

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

1. Date and Time: December 8, 2020 (Tuesday) 9:30-12:00
2. Venue: 9F, Central Government Building No. 7, Meeting Room

[Kanda, Chair] Good Morning, everyone. It's already the scheduled start time, so I'd like to open the twenty-second Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code. Thank you very much for taking the time from your busy schedule.

In the past several meetings, we have discussed issues of "corporate governance for post-COVID transformation of companies". During the discussions, it was pointed out that, in order for companies to get ahead of changes in the economy, society and industrial structure, it is essential to have diverse perspectives and values. Especially, it is urged to ensure board effectiveness and diversity in core human resources of companies.

Therefore, we'd like to summarize such discussions in an Opinion Statement of the Follow-up Council. In the first half of this meeting, we'd like you to confirm the draft Opinion Statement titled "Board Effectiveness and Ensuring Diversity in the Core Human Resources in Companies for Post-COVID Transformation of Companies (draft)", which summarizes our discussions.

In the second half of the meeting, we will move on to a new topic, general shareholder meetings. The Secretariat will explain subjects to be discussed, and then I'd like you to discuss the matters.

First, I'd like to ask the representative of the Financial Services Agency (FSA) to explain the draft Opinion Statement,

Mr. Shimazaki, I'm handing it over to you.

[Shimazaki, Director of the Corporate Accounting and Disclosure Division, FSA] Thank you.

I'll explain Material 1 titled "Board Effectiveness and Ensuring Diversity in the Core Human Resources in Companies for Post-COVID Transformation of Companies (draft)", which is the draft of the Opinion Statement of the Follow-up Council.

The draft of 3 pages consists of three sections: “I. Introduction”, “II. The policies of board effectiveness and ensuring diversity in the core human resources in companies”, and “III. Closing Remarks”.

First, please look at “I. Introduction”. Reflecting our discussions during the first and second meetings after resuming the Follow-up Council, this part describes accelerated changes in the environment surrounding companies, digitalization and other changes in people’s values and behaviors, changes in the goods and services demanded by customers, new workstyles and utilization of human resources, and growing sense of uncertainty.

Then, it is stated that “To achieve new growth in the post-COVID era, each company must recognize the challenges and get ahead of the changes. To do so, it is important for companies to share a vision of transformation with their stakeholders ... and to actively implement the vision through prompt and decisive decision-making.”

“It is imperative that they reform their corporate governance to achieve growth-oriented governance and sustainable growth while increasing corporate value over the mid- to long-term. It is necessary to work quickly on reforms, such as making the board more effective, managing businesses with a recognition of their cost of capital, ensuring confidence in audits, and improving group governance.” The paragraph starting from “in particular” is intended to raise awareness of the issues pointed out by the members: “...in order to lead non-linear changes in the post-COVID economy, society and industrial structure, and to achieve renewed growth, it is essential for a company to have diverse perspectives and values reflecting a variety of experience, abilities and characteristics. For this reason, it is very important to ensure that the board effectively functions through an appropriate combination of knowledge, experience and abilities of directors, including independent directors, as well as the diversity of directors, management and their candidates, and to develop human resources and an internal environment that is conducive to this.”

After that, it is stated that this Opinion Statement (draft) provides recommendations on these issues for inclusion in the next revision of the Corporate Governance Code.

Now I’m moving on to “1. Board effectiveness” under the section “II. The policies of board effectiveness and ensuring diversity in the core human resources in companies”.

“As digitalization accelerates and the demand for a balance between corporate activities and social sustainability grows rapidly, it is not easy for companies to anticipate these post-COVID

challenges with their existing management personnel alone.

The board is required to support management's prompt and decisive risk-taking as well as make important decisions in light of this discontinuity in the business environment.

What is essential in this regard is ensuring an appropriate combination of directors' knowledge, experience and abilities, as well as their years served as the directors of the board. Ensuring that the board as a whole has the skills necessary in light of business strategy is considered a precondition for the board to effectively fulfill its roles and responsibilities. This view on board skill composition (knowledge, experience and abilities) should be appropriately disclosed in the selection of directors and shared through dialogue with investors."

"In this context, independent directors are expected to play a more important role in ensuring that companies anticipate changes in the business environment and reflect them in their business strategies. In particular, inviting people with a wide range of management experience, not limited to the relevant company, to join the board and reflecting their skills in the board's discussions are expected to contribute significantly to improving the board's effectiveness."

