

Material 4

Provisional
Translation

Reference Document 1

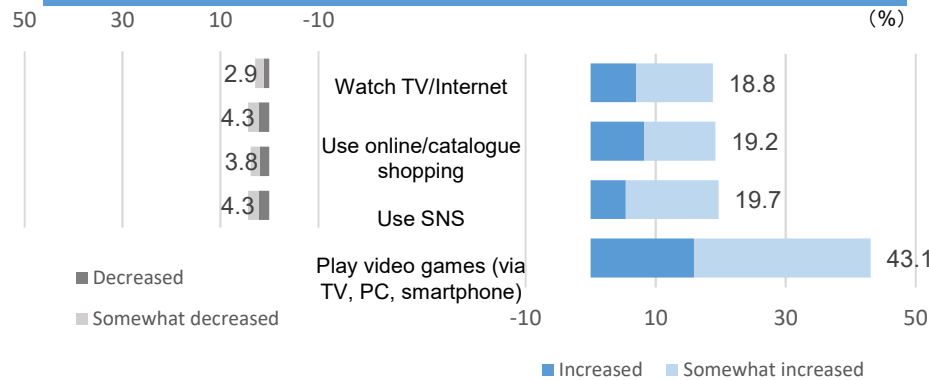
Economic and social changes after COVID-19

October 20, 2020
Financial Services Agency

(0) Changes in Concepts of Values and Behavior ①

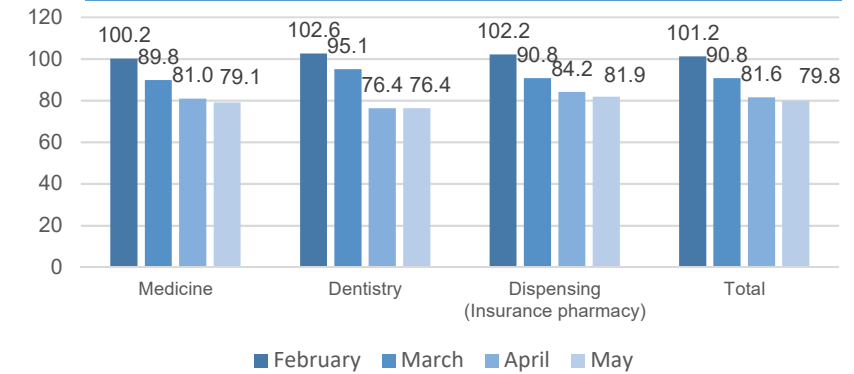
- ❑ After COVID-19, **non-face-to-face/online activities (e.g. online shopping and the use of SNS) increased.**
- ❑ Medical care providers **have increasingly offered online medical services in response to people's reluctance to go see doctors and increasing demand for such services.**
- ❑ Meanwhile, **direct contact/face-to-face activities decreased (e.g. physical exercise outside home and eating-out).**

Changes in media contact due to COVID-19 pandemic



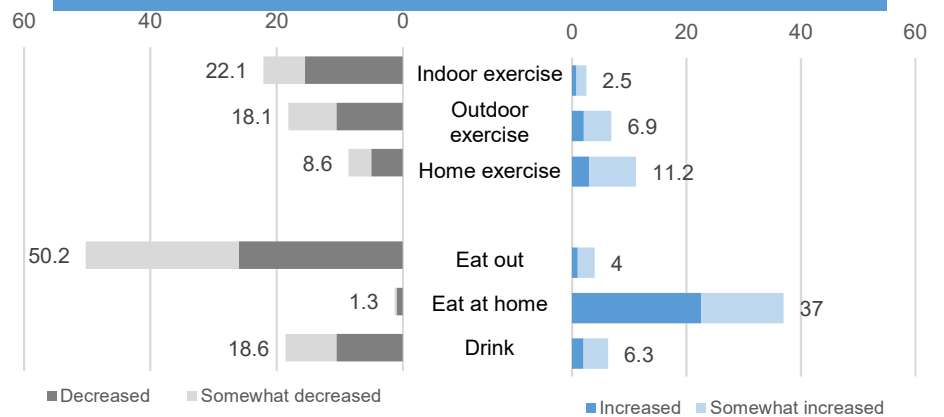
(Note 1) Coverage: 1,000 men and women throughout the country, aged between 20 and 69. Survey period: April 3-4, 2020. Online survey.
 (Note 2) Response alternatives include "unchanged", in addition to those indicated above.
 (Source) Prepared by the Financial Services Agency (FSA), based on Dai-ichi Life Research Institute "Survey of changes in daily life and consciousness due to COVID-19 (Part 2)" (April 20, 2020)

Changes in the number of outpatients (YoY)



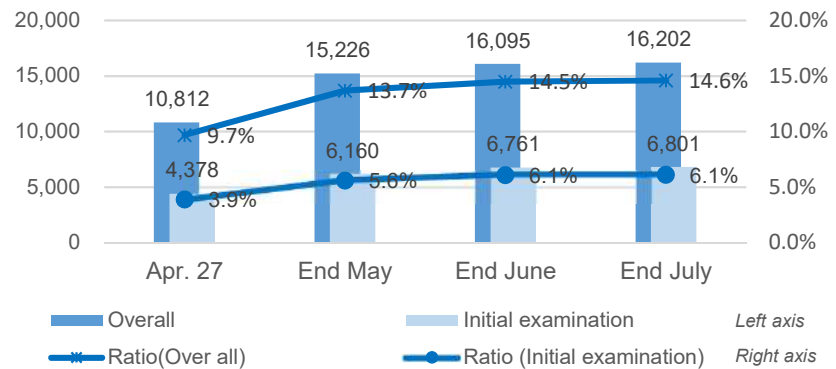
(Note 1) Ministry of Health, Labour and Welfare (MHLW) mechanically computed year-on-year changes, based on the numbers of assessed receipts indicated in monthly statistic reports on the website of Health Insurance Claims Review & Reimbursement Services and statistic data on assessment/payments of claims on the website of All-Japan Federation of National Health Insurance Organizations.
 (Note 2) Total number includes home-visit nursing.
 (Source) Prepared by FSA, based on the reference material for the 464th general meeting of MHLW Central Social Insurance Medical Council (Aug. 19, 2020)

Changes in exercise habit and diet due to COVID-19 pandemic



(Note 1) Coverage: 1,000 men and women throughout the country, aged between 20 and 69. Survey period: April 3-4, 2020. Online survey.
 (Note 2) "Indoor exercise" refers to "physical exercise in gyms, sport clubs, gymnasiums, etc."
 (Note 3) Response alternatives include "unchanged", in addition to those indicated above.
 (Source) Prepared by the Financial Services Agency (FSA), based on Dai-ichi Life Research Institute "Survey of changes in daily life and consciousness due to COVID-19 (Part 2)" (April 20, 2020)

Changes in the number of medical care providers which provide online/telephone medical services

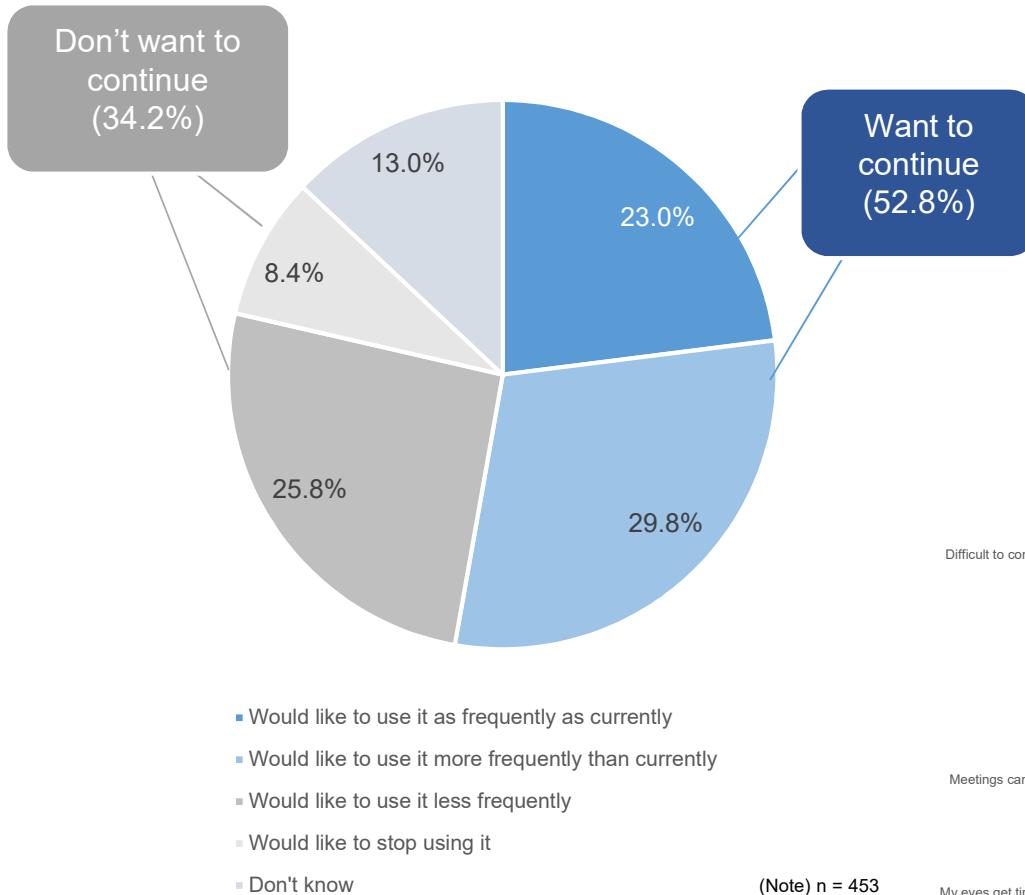


(Note 1) The data represents aggregation of data reported by each prefecture. End May: as of 17:00 on May 29. End June: as of 13:00 on July 1. End July: as of 22:00 on July 31.
 (Note 2) For each percentage, the denominator is the total number of hospitals and clinics shown in the medical facility survey (as of end-April 2020, rounded) - 110,898 facilities.
 (Source) Prepared by FSA, based on the reference material for the 464th general meeting of MHLW Central Social Insurance Medical Council (Aug. 19, 2020)

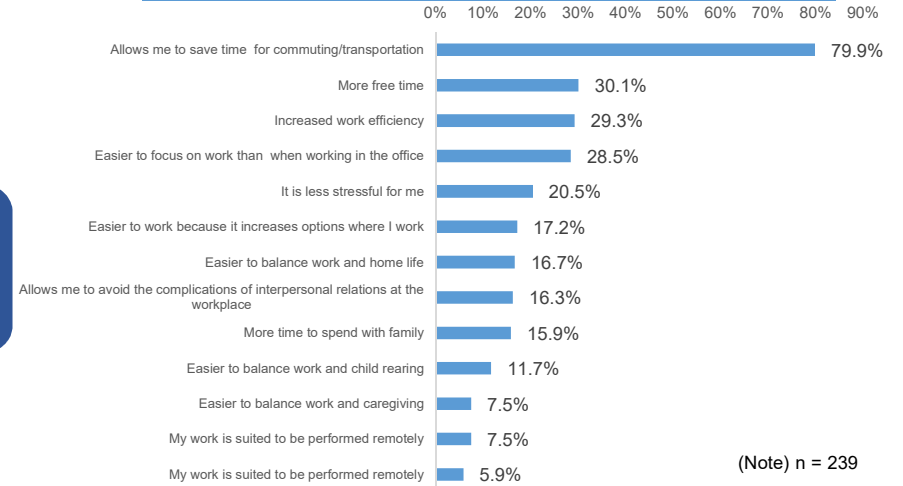
(0) Changes in Concepts of Values and Behavior ②

□ The percentage of employees who want to continue telework accounts for 52.8%.

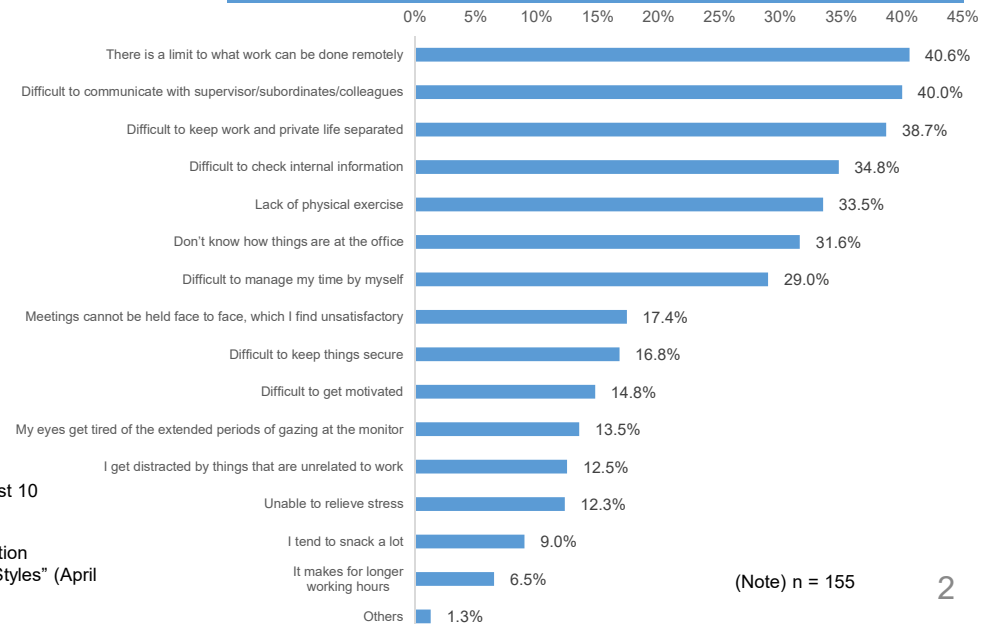
Intention to continue telework/remote work



Reasons for wanting to continue



Reasons for not wanting to continue



(Note) Those surveyed are corporate leaders, executives, and full-time employees of companies with at least 10 workers; aged 20 or above; white-collar workers. Online survey from April 7 to April 10, 2020.

