

Points at issue on the Board

<Summary of the discussion so far>

○ State of utilization of organizational structure (Company with *Kansayaku* Board, Company with Three Committees, Company with Supervisory Committee) and optional advisory committees in various companies.

- In Companies with *Kansayaku* Board, as it is necessary for the board of directors to make decisions on business operations, the board of directors has to serve concurrently on the management board and supervisory board. In discussing corporate organization, from the viewpoint of achieving growth-oriented governance, it is important for companies to indicate their thinking on what should be discussed and what decisions should be made in board meetings.
- With regard to organizational structure, regardless of which type of organization is chosen, it is important to explain properly the reasons for the choice of corporate organization to the outside.
- If a decision is made to change to a Company with Supervisory Committees based on the reason of greater effectiveness concerning governance, it is important to substantially have a system in place that is expected by investors. In Companies with Supervisory Committees, in cases where the former internal *kansayaku* serves as the chairperson of the supervisory committee, there may be concerns on the operation side.
- Even in companies other than those with three committees, it is important to have substance, and it is probably necessary to install optional committees to handle matters of nomination or remuneration. Currently, there are also companies that have established optional committees, and this should be highlighted to overseas investors as an example of a good practice.
- In Companies with Supervisory Committee, since it is possible that none of the outside directors has management experience, this would be considered a weakness in terms of organizational structure, and ultimately such companies should be encouraged to adopt the structure of Company with Three Committees.

○ Increasing the number of independent directors

- How to evaluate the selection of candidates?
 - In the US, the search for outside director candidates is mainly conducted by outside directors. Listed companies should be proactive in disclosing

the qualification requirements and election process of directors while using such practices in the US as a reference.

- From the perspective of growth strategy in one's own company, it is important to explain the strategic nature of what is expected of independent directors to the outside.
- How to evaluate the number of concurrent appointments (one person serving in five companies at the maximum)?
 - Considering conflict of the schedule for board meetings, four or five is perhaps the limit for the number of concurrent appointments?
- Others
 - From the perspective of how to let independent directors function effectively, in addition to simply increasing the number of such directors, it is important to take measures concerning the input of information to independent directors.
 - In view of the fact that the majority of companies that introduced independent directors have acknowledged the effectiveness of such a practice, we can look forward to measures to increase the number of such directors in future to, for example, one-third of the board.

○ An “independent and objective standpoint” of the board (Principle 4.3)

- Separation of the roles of board meetings and management meetings, separation of oversight and execution
 - The current state of the boards:
 - As decision-making on business operations is carried out in point of fact by the representative director and the assisting executive directors, asking for approval at board meetings has become a mere formality.
 - Japanese boards tend to have a high ratio of internal directors who are homogenous, and decisions on daily operations are brought into the platform for making decisions on management policies.
- Considering that such problems have been pointed out, the question of how to secure an “independent and objective standpoint” (Principle 4.3) of the board in substance is an important topic.
- To increase the effectiveness of the board, it is necessary to carry out drastic management reform to change the overall process of decision-making by management that extends to both sides of execution and oversight.
 - The board should delegate authority for decision-making on business

operations and enhance the discussion on management strategy and oversight.

- The board should secure adequate time to deliberate matters and ensure the effectiveness of discussions at board meetings by narrowing the number of agenda items through delegation of authority.
- Selection of chairperson of the board and chairperson of various committees
 - To secure the independence and objectivity of the board, it is extremely effective to separate the CEO and chairperson of the board. Furthermore, with regard to optional committees, it is also important that a chairperson of an optional committee is selected from independent directors, and independent directors constitute the majority of the committee.
- Ideal state of collaboration between supervisory committee (or *kansayaku* board) and internal audit division/external auditors, internal audit, and the reporting line for whistleblowing
 - Whistleblowing is important as the last resort of governance. From the viewpoint of making this work, companies should establish a framework for reporting to outside directors or outside *kansayaku*.
 - Investors have high expectations of external auditors, but what are the reasons if it happens that they are not fulfilling their expected functions?

○ Appointment/dismissal of CEO

- Objectivity, timeliness and transparency are regarded as the elements that should be required in the appointment/dismissal of CEO, and companies should share best practices on what kind of steps would be ideal to take for that purpose.
- It is most crucial for the boards to discuss thoroughly the image of what the required CEO qualities and skills should be instead of focusing on the process.
- The leadership and management skills of the CEO affect the fate of a company. An important mission of the board is to select, train and nominate the best person as the CEO. The appointment of CEO should be carried out fairly and objectively using time and energy based on a robust procedure.
- In discussing governance, growth-oriented governance should be the focus. Now that Japan has emerged from deflation, the time has come for expanding businesses while keeping an eye on risks to a certain extent.

The selection of the CEO at such a time is extremely important. In cases that go against the principle of sustainable growth such as results are not forthcoming, it is necessary to be able to dismiss the CEO.

- It is not realistic to expect internal directors to be able to formulate a successor plan effectively or to drive the appointment/dismissal of CEO when in reality it is the CEO who has authority to manage personnel affairs of the internal directors. In the sense of ensuring transparency and objectivity, the presence of independent directors is necessary, and the question of how to make use of meetings that are made up of only independent directors is also an important point of discussion.
- In the final analysis, perhaps the method used in Companies with Three Committees suggests the clearest way for carrying out the appointment/dismissal of CEO.

○ The ideal state of an effective consolidated governance system in a corporate group under a holding company

- It is necessary to deepen the discussion on the topic of what kind of role and responsibilities the boards of directors and the *kansayaku* boards of listed companies should bear in relation to the scandals of subsidiaries.

○ Others (including overall comments)

- Generally speaking, there is a tendency to focus on only the formal aspects such as the degree of compliance, the number of independent directors or the organizational structure of the company and so forth in the evaluation of the response of companies, but the important thing is not the formal aspects but the question of whether investors and companies are having a constructive dialogue on the improvement of corporate value in the mid- to long-term including explanations by companies.
- For institutional investors to understand companies, it is important to conduct self or external evaluation on the overall effectiveness of the board (board evaluation). Furthermore, is it possible to indicate some kind of model that will be helpful for board evaluation?
- More effort should be made to understand the actual conditions of the number and role of senior advisers and executive advisers.