

The Second Council of Experts Concerning the Follow-up of  
Japan's Stewardship Code and Japan's Corporate Governance Code

October 20, 2015

[Ikeo, Chairman] Although it's not yet the scheduled time, as all the prospective attendees are here, I'd like to open the second Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code. Thank you very much for taking the time from your busy schedule.

First, I'd like to ask the Secretariat to check whether all materials are on hand.

[Tahara, Director of the Corporate Accounting and Disclosure Division, FSA] I'd like to make sure whether you have all materials which we distributed today.

First of all, we distributed Material 1 titled "Reference Data on the Board of Directors", which is to be used for a presentation by the Tokyo Stock Exchange (TSE) representative on today's agenda, issues related to the board.

Next, we distributed Material 2 titled "Issues related to the board, etc.", which was prepared by the Secretariat.

We also distributed the material submitted by Mr. Tsukuda. Later today, Mr. Tsukuda will deliver a presentation on that, mainly about the roles and the current state of the board.

Then, although it is not an explanatory material for today's discussion, we prepared "Responses to the Corporate Governance Code and Next Steps of the 'Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code'" which summarized the discussion at the previous meeting upon the approval of the members. We also prepared and distributed the English version of this material. We plan to post it later on our website as an opinion paper.

Next, Prime Minister Abe referred to corporate governance in his speech in New York. So we distributed the transcription of the speech as a reference material.

Finally, we received an opinion paper from Dr. Ueda regarding the discussion at the first meeting, and distributed the paper as well.

Those are all the materials we distributed today.

[Ikeo, Chairman] Thank you very much.

Now I'd like to start the proceedings.

First, I'd like to ask the Tokyo Stock Exchange representative to explain Material 1 "Reference Data on the Board of Directors"

[Watanabe, Head of Listing Department, the Tokyo Stock Exchange] I'll explain the hand-out, Material 1, in which the board-related data is compiled.

Please turn a page. Page 2 shows which form of corporate organization stipulated by the Companies Act listed companies adopted. The revised Companies Act allows the adoption of the new form, Company with Supervisory Committee. The charts show the adoption status. As of July 2015, 158 companies or 4.5% of listed companies switched their organizational forms to Company with Supervisory Committee, while many other companies chose the form of Company with *Kansayaku* Board.

Next, page 3 shows percentages of Companies with *Kansayaku* Board and Companies with Supervisory Committee, which established optional nomination and/or remuneration committees. The left chart shows the percentages of companies which established an [optional] committee with functions equivalent to the nomination committee [of Company with Three Committees]. Among 3,410 Companies with *Kansayaku* Board and Companies with Supervisory Committee, 152 companies established such a committee.

The right chart shows the percentage of companies which established an [optional] committee with functions equivalent to the remuneration committee [of Company with Three Committees]. 219 companies established a committee similar to the remuneration committee.

Page 4 illustrates the trend of the board size in terms of the total number of the board members over the years. We extracted the data from "TSE-Listed Companies White Paper on Corporate Governance" which is issued once in every two years. Since 2006, there has been a declining trend in the board size. However, in 2015, the number increased after years of decline. The number of independent directors significantly increased in 2015, and that would be the reason for the increase in the board size.

From page 5 to page 7, we included the same data which we distributed at the first meeting of this Follow-up Council, specifically data on the appointment of outside directors and independent

directors.

Page 5 shows the status of the appointment of outside directors. In 2015, 94% of the companies listed on the TSE First Section appointed outside directors.

Page 6 shows the status of the appointment of independent directors, which refers to outside directors excluding major business partners and the like. Similarly, in 2015, 87% of them appointed independent directors.

Page 7 shows the percentage of companies which appointed 2 or more independent directors, as stipulated in the Corporate Governance Code. In 2015, 48.4% of companies listed on the TSE First Section appointed multiple independent directors.

Please turn to page 8. Although the preceding pages mainly introduced the data of the TSE First Section, this table includes the data of other market segments, namely the TSE Second Section, Mothers and JASDAQ, as well as JPX-Nikkei Index 400 companies as reference. The table shows, for your reference, the average number of the board members, the average number of independent directors, and how many independent directors companies appointed.

At the bottom of the page, we added a note about multiple directorships. We found that a person actually serves on multiple boards (up to 5 companies) as an independent director.

Please take a look at page 9. The pie chart shows the attributes of independent directors. In their Corporate Governance Reports, companies are required to specify an attribute of each independent director by choosing one of the following categories: from another company, lawyer, academic, certified public accountant, tax accountant, and other. The most common attribute was “from another company”. For example, those who previously assumed positions of directors, officers, presidents, or chairpersons of listed companies constitute the majority or some 60%, followed by lawyers, academics, and public accountants.

Page 10 shows the attributes of the chairperson of the board. As you see, in the large majority or some 80% of the companies, President serves as the chairperson of the board. This is the most common attribute. The next common attribute is Chairperson of the company. This is the current situation.

Pages 11 to 13 show the data on the nomination, remuneration, and audit committees. For each committee, we included the data on the member composition as well as who assumes the role of the committee chair.

Let's look at the nomination committee first. The upper half of the page shows the data on [statutory] the nomination committee of Companies with Three Committees, and the bottom half shows the data on optional nomination committee established by Companies with *Kansayaku* Board or Companies with Supervisory Committee.

As for the nomination committee in the upper half, the average number of the committee members is 4, comprising 2.8 outside directors, and 1.1 inside directors on average. In terms of the member composition, outside directors constitute the majority.

The chart on the right shows the attribute of the committee chair. In 54% of the companies, outside directors assume the role of chairperson. In 45% of the companies, inside directors serve as chairperson.

Let's move on to the optional nomination committee in the bottom half. The average number of the committee members is 4.6, with 2 outside directors, and 1.9 inside directors on average.

There also is a category named "other". Because this is an optional advisory committee, outside experts, outside *kansayaku*, etc. sit on the committee in some cases. The average number of such members is 0.6. In terms of the member composition, the percentages of outside and inside members are almost the same.

As for the attributes of chairperson of the committee, outside directors account for 46%, and inside directors account for 48%, again showing similar percentages.

On page 12, a similar set of data on the remuneration committee is quoted. In case of the remuneration committee of Companies with Three Committees, the average number of the committee members is 3.7, comprising 2.7 outside directors and 1.0 inside directors on average. Outside members constitute the majority.

Looking at the attributes of the committee chair, an outside director serves as the chairperson in approx. 60% of the companies, and an inside director does in 39% of the companies.

In case of the optional remuneration committee shown in the bottom half, the average number of the committee members is 4.4, comprising 1.8 outside directors, 1.9 inside directors and 0.7 other members. Compared with the remuneration committee of Companies with Three Committees, the percentage of inside members is slightly higher.

As for the attributes of the committee chair, while outside directors account for some 40%, inside directors account for approx. 48%, a slightly higher percentage than that of outside directors.

Finally, page 13 shows the member composition of Audit Committee, Audit/Supervisory Committee, and *Kansayaku* Board as well as the attributes of the chairperson. The first set is data on Audit Committee. The average number of Audit Committee members is 3.7, including 0.6 full-time members, comprising 3 outside directors and 0.7 inside directors. Again, outside directors constitute the majority here.

As for the attributes of the chairperson of Audit Committee shown on the right, outside personnel is the majority. In 68% of the companies, outside directors serve as the chairperson.

Please take a look at the Supervisory Committee in the middle of the page. The overall trend of the committee member composition is similar to the one of Audit Committee. On average, the total number of the committee members is 3.3 including 0.9 full-time members, comprising 2.4 outside directors and 0.8 inside directors. Outside directors constitute the majority.

As for the attributes of the chairperson of Supervisory Committee shown on the right, they are slightly different from Audit Committee. While outside directors serve as the chairperson in 34% of the companies, inside directors serve as the chairperson in 62% of the companies. The reason would be because all companies in this category changed their corporate forms from “Company with *Kansayaku* Board” to “Company with Supervisory Committee”. Accordingly, it seems that those who used to be inside *kansayaku*, have now become Supervisory Committee members in the capacity of non-executive directors, and assume the role of the chairperson in many cases.

Finally, at the bottom, you can see the member composition of the *kansayaku* board. On average, the total number of the members is 3.5, comprising 2.4 outside members and 1.1 inside members. In terms of the member composition, outside *kansayaku* account for 68%, being the majority.

That’s all for the explanation of the reference data.

[Ikeo, Chairman] Thank you very much.

Next, I’d like to ask the Financial Services Agency representative to explain Material 2 “Issues related to the board, etc.”

[Tahara] I’ll explain today’s agenda for discussion in accordance with Material 2 at your hand.

We prepared the agenda mainly based on your suggestions at the previous meeting. This agenda would relate to General Principle 4 of the Corporate Governance Code. The first bullet point is issues as to how to evaluate companies’ forms of organizational structure among Company with

*Kansayaku* Board, Company with Three Committees or Company with Supervisory Committee, and how to evaluate the use of optional committees which the TSE's material also covered.

The second bullet point is about independent directors. As the TSE representative just explained, the number of independent directors has increased. However, there would be an issue of the selection of independent directors. How should we consider the selection, taking into account several recent scandals?

As for the number of interlocking positions, some pointed out that directors may not be able to fulfill their duties when they have too many positions. We'd like you to discuss this issue as well.

The third bullet point was also raised by the members during the previous meeting: as stipulated in Principle 4.3, in order for the board to play the role from an independent and objective standpoint, each company should not only appoint independent directors as mentioned earlier, but also seriously consider how the overall corporate governance should be implemented. In this regard, specifically what should be considered by each company?