In the next paragraph, as we shared with you in the previous meeting, it is described that the majority of countries require the appointment of independent directors representing at least one-third or a majority of the board in their codes or listing rules. Accordingly, in Japan, with respect to the "Prime Market (tentative name)" which is "the market for companies representing Japan", a high standard of governance is required. In this regard, companies listed on this market should be required to appoint independent directors representing at least one-third of the board. Furthermore, companies should be encouraged to appoint a majority of independent directors, if they consider it necessary in light of their business environment and business characteristics, etc.

Although we used such an expression as "should be required" here, this statement is intended to be based on the 'Comply or Explain' approach. The same is applied to elsewhere in the draft Opinion Statement.

"Listed companies should identify the skills that the board should have in light of their business strategies when appointing directors, and then disclose the combination of skills (so-called "Skills matrix")."

Some members expressed concern that companies may make merely formal responses to such a requirement, but the point here is that companies are expected to identify the skills needed for the

board, and then disclose the combination of necessary skills. Furthermore, it is stated that “Listed companies should also be required to include independent directors with management experience in other companies.

In addition, we will further examine the following points for the revision of the Corporate Governance Code:

- Establishment of the Nomination Committee (statutory/optional) and improvement of its functions (strengthening the function of appointing and dismissing the CEO, such as enhancing the candidate pool, and improving disclosure of its activities)
- Establishment of the Remuneration Committee (statutory/optional) and improvement of its functions (building a remuneration system consistent with the business strategies and improving disclosure of its activities)
- Appointment of the lead independent director, who serves as a contact point for dialogue with investors, and appointment of an independent director as the board chair, etc.
- Enhancement of board evaluations (e.g. enhanced disclosure of self- and external evaluations, including those of individual directors and advisory committee members)

Now I’m moving on to the next section “2. Ensuring diversity in the company’s core human resources”.

“For a company to lead the irregular changes in the post-COVID era and achieve new growth, a diversity of perspectives and values is required, not only in the board, but also in the management.

In addition, while fully recognizing the situations, etc. surrounding companies in Japan, it is very important to build a system to ensure diversity in terms of gender, internationality, work experience, etc. at the middle managerial level, which supports the top management and board, and to appoint these core human resources to the top management and directors while they accumulate experience. In this process, it is also essential to utilize mid-career hires who have management or work experience in other companies.

In order to take advantage of such diverse personnel and promote diversity within the company, it is also important to develop the human resource development system and internal environment. After embracing diverse workstyles and career development, there is a need to establish a system in which employees' skills and achievements are fairly evaluated, and they are given positions, authority, rewards and opportunities accordingly.

Based on this perspective, listed companies should be required to present their policies and voluntary and measurable targets for ensuring diversity in the promotion to core human resources, such as the promotion of women, foreign nationals and midcareer hires to middle managerial positions, as well as disclosing their status.”

That’s how it is written. The term “voluntary” in this text means that each company is expected to set its own targets on a voluntary basis, instead of setting uniform targets for all companies and for all people.

Furthermore, “the company should also be required to disclose its policies for human resource development and internal environment development to ensure diversity, as well as the status of their implementation.”

Now I’m moving on to “III. Closing Remarks”. It is stated, “In April 2022, the Tokyo Stock Exchange will shift to a new market segmentation that will require a higher level of governance for companies listed on the ‘Prime Market (tentative name)’. It is expected that companies will seize the opportunity of these changes and establish effective corporate governance in a timely manner.”

The last paragraph remarks that “In preparation for the revision of the Corporate Governance Code next spring, the Council will continue to intensively discuss corporate governance issues for post-COVID corporate transformation, such as group governance, capital efficiency, human resource investment, ensuring confidence of audits, and mid- to long-term sustainability.”

That’s what is written in the draft Opinion Statement we prepared.

[Kanda, Chair] Thank you very much.

With respect to the draft Opinion Statement which was just explained, we have received opinion papers from Mr. Toyama and Ms. Waring, who are absent today. I’d like to ask the Secretariat to briefly share the summaries.

[Shimazaki, Director of the Corporate Accounting and Disclosure Division, FSA] First, I’ll share opinions of Mr. Toyama with you. He expressed his opinion on board effectiveness in the draft Opinion Statement, with a focus on the ratio of outside directors of companies mainly in the Prime Market, the enhancement of Nomination (advisory) Committee, diversity in a pool of future top management candidates, and rotations and replacement of executive members in particular, as well as the ratio of mid-career hires. He believes that all these points are important, and hopes that the Code will be revised accordingly to facilitate such achievements.

