

Issues concerning revision of Japan's Corporate Governance Code in accordance with establishment of the Guidelines for Investor and Company Engagement

Guidelines for Investor and Company Engagement (Draft)	The related principles of Japan's Corporate Governance Code
<p>1. Management Decisions in Response to Changes in the Management Environment</p> <p>1-1. Are specific business strategies and business plans established and disclosed to achieve sustainable growth and increase corporate value over the mid- to long-term? Are these business strategies and business plans consistent with business principles?</p> <p>1-2. Does management identify the capital costs of their companies appropriately? Does the management undertake their businesses with recognition of their capital costs by setting targets on profitability and capital efficiency to achieve sustainable growth and increase corporate value over the mid- to long-term? Do companies achieve returns which cover capital costs on a mid- to long-term basis?</p> <p>1-3. Does the management understand the management environment and risks appropriately and make decisive management decision such as restructuring their business portfolio, including investment in new businesses and exit from or sale of existing businesses, based on business strategies and business plans? Is the policy on review of their business portfolio clearly established, and is such a review process effective?</p>	<p>Principle 5.2 Establishing and Disclosing Business Strategy and Business Plan</p> <p>When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policy, and present targets for profitability and capital efficiency. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources and specific measures that will be taken in order to achieve their plans and targets.</p> <p>➤ <i>Would it be appropriate to revise the Corporate Governance Code (hereafter, "Code") so as to include a statement that capital costs should be considered when the companies articulate their earnings plan and capital policy, and include review of business portfolio as an example of "allocation of management resource," in line with Guidelines (draft) 1-2 and 1-3?</i></p>

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<p>2. Investment Strategy and Financial Management Policy</p> <p>2-1. Is investment in fixed assets, R&D and human resources to achieve sustainable growth and increase corporate value over the mid- to long-term carried out strategically and systematically from the standpoint of obtaining returns which cover capital costs on a mid-to long- term basis?</p> <p>2-2. Is financial management policy established and managed appropriately based on business strategies and investment strategies?</p>	<p>Principle 5.2 Establishing and Disclosing Business Strategy and Business Plan</p> <p>When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policy, and present targets for profitability and capital efficiency. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources and specific measures that will be taken in order to achieve their plans and targets.</p> <p>➤ <i>Would it be appropriate to revise the Code so as to include investment in fixed assets, R&D and human resources as an example of “allocation of management resource” in line with Guidelines (draft) 2-1 and 2-2?</i></p>

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<p>3. Appointment/Dismissal of CEO and Responsibilities of the Board Appointment/Dismissal of the CEO, etc.</p> <p>3-1. Does there exist an established policy on CEO qualifications in order to appoint a CEO who can make decisive management decisions to achieve sustainable growth and increase corporate value over the mid- to long-term?</p> <p>3-2. Is the qualified CEO appointed through objective, timely and transparent procedures taking sufficient time and resources? In order to make these procedures effective, is an independent nomination committee actively involved?</p> <p>3-3. Is the CEO succession plan appropriately established and operated, and are CEO candidates developed systematically with sufficient time and resources?</p> <p>3-4. Are objective, timely and transparent procedures established so that CEOs can be dismissed when it is identified that the CEO does not fulfill responsibilities sufficiently based on appropriate evaluation of business performance, etc. of the companies?</p>	<p>Principle 4.3 Roles and Responsibilities of the Board (3) The board should view the effective oversight of the management and directors from an independent and objective standpoint as a major aspect of its roles and responsibilities. It should appropriately evaluate company performance and reflect the evaluation in its assessment of the senior management.</p> <p>Supplementary Principles 4.3.1 The board should ensure that the appointment and dismissal of the senior management are based on highly transparent and fair procedures and reflect the results of company performance.</p> <ul style="list-style-type: none"> ➤ <i>Would it be appropriate to add a new Supplementary Principle on the procedures of CEO appointment to the Code in line with Guidelines (draft) 3-1 and 3-2?</i> ➤ <i>Would it be appropriate to add a new Supplementary Principle on the procedures of CEO dismissal to the Code in line with Guidelines (draft) 3-4?</i> <p>Supplementary Principles 4.10.1 If the organizational structure of a company is either Company with <i>Kansayaku</i> Board or Company with Supervisory Committee and independent directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from independent directors in the examination of such important matters as nominations and remuneration by, for example, establishing optional advisory committees under the board to which independent directors make significant contributions.</p> <ul style="list-style-type: none"> ➤ <i>Would it be appropriate to revise the Code in terms of involvement of an independent nomination committee on CEO appointment/dismissal in line with Guidelines (draft) 3-2 through 3-4?</i>