We included three examples. As pointed out in the previous meeting, it would be necessary to discuss the separation of roles of the board of directors and the management meeting, as well as the separation of oversight and execution.

Furthermore, as referred to by the TSE, the selection of the board chair and committee chairs would be another issue to be discussed.

Moreover, in response to the recent incidents, there have been discussions around the collaboration between the audit committee (the *kansayaku* board) and internal audit department/external auditor, and appropriate reporting lines for internal audit and whistle-blowing. I believe these issues were also pointed out by this Council as well.

The fourth bullet point is the appointment and dismissal of CEO, which was discussed in the previous meeting. It was pointed out that more emphasis should be placed on the importance of the appointment/dismissal of CEO, as well as the development and execution of the succession plan. What elements are required for the appointment and dismissal of CEO? Some members pointed out objectivity, timeliness, and transparency, I think. What should be deemed appropriate procedures for that? These are the issues included in the fourth point.

The fifth bullet point was also brought to our attention at the previous meeting. It was suggested that we should discuss effective consolidated governance structure in a group of companies under a

holding company.

For your information, this issue on financial groups is now under discussion at “The Working Group on Financial Group” of the Financial System Council.

Finally, “others” means that we’d like to listen to a broad spectrum of opinions on other issues. [Ikeo, Chairman] Thank you very much. To make time for discussion as much as possible, I asked the Secretariat to keep their explanations as short as possible. Now I’d like to open up a discussion. As just explained, today’s agenda is issues related to the board. I got an impression that because many heavy issues are listed, it seems impossible to cover all of them in a single meeting. Anyway, I’d like you to share your opinions and concerns on the agenda items related to the board.

As the Secretariat mentioned earlier, I heard that today Mr. Tsukuda will share the result of the Corporate Governance Survey, mainly on the roles and current status of the board. So I’d like to hand it over to Mr. Tsukuda.

[Tsukuda, member] Sure. Thank you very much.

I think everyone has horizontal sheets titled “the Functions of the Board”, and vertical sheets titled “the Results of Corporate Governance Survey 2015”, which is the basis of said material. In addition, I included my article on a discussion on governance, which I contributed to Nikkei BizGate. I’d appreciate it if you would read it when you have time.

Today, I’d like to explain the first material titled “The Functions of the Board” with you. Due to the time constraint, I’ll skip some pages. I’ll explain the hand-out in order of the page numbers shown at the bottom right. Please turn to page 2. This is an excerpt of the General Principle 4, which states the roles and responsibilities of the board in accordance with.

Please turn to page 3. You can see the list of “8 issues concerning the board’s functions”. The issues include the agenda of the board meetings, the board composition, functions of its secretariat, committees under the board – both statutory and optional committees, support for outside directors, proceedings of the board meetings, frequency and duration of the board meetings, and the evaluation of the board. There are these 8 issues to be considered. On the right, I outlined “measures to strengthen the functions”. This material reports the survey results along with these 8 issues.

Page 4 is about the agenda of the board meetings. As this issue was not covered by this year’s survey, we quoted the results from the last year’s survey. We asked a question to large companies,

“What is the biggest issue which the board of your company is facing?” The most common answer was the selection of the agenda. The second most common answer was the board composition, and the third one was the proceedings.

You can see excerpts of comments from some companies at the bottom of the page. Especially in case of Companies with *Kansayaku* Board, they reported that there are too many matters, typically execution-related matters, to be discussed, and they cannot discuss truly important issues. Another company stated that while discussions on most issues are effectively made by the management meeting, the board is merely a venue for ceremony and serves as an institution for formal confirmation, and that the issue for them is how the board should serve as a venue for discussion in response to their adoption of the Corporate Governance Code.

The next page is about the board composition. First of all, we asked the companies to what extent they recognize the contribution of independent directors upon the adoption of the Corporate Governance Code. Out of 1,883 companies listed on the TSE First Section, which we requested to participate in the survey, we received responses from 314 companies. The left chart indicates the percentages of recognized levels of contribution. Approx. 53.2% of companies recognize that the level of independent directors’ contribution is “very high” or “high”.

On the right, the recognized levels of contribution are illustrated by the number of independent directors. We found a typical trend where the more independent directors companies have, the more the companies appreciate contribution of independent directors. Among companies with 3 or more independent directors, 80% of them answered the level of contribution is either very high or high.

I’ll skip page 6, because the TSE earlier explained the overall attributes of independent directors.

Page 7 is about the board composition, - response to Principle 4.8. In this survey, we asked whether a company believes it needs to appoint at least one-third of directors as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company. The left chart shows the overall result. It is notable that 46.5% or slightly less than half of the companies, the cluster shown in the middle of the chart, replied that they “do not believe it necessary based on all things considered at the moment”.

The right chart shows interesting results depending on the number of independent directors.

Among companies which appointed 3 or more independent directors, the percentage of companies which already appointed at least one-third of directors as independent directors, the cluster in light blue color, jumps up to 63.6%. In addition, 18.2% of those companies are considering such appointment in the future. Accordingly, slightly over 80% of the companies either have already appointed or are likely to appoint at least one-third. This is a huge difference, compared to the companies with no more than 2 independent directors.

Next, page 8 is about the functions of the secretariat or department in charge. At the previous meeting, Mr. Takei referred to the necessity of a new dedicated department. We asked the relevant question in this survey. As a result, only 2.9% of the companies established a new department dedicated to work on the response to the Code as a key issue. The companies which are considering the establishment of such a department account for only 13.7%. Basically, the results show that companies are responding to the Code by utilizing the existing organizations.

Please turn to page 9. As for committees under the board, as shown in the left chart, 25.5% of all respondents replied that they already established optional or statutory committees. 9.9% of them do not have such committees at the moment, but plan to establish such committees in the future. Looking at the results by sales as shown in the right chart, among companies with sales of 1 trillion yen or more, 62.2% already established such committees, and 16.2% plan to do so in the future: in total, almost 80% of them support the establishment.

I'm moving on to page 10. The question here is whether or not [the board of] the companies oversee succession planning. As shown on the left, only one-third of all respondents replied that the board oversees the succession planning either by utilizing the nomination committee or any other means. Again, the results vary prominently depending on the number of independent directors. Almost half of the companies with 3 or more independent directors replied that they already oversee the succession planning.

Page 11 refers to the fifth issue, support for outside directors. We asked 3 questions in this regard. Please take a look at the second question. In response to the question "Does your company provide training opportunities to outside directors?", 39.8% of all respondents replied "No". The results show the necessity of enhancing support for outside directors, including the provision of training opportunities.

Please turn to page 12, which is about the proceedings of the board. We did not include this

issue in the survey this time, so I'll skip the explanation. But I'd like to draw your attention to examples of best practices on the right for your reference.

I'll move on to page 13 – the seventh issue “frequency and duration of the board meetings”. As shown on the upper left, on average, the board meetings are held 15.3 times per year among the respondent companies, and the duration of one meeting is 1.7 hours on average. My first impression is that the board meetings are held rather frequently, but the duration of one meeting is rather short. In order for the board to reconsider the content of the meeting agenda and promote truly strategic discussion, I believe that the frequency and duration could be also reconsidered in the future.

Please turn to page 14 concerning “the evaluation of the board”. Supplementary Principle 4.11.3 stipulates that the board should analyze and evaluate its effectiveness and disclose a summary of the results. At the moment, slightly less than 20% of all respondents actually make the evaluation, where a large majority conducts such evaluation internally. So the result shows that the respond to this Supplementary Principle is still a starting point.

It is, however, notable that as shown in the left chart, 65.9% of the respondents replied they “do not currently conduct such evaluation, but will consider it in the future”. In contrast to the situation where many companies do not consider the appointment of at least one-third of directors as independent directors at the moment, the majority of the companies plan to consider the evaluation of the board in the future, when the Code stipulates the disclosure of the summary of evaluation results.

I explained the survey results in accordance with 8 issues to be discussed. On page 15, I summarized “attitude toward the Corporate Governance Code”. In the first place, the survey found that companies with 3 or more independent directors basically take a very active stance toward the [corporate governance] reform. As shown in the right chart, similarly to those on the preceding pages, the more independent directors the companies appointed, the more progress they have made or the more active they are toward various reforms.

Finally, I'd like to briefly mention 3 points, which are summarized on the page titled “comments on the survey results”.

First, the survey found that the more independent directors the companies appointed, the more they appreciate the independent directors' contribution, and the more active stance they take toward

corporate governance reform. In the future, it is desirable to promote the diversity in the board through encouraging companies of a certain size to appoint at least one-third of directors as independent directors.

Second, the survey revealed that it would take time for Japanese companies to respond to Principles or Supplementary Principles which are not familiar to them, such as the oversight of the succession plan of CEO, etc., the evaluation of the board's effectiveness, lead independent directors, or the executive session, which is not referred to in this paper. These are also topics that the substantial enhancement is difficult. I think that publication of guidelines concerning specific methods of oversight is anticipated.

Finally, the third point is that, concerning corporate governance, the focus is increasingly shifted from formality to substantial enhancement. This survey revealed the current situation where some companies take an active stance toward corporate governance reform, but many other companies do not yet take such a stance. In the future, I think it necessary to introduce a mechanism to check the substantial enhancement and – as Prime Minister Abe stated – to consider a heteronomous approach such as making rules and regulations.

That's all from me.