As the corporate governance reform has entered the phase of shifting from Form to Substance, he asserted the importance of appointing/dismissing the top management in a timely and appropriate manner, and pointed out the need for both inside and outside directors to have necessary capabilities, insight and motivation to do so. He also made comments on the need for a talent pool over mid- to long-term to enhance the quality of executive management candidates, by referring to the current homogeneous, closed and rigid composition of the next-generation candidates, who joined the company as graduates.

With respect to the other remaining issues, he suggested that we should further discuss how to improve companies' "earnings power" in relation to group governance and ESG/SDGs. As for group governance, if the principle that controlling shareholders should uphold the rights of minority shareholders is applied as the norm, the issues are more clearly defined.

As for ESG, without the earnings power to back it up, a company's commitment to ESG/SDGs, which are especially investment for the future in nature, is just an unsustainable pipe dream. So, he asserted that it is essential that the Code encourages companies to improve earnings power, especially operating cash flow first.

Ms. Waring expressed her opinions about board effectiveness. While recognizing that we must balance a range of views concerning the desired level of independence on corporate boards, [ICGN] encourages companies in Japan to move towards international best practice.

Having said that, ICGN maintains the position that there should be a majority of independent directors on boards of listed companies on the Prime Market, and at least one-third independent directors in other market segments. As for listed subsidiaries, there should be a majority of independent directors.

Furthermore, considering the importance of Nomination Committee and Remuneration Committee being comprised of independent directors, she suggests that the word 'independent' should be added before committee names, in order to ensure such committees are independent.

She also recommends that such committees should be chaired by independent directors. Since a prominent role of Nomination Committee is to manage the appointment and evaluation of board members, not limited to the CEO, as well as succession planning, [ICGN] recommends that "board diversity and composition" should be added before the reference to "strengthening CEO selection". And considering that the role of the board is to oversee and direct the affairs of the company, it is

recommended that, in the description “the board is required to support management’s timely and decisive risk-taking”, the word ‘oversee’ should be added instead of ‘support’.

That’s all.

[Kanda, Chair] Thank you very much.

Now I’d like to hear your comments on the draft Opinion Statement, which was explained earlier. Since we need to discuss another topic in the second half of the meeting, please understand that the allotted time for each speaker is limited to 3 minutes.

As usual, when you would like to speak, please use the chat function of the online meeting system, type your name and your organization name, and send the message to all participants. When you start speaking, please turn off the mute function; and when you finish speaking, please return to the mute mode.

Well, who would like to make comments?

Mr. Obata, please go ahead.

[Obata, member] This is Obata. Thank you for the explanation. I’d like to make 5 comments. Because this draft Opinion Statement is to be published, I’d like to explain 5 points to be noted.

My first point is that, as I already mentioned in the previous meeting, the new market segment requires...

[Shimazaki, Director of the Corporate Accounting and Disclosure Division, FSA] Excuse me. This is Secretariat. There seems to be an audio problem, and we can hardly hear the speaker. What shall we do?

[Kanda, Chair] Please let him wait for a while.

[Shimazaki, Director of the Corporate Accounting and Disclosure Division, FSA] Could you wait for a while?

[Kanda, Chair] I’m sorry, Mr. Obata. I think something is wrong with the connection or Wi-Fi. So, I’d like to ask the next 4 members on the waiting list to speak first, and then ask Mr. Obata to speak once again. I hope you are fine with that.

The waiting list on the chat column shows the names of Ms. Takayama, Mr. Kobayashi, Mr. Okada, and Mr. Haruta – in this order. So Ms. Takayama, could you please start?

[Takayama, member] This is Takayama. I support the basic idea of this Opinion Statement. Having said that, I’d like to briefly make some comments.

First, as for the percentage of independent directors, I agree that the Code requires companies in the Prime Market to appoint at least one-third of independent directors on their boards at this point.

With respect to whether it is appropriate to require a majority, it would be better to continue the discussion. In doing so, I believe it is necessary to discuss the matter from the perspective of how it could lead to an actual increase in corporate value, because corporate governance itself is not the objective, but a tool for increasing corporate value.