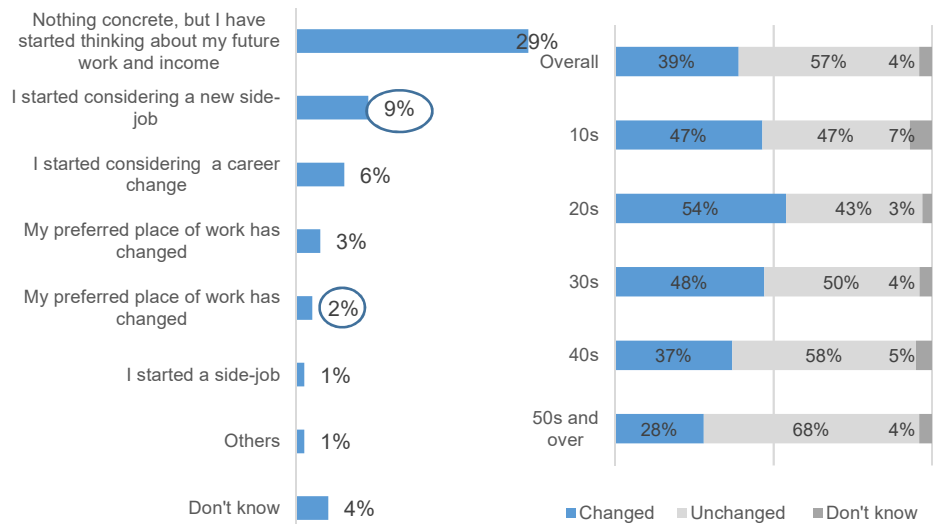
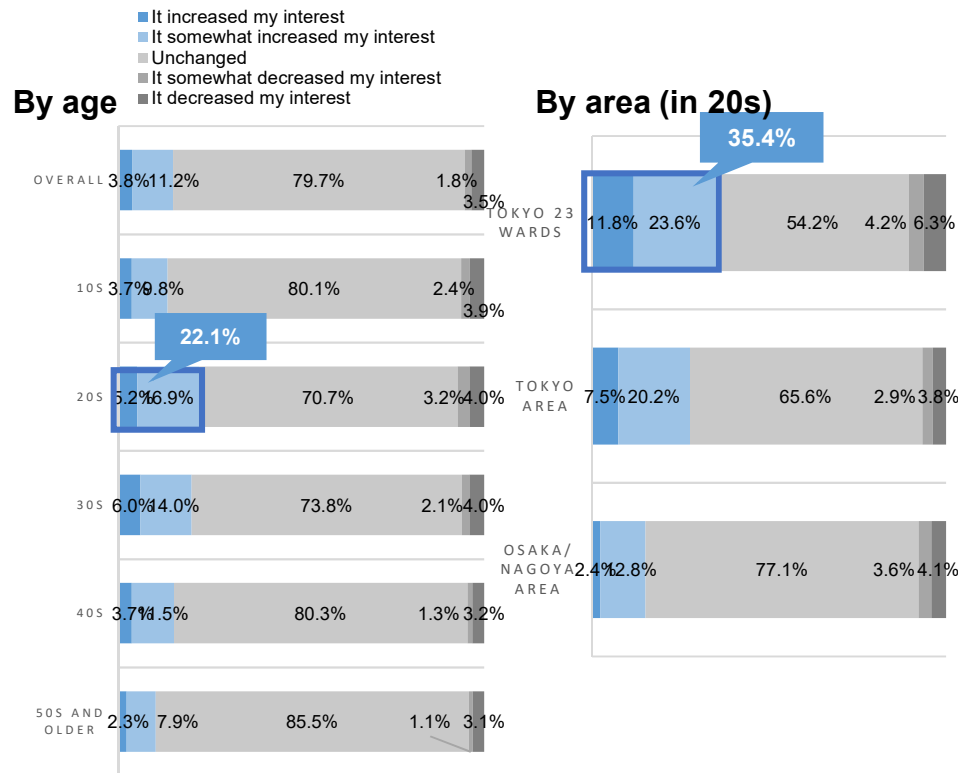
(Source) Prepared by FSA, based on NTT Data Institute of Management / NTTCom Online Marketing Solution Corporation "Emergency Survey: Survey concerning Pandemic (Response to COVID-19) and Work Styles" (April 20, 2020)

(0) Changes in Concepts of Values and Behavior ③

- ❑ In the wake of COVID-19 pandemic, 22.1% of people aged in their 20s responded that they have **become more interested in counter-migration from big cities**. The percentage is even higher at 35.4% in Tokyo's 23 wards.
- ❑ **Those who are considering/actually started a side-job** in the wake of COVID-19 account for 11%.

Change in interest in counter-migration from big cities due to COVID-19 (those who live in the 3 biggest urban areas)

Change in preference in career choice/side-job (multiple choice allowed)



(Note) 57% of respondents said their preferences remain "unchanged".

(Note) "Changed": those who selected response alternatives other than "unchanged" and "don't know".

Reasons for changes in career choice or preference

(Note) Choose up to 3 most relevant reasons

Because COVID-19 changed my view on work-life balance	49.5%
Because my income decreased due to COVID-19	43.7%
Because I no longer feel fulfilled with my job due to the impact of COVID-19	35.6%
Because COVID-19 made me willing to take on a new challenge	31.0%
For reasons unrelated to COVID-19	23.9%
Because COVID-19 made me feel that I should leave a crowded big city	20.9%
For other reasons related to COVID-19	20.2%
Because I have become extremely busy due to the impact of COVID-19	15.6%
Nothing in particular	40.0%
Don't know	19.7%

(Note) The 3 biggest urban areas refers to Tokyo, Nagoya, and Osaka areas, covering 10 prefectures

- Tokyo area: Tokyo, Saitama, Chiba, and Kanagawa prefectures
- Nagoya area: Aichi, Mie, and Gifu prefectures
- Osaka area: Osaka, Kyoto, Hyogo, and Nara prefectures

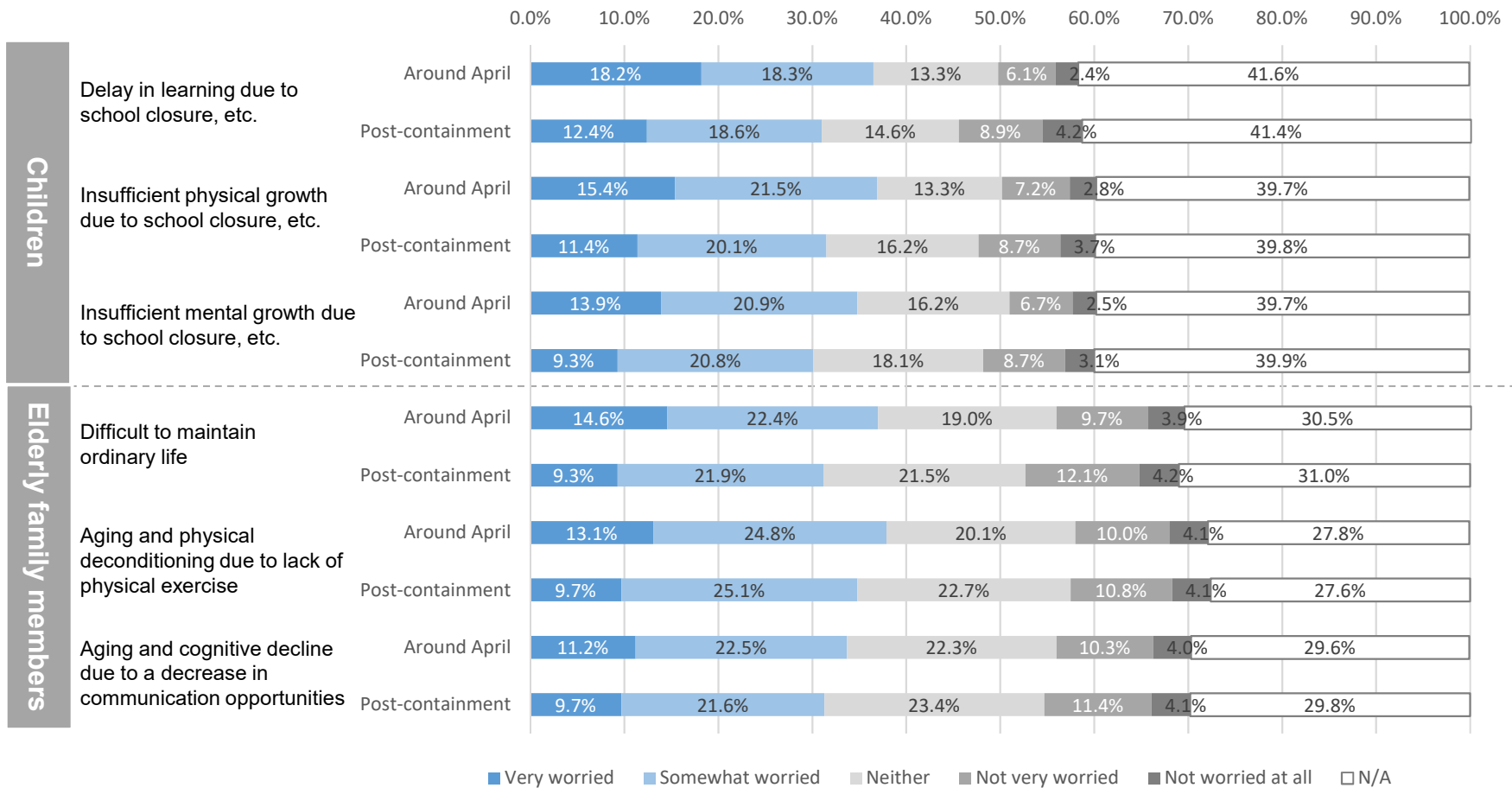
(Note) 10,128 people participated in the online survey, which was conducted from May 25, 2020 to June 5, 2020 (a half of responses were collected during May 25-29, and the remaining half were collected during June 1-5).

(Source) Prepared by FSA, based on the Cabinet Office "Changes in everyday consciousness and behavior under the impact of COVID-19" (June 21, 2020)

(0) Changes in Concepts of Values and Behavior ④

- Since COVID-19 outbreak, people have become **more concerned about influences of temporary closure of schools on child-rearing** and have **growing anxiety concerning their elderly family members due to changes in the living environment.**

Family-related concerns after COVID-19

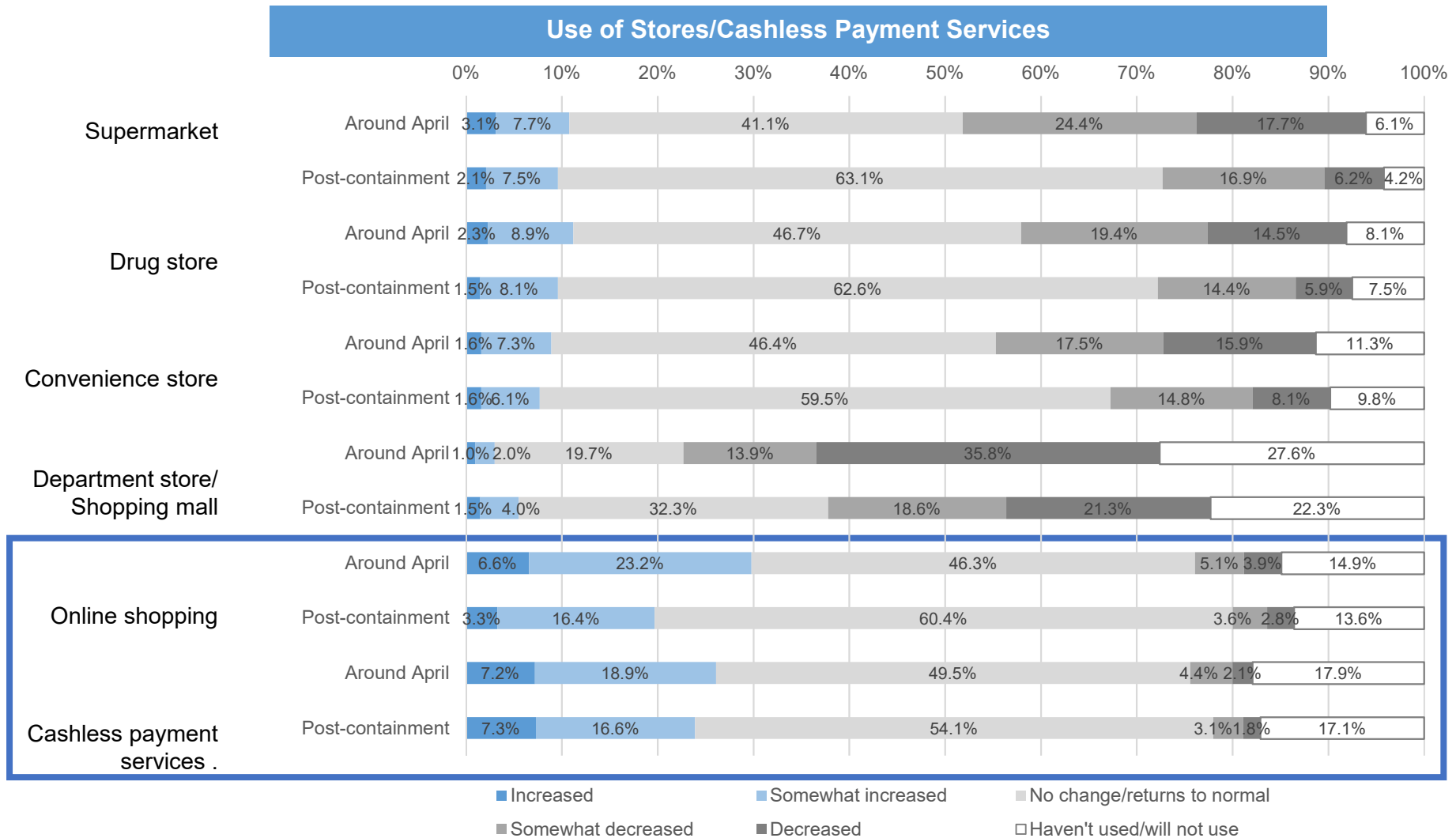


(Note 1) Online survey conducted during June 26-29, 2020 (single response). Collected 1,148 responses related to children, and 2,062 responses related to elderly family members.
 (Note 2) "Post-containment" refers to the situation where vaccine and effective drugs are developed, and COVID-19 can be prevented and cured in a similar manner as seasonal flu.