[Ikeo, Chairman] Thank you very much. Well, taking those explanations into account, please share your opinion. There is no predetermined order of speakers, so anybody can start. Please feel free to provide your comments.

Mr. Tanaka, please go ahead.

[Tanaka, member] I organized my thoughts, so let me make some points.

We received the material titled “Responses to Corporate Governance Code and Next Steps of the Follow-Up Council” prepared by the secretariat for this meeting. Under “Next Steps of the Follow-Up Council” at the bottom of the page, three points are presented as viewpoints from which to discuss specific topics. This time, the topic is the board and directors, so I'll make comments based on these 3 viewpoints written there.

My first point is about the board's “decisions on business execution” and “oversight of management”. This is rather an old story. The Commercial Code revised in 1950 stipulated the separation of functions of the board of directors and a representative director: the board comprises all directors and makes decisions of business execution of the company. The board oversees

business execution by the representative director, while the representative director fulfills the role of business execution.

However, after various changes, Professor Hirata of Hitotsubashi University contributed an article titled “Reform of the Board of Directors in Japan” in *Keieironshu* (Management Journal) in 2003. In this article, he wrote, “In reality, decisions on business execution are effectively made by a representative director and executive directors who assist the former, and the board is just asked for a formal approval.” And “With regard to oversight by the board, there seems to be no end of scandals involving the management. Witnessing such a reality, I cannot say there is no doubt about how seriously the oversight has been performed.”

According to this article, after conducting diverse research, the author evaluated the board as follows: “In Japan, the board generally has a high percentage of inside directors and is homogeneous. Although the board is a venue to make decisions on management policies, decision-making on day-to-day operations is delegated to the board, making it impossible to make policy decisions in the true sense. In fact, there still is a hierarchical structure for business execution with President at the top, and the board has become unable to perform its functions in decision-making as well as oversight.”

Finally, Professor Hirata states, “The root cause is the fact that representative directors, especially President, who are subject to oversight or audit, effectively have the authority over personnel issues, such as the appointment or removal of directors, *kansayaku*, and accounting auditors.” He considers that this is a crucial difference in the oversight and audit system in Japan compared to that in the U.S. and European companies.

From my own experience of talking with many top managers and working on the turnaround of troubled companies, I got an impression that the situation described in Professor Hirata’s article has not significantly changed. Accordingly, to examine whether the form of enhanced governance structure is accompanied by substance, I think we should start from the perception of such current situation. As discussed at the previous meeting of the Follow-Up Council, under such a circumstance, the issue whether it is possible to substantially, not formally, secure “an independent and objective standpoint” as stipulated in Principle 4.3 of the Corporate Governance Code, is an extremely important topic. In this regard, an economist stated in an interview that the better a company is managed, the more top management is sensitive to and proactively addresses this issue.

I feel Mr. Tsukuda's report also shows the similar trend.

Let me refer to page 8 of the reference data presented by the TSE. In case of the companies listed on the TSE First Section quoted on page 8, roughly speaking, the board consists of 9 members, including 2 outside directors. To put it another way, 7 members are inside directors, whom "President has the authority to appoint or remove" as pointed out by Professor Hirata.

On the other hand, in case of JPX-Nikkei Index 400 companies shown in the second row from the bottom, outside directors constitute at least one-third of the board members at 21.8% of the companies, as shown in the second column from the right. This is a much higher ratio. As mentioned earlier, I think it implies a high level of top management's awareness of this issue.

However, there would be a substantive issue - "who selects whom as outside directors?" in the first place. In effect, I heard that generally people like Chairperson, President, or in some cases, retired CEO, select outside directors. If so, after all, the board would be a group of people selected by President without exception. Then I think it is impossible for such an organization to oversee the business execution led by President at the top. It is even more impossible to dismiss President where necessary.

Looking at the history of corporate governance in the U.S., some time ago, most directors were selected from CEO's friends and acquaintances. Then, upon the emergence of institutional investors in 1980s, investors started to require the independent board, which fulfills accountability and stewardship responsibilities. I myself served as a director of two U.S. financial institutions, namely Union Bank and Morgan Stanley, for 10 years in total. According to my experience there, as well as input from my colleagues on those boards, in the U.S. it is mainly outside directors who take the lead in seeking candidates and appointing outside directors. It is common that outside directors lead the selection process, and there is no room for appointing someone just because they are CEO's friends or acquaintances. In other words, I would say that it is extremely difficult to judge whether companies comply, in a substantive sense, with the high-level Principles concerning responsibilities of the board, by merely looking at the changes in the number of outside directors over time, or classification of companies [by the number of outside directors]. As for Principle 4.11, in addition to "preconditions for board and *kansayaku* board effectiveness", it would be important to see how companies consider such matters as "eligibility requirements for directors and the appointment process". I believe that eligibility requirements for directors and appointment process are key points

among other things. It would be very much appreciated if companies voluntarily disclose such matters, in addition to independence standards stipulated in Principle 4.9.

In order to verify whether the board fulfills its stewardship responsibilities such as oversight of operations, it would be necessary to look at the board composition in depth. Especially in case of Companies with Three Committees, the board does not make “decisions on business execution” and focuses on “oversight”. Therefore, in order to demonstrate that the effective oversight function is secured, further transparency would be required of the nomination committee regarding the selection criteria and appointment process.

I have some more to say, but due to the time constraint, I’ll end my discussion here.

[Ikeo, Chairman] Thank you very much.

Mr. Nishiyama, please go ahead.

[Nishiyama, member] I’d like to make two points, which I think important based on my experience of talking with investors and companies.

The first point is about the number of interlocking positions. I have conducted my own research on interlocking positions including outside *kansayaku*. Looking at details, I found cases where a top manager of a group assumes the role of an outside director of related companies, and professionals such as lawyers concurrently serve as outside directors or outside *kansayaku* of many companies. Other than those cases, there are various cases involving top management. So it would be difficult to tell an appropriate number of interlocking positions. Furthermore, while some can devote their time and effort solely to fulfilling duties of such positions, others have many duties other than those of such outside directors’ positions. Then stories are different.

Nonetheless, through my dialogue with those who actually serve as outside directors, I got an impression that a reasonable number of interlocking positions would be no more than 4 or 5.

I asked a person what he considers when he accepts a position of outside director. He answered that one of the key considerations is potential schedule conflicts of the board meetings. When one serves as an outside director of multiple companies, schedule conflicts will be inevitable. Earlier today, the secretariat talked about the frequency of the board meetings. Although the board meeting is generally held once in a month, some boards meet 2 or 3 times a month. If a person with many interlocking positions serves as an outside director of such companies, he/she will not be able to perform expected functions, I think. Therefore, although it is difficult to determine a threshold,

taking into account the perspectives of outside directors or investors, I got an impression that 4 to 5 companies would be a guideline for interlocking positions.

My second point is about the appointment and dismissal of CEO. This is a topic which is frequently discussed. It is often mentioned what roles advisors or counselors play. I suppose advisors and counselors actually have various roles, but I don't know the real situation. I presume that, as mentioned earlier, former management are among those who make a decision on the next CEO. I feel this issue leads to lack of transparency.

It is desirable that companies voluntarily disclose this matter, but in fact, we do not at all know what functions they actually perform, or how many people are serving in such positions in companies. So taking this opportunity, I'd like to request a survey to find how many advisors or counselors serve on a company and what roles they play. I think it is important to comprehend the real state of affairs through it.

That's all from me.

[Ikeo, Chairman] Thank you very much.

Dr. Ueda, please go ahead.

[Ueda, member] Thank you very much. Several members mentioned that it is important to recognize the actual state of affairs. Actually, I have been studying corporate governance, but it is really difficult to comprehend the actual state of affairs. Nonetheless, I'd like to make some comments based on the state of affairs which I identified, and comparing with the situations in other countries.

First, I'd like to talk in accordance with the order of today's agenda, starting from the form of corporate organization. Currently, all three forms are considered equal by law. Yet foreign investors shared their opinions in a straightforward manner. Among three forms, Company with *Kansayaku* Board is a traditional form, which is country-specific and respected. Therefore, they accept it. Company with Three Committees is considered as three-committee system, which is a globally-accepted mechanism and, therefore, easy to understand. The problem is the new form, Company with Supervisory Committee. Looking at a formal aspect, they point out that it is one-committee system, apart from the substance. They perceive that there is only one formal committee. This is an undeniable fact. As reported by the TSE representative earlier, where the common attribute of chairperson of Supervisory Committee is an inside director who used to be a

full-time *kansayaku*, foreign investors cannot help but be concerned that this form is far from satisfactory in terms of operation. If more companies are to adopt this system, I think it necessary to actively devise ways to improve such an aspect to dispel investors' concerns. Otherwise, Company with Supervisory Committee may be perceived as inferior to other forms – this may not be a good expression, so I would say it may be considered as lacking many things.

In this connection, I'd like to refer to optional committees which companies establish voluntarily. I suppose the TSE knows how many companies adopted optional committees. Last year, I researched these committees based on the information disclosed in Corporate Governance Reports of individual companies, and published the results in a paper issued by the Financial Research Center under the Financial Services Agency: 40.7% or slightly more than 700 Companies with the *Kansayaku* Board established optional committees. Among them, approx. 120 companies have the remuneration committee; approx. 70 companies have the nomination committee; and approx. 40 companies have Personnel Committee. Overall, 110 - 120 companies established optional committees concerning in or remuneration. This is a good initiative. Therefore, I'm wondering if we could call attention to such a good initiative. If the Code facilitates such an initiative, I think we can controvert the criticism from abroad for insufficient system, persuading them that there actually is such a good initiative.