The next point is about Nomination Committee. As stated in ICGN's opinion paper, the independence of Nomination Committee is important. So I suggest that the wording should be changed to "establishment of Nomination Committee with a high degree of independence" instead of merely saying "establishment of Nomination Committee". The same could be said of Remuneration Committee.

For the purpose of increasing corporate value as I just mentioned, it is essential to appoint and maintain highly qualified independent directors. Accordingly, as Nomination Committee's functions, it would be better to add succession planning of independent directors, not limited to appointing and dismissing the CEO.

The next point is about board evaluations. It's rather technical. For companies, the term "advisory committees, etc." is not easy to understand, so I suggest that this expression should be changed to "statutory/optional committees", which is used in the preceding part, to make it easier to understand.

My last point is about ensuring diversity. I believe this is an extremely important issue, and support the underlying idea. However, it is not really clear whether the subject of the sentence is the management or the board. Judging from the sentence, I assume the management is expected to ensure diversity.

However, since this Opinion Statement is about corporate governance, I believe it is necessary to describe roles and involvement of boards in addition to roles of the management. For example, we could add such a sentence as "the board facilitates and oversees corporate management that promotes such diversity."

That's all from me.

[Kanda, Chair] Thank you very much.

Next, Mr. Kobayashi, please go ahead.

[Kobayashi, member] As stated in the paragraph starting from "Additionally, in terms of leading

the post-COVID transformation of companies” lower on page 2, we will further examine various issues for the revision of the Code, so this Opinion Statement is not our final conclusion. Basically, I do not really have any objection to what is written on page 1 and page 2. I think an important point here is the percentage of independent directors: while ensuring they represent one-third or a majority of the board, it is also important to consider the percentage of independent directors in such important organizations as Nomination Committee and Remuneration Committee, as well as the appointment of committee chairs. Furthermore, I’d like to refer to the description “the lead independent director, who serves as a contact point for dialogue with investors.” A lead independent director does not necessarily only serve as a contact point for dialogue with investors, but also performs the function of making decisions on how and which items should be selected for board discussion. And conversely, this description may create a misunderstanding that other independent directors do not have to actively participate in dialogue with investors. I would rather like to suggest that companies should create opportunities for outside directors representing one-third or a majority of the board to have dialogue with investors by rotation, so I’m not very comfortable with the wording here. That’s all.

[Kanda, Chair] Thank you very much.

Please allow me to go back to the original speech order. Mr. Obata could not fully express his opinions due to bad connection. Mr. Obata, could you please share your opinions?

[Obata, member] This is Obata. Due to the limitation of communication situation, I won’t use the video function. I also support the publication of this Opinion Statement, but I’d like you to consider 5 additional points.

First, I assume this discussion is triggered by the introduction of the new market segments. As I mentioned at the previous meeting, I believe we should consider the relation with the Companies Act. Especially, if the Code requires one-third or a majority of outside directors on boards, it will be a natural course of action for companies, which have adopted “Company with *Kansayaku* Board (Audit & Supervisory Board)” as their organizational form, to shift to either “Company with Audit and Supervisory Committee” or “Company with Three Committees (Nomination, Audit and Remuneration)”. I understand that Company with *Kansayaku* Board (Audit & Supervisory Board) has its own advantages. Therefore, I think we should examine how to sort out such background. This is my first point.

The second point is about skills matrix. Again, as I mentioned in the previous meeting, in the

ongoing process of establishing governance, it should be individual companies that consider and define what types of directors are appropriate for them. It is desirable to ensure diversity, but what individual companies need may vary depending on their stages of development of governance. We should consider this point.

The third point is about the strong request for appointing independent directors. I think it is appropriate in terms of addressing the issue of conflict of interest. However, speaking from our company's experience, those who are not independent are more familiar with the company's own circumstances, and often make sharp criticism. So I'm wondering to what extent independence should be needed.

The fourth point is the appointment of an independent director as the board chair. I'm aware that we are moving toward such a direction, but it will place a heavy burden on such board chairs. I hope we will further discuss this point.

Finally, I'd like to talk about numerical targets. I understand the need for ensuring diversity, but I'd like to suggest that abstract and narrative descriptions [of targets] should be allowed to a maximum extent. I understand that it is desirable to take advantage of mid-career hires, but we should be careful not to discourage employees who joined the company as new graduates. We need to avoid a drop of their motivation, as they consider they will not be able to achieve successful careers. I'd appreciate it, if the statement used a careful expression in consideration of how they may feel.

That's all. Thank you.