(Source) Prepared by FSA, based on NLI Research Institute's 2020 Special Survey "The First Survey on changes in life due to COVID-19" (July 9, 2020)

(1) Adjusting to Changes in Customers' Demand for Goods and Services ①

□ In response to COVID-19 pandemic, consumers have increasingly used **online shopping and cashless payment services**. After containing COVID-19, such use is expected to increase after a slight decline.



(Note 1) Online survey conducted during June 26-29, 2020 (single response); collected 2,062 responses.

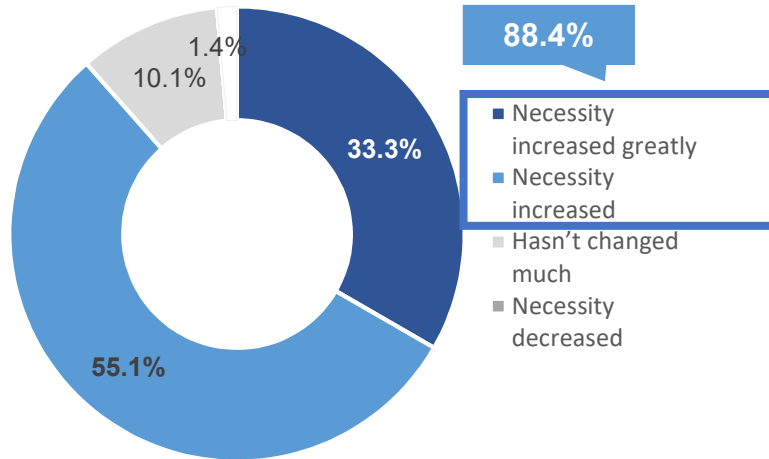
(Note 2) "Post-containment" refers to the situation where vaccine and effective drugs are developed, and COVID-19 can be prevented and cured in a similar manner as seasonal flu.

(Source) Prepared by FSA, based on NLI Research Institute's 2020 Special Survey "The First Survey on changes in life due to COVID-19" (July 9, 2020)

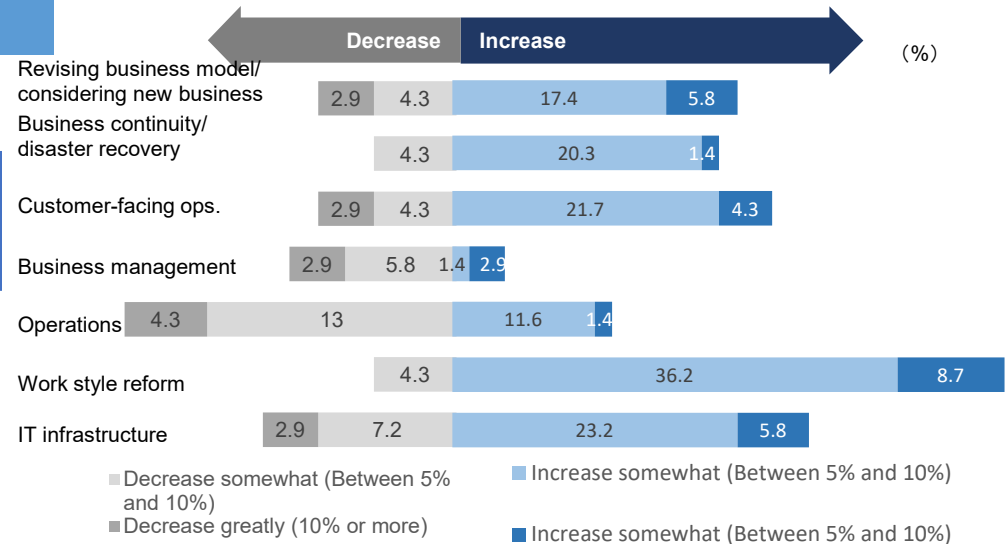
(1) Adjusting to Changes in Customers' Demand for Goods and Services ②

□ In response to consumer needs after COVID-19, **services and education have been increasingly digitalized**. Roughly 90% of companies replied that there is an increasing need for revising their business models by utilizing IT and digital technologies.

Companies' need for revising business models and considering new businesses by utilizing IT/digital technologies

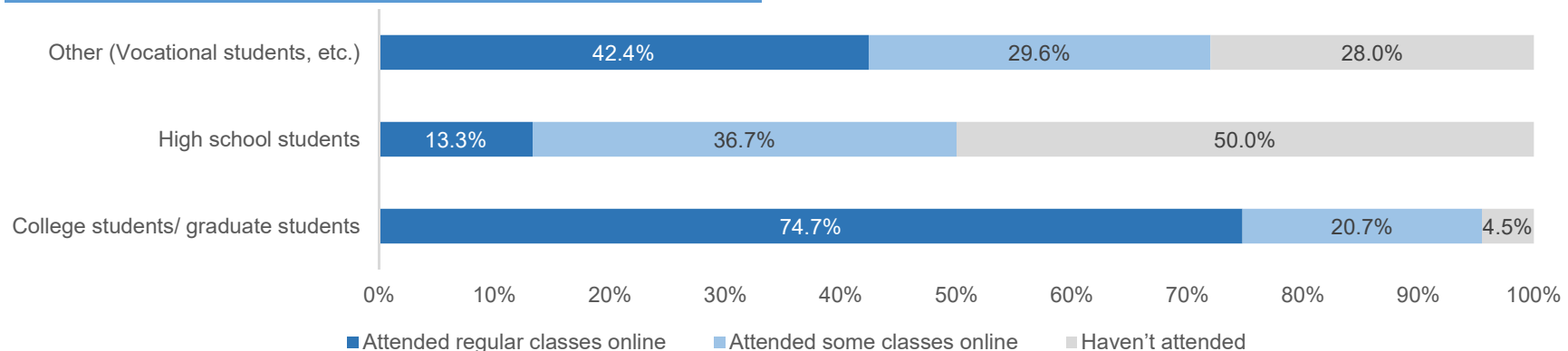


Forecast of IT/digital investments



(Note) Web-based survey of CIOs of 60 Japanese companies; conducted during May 9-19, 2020.
 (Source) Prepared by FSA, based on Nomura Research Institute "CIO survey concerning impacts of COVID-19" (published on June 4, 2020)

Students' attendance to online classes

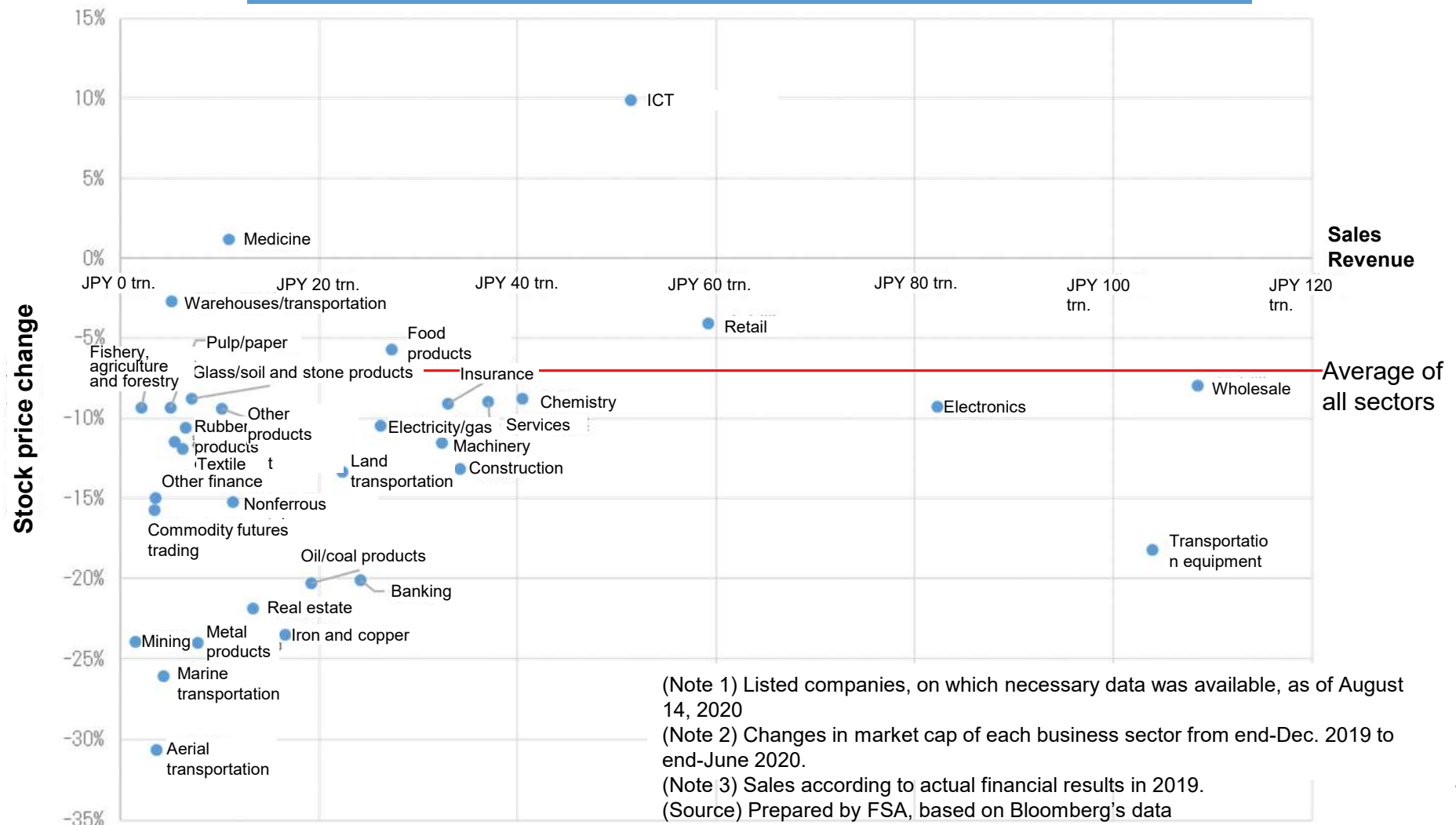


(Note) 10,128 people participated in the online survey, which was conducted from May 25, 2020 to June 5, 2020 (a half of responses were collected during May 25-29, and the remaining half were collected during June 1-5).
 (Source) Prepared by FSA, based on the Cabinet Office "Changes in everyday consciousness and behavior under the impact of COVID-19" (June 21, 2020)

(2) Changes in Demand for Goods and Services Provided through Face-to-Face Contact ①

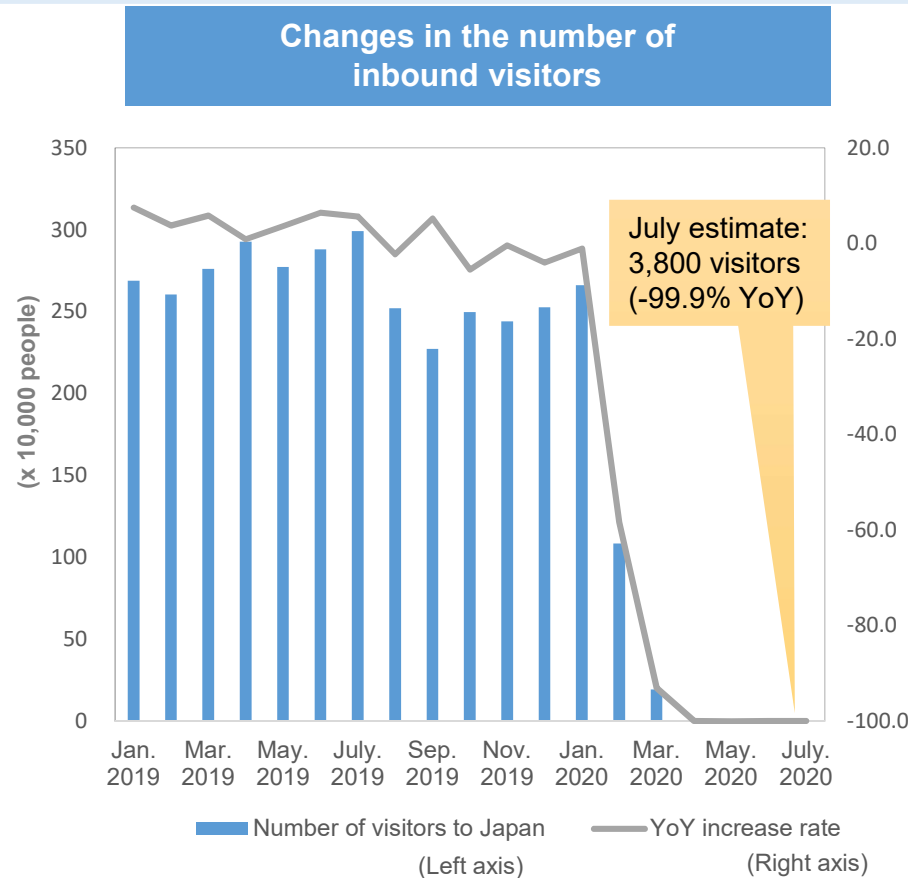
- ❑ In Q1 of 2020, due to the impact of COVID-19, many industry sectors saw a decline of stock prices. Especially, the drop was sharp in air and sea transportation sectors.
- ❑ In the meantime, information and communication sectors saw an increase of share prices.