I'm sorry for taking a long time, but I'd like to make comments on outside directors as well. While I was absent from the last meeting, I was conducting research on independent directors in other countries. I was often told that the Code does not set the independence criteria for outside directors. Many people expressed a point of view that key points of the criteria should be stipulated at least as a suggestion, as in the TSE's Principles. However, the independence of outside directors is rather tricky. If you overly pursue the independence, you cannot find qualified candidates. You need to find a balance. As I wrote in my opinion paper which I presented today, who should be convinced of corporate initiatives responding to the Code? If market participants, such as shareholders and investors, should be convinced, the Code should provide answers or explanations they need. I think that is the original intention of the Code. Then, with regard to the independence, even if a director has a business relationship with the company or is a substantial shareholder, as far as the company believes that he/she has the qualification, the company should provide such an explanation to convince them. Companies probably need to make such efforts. In the meantime,

investors should take into account the fact that it is rather difficult to evaluate the skill or the qualification of outside directors, unlike the independence which can be judged based on the public disclosure. This can be a topic for dialogue between them..

As far as I read the Corporate Governance Reports, unfortunately, current descriptions on the independence are merely boilerplate. As a matter of fact, I felt I was reading similar or same explanations again and again. I know it is a very hard work for the companies, but they could convince their counterparties, which means the market or shareholders, in their own words regarding not only the independence, but also qualification. Thank you for listening to me.

[Ikeo, Chairman] Thank you very much.

Does anybody want to express their opinions? Mr. Iwama, please.

[Iwama, member] I think what Mr. Tanaka mentioned earlier is very important. In the United States, institutional investors have changed corporate governance. To a significant extent, they actively got involved in how the board should be. I serve as Chairman of an association of investment advisers who act on behalf of institutional investors. In this regard, I think the key question is to what extent Japan's Stewardship Code and the Corporate Governance Code accommodate each other or work together like the two wheels of a cart. It is extremely important for investee companies – the management – to clearly separate business operation and oversight, which is not merely the supervision of behavior, and to have in-depth discussions on strategies to increase long-term corporate value and other matters. As institutional investors, we'd like to know whether companies employ a corporate governance mechanism which best fits their circumstances. Furthermore, in case they choose to provide explanations for non-compliance with certain principles in view of their individual circumstances instead of complying with all principles, they should be able to provide convincing explanations to institutional investors and society. Including such matters, the management should fulfill their roles. From that perspective, I really hope the management will actively make requests for what they expect from institutional investors.

Some of our members are earnestly trying such an approach to respond to the true intentions of the Stewardship Code, and I think they obtained various insights in this regard. If institutional investors could have constructive dialogue with companies by incorporating such insights, such deeper dialogue would contribute to active board deliberations and qualitative improvement of their governance structure. I have no intention to go into too much detail, but we believe it's essential

and continue working on it.

[Ikeo, Chairman] Thank you very much.

Mr. Oguchi, please go ahead.

[Oguchi, member] Thank you. I intended to make comments in accordance with the order of Material 2 prepared by the secretariat, but after listening to other members, I decided to talk in the order I feel comfortable with. First, I'd like to talk about independent directors, which is the second item on the agenda today. When the Corporate Governance Code was being drafted, we discussed the appropriate number of independent directors extensively. Discussion there highlighted the need for at least 2 independent directors. However, in case independent directors are to fulfill substantive roles in a real sense, for example, in case they are to play substantively significant roles on either statutory or optional committees, it is often questioned by global institutional investors whether only 2 independent directors can perform necessary functions without suffering from excessive burden. In that sense, what is written in Mr. Tsukuda's paper is indeed true, except one point mentioned on the last page – page 16. He wrote “The more independent directors companies appoint, the more the companies appreciate contribution of independent directors.” However, I think it should be the other way around. In my opinion, because the companies highly appreciate independent directors' contribution, they appointed more independent directors. Therefore, Principle 4.8 suggests “one-third” in case the companies really want to make use of independent directors, especially in optional committees. We should reconsider the importance of this threshold. In my personal opinion, “one-third” is a substantively, not formally, meaningful ratio as a guideline. This is my first point.

In this connection, I'd like to refer to optional committees. We had various discussions on optional committees at the Council of Experts Concerning the Corporate Governance Code. Eventually, as an example of optional approach to be taken if independent directors do not compose a majority of the board, Supplementary Principle 4.10.1 suggests the establishment of optional advisory committees to which independent directors make significant contributions. Again, while global institutional investors highly appreciate the Corporate Governance Code, they express their dissatisfaction with this point: they consider that objectives and effectiveness of key advisory committees, such as audit, nomination, and remuneration committees, are not sufficiently stipulated in the Code. Furthermore, they told me that when the Code is to be revised, they would demand

consideration of measures to ensure effectiveness by stipulating that the board chair should be an independent director, or the majority of the board members should be independent directors.

Partly because we have recently witnessed a corporate scandal, I think we should reconsider the enhancement of independence, objectivity, and accountability of the board functions, as discussed earlier today.

Allow me to bring it up again. As I mentioned at the Council of Experts Concerning the Corporate Governance Code, OECD Principles also refer to committees dedicated to supervision, nomination, and remuneration, including roles of committees when dealing with matters involving potential conflict of interests such as related-party transactions, and the establishment of optional committees in the absence of statutory committees. I believe the Council of Experts could also encourage companies to work in that direction. As for the composition of such committees, as I proposed at the Council of Experts at that time, we should once again consider measures to secure the independence and objectivity of independent directors' functions, by stipulating that a majority of directors should be independent, and by making use of committees where the lead independent director, its function described in the Corporate Governance Code, assumes the role of chairperson. In this connection, I'll skip to the topic of CEO. I think this is the most difficult or challenging issue. As Mr. Tanaka mentioned earlier, as a matter of fact, it would be unrealistic to consider it possible for inside directors, who work under CEO, to challenge CEO at the top. Then there is no choice but to count on independent directors to play such a role. As for the appointment, apart from the specific result of individual appointments, in order to secure transparency and objectivity of the appointment process, I believe independent directors are indispensable. Taking it into consideration, the nomination committee, as shown in the reference material, would be the normal channel for the appointment and dismissal of CEO, if companies established such committees. Otherwise, the board should be the normal channel. In such a process, I think a judgment solely made by independent directors, who can secure both objectivity and transparency, would be necessary.

Then we should consider the roles of lead independent directors as stipulated in Supplementary Principle 4.8.2, as well as an executive session comprising only independent directors as stipulated in Supplementary Principle 4.8.1, although Mr. Tsukuda explained that there is no relevant survey result yet. I believe it would be a key issue to consider how to utilize the function of such a session, which consists of only independent members and is led by the lead independent director, to the

most challenging issue, the appointment and dismissal of CEO.

I'm sorry about jumping around, but the next point is about serious consideration on the overall state of affairs of corporate governance. As introduced in the TSE's material, in most companies, the board is chaired by President or Company Chairperson who is former-President in most cases. Let me repeat my comment made at the Council of Experts for establishing the Corporate Governance Code. When considering "checks and balances" of the board, in order to secure the objectivity within one board, I believe that the substantial separation of the board chair and CEO, who is an insider, is a very effective means, and we should continue to consider this issue in the future.

Please stay with me for one more minute. Looking back on the recent Toshiba scandal and Olympus scandal in 2011, what worked after all? Eventually, whistleblowing played a major role. This may not be an appropriate order, but this is the reality. We need to recognize that eventually the incidents were revealed because of the whistleblowing. Then what should we think about whistleblowing as the last resort? In the Corporate Governance Code, Supplementary Principle 2.5.1 refers to the establishment of a point of contact that is independent of the management. However, in reality, there is a question whether such a point of contact within a company will really work. In the recent case, it was reported by media that the whistleblowing was directly made to the Securities and Exchange Surveillance Commission. When I discussed with foreigners about such a direct line to an external party, some believe it would work better. In any case, whistleblowing worked in the past. So we should place emphasis on it.

Another point related to corporate scandals. As stipulated in Principle 3.2 of the Corporate Governance Code, external auditors owe the responsibility toward shareholders and investors. I'm wondering why external auditors failed to fulfill their responsibility. Although I don't know internal circumstances, for us – meaning investors, whistleblowing should be the last resort. Before that, not only insiders but also external auditors are expected to perform their functions. I'm concerned why they did not function.

It's taking a long time, but let me finish my points. Concerning the form of corporate organization, as Dr. Ueda also pointed out earlier, under the Corporate Governance Code, it is agreed that no form has superiority over others. In reality, outsiders such as shareholders are not in a position to know with what intent a listed company chose a certain form of corporate organization,

and how it functions. In addition, if investors knew what is going on in the company on a daily basis, they would be deemed as insiders, and that is impossible. Then, as explained in Mr. Tsukuda's paper on the evaluation of the board, in a sense that companies conduct the PDCA (Plan-Do-Check-Action) cycle and disclose the results, I believe that the evaluation of directors is very meaningful. Although there is an approach where a third party makes an external evaluation, it is significant that first, the board should have an annual self-review concerning how the adopted form of company organization substantively, not formally, worked, and announce the result externally. Because corporate management varies among different companies, review results should be definitely different. The results may change from year to year. Therefore, such information would contribute a lot to dialogue with shareholders, I think.