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	<p>Supplementary Principles 4.1.3 Based on the company objectives (business principles, etc.) and specific business strategies, the board should engage in the appropriate oversight of succession planning for the CEO and other top executives.</p> <p>➤ <i>Would it be appropriate to revise the Code in terms of CEO succession plans and development of CEO candidates in line with Guidelines (draft) 3-3?</i></p> <p>Principle 3.1 Full Disclosure In addition to making information disclosure in compliance with relevant laws and regulations, companies should disclose and proactively provide the information listed below (along with the disclosures specified by the principles of the Code) in order to enhance transparency and fairness in decision-making and ensure effective corporate governance:</p> <p>iv) Board policies and procedures in the appointment of the senior management and the nomination of directors and <i>kansayaku</i> candidates; and v) Explanations with respect to the individual appointments and nominations based on iv).</p> <p>➤ <i>Would it be appropriate to revise the Code so as to include CEO appointment/dismissal in the disclosure items in line with Guidelines (draft) 3-2 through 3-4?</i></p>

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<p>Determination of Remuneration of the Management</p> <p>3-5. Are procedures established for designing the management remuneration system so as to operate as a healthy incentive to achieve sustainable growth and increase corporate value over the mid- to long-term and determining actual remuneration amounts appropriately? In order to make these procedures effective, is an independent remuneration committee actively involved? Is the appropriateness of the management remuneration system and of the actual remuneration amount clearly explained?</p>	<p>Supplementary Principles 4.2.1</p> <p>In order for management remuneration to operate as a healthy incentive for sustainable growth, the proportion linked to mid- to long-term results and the balance of cash and stock should be set appropriately.</p> <p>➤ <i>Would it be appropriate to revise the Code in terms of design of management remuneration system and determination of remuneration amount in line with Guidelines (draft) 3-5?</i></p> <p>Supplementary Principles 4.10.1</p> <p>If the organizational structure of a company is either Company with <i>Kansayaku</i> Board or Company with Supervisory Committee and independent directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from independent directors in the examination of such important matters as nominations and remuneration by, for example, establishing optional advisory committees under the board to which independent directors make significant contributions.</p> <p>➤ <i>Would it be appropriate to revise the Code in terms of involvement of an independent remuneration committee on determination of remuneration in line with Guidelines (draft) 3-5?</i></p>

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<p>Constitution of the Board of Directors, Appointment of Independent Directors, and Their Responsibilities</p> <p>3-6. Is diversity of the board of directors fully ensured? Is a sufficient number of qualified independent directors appointed who have knowledge of finance, including capital efficiency, and understanding of relevant laws and regulations, etc.?</p> <p>3-7. Do independent directors recognize their roles and responsibilities, and provide advice and monitor management appropriately in response to business issues?</p> <p>Appointment of Audit Committee Members and Their Responsibilities</p> <p>3-8. Are qualified persons with appropriate knowledge, experience and skills appointed as <i>kansayaku</i>, Audit Committee Members, or Audit and Supervisory Committee Members (hereafter, collectively referred to as “Audit Committee Members”)?</p> <p>3-9. Do Audit Committee Members implement the business audit appropriately and act effectively to secure the proper accounting audit?</p>	<p>Principle 4.11 Preconditions for Board and <i>Kansayaku</i> Board Effectiveness</p> <p>The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity and appropriate size. In addition, at least one person who has appropriate expertise on finance and accounting should be appointed as <i>kansayaku</i>.</p> <p>➤ <i>Would it be appropriate to revise the Code so as to include a statement that Audit Committee Members should be qualified persons with appropriate knowledge, experience and skills in line with Guidelines (draft) 3-8?</i></p>