Sales by industry, and COVID-19 impact on the basis of stock prices

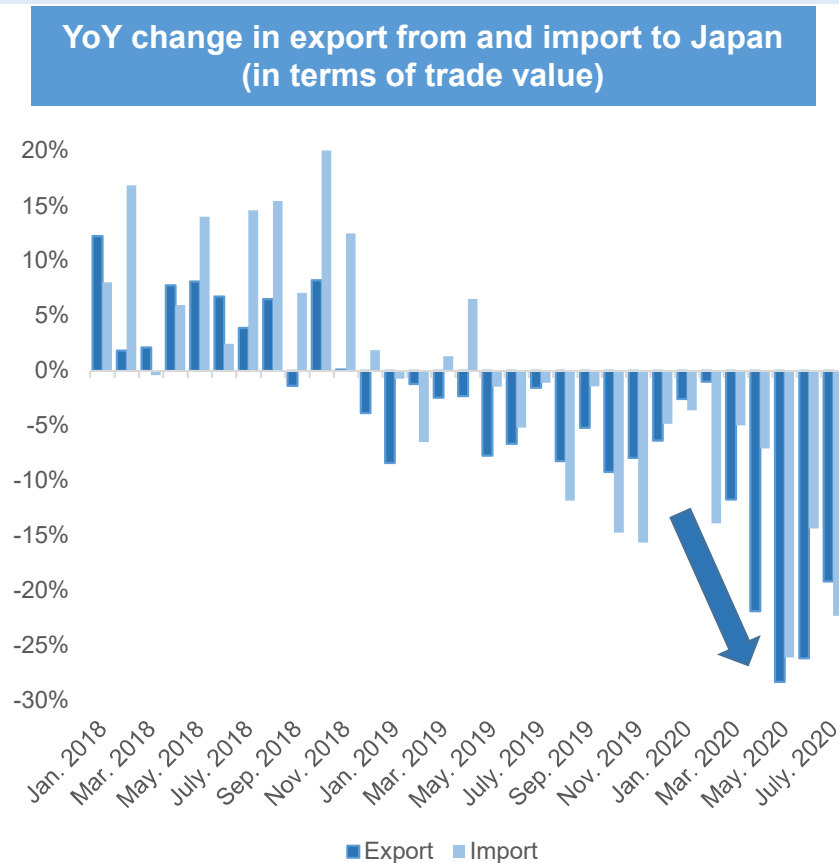


(2) Changes in Demand for Goods and Services Provided through Face-to-Face Contact ②

- ❑ **Inbound visitors have significantly decreased** since COVID-19 pandemic. During the period from April to July 2020, the number decreased by **99.9% YoY**.
- ❑ **Exports/imports have also decreased.** Especially, **exports decreased by more than 25% YoY** in May and June 2020.



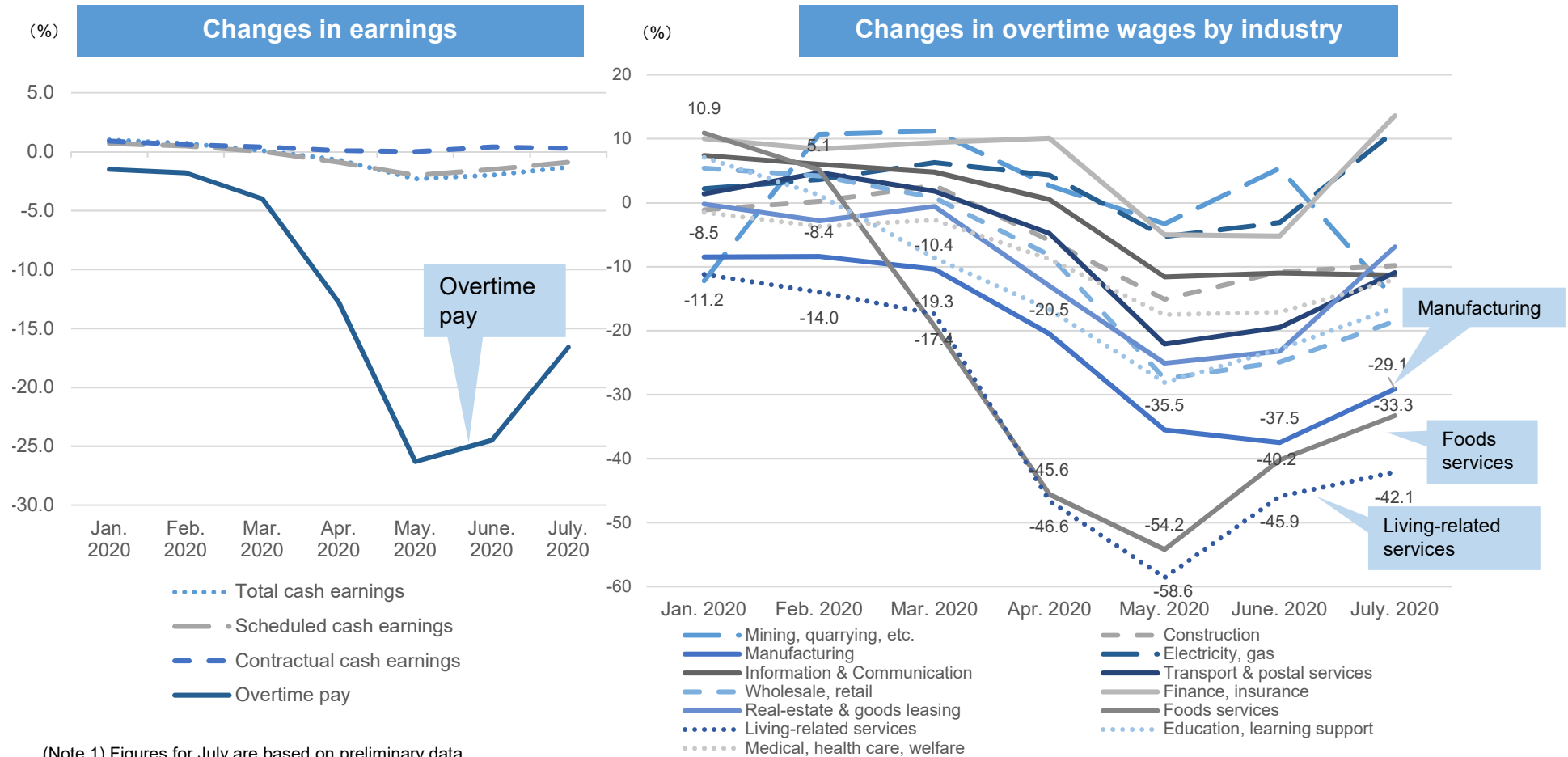
(Note) Figures for June and July 2020 are estimated numbers.
 (Source) Prepared by FSA, based on Japan National Tourism Organization's statistics of visitor arrivals in Japan



(Source) Prepared by FSA, based on Trade Statistics of Ministry of Finance

(2) Changes in Demand for Goods and Services Provided through Face-to-Face Contact ③

Due to the spread of COVID-19, **overtime pay significantly decreased** (especially notable in foods services (incl. accommodations) and living-related services (incl. amusement/recreation)).



(Note 1) Figures for July are based on preliminary data.

(Note 2) Total cash earnings: a total of "contractual cash earnings" and "special cash earnings" as explained below.

• Contractual cash earnings (regular pay): earnings paid according to the method and conditions pre-determined by collective labor agreements, working regulations, etc., including base salary, family allowance and overtime pay.

• Scheduled cash earnings: contractual cash earnings excluding overtime pay.

• Non-scheduled salary (overtime pay): wage paid for work exceeding scheduled working hours, and for work on days off or night work (e.g. allowance for overtime work, working early in the morning, working on days off, and night work).

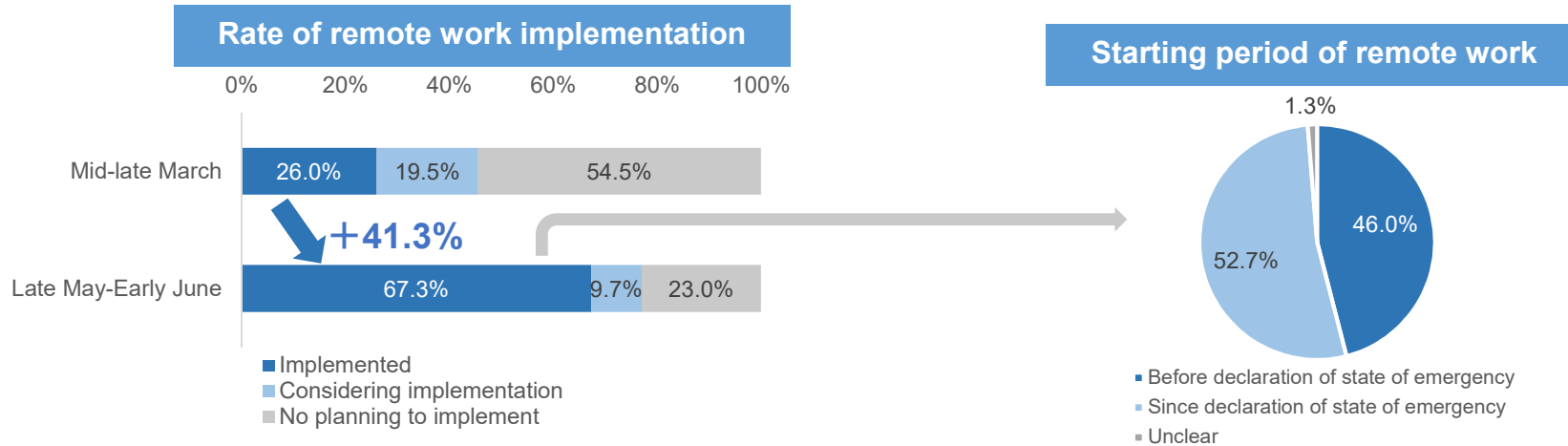
• Special cash earnings: amounts actually paid to employees for temporary or unforeseen reasons not based on collective labor agreements, working regulations, etc.; or earnings paid according to the method and conditions which pre-determined by collective labor agreements and fall under the following categories: (1) such lump-sum payments as summer and year-end Bonuses and term-end allowance; (2) events for payment which irregularly occur; (3) allowances which are calculated over a period exceeding three months (e.g. 6-month commuter pass); and (4) retrospective payment of wages after an increase of base salary.

(Note 3) "Foods services" refers to "accommodations, eating and drinking services"; and "living-related services" refers to "living-related and personal services, and amusement services".

(Source) Prepared by FSA, based on Monthly Labor Statistics of the Ministry of Health, Labour and Welfare

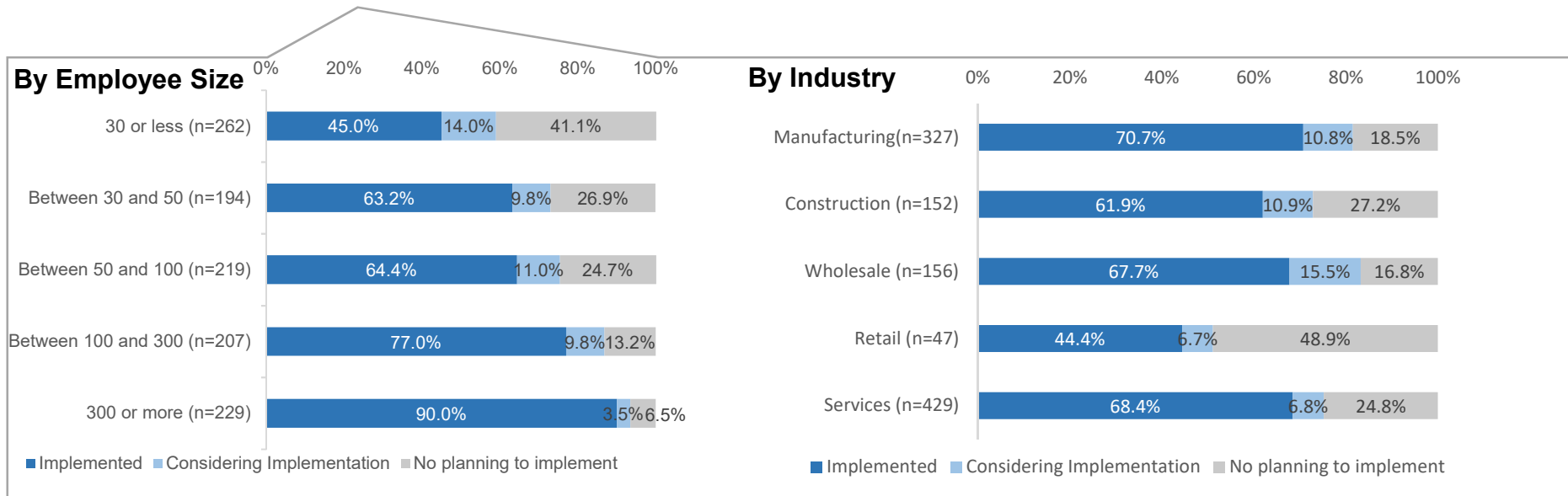
(3) Increasing need to review the work styles of employees and emergence of issues in employment and utilization of human resources ①

□ After COVID-19, **rate of remote work implementation increased rapidly**. However, the situation varies depending on company size and industry.



(Note) Mid- to late-March 2020: Survey period was from March 13-31, 2020, response from 1,238 TCCI member companies (13,297 companies were asked by fax or email). Late May to early June 2020: Survey period was from May 29 to June 5, 2020, response from 1,111 TCCI member companies (12,555 companies were asked by fax, replies through fax, email, web / asked by email, replies through web).

Source: Compiled by the Financial Services Agency based on the Tokyo Chamber of Commerce and Industry's "Questionnaire on Disaster Prevention Measures for Member Companies: Ancillary Survey on Response to COVID-19" (April 8, 2020).

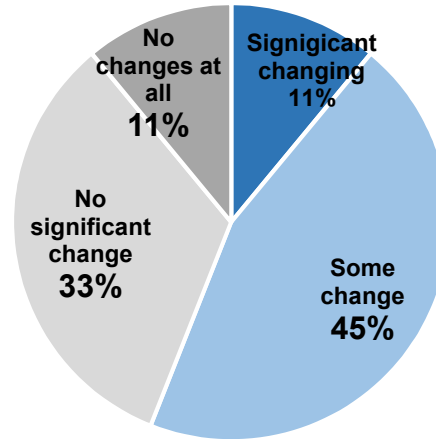


Source: Compiled by the Financial Services Agency based on the Tokyo Chamber of Commerce and Industry's "Emergency Survey on Remote Work Implementation" (June 17, 2020).