I'd like to make a comment from the perspective of institutional investors. Recently, institutional investors have conducted various kinds of corporate governance evaluations. This may have been inevitable, but honestly, I never heard that any institutional investors presented harsh evaluation on Toshiba's governance prior to the detection of the incident. Investors have no other alternative but to make an evaluation based on externally visible factors. It may be inappropriate to quote specific company names, but in case of Toshiba, as a matter of fact, its governance used to be highly rated by investors on the basis of externally visible factors. Then, in order for institutional investors to eliminate a problem with such a formal evaluation based on externally visible factors, or to understand a company and reconsider or consider anew board functions, I think it is necessary to consider the evaluation of the board as a very meaningful thing.

That's all.

[Ikeo, Chairman] I would like to hear from Ms. Takayama, Mr. Era, Mr. Toyama and Mr. Kawamura, in that order.

Ms. Takayama, please go ahead.

[Takayama, member] I would like to say a few words on the forms of company organization that many other members have mentioned - specifically, on how information on the form of company organization should be conveyed externally, and especially to global investors, as well as on the required framework and on how to establish a dialogue.

As seen in the data from the TSE, over 90% of companies are using the *kansayaku* board system. I believe this is because many Japanese companies regard the *kansayaku* board system as the best

possible form of governance. The *kansayaku* board has been the subject of numerous discussions up to the present moment - for example, on the fact that Japanese *kansayaku* board is a unique institution that is hard to understand for foreign investors. Accordingly, if I remember correctly, it has been suggested that the three-committee (nomination, audit, and remuneration) system or the supervisory committee system may be better options to transition to.

I have, spoken to foreign investors, and witnessed dialogue between company representatives and investors on many occasions. Based on my experience, I believe that the biggest problem encountered thus far lies in the fact that the presence of independent directors and the presence of the *kansayaku* board have often been treated as mutually exclusive in the course of discussion. When explaining the significance and advantages of Japanese *kansayaku* board, there has been a tendency to argue that this uniquely Japanese system eliminates the necessity for independent directors. If presented with such an argument and pressed with an either-or choice, investors will focus on independent directors rather than *kansayaku*, since investors believe that the board is the most important factor in governance, and, that the presence of a certain number of highly independent directors is vital. On the other hand, I think that they didn't highly appreciate the *kansayaku* in the past.

Now, however, the establishment of the Governance Code requires the appointment of two or more independent directors, and the number of such directors has in fact increased dramatically. Soon, I believe most companies will probably have appointed many independent directors, and the ratio accounted for by these directors may reach one third at some point down the road. At this junction, we need to reassess our current situation. While outside directors are without a doubt extremely important, this is a bare minimum and a necessary condition, but not a sufficient condition, and we are not where we need to be yet. The appointment of outside directors alone will not make governance any more effective. Making governance more effective will require taking a wide array of steps. The Governance Code indicates many of these steps, and it will be vital to put them into practice. Incidentally, some of these steps apply to the improvement of governance anywhere in the world, but others are geared specifically to a certain country. For example, while nomination committees and other bodies whose necessity is recognized worldwide are of key importance, there also are systems that are unique and specific to each country's history and backgrounds. I believe that the effectiveness of governance is being boosted by putting such

systems to use.

From this standpoint, the *kansayaku* board is a unique Japanese system, and while the presence of independent directors is also important, I believe that the *kansayaku* board's ability to help in areas that are out of the reach of independent directors can be illustrated with a variety of examples. In the form of the Governance Code, we now have a platform for dialogue with investors. I believe that now we should change our approach to explanations, and use the Code as a base to once again illustrate the function of the *kansayaku* board and the individual form of organization to overseas. Incidentally, foreign investors have made various comments on Japanese *kansayaku* board, but instances where the *kansayaku* board has been put into question based on a lack of understanding have been few. Let us take, for example, the ACGA - a group composed of global institutional investors that has been investing in Asian and Japanese stock. Two years ago, the ACGA published a comparative report on the *kansayaku* boards and audit committees. The authors placed gave their preference to audit committees, and gave two reasons for this.

The first reason lies in the fact that audit committee members hold voting rights at board meetings. If, by contrast, we look at Japanese *kansayaku* boards, their members are capable of attending meetings of the board and contributing to discussions, but they do not have any voting rights. The Governance Code, however, requires cooperation among outside directors, *kansayaku* and the *kansayaku* board. I believe that the mutual, extensive sharing of information will allow outside directors, who hold actual voting rights, to leverage the wealth of experience and information possessed by the *kansayaku* board, having no voting rights, in decision-making by the board. In this way, I believe we would be able to explain that the issues that have been pointed out can be solved by using the Governance Code.

The report finds another strength of audit committees to lie in the presence of a direct reporting line between the officials responsible for internal auditing and the audit committee. This is common in the UK and the U.S. When foreign investors think of an audit committee or its equivalent (such as a supervisory committee of Company with Supervisory Committee) in Japan, I believe that they subconsciously base their conjectures on the situation in the U.S or the UK.

In addition to the reporting line, foreign investors believe it to be natural for a large number of audit committee members, including the committee's chairperson, to be outside directors. If a company considers a shift from Company with *Kansayaku* Board system to Company with Supervisory

Committee system based on the latter's superiority from a governance standpoint, I believe that supervisory committees should implement a structure or system where both foreign and Japanese investors are expecting, otherwise the supervisory committee would not be persuasive enough to those investors.

To sum up, I believe that now that we have the wonderful framework offered by the Governance Code at our disposal, we should use it to rethink the way in which we explain the board system chosen by Japanese companies today, and communicate such explanations more effectively to the outside world.

[Ikeo, Chairman] Thank you.

Mr. Era, please.

[Era, member] Thank you. Since many of the points I intended to make have already been mentioned, I will be brief. I think we need to keep in mind the original intent, which is while form is important too, one of the points to be considered at this meeting is in how to ensure substance. From this point of view, I believe the lesson which we learned from the past controversial cases was that no matter how perfect the "form" may have been it is useless if it lacks substance. In other words, I have seen innumerable cases where outside directors, while plenty, nevertheless failed to fulfill their role and responsibility. While this does not apply only to Japan, we should be kept in mind the importance of how to ensure substance to the role of external officers and other aspects of corporate governance and to discuss on how to make governance more effective.

I might start by commenting on the three forms of company organization currently in place in Japan, which various opinions have been raised. I believe the three types are basically equal, and do not believe one to be superior to the other. This is also same in the actual investment decisions as well. For example there is no discount to the value of Companies with *Kansayaku* Boards, nor do I believe that the structure of the company itself have any impact on investment decisions. Therefore, with regard to this point it is basically up to each company to choose the optimal form of governance based on its current situation, business conditions, organization and future business direction. Decided with deep consideration. I believe it is sufficient if the company is able to thoroughly explain to its shareholders why it has chosen its particular system design.

In Japan, companies with the *kansayaku* board account for about 96% of all companies, however I believe this should be the result of a deliberate choice. I think it's very positive for a

company to choose this system after carefully reviewing why it is optimally suited to its situation of the company, and it would be helpful for shareholders if the companies disclosed how they adopted their institutional design to investors.

Also, many members have voiced different opinions on the independent, monitoring function of the board. I believe I should introduce the fact that this point has been discussed also at a variety of other study groups as well. Today the former chairman does not seem to be present, but the Corporate Governance System Study Group - organized by the Ministry of Economy, Trade and Industry - has been discussing the current situation of the boards in Japan and how it can be enhanced, while introducing several examples at non-Japanese companies. The Corporate Governance System Study Group has produced deliverables that we could use as reference, a "reference book" which could be used by companies that are interested in pursuing a certain approach. So I believe the report and the ideas laid out in the report be well respected. I think we should also take into account discussions conducted by other groups when considering the direction to take in the future.

Finally, in regards to the appointment and dismissal of CEOs, the topic is very important, however I also think these are two distinct actions that hold slightly different weight, with dismissal having greater importance. Even in other countries, while frequent dismissals would be problematic, I understand that dismissal often involves very difficult and delicate decisions. For this reason, the CEO's appointment process should require a system to prevent the appointment of candidates which appear to be unsuitable in no doubt even from a common sense perspective, and I believe it should be a realistic approach to further focus on ensuring that such decisions, which will prevent the appointment of dubious candidates, are reliably taken in the course of the appointment process. That is all for now.

[Ikeo, Chairman] Thank you.

Mr. Toyama, please go ahead.

[Toyama, member] It is not my usual style, but this time, my turn comes in the latter half. I have seen a lot of figures from TSE, and data from Egon Zehnder as well, and I would like to give my overall impression on the subject of shifting from form to substance. These figures allow us to see through the surface, and frankly speaking, not a few companies simply seem to be boosting governance as a "fad" of sorts under the Abe administration. My honest feeling is that many

companies are simply putting up an appearance of compliance for the time being, and that they will revert to their old ways as soon as an anti-governance administration takes over.

At such times, it is important to have people stop clinging to old patterns of thinking. Reform generally does entail such periods of instability. During the Meiji Restoration, too, I'm sure that people only stopped waiting for a return to the pre-modern time of social castes when the Seinan War broke out. It took ten years. Therefore it will be important to stick with these efforts for a decade or so, too. And about the materials on the policy for running the Follow-up Council meetings - for the time being, I think monthly frequency will be sufficient for follow-up meetings, but we should probably keep at it for another ten years. [Laughs] But seriously, we should be stubborn and keep at this for another decade, even if we may need to drop the frequency of our meetings to a few times a year at some point further down the road. And "stubborn" council members in particular should keep at it. If we do this, the council system will be able to survive, even if an administration or secretary gets appointed that wants to discontinue such follow-up council meetings. Usually that administration or secretary would clearly be labeled as conservative. Once the system is settled, however, the opposition forces will give up any futile resistance. They will understand that the system will last for another decade, and it means the rest of their life as an employee, because the most of those in higher positions will probably resign within ten years. I am quite serious about this and think it is an extremely important point. In Japan, battles on reforms are won by whoever is more tenacious, and I believe it will be a matter of stamina.

