

December 12, 2014

Opinion Based on Material "Council of Experts on Drafting the Corporate Governance Code" (Eighth)

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I believe the Corporate Governance Code Draft (henceforth the "Draft") that has been handed out today to be an extremely valuable document, providing a well-organized synthesis of the different opinions expressed by our members in the context of the lively discussions that took place during the past seven Councils of Experts.

Based on the Draft, the Tokyo Stock Exchange is going to draft the Code's final version, and individual companies will begin applying it, upon review by the government if the case demands it. Below are my comments on points that I hope you will consider in the course of this process.

The result of this process will be to promote understanding of Japanese corporate governance among investors both in Japan and abroad. Likewise, as stated in the Draft's preamble, applying the Code's terms appropriately will ensure that individual companies work autonomously to grow sustainably and improve corporate value over the mid to long term. I strongly hope that this will contribute to the growth of companies and investors alike, as well as the economy as a whole.

- In the materials I submitted for the Sixth Council, I commented with regard to Supplementary Principle 1.2.2 to that effect that **"I believe that the Code should clearly state that setting aside enough time to maintain the reliability of information should be a prerequisite for any efforts made to dispatch the convocation notices earlier."** It is my understanding that it was in response to this suggestion that the Draft now reads **"While ensuring the accuracy of content,** companies should strive to send convocation notices for general shareholder meetings early enough to give shareholders sufficient time to consider the agenda." I believe that reading the Draft together with information on the circumstances of such revisions and other background will make its aims clear.

For this reason, those drafting the final version of the Corporate Governance Code and those reviewing it as the representative of the government should always keep in mind that the suggestion to "strive to send convocation notices (for general shareholder meetings) early" is made based on the assumption that companies secure a **"sufficient amount of time"** for disclosing **"sufficient information"**, and I hope that they will discuss this point and clarify it in a more in-depth fashion.

- With regard to Chapter 4 (Responsibilities of the Board), the emphasis placed in General Principle 4 on the word "accountability" makes it clear that corporate governance will require the Board to understand the importance of accountability

and to thoroughly fulfill its responsibility in that respect. I hope that this concept will be sufficiently understood, and that it will be put into practice appropriately.

- With regard to Principle 4.11, both in the material I submitted for the Seventh Council and at the Council itself I suggested that "in fulfilling their roles and responsibilities, *kansayaku* will need knowledge not only on financial affairs and accounting, but also on audits carried out by *kansayaku* and accounting auditors". It is my understanding that the Corporate Governance Codes of other countries do not mention "knowledge on accounting audits", and that the draft did not either in order to avoid singling out Japan as the only country to mention it in its Code.

In foreign countries that have established a Code, however, many audit committee members who are experts on financial accounting matters required of directors also have auditing experience, and I believe this makes the governance environment different compared to Japan's.

For this reason, it is my understanding that the "appropriate knowledge and literacy in financial and accounting" mentioned in Principle 4.11 includes "knowledge and literacy in accounting audits".