[Kanda, Chair] Thank you very much.

Now I'd like to go back to the order of the chat waiting list. The next speaker is Mr. Okada. Please go ahead.

[Okada, member] First of all, I generally agree with this draft Opinion Statement. Having said that, I'd like to express my opinions.

First, I'd like to talk about the issue of the number of outside directors. The draft suggests that the Code should require one-third, especially in case of the Prime Market. I recommend that we should ensure that companies will not regard one-third as the goal. Yet, as for the Prime Market, a majority should be required. In order to incentivize Japanese companies to develop a talent pool of outside director candidates, I think it is meaningful to require a majority as a minimum requirement for entering into the Prime Market.

Next, at the previous meeting, some members pointed out that representation of a majority of outside directors on board negates the institutional design of Company with *Kansayaku* Board (Audit & Supervisory Board) itself. However, I don't think requiring a majority of outside directors on board negates Company with *Kansayaku* Board, which is a good governance model rooted in Japan.

However, it is very difficult for overseas investors to understand *kansayaku* (Audit & Supervisory Board members) system. Therefore, in order to gain their understanding, we should look at Company with *Kansayaku* Board as a dual monitoring model, consisting of governance in terms of the efficiency by outside directors which is globally easy to understand, and legal governance by *kansayaku* which is unique to Japan. And the Prime Market should accept such companies.

For that purpose, it is necessary for the companies to describe, in their Corporate Governance Reports, how they pursue the efficiency and how they place emphasis on the legality. I think such efforts would be necessary.

As Companies with *Kansayaku* Board (Audit & Supervisory Board) account for the majority in Japan, I'd like to seek a way for such companies to be listed on the Prime Market by securing outside directors and improving the dual monitoring system, so that they can globally compete without being internationally handicapped.

Next, I'd like to talk about skills matrix. What is written in the Opinion Statement is right, but more specifically, companies are expected to enhance contents of their matrices, instead of just preparing a matrix table and ticking boxes as we often see in convening notices. In other countries, there are many cases of explaining skills and experience of each director, and why the company in question needs such skills and experience. Without going that far, if we look at it from an extreme point of view, companies may continue to appoint any independent persons as independent directors [regardless of their skills and experience].

That's all from me.

[Kanda, Chair] Thank you very much.

Next, Mr. Haruta, please.

[Haruta, member] This is Haruta from RENGO (Japanese Trade Union Confederation). I generally support the draft prepared by the Secretariat. From that standpoint, I'd like to make 3 comments.

The first point is about independent directors. The draft refers to "at least one-third or the majority". I think this is OK in the initial stage, but we will need to discuss specific percentages after

analyzing and verifying the effect of independent directors in the future. I'm a little concerned about proceeding without such analysis and verification of the effect, so I'd like you to keep it in mind.

The second point is about ensuring diversity. I believe disclosure toward ensuring diversity is extremely important.

However, in Paragraph 4 of Section II-2, there is a description "present their ... voluntary and measurable targets." Whether a company presents measurable targets concerning foreign nationals and mid-career hires would be up to a decision upon negotiations between labor and management of each company. Therefore, I suggest that the expression, including the requirement to set measurable targets, should be more tolerant.

Finally, the positioning of the Prime Market is described in the Closing Remark of this Opinion Statement. I'm a little concerned about whether [the new market segmentation] may cause a disparity between companies listed on the Prime Market and the Standard Market. To avoid such a situation, I recommend that, in the Closing Remark, we should include such a message that the Prime Market is expected to represent Japan in a sense that companies listed on the Prime Market will lead companies listed on the Standard Market.

That's all.

[Kanda, Chair] Thank you very much.

Next, Ms. Matsuoka, please go ahead.

[Matsuoka, member] Thank you. This is Matsuoka.

Today, I'd like to make some comments in the capacity of the Chair of the Sub-Committee on Capital Markets of Keidanren (Japan Business Federation), which has a large number of member companies.

First, I agree with the concept that it is essential to have diverse perspectives and values in order to achieve renewed growth in the post-COVID economy, society, and industrial structure; and the Corporate Governance Code should be play a certain role for that

In our understanding, Japan's Corporate Governance Code adopted the principles-based approach, which allows each company to apply the very intention of each principle in accordance with its own circumstances, aiming at enhancing governance and increasing corporate value through each company's own efforts.