At the risk of saying one word too many, I would like to further elaborate on that train of thought and say that, in today's world, such efforts will be particularly important on occasions attended by media personnel. It will be important to really keep these efforts up, and incidentally, I think there are some dubious aspects in the governance of media companies too. I would like all of you to think about this point. You can write up my comment. I once served as an outside auditor for a media corporation, and find that in many cases media companies have a surprisingly obsolete corporate structure. There are many typical old-fashioned community-like companies, and think it would be great if we could consider this matter in conjunction with.

Then I have some minor points to make. One is about coordination and reporting lines among audit committees, internal audit departments and external accounting auditors. Frankly speaking, the recent issue at Toshiba is an instance where these aspects ultimately failed to work effectively

as a safeguard. In this regard, someone else has mentioned the problems of audit corporations. Following the Kanebo accounting fraud case, I am not going to argue that it was necessarily right for ChuoAoyama – Kanebo's auditing firm – to pay such a price, but be that as it may, ChuoAoyama was eventually dissolved. It is true that a further decline in the number of major auditing firms would spell trouble for this sector, but let us set practical issues of this sort aside for the moment. I believe that the Financial Services Agency should thoroughly look at what caused auditing to fail, as well as into where responsibility lay.

Additionally, I believe that it is of vital importance to expressly establish reporting lines between auditing corporations, internal controls, or internal reporting lines and external officers, be they directors or auditors. From the standpoint of a whistleblower, it is natural to be afraid when one thinks that his/her report will unflinching go through the line of leadership and eventually reach the president. In short, the more serious the issue, the more likely the whistleblower will be penalized. So he or she needs a safer outlet to make a whistleblowing. From the average office worker's perspective, jumping to reporting to the Securities and Exchange Surveillance Commission is extremely intimidating. I therefore have a feeling that a system allowing employees to, from time to time, report to approachable external auditors or directors should, to an extent, be used as a model, or at any rate be clearly stipulated in the Code.

Conversely, in such instances the training of those on the receiving end of internal or secret reports will be important, too. In my past professional career, I have received repeated confidential reports in the past, many of which during the time I spent at the Industrial Revitalization Corporation of Japan. I am pretty used to seeing such documents. The problem is that eight or nine times out of ten, such reports are merely the expression of a personal grudge - in short, they are honestly worthless. One in ten, however - or one in twenty or thirty - will contain a clue to an important truth.

If the recipient of a confidential report is naive, each and every report is going to generate a big fuss, and this is not acceptable from a management standpoint, instead giving rise to peculiar power struggles. I think that at this point, the maturity of the confidential report's recipient comes into play. Ultimately, the problem lies in his/her skill in processing such reports. I think it will be extremely important to discuss how to improve on existing reporting lines, taking into account the afore-mentioned aspect as well.

In this context, from the substantial standpoint, I honestly believe that a number of companies adopted the supervisory committee system mentioned earlier as a way to avoid any trouble, because two auditors must be secured anyway. At the very least, I believe that the company with supervisory committee is, out of the three forms, undoubtedly the weakest. I can say this with certainty. The responsibility rests with former *kansayaku*. The fact that external auditors are appointed as directors probably means that there are no outside directors with management experience. In defensive terms, I believe that they are able to fulfill their role. But in this respect, too, the previously four year-long term of office will now be reduced to one year. There is a big difference between four and one years.

As Mr. Tanaka said earlier, if we assume that the yearly register is compiled by management, those directors that used to be able to, in a sense, ignore management and focus on doing their job for four years will now be under management's scrutiny on a yearly basis. Frankly, this is an instance where the ACGA's view may be formally correct, but substantially wrong. It is certain to weaken the system.

supervisory committee will eventually reach the company with three- committees system, and companies cannot avoid reforming their structures into the latter's system. People may find such a system unexpectedly convenient. If we leave things as they are, the supervisory committee system will suit those who choose to sit and wait for things to go back as they were, as it is seen as more commendable compared to the *kansayaku* board system amidst all the talk of governance. Such an approach is inadmissible, and we must have a system in place and issue warnings to sort out such issues.

I am also pretty radical with regard to the issue of appointments and dismissals - I have to be, in contrast with the moderate tone of some of the comments made thus far. I think it is an absolute must for us to devise a system that allows picking the best possible person to serve as CEO. I think outside directors must commit to this. I believe that the destiny of a company today depends to a great extent on the CEO. It is true that, in recent times of growth and consistent changes in the environment, the role of the CEO was akin to that of an ex officio member and his or her burden was a lighter one. Today, however, we are dealing with a lack of growth, high volatility, and inconsistent, dramatic environmental changes, as well as global competition. At such times, the CEO's leadership and management skills can truly affect a company's fate. Naturally, it is an

extremely vital role of the outside directors, both inside and outside, to get together and select the best possible candidates to serve as outside directors, as well. This is an area of their authority that is clearly stipulated by law. The Companies Act's structure is much like the parliamentary cabinet system.

I think many, including the media, misunderstand this point. A general meeting of shareholders is not the National Diet - here, elections take place once a year. So to speak, the directors elected in the yearly general election form a National Diet, representing all stakeholders, and the Prime Minister - that is, the President - will be elected by their majority vote. This is a job to be taken seriously. Therefore, I am very particular on this point, as I believe that both appointments and dismissals must always be made with an awareness of whether a particular candidate is the best person for the job.

And I would like to make one last point. It's about the evaluation of the board, and the problem of agenda items brought up earlier on by Mr. Tsukuda from Egon Zehnder. If the board is to seriously fulfill its monitoring function, and discuss truly important matters in terms of the execution of business, at least twenty minutes will be necessary for each agenda item. Five minutes only would be unthinkable. In the past, however, I have attended the meeting of a board - I will not name the company - where as many as twenty or thirty agenda items were brought up. Each was explained in about 30 seconds, and virtually as soon as this explanation was over, the Board would rule that there were no objections. This process was repeated for twenty or thirty times. I will not say where this was, but it's unacceptable. Each agenda needs at least twenty minutes to have a proper discussion. And at the present moment, I believe we lack models and best practices for evaluating the board. I feel that since we are all struggling with this, it would be better to present a model of some sort. At the very least, we should present a model with regard to agenda items, and the average discussion time for each agenda item should be a minimum of 20 minutes. I hope for the creation of such a model, not least because it would eliminate such meaningless board meetings as the one I have just described - board members would need to stay up all night if they were discuss 20 or 30 agenda items.

[Ikeo, Chairman] Thank you.

Mr. Kawamura, please.

[Kawamura, member] The reason why governance is the subject of so much discussion

nowadays is that the government is hoping for Japanese companies to become more profitable, and this hope is shared by many others as well. Therefore, I believe that discussion of governance at this Council should focus on growth-oriented governance. Defensive governance has also certainly been discussed on numerous occasions. I myself have received numerous letters containing complaints due to certain issues occurring at companies where I served as outside director. But as Mr. Toyama has mentioned, these were mostly reflections of workplace grudges. Most of them are complaint against the workplace, but some can on occasion be dangerous. And this is crucial. That is, however, a form of defensive governance, while the single most important and immediate problem that we want to address is the attitude of passive acceptance of the failure of Japanese companies to make solid profits and grow consistently. Since addressing this issue is one of the goals of these follow-up meetings, we should keep adjusting our decisions to eventually reach the system that is most effective to that end. I believe that it will be of capital importance to do so on a practical level.

And then we will truly have the world of professionals. A comparison with professional baseball can help clarify this point. In professional baseball, those who hold the capital of a company would be the team's owners, while the members of the board would be the front office managers, and corporate managers would be the team manager or the coach. In the world of professional baseball, front offices will appoint - and, depending on performance, fire - team managers and coaches. They find out whether the team manager or coach is performing well, or poorly - which in corporate terms means poor earnings. In such cases, it is the role of front offices to fire people. Such is the world of professionals, and I think the same applies to companies, too. It's clearly the way in which sports in general work, and arts as well. Also, if a Japanese chef goes to work abroad, he or she will always be evaluated based on his or her actual performance. So recently we are seeing a trend to correct those areas in Japan that are lagging behind in overall terms compared to global standards. I think this is exactly the case for professional baseball. Team managers whose performance is mediocre are all being fired by the front office.

So we, too, need to take an American-style direction that will be convincing to shareholders and investors. In short, at a time like this the most important thing for our companies is to work harder, turn a profit and bring up Japan's overall GDP. Whether you like the American style or not, I think it can't be helped that we go in that direction, considering how often we forget that a company's

*raison d'être* lies in its ability to consistently turn a profit.

As Mr. Toyama said, members of top management must be true business professionals, and must also have great personal integrity. But in some cases, serving as company's president for years may bring out certain human weaknesses. One begins to grow attached to his or her position of power and authority, and will be reluctant to step down even if the company is performing poorly. Such instances go against the principle of sustainable growth, and a system to intervene is absolutely necessary. Even a good person may end up this way.