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<p>4. Cross-shareholdings</p> <p>Examination of Cross-shareholdings</p> <p>4-1. Do the companies clearly explain the purpose of each cross-shareholding in an understandable manner to their stakeholders? Are decisions appropriately made on whether or not to hold the shares of individual companies as cross-shareholdings, by the board of directors and so on, considering whether benefits from such holdings cover their capital costs? Do the companies clearly explain the status of cross-shareholdings including changes of names of held companies? Are appropriate standards with respect to the voting rights as to cross-shareholdings established and disclosed in an understandable manner? Are voting rights exercised appropriately in accordance with the established standards?</p> <p>4-2. Do the companies clarify reduction policies of cross-shareholdings in disclosing their policies on cross-shareholding, and take appropriate actions in accordance with the policies?</p>	<p>Principle 1.4 Cross-Shareholdings</p> <p>When companies hold shares of other listed companies as cross-shareholdings, they should disclose their policy with respect to doing so. In addition, the board should examine the mid- to long-term economic rationale and future outlook of major cross-shareholdings on an annual basis, taking into consideration both associated risks and returns. The annual examination should result in the board's detailed explanation of the objective and rationale behind cross-shareholdings.</p> <p>Companies should establish and disclose standards with respect to the voting rights as to their cross-shareholdings.</p> <p>➤ <i>Would it be appropriate to revise the Code in terms of examination of appropriateness on whether or not to hold shares of individual companies as cross-shareholdings and inclusion of reduction policies of cross-shareholdings in companies' policies on cross-shareholding in line with Guidelines (draft) 4-1 and 4-2?</i></p>

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<p>Relations with Cross-shareholders</p> <p>4-3. When cross-shareholders (shareholders who hold a company's share for the purpose of cross-shareholding) indicate their intention to sell the share, are there any cases in which the companies hinder sale of the cross-held shares by, for instance, implying possible reduction of business transactions?</p> <p>4-4. Are there any cases in which companies engage in transactions with cross-shareholders which may harm the interests of the companies or common interests of their shareholders by, for instance, continuing transactions without carefully examining the underlying economic rationales?</p>	<p>➤ <i>Would it be appropriate to revise the Code so as to include the point that should be noted when cross-shareholders indicate their intention to sell their shares in line with Guidelines (draft) 4-3?</i></p> <p>Principle 1.7 Related Party Transactions</p> <p>When a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the interests of the company or the common interests of its shareholders and prevent any concerns with respect to such harm, the board should establish appropriate procedures beforehand in proportion to the importance and characteristics of the transaction. In addition to their use by the board in approving and monitoring such transactions, these procedures should be disclosed.</p> <p>➤ <i>Would it be appropriate to clarify this Principle to be also applied to transactions with cross-shareholders in line with Guidelines (draft) 4-4?</i></p>

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<p>5. Asset Owners</p> <p>5-1. Do the companies, as pension funds sponsors, take measures in terms of human resources and operational practice such as recruitment or placement of qualified persons (including hiring outside experts), in order to enhance expertise of their corporate pension funds in investment management (including stewardship activities such as monitoring of asset managers) thus making them fulfill their responsibilities as asset owners*?</p> <p>* During the dialogue, investors and companies need to be careful about whether conflicts of interest, which could arise between sponsoring companies and pension fund beneficiaries as a result of the measure, are appropriately managed.</p>	<p>➤ <i>Would it be appropriate to add a new principle in terms of measures regarding corporate pension funds by sponsoring companies in line with Guidelines (draft) 5-1?</i></p>