(3) Increasing need to review the work styles of employees and emergence of issues in employment and utilization of human resources ②

After COVID-19, **rate of remote work implementation increased rapidly**, and more than half of people feel that their career outlook has changed. However, variations exist depending on company size and industry.

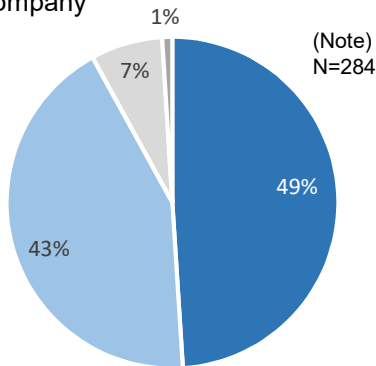
Changes in people's career outlook following the spread of COVID-19



“My career outlook changed”
56%

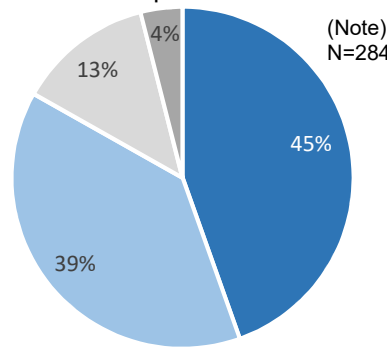
(Note) N=514

Q. I felt that I need to develop my career autonomously, without relying on my company



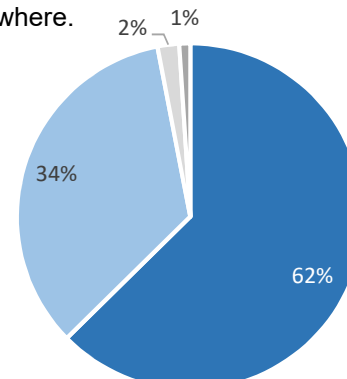
(Note) N=284

Q. I was attracted to the work style that does not restrict time or place

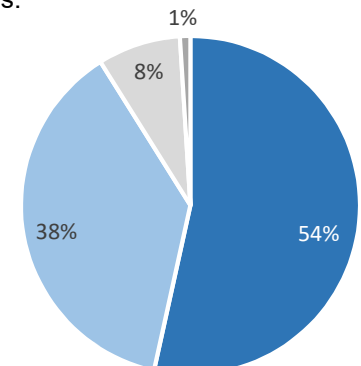


(Note) N=284

Q. I felt that I need to visualize my strengths which can be put to use anywhere.



Q. I felt that I need to devote my time to improving my skills/acquiring new skills.



■ I think so ■ I rather think so ■ I rather don't think so ■ Don't think so

(Note 1) The survey was conducted among BizReach members from April 20-22, 2020, and the number of valid responses was 517.

(Note 2) Percentages may not sum up to 100% due to rounding.

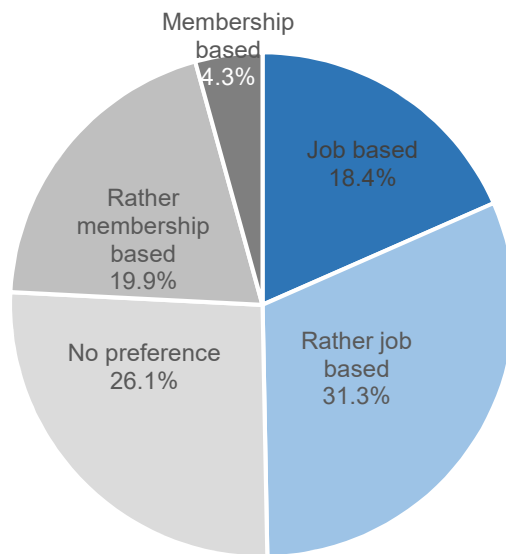
Source: Compiled by the Financial Services Agency based on a survey by BizReach, Inc. “Survey on the impact of the spread of COVID-19 on work styles, career outlook, and job hunting.”

(3) Increasing need to review the work styles of employees and emergence of issues in employment and utilization of human resources ③

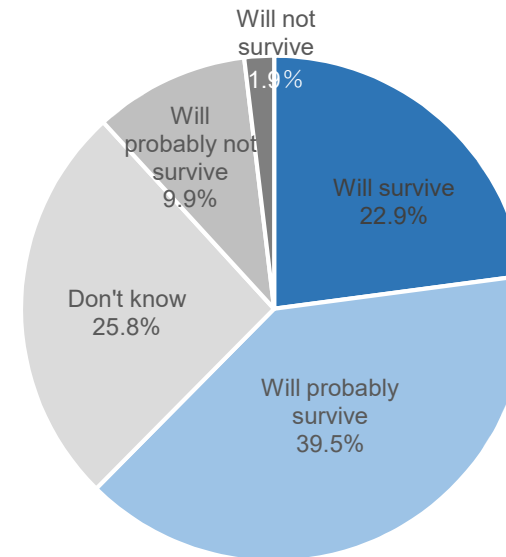
- As of August 2020, **half of the respondents preferred job-based employment** to membership-based employment.

Degree of preference for job-based employment

Which is preferable, job-based or membership-based?



Do you think you can survive if changed to job-based employment?



(Note 1) Conducted the online survey from August 18 to 22, 2020. Responses were obtained from 1,107 people. Male: 77.4%, female: 22.6%. Below the age of 30: 14.5%, in their 40s: 34.1%, 50s: 50.9%, above 60: 0.4%. 77.6% of the respondents had experience of working from home.

(Note 2) Job-based employment = a form of employment where people are assigned based on the work.

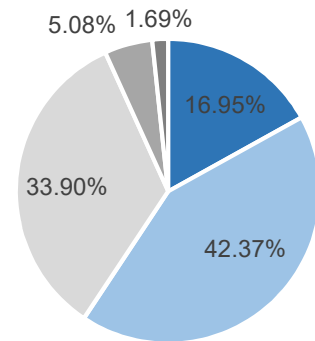
Membership-based employment = hiring method that develops human resources optimal for the company

Source: Compiled by the Financial Services Agency based on Nikkei Business and Nikkei Business BP Consulting's "Survey on Changes in Work Styles Associated with the Spread of COVID-19."

(4) Increasing Uncertainty ①

- Nearly 60% of companies reported that the COVID-19 pandemic **caused logistics and supply chain challenges**.

Whether logistics and supply chain challenges occurred since the declaration of emergency



- Compani-wide challenges occurred
- Localized challenges occurred
- No big impact
- No impact
- Unclear

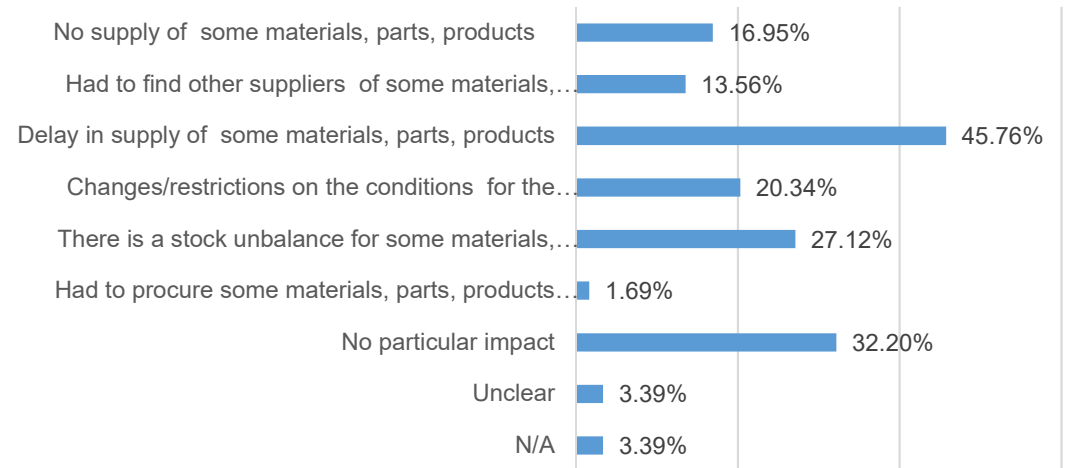
<Some excerpts of comments from survey participants>

- Domestic and international procurements are delayed.
- Air freight rates soared. Air freight lead-time increased. Flights to destinations were cancelled and had to be rerouted.
- Shortage of delivery vehicles due to the surge in shipments.
- There is a limitation on inventory buildup as BCP measures.
- There are restrictions on imported parts from overseas.

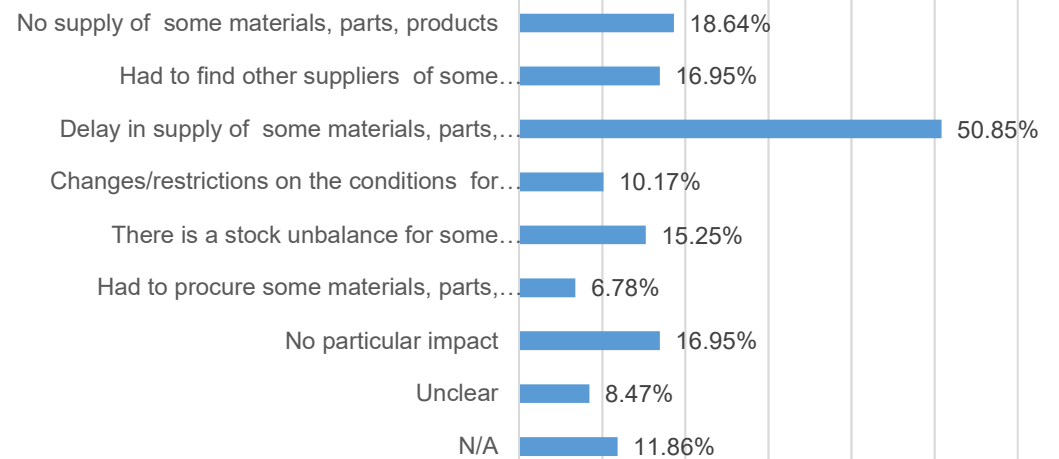
(Note) Questionnaire to shippers (number of samples 59)

Source: Compiled by the Financial Services Agency based on Japan Institute of Logistics Systems' questionnaire survey "The impact of the spread of COVID-19 on logistics and supply chain (survey results)" (June 30, 2020).

Impact on procurement from domestic suppliers since the declaration of emergency



Impact on procurement from overseas suppliers since the declaration of emergency



(4) Increasing Uncertainty ②

- Compared to May 2019, more companies are paying close attention to the impact of **risks** such as **infectious diseases and bankruptcy of business partners** on business continuity following the COVID-19 pandemic.

Anticipated risks that would make it difficult to continue business (multiple responses)

		May 2020 Survey	May 2019 Survey
1	Natural disasters	70.9%	72.5% (1)
2	Infectious diseases (influenza, novel virus, SARS, etc.)	69.2%	24.9% (10)
3	Bankruptcy of clients	39.0%	30.3% (8)
4	Clients affected by disasters	31.7%	33.3% (6)
5	Fire and explosion accidents	31.0%	34.5% (3)
6	Equipment failures	30.6%	40.9% (2)
7	Logistical disruptions	30.5%	31.5% (7)
8	Information security risks	27.8%	34.3% (5)
9	Failure and malfunction of company business management system	25.6%	34.5% (3)
10	Information leaks and non-compliance	24.6%	27.5% (9)
11	Management contingencies	20.2%	20.1% (12)
12	War and terrorism	17.6%	14.0% (13)
13	Product accidents	17.5%	20.2% (11)
14	Environmental destruction	6.9%	5.9% (14)
	Other	1.9%	1.7%

(Note 1) Blue highlights indicate elements that are up more than two points from the May 2019 survey.

(Note 2) Figures in parentheses indicate rankings at the time of May 2019 survey.

(Note 3) Parameter: 6,335 companies that “have formulated”, “are currently formulating,” or “are considering formulating” a BCP.

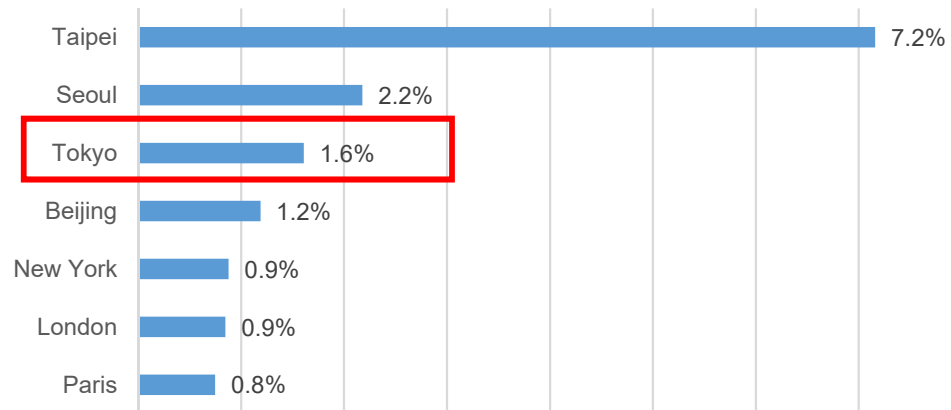
May 2019 survey: 4,349 companies

Source: Compiled by the Financial Services Agency based on Teikoku Databank Ltd.'s "Special Project: Survey of Corporate Attitudes towards Business Continuity Plan (BCP)" (2020).