Equal care must be taken when appointing top management. In particular, this is the time in which we exit from deflation and enter into growth. Unlike during deflation, inactivity is no longer the best option. In the years to come, we will be expanding our businesses while taking on a certain amount of risk. At such a time, the way in which CEOs are selected will hold vital importance, but the wrong person may nevertheless be appointed, in which case it is important to promptly relieve that person of their duties. At my company, with this view, we are still in the process of getting this aspect sorted; we have adopted Company with three committees system as we found it to be the most clear-cut. So these are my thoughts on the subject.

[Ikeo, Chairman] Thank you.

Mr. Takei, please.

[Takei, member] I believe that all of the points made today are intertwined. As Mr. Kawamura said earlier, governance is being reformed in order to ensure the sustained growth of our businesses. I believe that the most important thing is the intent or strong will of companies to implement a style of governance that can support sustainable growth - that is, whether companies are willing to make the most of the participation of independent directors, and how they intend to ensure the functioning of a board with independent directors. I believe that the essence of the problem lies in the fact that this aspect is not yet clear.

The governance code defines governance as "self-motivated" ("a self-motivated system to achieve sustainable growth and increase corporate value over the mid- to long-term"). "Self-motivated" is where the emphasis lies, and people in companies need to reflect on the meaning of this term. I believe that the companies' intent in adopting a self-motivated system and ensuring mid- to long-term growth needs to be thought over thoroughly, and that the governance Code's entries should be complied with on this basis.

Company's intent or strong will to ensure sustainable growth is the starting point for all topics that have been brought up so far - for independent directors, for the board and for institutional design alike. For example, points concerning which the governance report asks to explain compliance include 4-1.1 and 4-11.1. Under 4-1.1, the governance report asks for company representatives to clarify their approach to what should be discussed at the board meetings, whereas under 4-11.1 it asks company representatives to explain what they believe to be the necessary balance of knowledge, experience, skills and diversity for board members. The governance report is expected to comprehensively state these points. I believe that in this respect, corporate intent should hold great importance. For example, the important characteristics of Companies with *Kansayaku* Boards which have accounted for over 90% of all companies lie in the fact that the board serves as both a supervisory board and a management board, rather than in the *kansayaku* system. This means that the board must use its time to take decisions on management issues. Therefore, Companies with *Kansayaku* Board may not have spent much time to consider matters such as 4-1.1 and 4-11.1 in terms of corporate intent. Now that the Companies Act has been amended to allow the supervisory committee model, other options have become available in terms of institutional design. The *kansayaku* board company system can be said an efficient option for a company during the economic expansion era dating back to 40 years ago in a sense that it does not have to think about its corporate structure by following what the Companies Act. However, under the current situation where Japan is now facing a period of stagnant economic growth and must rapidly evolve in a global direction to find growth opportunities amidst sluggish growth, a Japanese corporation needs to consider its own board design, including matters such as 4-1.1 and 4-11.1.

From this standpoint, points 4-1.1 and 4-11.1 will be the key to achieve growth-oriented governance. In growth-oriented governance, I believe risk management to be key. When making various growth-oriented business decisions, the probability of success will be boosted because such decisions are discussed in a diversity of a board of such structure. The diversity offered by the management board alone may not be sufficient to handle such high-risk matters; these must be brought up for discussion by a board having knowledge, experience and diversity, and the diverse input of independent directors will allow more accurate decision-making and improve chances of success. From an investor's perspective, such an approach would be valued, as going through this type of decision-making process would reduce risk volatility and boost corporate value. I believe

that such a flow would allow us to achieve growth-oriented governance.

The Governance Code states that decision-making monitored by the board formed by the Code's aims is supported by the business judgment rule.

The questions of what sort of diversity is needed in a board and of what matters should be brought up for discussion at a board meeting are, as mentioned in 4-1.1 and 4-11.1, two intertwining sides of the same coin. Here, individual companies will indicate their intent in relation to the questions of what sort of risk management, challenges and growth-oriented decisions will be necessary to ensure sustainable growth.

Although it may be natural that we have not yet gone into such strategic explanations in the first year of the Code's application, an explanation with a storyline rooted in the strategic intent of companies will be the key. We should seek for and show to the public good examples of explanation made by good Japanese companies showing this type of growth-oriented governance. This was the first point I wanted to make.

For my second point, I would like to add something to the form of company organization. Even if the board does include independent directors, their presence will be meaningless if they just listen to discussions by management board members and ask them “well, what do you expect of me in regard to these explanations?” The way in which explanations are provided at board meetings need to be made in a manner to help the independent directors fulfil their roles. This was the second point I wanted to make.

My third point, which is related to the second, concerns the fact that board members include the executive directors. These executive directors need to strengthen their awareness of the fact that they now have different professional duties as a board member, as compared to their role as officers. While of course such awareness can be enhanced through training, the difference between the position of an officer and that of a director should be kept in mind very clearly. This was the third point I wanted to make.

Fourthly and finally, the subject of appointment or nomination is extremely important for effective corporate governance, and as Mr. Toyama has pointed out, how outside directors will be involved in the nomination process is important matter. This relates to the issue of how outside directors know well about the candidates. The reports made by the candidates at the board meeting will prove a valuable opportunity for outside directors to find out about that particular person's

capabilities. Even if outside directors are involved in nomination, the nomination function will not work unless the company has a proactive, cooperative attitude in establishing a system for providing information to outside directors. There are several companies out there that are doing well in terms of substantial enhancement of nomination, regardless of their institutional design. How to provide information to the outside directors is practically important to make the nomination process work.

[Ikeo, Chairman] Thank you.

Mr. Callon, please.

[Callon, member] There are three points that I would like to make. The first one concerns the overall state of governance reform. I have been living in Japan for a long time, and perhaps for this reason, I too am fond of *hansei* (a Japanese concept meaning "self-reflection", entailing the recognition of one's mistakes as the grounds for improvement). In Japan, discussions often focus on finding ways to improve, rooted in Japan's culture of excellence. While I do believe that there is room for continued progress, I would like to stress that Japan's current corporate governance reforms are going very well. We have made dramatic advances over the past year, and Japanese listed companies as creators of value are clearly moving in the direction of reform, both in terms of their mentality and their actions.

To give a concrete example, as part of Ichigo's voting policy we are asking our portfolio companies to appoint two or more independent directors, as suggested by the Code. I was concerned how our portfolio companies would react to this, but I find that they are in pretty much universal agreement that the appointment of two or more independent directors is necessary and natural. Just two years ago, many companies would have been reluctant to appoint two or more independent directors. The data that has been provided by Mr. Tsukuda shows that the senior executives of companies that have appointed two or more independent directors now recognize the functionality of independent boards and are pursuing continuing reform.

The second issue relates to the number of independent directors. To be honest, my sense is that "two or more" independent directors was written into the Code as a compromise and out of respect for consensus. "Three or more" independent directors or "greater than one-third" independent directors were alternative possibilities, but at the time of the Code drafting there was opposition from companies that had no independent directors, and some voiced the opinion that the

appointment of independent directors in such numbers may be premature. I myself also thought that drafting a comply or explain Japanese Code would be meaningless unless it was done in a way that won the support of listed companies. In Europe and the U.S, the introduction of the independent director system to drive corporate value creation dates back as far as 30 years ago. If one looks at the results, Japan has been left behind by Europe and the U.S. from the standpoint of creating value. I therefore expect that the number of independent directors in Japan will gradually increase in the course of further governance reforms. The standard number of independent directors may reach three or more, and eventually increase to one-third or the majority. I should add that when I meet Japanese CEOs, I always ask about the benefits of appointing independent directors, and I am always told that they bring two positives to the board: first, greater board discipline due to the introduction of external perspectives; second, a heightened focus on value creation. Against the backdrop of declining birth rates and an aging population, it is one of our generation's responsibilities to work towards making the best possible use of the assets created by previous generations in order to benefit Japan at large.

My third point concerns board agendas and discussions, an issue raised earlier by Mr. Toyama. I agree with Mr. Toyama that board-level discussions deserve 20 minutes or more. As a practical problem, however, the agenda items in Japanese board meetings today are sometimes very minor. The fact is that Japanese boards are frequently making decisions on operational execution, when in fact the board should focus on business strategy and monitoring. In order to enhance the quality of board discussions and also allow the company to move quickly on the execution side, it is important for the board to delegate authority on business execution. In my own experience, at board meetings in Japan the agenda consists solely of reports from management and/or matters to be decided that day, and management reports are usually listened to passively by the board. To give a positive example, one portfolio company that we have invested in has innovated in its board agenda management. In addition to management reports and board resolutions, the company has introduced a separate agenda category called matters for discussion. These are matters that are not resolved on the same day, but they are not merely management reports, either. Instead, they provide an opportunity for the board to discuss and deliberate on the direction of the company's business from a mid- to long-term perspective. For example, the board will have a series of discussions about a mid-term plan to be implemented in the following year, thereby getting the input of independent

directors in the mid-term plan formulation itself. While the actual mid-term plan approval will happen in the following year, the mid-term plan is thoroughly deliberated upon and gets input from the full board. I think this is a great approach, one that is innovative and best practice and breaks away from Japanese board convention. So my third point is that I think it is vital that board discussions be carried out in a more in-depth fashion.

[Ikeo, Chairman] Thank you. Mr. Tsukuda, please.

[Tsukuda, member] I had a few points that I wanted to make, but since we are running out of time I will focus my comments on only one of these. It's about the appointment and dismissal of CEOs. The subject of the elements required for the appointment and dismissal of CEOs has been touched upon earlier by Mr. Toyama, Mr. Kawamura and Mr. Oguchi before them, as well as in Material 2 prepared by the secretariat. I completely agree on what has been said on objectivity, timeliness, transparency and the procedures required to achieve these ends. In regard to this point, I believe that information and best practices should be shared on possible procedures.

