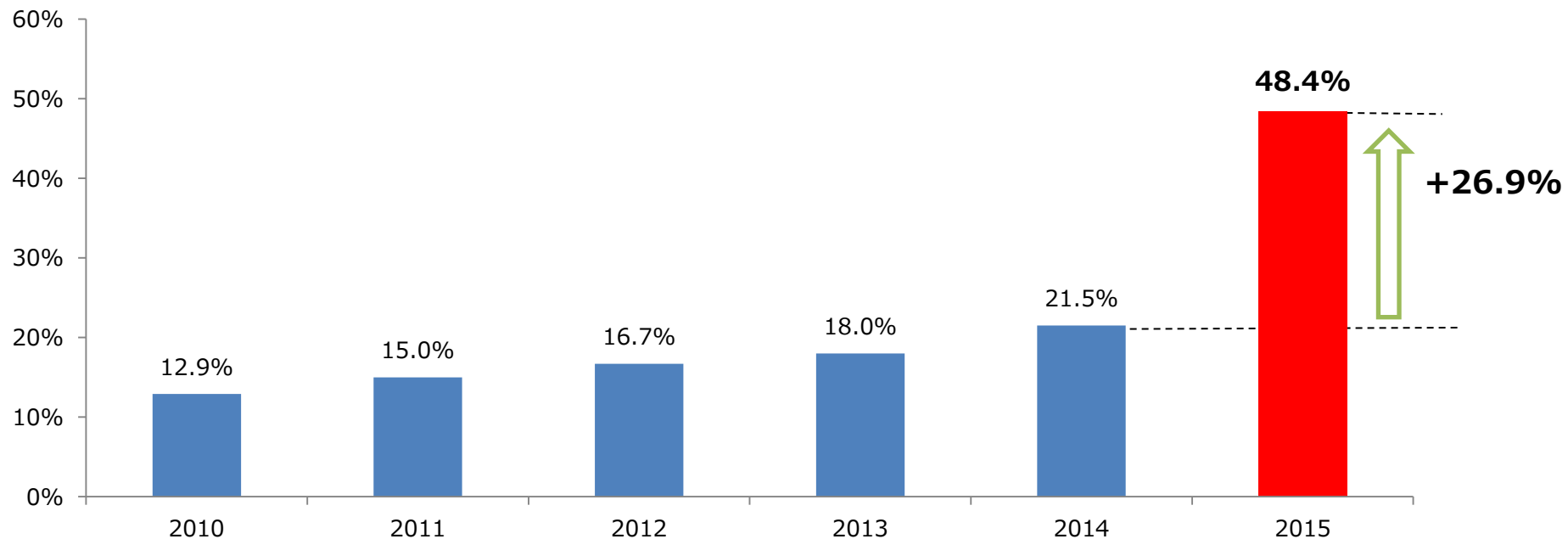


* Excerpted from "Appointment of Outside Directors by TSE-Listed Companies [Final Report]" (July 29, 2015)

Appointment of two or more Independent Directors

- 48.4% of the 1st Section appoint two or more independent directors.

[Ratio of 1st Section Companies with two or more Independent Directors]



* Excerpted from "Appointment of Outside Directors by TSE-Listed Companies [Final Report]" (July 29, 2015)