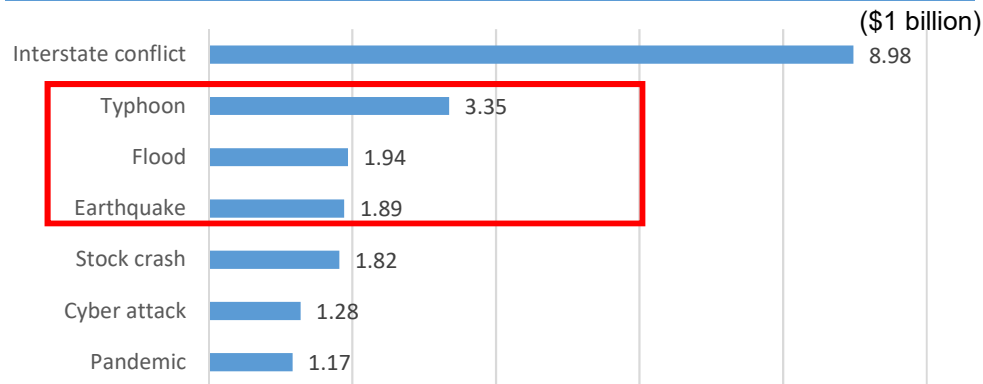
(4) Increasing Uncertainty ③

- ❑ In the event of a crisis, **Tokyo's** annual loss is estimated to amount to 1.6% of the GDP.
- ❑ Loss in GDP from **natural disasters** such as typhoons, floods and earthquakes is said to exceed \$7 billion.
- ❑ In the financial market also, the spread of COVID-19 triggered a **rise in the VIX index** which indicates investors' uncertainty about the future.

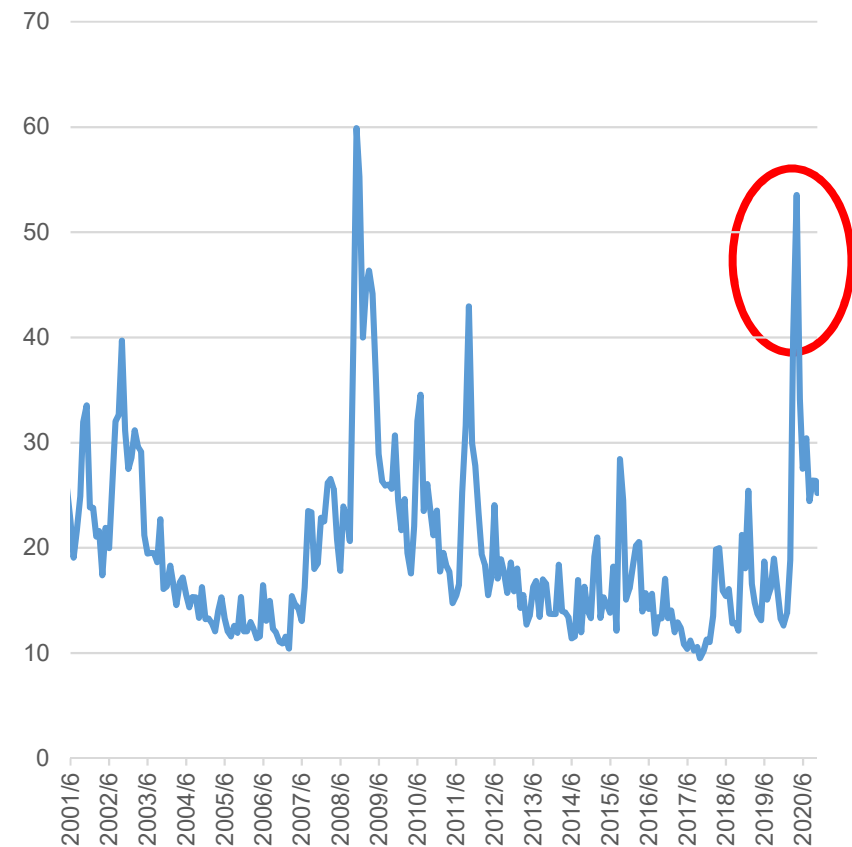
Annual loss by city in the event of specific crisis (% of GDP)



Tokyo's GDP loss in the event of crisis



VIX Trend



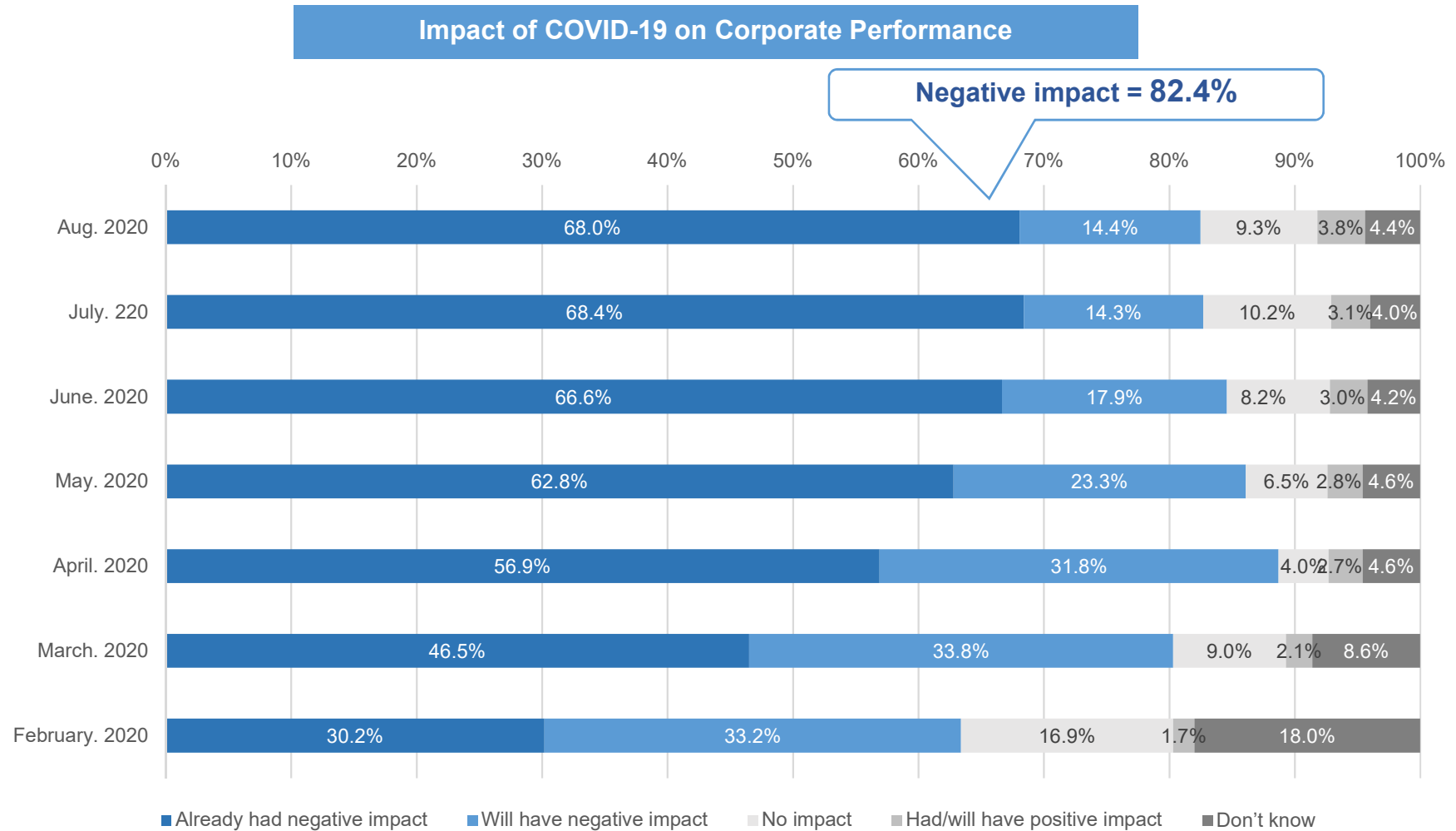
(Note) A survey by Lloyd's and the Cambridge Centre for Risk Studies at the University of Cambridge Judge Business School
Source: Compiled by the Financial Services Agency based on Lloyd's "City Risk Index" viewed on October 12, 2020 at (<https://cityriskindex.lloyds.com/>).

(Note) VIX Index. Latest: October 13, 2020.

Source: Compiled by the Financial Services Agency based on Bloomberg 15

(4) Increasing Uncertainty ④

- As of August 2020, **82.4%** of companies said that the COVID-19 pandemic has already had or will have a **negative impact on corporate performance**.



(Note) Parameter: 12,000 companies which gave valid responses. July 2020 survey: 11,732 companies. June 2020 survey: 11,275 companies. May 2020 survey: 11,979 companies. April 2020 survey: 11,961 companies. March 2020 survey: 11,330 companies. Feb. 2020 survey: 10,704 companies.

Source: Compiled by the Financial Services Agency based on Teikoku Databank Ltd.'s "Special Project: Survey of Corporate Attitudes towards COVID-19 (August 2020)." (September 9, 2020)

(4) Increasing Uncertainty ⑤

- 22.6% of large enterprises and 34.0% of SMEs cited “**securing funds on hand**” as a priority measure after resumption of business activities.

Priority measures after resumption of business activities (multiple responses)

		Overall	Large Enterprises	SMEs
1	Continuing employee health care management	64.3%	72.2%	62.5%
2	Infectious disease prevention measures	54.6%	65.5%	52.2%
3	Reinforcement of existing businesses	41.4%	42.4%	41.2%
4	Recovery to the same level as before the COVID-19 pandemic	36.8%	37.1%	36.7%
5	Securing funds on hand	31.9%	22.6%	34.0%
6	Continuing to offer diverse work style options (remote work, flextime, etc.)	31.3%	47.5%	27.8%
7	Strengthening relationships with existing clients	29.8%	26.8%	30.5%
8	Developing new clients	29.3%	23.5%	30.5%
9	Strengthening new businesses	24.6%	22.5%	25.1%
10	Re-evaluation of funding plans	24.0%	18.3%	25.3%
11	Enhancement of IT-related equipment	23.8%	32.6%	21.8%
12	Promotion of labor saving and manpower saving	15.7%	21.5%	14.4%
13	Recovery and increase in wage levels	7.8%	6.3%	8.1%
	Diversification of suppliers	7.8%	5.9%	8.2%
15	Rehiring and reappointment of employees	4.4%	4.3%	4.5%
16	Securing multiple modes of logistics	3.8%	3.7%	3.8%
17	Diversification of production sites	3.1%	4.1%	2.9%
18	Diversification of sales base	2.5%	2.5%	2.5%
	Other	1.6%	1.2%	1.7%

Discussions about the purpose and required behaviors of corporations (1)

- ❑ In the U.S., in summer 2019, Business Roundtable (BRT) issued a statement on value delivery to stakeholders.

Business Roundtable: Statement on the Purpose of a Corporation (August 19, 2019)

Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity. We believe the free-market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all. Businesses play a vital role in the economy by creating jobs, fostering innovation and providing essential goods and services. Businesses make and sell consumer products; manufacture equipment and vehicles; support the national defense; grow and produce food; provide health care; generate and deliver energy; and offer financial, communications and other services that underpin economic growth.

While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:

- Delivering value to our **customers**. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.
- Investing in our **employees**. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.
- Dealing fairly and ethically with our **suppliers**. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.
- Supporting the **communities** in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.
- Generating long-term value for **shareholders**, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.

Each of our stakeholders is essential. We commit to **deliver value to all of them**, for the future success of our companies, our communities and our country.

Discussions about the purpose and required behaviors of corporations (2)

□ The “Davos Manifest 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution” (released on December 2019) refers to service not only to shareholders, but to all stakeholders.

A. The purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, **a company serves not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities and society at large.**

The best way to understand and harmonize the divergent interests of all stakeholders is through a shared commitment to policies and decisions that strengthen the long-term prosperity of a company.

- i. A company serves its **customers** by providing a value proposition that best meets their needs. It accepts and supports fair competition and a level playing field. It has zero tolerance for corruption. It keeps the digital ecosystem in which it operates reliable and trustworthy. It makes customers fully aware of the functionality of its products and services, including adverse implications or negative externalities.
- ii. A company treats **its people** with dignity and respect. It honours diversity and strives for continuous improvements in working conditions and employee well-being. In a world of rapid change, a company fosters continued employability through ongoing upskilling and reskilling.
- iii. A company considers its **suppliers** as true partners in value creation. It provides a fair chance to new market entrants. It integrates respect for human rights into the entire supply chain.
- iv. A company serves society at large through its activities, supports the **communities** in which it works, and pays its fair share of taxes. It ensures the safe, ethical and efficient use of data. It acts as a steward of the environmental and material universe for future generations. It consciously protects our biosphere and champions a circular, shared and regenerative economy. It continuously expands the frontiers of knowledge, innovation and technology to improve people’s well-being.
- v. A company provides its **shareholders** with a return on investment that takes into account the incurred entrepreneurial risks and the need for continuous innovation and sustained investments. It responsibly manages near-term, medium-term and long-term value creation in pursuit of sustainable shareholder returns that do not sacrifice the future for the present.

B. **A company is more than an economic unit generating wealth. It fulfils human and societal aspirations as part of the broader social system. Performance must be measured not only on the return to shareholders, but also on how it achieves its environmental, social and good governance objectives. Executive remuneration should reflect stakeholder responsibility.**

C. A company that has a multinational scope of activities not only serves all those stakeholders who are directly engaged, but acts itself as a stakeholder – together with governments and civil society – of our global future. Corporate global citizenship requires a company to harness its core competencies, its entrepreneurship, skills and relevant resources in collaborative efforts with other companies and stakeholders to improve the state of the world.

Discussions about the purpose and required behaviors of corporations (3)

□ Messages from “Corporate Governance” (2001) by Jean Tirole

(Source) Jean Tirole “Corporate Governance,” *Econometrica*, Vol.69, No.1 (Jan., 2001)

- “Shareholder value concept” provides clearer managerial incentives and has merit to prevent deadlocks resulting from allocation of control rights as well as to facilitate financing by giving control rights to shareholders.
- However, some point at externalities imposed by profit maximizing choices based on the “shareholder value concept” on other stakeholders such as workers, suppliers and customers, and communities. This leads to **on-going argument on how to internalize such externalities**. (Majority of economists have no objections to the goals themselves.)
- **To realize internalization of the stakeholder society, there seem to be the following 2 ways but it is hard to design proper incentives for both options.**

(1) Management aims at maximizing the sum of all stakeholders’ surpluses.