I do not, however, think that doing so would be necessary and sufficient. I have written a piece on p. 4 of the issue of Nikkei BizGate that I have distributed today. What I think is the most important thing is that we thoroughly discuss not only the process of CEO appointment and dismissals, but also the type of person that is fit to serve as CEO. I myself help with the succession of CEOs, and have noticed that independent directors also tend to discuss who might be the best fit among a few possible candidates. Regardless, however, of who is elected in the end, I believe that it is first of all necessary to think about what sort of CEO the company will need in five years' time in terms of qualifications and skills, so as to ensure that members of top management meet the needs of the times. If such matters are not discussed, I believe that eventually we will encounter problems such as those recently faced by a certain company - no matter how much we refine the process.

In this respect, here is what I believe that people at Japanese companies need to think about. A comparison of managers and leaders is shown in the table on page 4. The idea of externally-sourced management professionals is virtually foreign to Japan, so the issue of how many executives and leaders can emerge from the management positions listed to the left must be kept in mind in the context of Japanese-style management at Japanese companies. Otherwise, it may be very hard to make any substantial changes.

That is all I have to say.

[Ikeo, Chairman] Thank you.

Mr. Tanaka, please.

[Tanaka, member] Listening to the others after my opening speech has reinforced my belief that matters concerning the appointment and dismissal of top management will present particularly important challenges. As Mr. Toyama, Mr. Kawamura and others have mentioned, in view of such challenges it seems to me that it will be practically indispensable to adopt the company with three-committee system. Furthermore, unless additional outside directors are selected by the ones in office and the independence of the board is improved in a voluntary fashion, I feel like we will lack a starting point for solving the issue of reinforcing the board's supervisory function.

As I mentioned earlier, I myself served on the boards of American financial institutions for about ten years. From 2007 to 2010, I also was president of Union Bank - about the 25<sup>th</sup> largest bank out of over 8,000 banks in the United States. This was right when the financial crisis of 2008 hit. At that time, Union Bank was a listed company, and had 12 outside directors and four internal ones. I therefore have personally experienced exchanges with outside directors at a time of crisis.

During that time, there were instances in which the presence of outside directors greatly helped, and instances in which I disagreed with their views. I will refrain from discussing such instances at length. But I believe that outside directors are a diverse group of people, and that it is extremely important not only that top management receive their advice, but also that outside directors and top management form a solid partnership. With regard to this point, today I have here with me a book written by Ram Charan titled "Boards that Lead". It came out last year, and discusses a variety of cases in which the board may need to take charge, to partner or to stay out of the way. Rather than discussing my personal experience, I would suggest reading this book if you have the chance, as I consider it an outstanding work that illustrates an extensive collection of cases relating to how boards of directors work in the U.S.

One such case is that of Apple, which recovered from a slump when previously discharged Steve Jobs was reappointed as CEO. The book describes in detail how the board worked in this case. Today, however, unfortunately boards of directors in Japan are still at a level where it is dubious whether they are truly fulfilling their supervisory function. In theory, the board should be composed of diverse members from outside the company who serve as the partners of top management. Ideally, in instances where management is hesitant the board should encourage it to

have some entrepreneurial spirit, and suggest possible businesses. On the other hand, in terms of risk management the board should provide a sense of security by thoroughly fulfilling its supervisory function. The most desirable scenario is one where companies undertake such a shift without being told to do so by the government, but, rather, in an autonomous fashion with the aim of boosting profits by investing in this area, leading to more employment and higher wages. This was the first point I wanted to make.

My second and last point concerns the governance of corporate groups that I mentioned at the last meeting, and specifically the case of Asahi Kasei Construction Materials Corporation. On the 14 of this month, the partial falsification of works data came to light. As a result, on the 15th the closing price of the shares of parent company Asahi Kasei dropped by 14%. In other words, today a scandal occurring at a subsidiary can cause a drop as large as 14% in its listed parent company. This case perfectly reflects the issue of how a listed parent company's board and the *kansayaku* board should understand their responsibility and exert their authority on scandals occurring at subsidiaries. I also believe that this case has brought to the forefront the issue of whether the board of directors and the *kansayaku* board are given sufficient authority under the Companies Act.

I cannot go into much detail here concerning Article 362, paragraph 4 and other parts of the amended Companies Act, but I do feel that on a basic level, this issue is important from a corporate governance standpoint. A pure holding company until March and subsequently a business holding company, Asahi Kasei nevertheless remained the holding company. I believe that the question of what steps the board should take as the representative of shareholders in response to such a major problem occurring at a subsidiary is a very important one, and I would like to stress this point once again.

[Ikeo, Chairman] Thank you. Mr. Iwama, please.

[Iwama, member] My role is to represent the perspective of the asset management industry. In our industry, too, we are taking action so that we can help bring information to the outside world concerning governance trends in Japan. However, explaining unique Japanese characteristics is certainly difficult. Attempting to explain that Japan has seen some extremely sound management had a difficult time, because the separation of management and supervision is not as advanced as in Europe and the U.S. . Conversely, as the others have mentioned I believe that foreign observers are very impressed with recent governance trends.

Needless to say, substance is held in greater consideration than form in other countries as well. In the case of Japan, however, form is complex and requires detailed explanation. In this area we face great difficulties. While foreign investors understand that there are signs of improvement and that we are moving in the right direction, they are also eagerly waiting to see the final result. Mr. Kawamura and Mr. Tanaka spoke about this earlier, and I believe that we will ultimately arrive at the adoption of the three-committee system (nomination, audit and remuneration) , and that we are now in an interim phase of that process. The current distribution as shown in the various documents provided by the Tokyo Stock Exchange and Egon Zehnder clearly appears to be characteristic of an interim period.

For example, let us look at page 11 of the materials provided by the Tokyo Stock Exchange. It shows the composition of attributes of nomination committee chairpersons and ratio of outside directors. I was surprised to find out that outside directors account for roughly half of all chairpersons even at Companies with *Kansayaku* Boards. How has this aspect changed over time, then? I believe that the change has been a gradual one, and that it has been greatly propelled by the recent introduction of the Governance Code and The Stewardship Code. I believe that the provision of various data on this type of dynamic change can be of great help to those working from our position. This is a wish more than an opinion, but it is my hope that we will be receiving this type of data.

[Ikeo, Chairman] We have already run out of time - Dr. Ueda, would you like to say anything? In that case, would Mr. Oguchi please say a few words?

[Oguchi, member] I will keep this short. Earlier on, someone mentioned a report by the ACGA (Asian Corporate Governance Association), titled "ACGA Paper on Kansayaku and Audit Committees" published in October 2013. It seems to me, however, that there was a slight misunderstanding. Since I have the report here with me, I am going to read the relevant parts. "In general, however, we believe that both in terms of structure and actual practice, the powers of the *kansayaku* boards are weaker than those of Audit Committees, which are an integral part of the board and their members participants in board decisions. If one were designing a system of board governance and management oversight from scratch in a modern capital market, we do not believe that the *kansayaku* system would be the outcome".

[Ueda, member] Thank you. I will do my best to be brief.

Earlier on, other members stated that we may ultimately reach the adoption of the three-committees system. I am sorry to oppose this view at the last minute, but in fact I do not believe that this will be the case at all. Looking at different countries, in my experience the best approach is to reform governance in a way that is rooted in each country's specific corporate culture and not to be apart from it. Substance, however, is more important than form, and I do believe that it will become necessary to establish the nomination and remuneration committees. Additionally, I would like to make a point on the complex issue of CEO appointment and dismissal. According to my research, in some cases, it is the incumbent president to recommend the candidate of the next president to the nomination committee, and the committee sometimes serves as a rubber-stamping body to confirm. In fact, at one of these companies, a terrible governance scandal subsequently occurred. Given this state of affairs, I believe that the will of reform is important. The appointment and dismissal of CEOs, however, is a very subtle issue anywhere. For example, the CEO of Total, French company, died in an aircraft accident. In this instance, the nomination committee gathered immediately and settled on a successor in about a week. I hear the process functioned extremely well. It was however pointed out that if the CEO had still been in charge, discussing the CEO's successor or the next CEO in his or her presence would have been difficult in any country. This prompts me to believe that a reform of mentality would be necessary to change the CEO's appointment and dismissal process. By a "reform of mentality", I mean that the CEO, the board, shareholders and the public at large should be mindful of the fact that the CEO is appointed and may be dismissed by the board. I believe that it will not be possible to solve this issue without making such changes. Unfortunately, such a mentality has thus far been absent from Japanese corporate culture. In view, however, of the necessity of making changes following the Code's establishment, I believe that we will have to push forward in changing our mentality for about ten years, as was mentioned earlier on and as I myself was told in several foreign countries. I believe that the appointment and dismissal of CEOs may be the single most important theme in relation to growth-oriented governance, and also a weight subject in discussing the board.

Thank you for your attention.

[Ikeo, Chairman] Thank you. This Council will hold its meetings until the Corporate Governance Code becomes well-known and established. Many issues still require discussion, but for today our discussion will have to stop here as we have reached the end of scheduled time. I

would like to ask the secretariat to compile a record of today's discussion.

Finally, an announcement from the secretariat.

[Tahara] We will be setting the next date upon taking into account the schedule of all attendees, and will get in touch with you shortly.

That is all I have to say.

[Ikeo, Chairman] Thank you.

I now declare today's session closed. Thank you very much.