The Code is positioned to ask companies on their approach and stance to ensure the substance of

what the Code is aiming for, and is not to become a checklist where companies are to tick-the box for each items on whether to comply or explain. . We understand this is the basic stance of the Code which remains unchanged in the revision of the Code at this time.

Therefore, we believe it is important that it not place limitations on the options or room for creativity for management. With that, I'd like to get into specifics.

First, onboard effectiveness. I support the direction of the Opinion Statement in terms of strengthening independent directors and ensuring diversity. However, considering the current situation where the pool of outside director candidates is not sufficient compared to other countries, I'm afraid it is not easy to encourage companies to appoint independent directors as majority on their boards.

Next is about requiring all listed companies to disclose their directors' skills matrix. Although I understand the purpose, I think it is difficult to describe diverse elements in a formal matrix format, since each director's skills cannot be mechanically defined by his/her attributes; instead, it should be comprehensively judged on the basis of n each directors' expertise, experience and characteristics , in light of what the needs and characteristics are for each company.

We should avoid any disclosure method which may trigger responding on merely a formality basis. I believe that the Code should encourage each company's voluntary and flexible disclosure. Through explaining his/her expected roles, we can recognize reasons for appointing each director candidate.

The next comment is about the establishment of Nomination and Remuneration Committees, the appointment of the lead independent director, the appointment of an independent director as the board chair, and the enhancement of board evaluations. I think it is meaningful to actively examine various issues at this time. However, similar to the issue of requiring majority of independent directors on board, what is recommended in this Statement seems to be based on the assumption that all companies are adopting the monitoring board model, as the form of corporate organization, where execution and oversight functions in a company are separated.

These descriptions do not seem to have taken into consideration companies with *the Kansayaku* Board model(Audit & Supervisory Board), where the Board of Directors discusses management matters, and the *Kansayaku* Board (Audit & Supervisory Board), consisting of majority of outside members, conducts auditing. In considering the potential revision of the Code, we must carefully

take into account the reality that an overwhelming majority of listed companies adopt the form of companies with *Kansayaku* Board structure rather than companies with Nomination and other Committees structure

Furthermore, even in cases where companies adopt the monitoring model, although the draft Statement suggests that a “lead independent director” be appointed, serving as the contact person to have dialogues with investors, such person should not be limited to the “lead independent director,” and rather, whoever the best suited amongst the outside directors to have the dialogue for the given topic, may be the way it should be put.

The next comment is about ensuring diversity for core human resources of a company. Promoting diversity has been steadily becoming a major trend among Japanese companies even prior to the Covid-19 pandemic, and I believe that measures to support such efforts of companies are very important. From the perspective of encouraging voluntary efforts of individual companies, I believe it is meaningful for each company to explain their approach on how to ensure and utilize diversity as a whole, including female gender,, foreign nationals and mid-career hires for positions in management.

On the other hand, as for how to disclose such voluntary efforts of individual companies, there needs to be further consideration. With respect to requiring disclosures of measurable targets and achievements, as well as policies for human resources development and for improving internal environments and the status of their , implementation , it is important that diversity, which is a matter of quality, is not replaced by just a matter of matching numbers or meeting formalities.

In addition, we need to consider the practical issues which could have potential conflicts with the very objective of attaining diversity, by trying to apply diversity goals to meet a certain set framework.

I asked the members of Sub-Committee on Capital Markets of Keidanren (Japan Business Federation) to make comments on this draft Opinion Statement, and unfortunately, it seems that substantial gaps exist.. The revision of the Corporate Governance Code we understand is to help exemplify the future direction ahead to companies and encourage voluntary efforts of companies, and as such, the Keidanren is curious to hear views from the FSA, the TSE and other parties concerned as to how they would suggest that such gaps be filled.

Thank you very much.

[Kanda, Chair] Thank you very much.

[Ikeo, member] Excuse me. This is Ikeo.

[Kanda, Chair] Yes?

[Ikeo, member] You skipped my turn.

[Kanda, Chair] Oh, I'm so sorry. Professor Ikeo, I'm handing it over to you.

[Ikeo, member] I have no objection to the basic line of the Opinion Statement, but I'd like to make a few comments.

First, I'm concerned that our discussion places an excessive emphasis on the number of independent directors. I got an impression that the draft hastily starts discussing one-third or the majority. Instead, it should include a more qualitative discussion.