[Points to note]

- ✓ Managerial incentives may be given based on contribution to increase in surpluses of workers, suppliers or customers, but it is extremely harder to measure the contribution than to measure the firm’s profitability. This is mainly because there is no accounting measure of this and there is no counterpart to stock market measurement of the managerial decisions.
- ✓ Management can rationalize any action by invoking its impact on the welfare of some stakeholder.
- ✓ With pay that is sensitive to the performance of a single task which leads to a neglect of the other tasks, management prioritizes increasing its own surplus and therefore its effort to maximize stakeholders’ surpluses is not expected.

(2) Stakeholders and corporation share control rights.

[Points to note]

- ✓ With employee or customer having control, employee or customer may sacrifice profit of shareholder to gain excessive benefit.
- ✓ With asymmetric information and if objectives are dissonant between stakeholders, the uninformed one is likely to distrust his partner, resulting in a deadlock.
- Realistically, along with giving control rights to shareholders, it is important to contrive contractual means to reduce negative externalities imposed on other stakeholders. For issues such as environmental contamination, regulatory means are effective.
- **Unless proper incentives and control structure are established, effectiveness of “stakeholder society” is not expected.**

Discussions about the purpose and required behaviors of corporations (4)

- About the Business Roundtable statement, the Council of Institutional Investors, an institutional investor organization, provided a comment, expressing concerns about it undercutting the managerial accountability.

“Council of Institutional Investors Responds to Business Roundtable Statement on Corporate Purpose” (August 2019)

The Council of Institutional Investors (CII) today expressed concern on a new Business Roundtable (BRT) statement on the purpose of a corporation. The statement undercuts notions of managerial accountability to shareholders, in CII’s view.

The Council has a productive relationship with BRT that has included discussion on corporate “stakeholder” obligations, but we respectfully disagree with the statement issued by the BRT earlier today. The BRT statement suggests corporate obligations to a variety of stakeholders, placing shareholders last, and referencing shareholders simply as providers of capital rather than as owners.

CII believes **boards and managers need to sustain a focus on long-term shareholder value. To achieve long-term shareholder value, it is critical to respect stakeholders, but also to have clear accountability to company owners.**

Accountability to everyone means accountability to no one. BRT has articulated its new commitment to stakeholder governance (which actually resurrects an older policy view) while (1) working to diminish shareholder rights; and (2) proposing no new mechanisms to create board and management accountability to any other stakeholder group.

Americans depend on strong companies not only as employees and communities, but also as owners, including through pension funds and other retirement holdings. CII supports putting capital to its best use for long-term performance, which includes addressing stakeholder contributions to that objective. It is government, not companies, that should shoulder the responsibility of defining and addressing societal objectives with limited or no connection to long-term shareholder value.

(Snip)

While it is important for boards and management to have and articulate long-term vision, and sustain focus on the long-term strategy where they have strong conviction, a fundamental strength of the U.S. economy has been and continues to be efficient allocation of equity capital. **If “stakeholder governance” and “sustainability” become hiding places for poor management, or for stalling needed change, the economy more generally will lose out.**

Discussions about the purpose and required behaviors of corporations (5)-1

- ❑ Other required behaviors of corporations include, for example,:

○ Creating Shared Value (CSV)

(Citation from Harvard Business Review (June 2011) “Creating Shared Value” by Michael E. Porter)

Companies must take the lead in bringing business and society back together. The recognition is there among sophisticated business and thought leaders, and promising elements of a new model are emerging. (Snip) The solution lies in the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress. (Snip) And government must learn how to regulate in ways that enable shared value rather than work against it. (Snip) The purpose of the corporation must be redefined as creating shared value, not just profit per se.

○ What is a business?

(Citation from “Management: Tasks, Responsibilities, Practices (1974)” by P.F. Drucker)

■ What is our business?

In outstanding businesses, success always rests to a large extent on clearly and deliberately raising the question, “What is our business?,” and answering it thoughtfully and thoroughly. With respect to the definition of business purpose and business mission, there is only one such focus, one starting point. It is the customer. The customer defines the business. A business is not defined by the company’s name, statutes, or articles of incorporation. It is defined by the want the customer satisfies when he buys a product or a service. To satisfy the customer is the mission and purpose of every business. The question “What is our business?” can, therefore, be answered only by looking at the business from the outside, from the point of view of customer and market. All the customer is interested in is his own values, his own wants, his own reality. For this reason alone, any serious attempt to state “what our business is” must start with the customer, and her realities, situation, behavior, expectations, and values.

■ What should be abandoned in our business?

Just as important as the decision concerning what new and different things should be done is planned, systematic abandonment of the old that no longer fits the purpose and mission of the business, no longer conveys satisfaction to the customer or customers, no longer makes a superior contribution. (Snap) Are they still viable? And are they likely to remain viable? Do they still give value to the customer? And are they likely to do so tomorrow? Do they still fit the realities of population and markets, of technology and economy? And if not, how can we best abandon them—or at least stop pouring in further resources and efforts?

Discussions about the purpose and required behaviors of corporations (5)-2

○ “Sampo-yoshi” (Benefits for all three sides): Benefits to vendor, customer, and society (The spirit of Ohmi merchants)

■ The earliest historical document in which the “Sampo Yoshi” principle is found is said to be the family precepts written in 1754 by an Ohmi merchant Nakamura Jihei.

(Family precepts of Nakamura Jihei)

“When peddling in another country, have confidence in the products you bring to customers, satisfy them and desire that the deal can be useful for people. Do business for people without expecting high profits, which would meet with a good result and be up to how much you think of customers. Think of the benefits of customers first with esteem without desiring your own gain...”

■ An analysis shows Ohmi merchants recorded nearly 20% ROE per annum for 61 years between 1735 and 1796.

Term beginning Year	Term end Year	# of years	Net asset Term beginning Ryo	Term end Ryo	% increase per annum (ROE%)	Inflation rate %	Family
Kyoho 20 1735	Kanen 02 1749	14	20	775	29.9%	3.1%	1st Nakaigenzaemon Mitsutake
Kanen 02 1749	Meiwa 06 1769	20	775	7,468	12.0%	-0.2%	Same as above
Meiwa 06 1769	Kansei 08 1796	27	7,468	87,255	9.5%	0.7%	Same as above
Kyoho 20 1735	Kansei 08 1796	61	20	87,225	18.8%	0.9%	Same as above

(Note) Data in the table: Inflation rate is calculated based on Mitsui Bunko “Dynamics of key commodity prices in the late modern period” (University of Tokyo Press, 1989) and “Mini Encyclopedia of Japanese History <Currency>” compiled by Takeo Takizawa and Yasushi Nishiwaki (Tokyodo Shuppan, 1999). Net asset and other data is prepared based on “Nakai Family Capital Growth Table” based on Nakai family perpetual inventory account (History of Ohmi-Hino, Vol. 7 Hino Merchants). However, the data is not adjusted for outflow due to the *Mitsuware* system (Principle of sharing profit with three parties: 50% paid to the main family (profit), 30% reserved at branch store (internal reserve), and 20% paid to employees).

(Source) Created by the Financial Services Agency based on a document “New growth strategy from the perspectives of corporate governance and corporate funds” created by Hiroki Sampei, Head of Engagement, FIL Investments (Japan) Limited.

Discussions about the purpose and required behaviors of corporations (5)-3

○ Harvard University Professor Lucian A. Bebchuk “The Illusory Promise of Stakeholder Governance”

(Created by the Financial Services Agency based on Bebchuk, Lucian A. and Tallarita, Roberto, The Illusory Promise of Stakeholder Governance (February 26, 2020). Forthcoming, Cornell Law Review, December 2020)

■ “Stakeholderism (concept that corporate leaders should value stakeholders’ benefits)” is broadly divided into the “enlightened shareholder value” version and the “pluralistic stakeholderism” version.

The enlightened shareholder value version is that corporate leaders should take into account stakeholder interests as a means to maximize shareholder value and is not different from shareholder primacy, which focuses on shareholder value.

■ The BRT statement has the following issues: (1) ambiguity regarding which of the above-mentioned versions of stakeholderism the BRT purports to endorse, (2) denial of trade-offs between stakeholders, (3) lack of board approval (to which the signatory CEO belongs), (4) no amendment made to governance guidelines of the companies (whose CEO signed the statement), and (5) lack of reference to legal constraints for viewing shareholder interests as an independent goal.

■ Under the pluralistic stakeholderism, corporate leaders are insulated from shareholder pressures. In addition, the decision on which groups should be considered stakeholders is left to the discretion of corporate leaders, and a method to balance the interests of different stakeholders is not provided. Thus, the pluralistic stakeholderism would critically depend on how corporate leaders choose to exercise discretion.

■ Although the paper rejects stakeholderism, it is important to protect stakeholder interests or make it a policy objective. It is highly concerned about the negative effects of corporate activities.

○ U.S. Department of Labor’s amendment to regulation on ESG investments

■ The U.S. Department of Labor (DOL) has shown its longstanding position in interpretive bulletins that when pension plan fiduciaries make an ESG investment, the fiduciaries need to make sure that the investment has risk and return that are economically commensurate to those of alternative investments (the tie-breaker standard).

■ On June 23, 2020, the DOL released a proposed regulation amendment ^(note) with the following core additions:

- New regulatory text to codify the DOL’s longstanding position articulated in interpretive bulletins that plan fiduciaries need to select investments and investment courses of action based on financial considerations relevant to the risk-adjusted economic value.
- An express regulatory provision stating that compliance with the loyalty duty in ERISA section 404(a)(1)(A) prohibits fiduciaries from subordinating the interests of plan participants and beneficiaries in retirement income and financial benefits under the plan to non-pecuniary goals.
- A new provision that requires fiduciaries to consider other available investments to meet their prudence and loyalty duties under ERISA in furthering the purposes of the plan.
- Required investment analysis and documentation requirements when fiduciaries evaluate economic equivalence based on the tie-breaker standard.

(Note) <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/financial-factors-in-selecting-plan-investments>

For Reference: Feedback from
Investors and Companies in the
Wake of COVID-19

Feedback from Investors and Companies in the Wake of COVID-19: Business Strategy (1)

From May to September this year, the Financial Services Agency interviewed domestic and foreign institutional investors and companies about the “focus of governance in a post-COVID-19 world.”

- ❑ With respect to the [formulation of business strategies](#)...
 - Investors spoke [about the importance of the role of outside directors at a time when change is required, and about having to rethink the skill set of the Board of Directors when facing the need to revise business strategies.](#)
 - Companies discussed [the importance of formulating ideas and policies on business after COVID-19 and presenting them both internally and to the public, and advocated the reform of business models in light of the structure of demand after COVID-19.](#)

Investors, etc.

- The contribution of outside directors to a company's actions in the wake of COVID-19 is an indicator of [whether the company's governance is functioning effectively](#). In some cases, business models may need to be reconsidered, and it is [when change is difficult to achieve with internal resources alone that outside directors come into play](#).
- [Amidst the need to revise business strategies \(including DX strategies\), the skill set of the Board of Directors, which is responsible for monitoring, will also change](#). Disclosure of the [skills matrix](#) will become increasingly important.
- [Directors with executive skills](#) are needed to extend the Board's oversight to business strategy and medium-term plans. Furthermore, the matter of [how the board will commit to increasingly major decisions](#) in the future should be discussed. The Board should be structured in a way that allows it to exercise its judgement within the company.
- The competencies of management will be extremely important. From a sustainability perspective, if Japan as a whole begins to pursue corporate social responsibility, it will be important for companies to be able to [discern global trends and formulate short-, medium- and long-term strategies](#).
- The focus will be on whether the Board of Directors is aware of the importance of reasonable judgment, transparency, and ["decisions" and "responsibility" when there are no right answers](#).

Feedback from Investors and Companies in the Wake of COVID-19: Business Strategy (2)

Companies

- It will likely be important for us to explain our stance as a company in the post-COVID-19 era, both internally and to the public.
- It will be important to show leadership — in other words, to have a firm policy in place, demonstrate a clear sense of direction, and communicate this both internally and to the public. The spread of COVID-19 caused a sharp decline in inbound travel, which in turn has caused anxiety among our employees. Nevertheless, we believe that presenting the mid-term roadmap, which was originally scheduled to be announced next year, in the report for the second quarter of this year has succeeded in setting the company's direction and resolving the turmoil.
- We should not revise our business portfolio simply because of the pandemic; rather, ensuring that business decisions are made in a timely manner should be our basic approach in the first place.
- We are redesigning our internal institutions in order to strengthen oversight and speed up decision-making.
- We are being selective, focusing on providing services in core businesses where demand is likely to continue to grow and in regions and locations where demand is likely to recover quickly, while taking into account changes in the demand structure post-COVID-19.
- We understand that our previous business model is no longer viable in the "new normal." Accordingly, we are considering changing our business portfolio, and have announced its review in conjunction with our mid-term plan. We are also increasingly aware of a new business risk — that is, the risk of being unable to respond quickly enough to changes in business models as they occur in the "new normal."
- We recognize that the impact of COVID-19 will certainly change consumption trends as commuting time decreases and time spent at home increases.
- The company's strong suit used to be face-to-face consulting to provide personalized plans, but in light of the impact of COVID-19, we will need to rethink our approach.

Feedback from Investors and Companies in the Wake of COVID-19: DX (1)

- With regard to business strategies, especially those related to **digital transformation (DX)**...
 - Some investors said that **DX is important** and that **business processes themselves need to be changed in order to take advantage of DX**; others said that **digital literacy needs to be improved**.
 - Companies said that they were **responding to the establishment of new business models by going digital**, and that they had also made progress in **digitalizing their operations in response to COVID-19**.

Investors, etc.

- We would like company heads to discuss digital transformation.
- DX is important (**personal connectivity and digital literacy need to be improved (especially at the executive level)**); we need to look at **changing business processes from the standpoint of the possibilities offered by DX** instead of merely digitalizing existing business processes).
- **With regard to the exercise of voting rights**, custody involves borrowing dozens of personnel from other departments on a daily basis to open dozens of cardboard boxes every day. In addition, Excel instructions are sent out to trust banks in hundreds of e-mails. Even though the latter are electronic, they are unsystematic, unnecessarily costly and **obsolete**. We plan to use this as an opportunity to step up our efforts to promote DX.
- We will be watching to see whether companies **take a proactive approach to digitalizing their operations**.

Feedback from Investors and Companies in the Wake of COVID-19: DX (2)

Companies

- We had to respond by establishing a new business model (i.e., by further promoting the digitalization of the company, which was already underway before the start of the pandemic).
- As the importance of remote interactions grows, we are looking to enhance our online business.
- Social distancing at the factory is being implemented by promoting the use of IT, including desktop robots. This was already underway before the pandemic, but COVID-19 has accelerated this initiative and highlighted the issues involved.
- We are pushing ahead with the development of products and systems for remote service delivery.
- We will need to increase our investment in digitalization in view of the growth of the e-commerce ratio in China. We will be considering whether there is room to explore e-commerce in addition to face-to-face sales for services that have hitherto revolved around the latter.
- We have been engaging with digital transformation since before the COVID-19 pandemic, in two directions: DX for improving our services and DX for making our internal operations more efficient. Of these, we are prioritizing DX for service improvement. In the wake of COVID-19, the company has been accelerating its investment in touchless systems to meet the growing needs of its customers.
- Prior to COVID-19, we had installed a web conferencing system on our employees' computers and developed our infrastructure in other ways, but the use of the system had not taken off. Following the COVID-19 outbreak, however, remote work and web conferencing have come to the forefront.
- I think we were inadequately prepared to implement remote management systems and IT systems in the event of a contingency.
- We were getting our telework system ready for the 2020 Tokyo Olympics, so we were able to make a relatively smooth transition to telework following the COVID-19 outbreak.

Feedback from Investors and Companies in the Wake of COVID-19: Employment

□ With regard to review of of workstyles and employment systems...

- Some investors said that we need to **rethink the way in which we invest in human capital and to make changes aimed at improving productivity**, while others said that **diversity will be important in order to instill openness**.
- Companies said that the **job-based management infrastructure currently in place was inadequate, and would be an issue in the future**.

Investors, etc.

- All the companies we spoke to said that the role of the individual employee will become more important after COVID-19, and that they feel the second workstyle reform will be accelerated. Amidst these rapid changes, we believe it will be **important for management and the Board of Directors to understand their employees' situation**.
- With regard to sustainability, we believe **there will be a greater focus on the social component of ESG, including how companies can contribute to the safety of their employees and social stability**.
- We need to invest in human capital (changes targeting motivation, idea development and increased productivity rather than focusing on reducing working hours).
- We need diversity and inclusion (a **diverse background** that includes not only women but also foreigners; openness to prevent Japanese companies from overly focusing on the Japanese market). (The “chicken or egg” problem with diversity and inclusion is that one has to be in contact with diversity in order to appreciate its breadth.)

Companies

- Amidst a growing need for **new workstyles**, we will need to **review the way in which we have run our business in the past**. This includes, for example, the way in which internal audits are conducted, and the face-to-face sales activities that used to be considered good business etiquette.
- The fact that we **entered into the pandemic with an inadequate job-based management infrastructure** will need to be addressed in the future.

Feedback from Investors and Companies in the Wake of COVID-19: Risk Management

- With regard to [risk management](#)...
 - Investors remarked that it will be interesting to see [whether companies will review their value chains in light of market trends](#).
 - Companies said that [COVID-19 was a risk which was totally unexpected](#), and that it [posed a challenge for the value chain](#).

Investors, etc.

Risk management

- Disclosure of risk items is extremely important.
- In emergencies such as the current one, [differences between companies that are able to respond with a sense of stability and agility and those that are not will become more apparent](#). Therefore, [management and governance](#) — including [corporate leadership, risk management and the effectiveness of the board of directors](#) — remain important and should be a top priority for investors.
- Concentration of authority in the president, etc. and establishment of a system for ex-post checks are important in times of crisis.

Value chain

- We intend to focus on [changes in the value chain](#) (Japanese companies are not adept at dealing with changes that may disrupt the existing order; they will need to [investigate and analyze end-market trends on their own](#), without overly relying on the wishes of their customers).

Companies

Risk management

- We had assumed that the globalization of our business would allow us to avoid any geopolitical impact. COVID-19, however, was a [global and completely unexpected risk](#), and damage was inevitable, no matter how diversified our operations were.
- Our crisis management department is trying to understand the impact of COVID-19, and how to best respond to the various challenges it has presented us with.

Value chain

- Procurement of products is not progressing as originally planned because the manufacturer that is our supplier does not have a production system in place.

Feedback from Investors and Companies in the Wake of COVID-19: Financial Strategy (1)

□ With regard to financial strategy...

- Some investors said they are interested in seeing **whether review will include a revision of the value chain in light of market trends**, while others said that **merely insisting on cash accumulation will reduce companies' ability to generate cash**.
- Companies said that they are facing **challenges in the value chain**, and that they need to **keep safety in mind in addition to capital efficiency in order to prevent concerns about cash shortages from investors and others**.

Investors, etc.

- From the standpoint of the competitiveness of Japanese companies, **a simple interpretation to the effect that holding cash during the pandemic has paid off would be problematic**. If they fail to see this, **their ability to generate cash in the future will be compromised**. It will be important to address the medium to long term perspective.
- **In order to improve capital efficiency**, it is important that companies prepare for a crisis by **carefully reviewing possible funding options**.
- It is the banks that become important when cash is drying up. There is a concern that, in the midst of the transition from debt governance to equity governance, it may be reversed back to debt governance. **The governance reform should be promoted, treating equity governance as the main focus**.

Companies

- We have increased our cash and deposits on hand due to a deterioration in cash flow and the impact of COVID-19.
- In order to avoid concerns about cash shortages during the pandemic, we have also expanded our bank credit lines.
- As for our approach to capital costs in the post-COVID-19 era, there will be a shift toward emphasizing safety for the time being. Before the pandemic, when we sold a business, investors would always ask us how we were going to use the funds, but these days, we are receiving positive feedback on our conservative approach instead. Nevertheless, ROIC management with an awareness of capital costs is, and will continue to be, a major pillar of our company's management.
- Cash on hand was set at a level intended to withstand a contingency like the 2008 financial crisis. This pandemic, however, is greater in magnitude, and will require larger funds on hand. That said, we believe that we should avoid blindly increasing our cash reserves, and instead recognize the importance of achieving a right balance with our investments. We are discussing the appropriate level of cash reserves accordingly.
- While cost cutting is partly a policy intended to curb losses, it is also based on the idea that the funds saved will be used for investment so as not to eliminate the seeds of growth.
- The experience of COVID-19 should not put us off from investing; rather, we should invest in growth opportunities in a timely manner so that we don't miss out.
- Our company has been working to reduce assets in order to improve cash flow, mainly by selling off cross-shareholdings and idle assets.

Feedback from Investors and Companies in the Wake of COVID-19: Sustainability (1)

□ With regard to sustainability...

- Some investors have said that they are **paying more attention to social factors, such as contributing to the safety of employees and the stability of society**, while others pointed out the need to **consider the sustainability factors that are truly important to their companies rather than the formal sustainability considerations of the past**.
- Some companies, **especially those that have already made voluntary efforts, said that their awareness of the importance of sustainability remains unchanged**; others said that a **mid- to long-term perspective on "corporate value" is increasingly important**.

Investors, etc.

- Are companies willing to **identify the stakeholders that are important to them and do their best to support them**, rather than just pay lip service to ESG and SDGs?
- **Approach to health and safety and action taken in response to the pandemic** will be a theme of engagement with companies.
- All the companies we spoke to said that the role of the individual employee will become more important after COVID-19, and that they feel the second workstyle reform will be accelerated. Amidst these rapid changes, we believe it will be **important for management and the Board of Directors to understand their employees' situation**. *(Reprint)*
- With regard to sustainability, we believe **there will be a greater focus on the social component of ESG, including how companies can contribute to the safety of their employees and social stability**. *(Reprint)*
- We are continuing to **focus on the environmental component of ESG from a long-term perspective and to engage in dialogue**, keeping a close eye on future economic outlook and the impact of trends in the price of oil and other energy sources. At any rate, the focus differs depending on the materiality of sustainability-related issues, region, nature of business, and category of business, we engage with companies by thoroughly selecting critical issues for each dialogue.
- When it comes to ESG initiatives, the seriousness of a company's efforts will be exposed based on **whether such initiatives are being delayed or shelved in the face of a slowdown in the company's core business**.

Feedback from Investors and Companies in the Wake of COVID-19: Sustainability (2)

Companies

- The focus on the social component of ESG is steadily increasing.
- Because remote work involves costs for employees, such as electricity and other infrastructure, the company provides an allowance for employees who work from home.
- From the point of view of business continuity, the company is focusing on the **safety of its employees**. We intend to study how a company with many offices and business partners should implement measures to ensure the safety of their employees going forward, including the supply chain.
- Although not as a response to COVID-19, the company established headquarters for the creation of social value in order to address the issue of "how to remain vibrant 100 years from now," and has been publishing sustainability reports, etc. With regard to the **environmental** component of ESG, the company has set CO2 reduction targets and analyzed scenarios based on TCFD recommendations, taking into account the advice of investors.
- We have always worked on **sustainability as an important issue**, and do not feel that our thinking on the subject has changed due to COVID-19. Rather than ESG, it may be necessary to think about how to approach corporate value from more of a mid- to long-term perspective.

Feedback from Investors and Companies in the Wake of COVID-19: Shareholders' Meeting Process (1)

□ With regard to the shareholders' meeting process...

- Some investors suggested **staggering the timing of shareholders' meetings** in order to allow sufficient time to consider the exercise of voting rights.
- Some companies said **changing the date of the general meeting may be difficult in view of possible complaints from investors**.

Investors, etc.

- The **timing of shareholders' meetings should be pushed back or staggered** in order to be better able to deal with contingencies in the processes of settlement of accounts, auditing and voting.
- As for the question of whether to adjourn or postpone a resolution of the shareholders' meeting, **postponement would pose no issue at all in terms of ex-dividends because long-term institutional investors are not affected**. On the other hand, the impact on individual investors who trade around the record date may be significant, and it is understandable that company officials would want to avoid complaints from such individual investors.
- We are asking the company to **ensure the health and safety of its employees and respect the rights of its shareholders, while at the same time avoiding work that is not socially distanced as a matter of social responsibility**.
- We are asking the company to **publish information on its website as soon as possible** as the dissemination of the general meeting's agenda is subject to various delays, including the postponement of the settlement schedule and delays in the printing and mailing of convocation notices.
- From the public's standpoint, companies need to pay attention to the preservation of health, so **virtual general meetings would be preferable**.

Feedback from Investors and Companies in the Wake of COVID-19: Shareholders' Meeting Process (2)

Companies

- Changing the date of the general meeting is quite burdensome in itself, as is coordinating with the relevant parties and considering how to respond to possible complaints (e.g. complaints from investors who would not receive dividends if the dividend record date were moved back).
- In response to the CEO's directive to avoid gatherings that has been in force since February, the company has switched from holding meetings and rehearsals related to the general shareholders' meeting, which used to be held with the attendance of all officers, to online meetings and face-to-face meetings with limited attendance.
- Dialogue with investors likewise takes place mainly via [online meetings and telephone conferences](#).

Investors' Statement for the Post-COVID-19 Era

Institutional Investor Statement (1)

- A number of institutional investors in Japan and abroad have released a statement in response to the spread of COVID-19.

ICGN: ICGN's Statement on Shared Governance Responsibilities (April 23, 2020) (excerpt)

Dear Corporate Leaders

Governance priorities during the COVID-19 pandemic

In recent years, the challenges posed by climate change have tilted discussions towards environmental risks as well as corporate governance. COVID-19 presents a new era of engagement, one which reinforces the significance of dialogue and elevates the importance of social factors as a key determinant of a company's long-term financial health and sustainability. As such, we are respectfully submitting the ICGN Statement of Shared Governance Responsibilities, which highlights the need for companies to comply with the following:

- Prioritize the safety and welfare of employees while ensuring short-term liquidity to maintain financial strength and solvency
- Adopt a long-term perspective on social responsibility, fairness and sustainable value creation, while adapting to new realities and articulating the company's social purpose
- Take a holistic and equitable approach to capital allocation decisions, keeping in mind the interests of employees, stakeholders and providers of capital
- Communicate comprehensively with all stakeholders to instill confidence in an approach that builds resilience into the company's strategy and business operations

The COVID-19 pandemic is the most significant public health and economic crisis of our time, and requires new forms of cooperation on a global scale. It has sparked a deep awareness of social failures and deep gender, race and income inequality. **As business leaders and institutional investors in positions of influence, we hope that this letter will present issues of common interest as we address this unprecedented challenge together and look ahead to a new era of governance dialogue.**

Institutional Investor Statement (2)

Institutional Investors Collective Engagement Forum

[Urgent] Engagement Agenda (April 10, 2020)

“Request for Proactive Demonstration of Governance with an Eye on Post-Pandemic Global Changes” (Excerpt)

Request to the Members of the Board

After the pandemic is contained, we can expect changes in the awareness and behavior of people around the world. As well as increased awareness of health and wellness, we will move into a world that makes more extensive use of technology than ever before, including remote working, online events, online learning and telemedicine, and **the business environment is likely to change dramatically as a result.**

Throughout similar crises that have repeated themselves over the years in varying forms, companies in Europe and the U.S. have exerted effective governance, leveraged market functions, adapted to the new environment, changed and reinvented themselves. **Rather than returning to the world and companies of yesteryear, we hope that Japanese businesses will take on the difficult challenge of transforming and growing stronger, in turn creating a new, more resilient world.**

In particular, outside directors are asked to proactively enforce governance, spotting post-pandemic changes in the business environment and growth opportunities from the objective and broad perspective as those who are not directly engaged in business activities, as well as from the perspective which can only be provided by outside directors who have abundant experience and a high level of discernment. **Long-term investors will support directors in their efforts to turn this crisis into an opportunity.**