Furthermore, as for the skills matrix, independent directors, as a team, are expected to satisfy certain skill requirements. Then if the number of independent directors is small, they cannot satisfy the requirements. According to my perception, in order to ensure that a completed skills matrix of the team is satisfactory compared to the expectations, at least 3 to 4 persons are required.

Then, in case of an average-sized board, the percentage of independent directors inevitably exceeds one-third of the board members. Therefore, in order to ensure the quality of the board, a certain number of independent directors is needed. Consequently, "one-third" is rationalized. So, I believe that suddenly discussing one-third or the majority without such an explanation is not relevant to the Corporate Governance Code. This is my first point.

The second point is about diversity in the core human resources. The draft Statement refers to mid-career hires, etc. and I understand that, but after all, diversity is about a good mix. To ensure a situation that enables a good mix, we will face the issue of the liquidity of the labor market.

Although the draft Statement describes efforts to be made by companies, it will not be achieved without a certain level of liquidity of the labor market, which is beyond the companies' efforts. Therefore, ensuring diversity in the context of the corporate governance reform is, in fact, linked with broader discussions on the labor market reform. I think it would be better to refer to this point in the Statement.

That's all.

[Kanda, Chair] Thank you very much.

Next, Dr. Ueda, please go ahead.

[Ueda, member] Thank you. I support the draft Opinion Statement. From that standpoint, I'd like to make 3 comments.

According to the order of the Opinion Statement, the first point is about independence of directors. Since the Code is for the Prime Market, or competitive companies representing Japan, I consider that it is appropriate to require one-third of independent directors on boards.

It also encourages the appointment of independent directors to form the majority of the board, if necessary. A higher standard is presented for companies which aim at a higher level of efforts. Considering the global competition, I think that is appropriate.

However, as other members pointed out, it inevitably requires considerations of the best mix of skills and experience on the board. For that purpose as well, each company needs to prepare or consider the preparation of a skills matrix which reflects its own circumstances.

It is pointed out that skills matrices are useful for shareholders as well. For companies, skill matrices are even more useful for considering and explaining their board composition. In any case, the Code is the Code. As Director Shimazaki pointed out earlier, considering that the Code is a soft law, each company should work on it on a "Comply or Explain" basis in accordance with its own actual circumstances.

The second point is about further reform of the board. It is time for thoroughly considering the independence of Nomination Committee and Remuneration Committee. I think the pool or selection process of outside directors, in addition to the CEOs, is also an important point to be discussed, taking into account the reality of Japan.

Moreover, I believe it is necessary to discuss the following matters in the future: how a lead independent director should perform his/her functions effectively, which is just briefly mentioned in the current Code; and the separation of duties of board chair and CEO, which is not mentioned in the current Code. At the moment, it may not really matter whether a board is chaired by an outside director or an inside director, but I believe we need to thoroughly discuss the separation of the duties in the future.

Finally, I'd like to make a comment on diversity mentioned on the next page. These are also very important points to be discussed, and I believe these are the issues which the management and directors should responsibly consider.

As I mentioned previously, in addition to diversity of such backgrounds as gender, nationality,

and career, I believe generation diversity is also necessary. In this regard, the Opinion Statement refers to “gender, internationality, work experience, etc.” I assume this expression also covers diversity of generations – younger [and older] generations. This is also a very important point, so it is necessary to be aware of that.

That’s all.

[Kanda, Chair] Thank you very much.

Next, Mr. Tsukuda, please go ahead.

[Tsukuda, member] This is Tsukuda. I have no objection to the content of the Opinion Statement.

With respect to appointing independent directors representing at least one-third of the boards of companies listed on the Prime Market, as well as ensuring diversity in terms of gender, internationality, work experience, etc., I believe they are extremely important for Japanese companies to increase corporate value. In that sense, I think this draft Opinion Statement is well-organized. Having said that, I’d like to make 2 comments.

First, in the third paragraph on page 2 of the draft Opinion Statement, there is a description concerning companies listed on the Prime Market: “...companies should be encouraged to appoint enough independent directors to form the majority of the board if they consider it necessary in light of their business environment and business characteristics, etc.” I think it is a great progress to encourage companies to consider, if necessary, the appointment of independent directors representing the majority on the board.

Then what kind of companies should consider the appointment of the majority of independent directors? I suggest that the Corporate Governance Code, specifically Principle 4.8, should be revised in a way enabling companies to have a specific image of applicable cases to the extent possible, for example, large-caps, or organization forms of companies. This is my first point.

Second, I have participated in the Follow-up Council since before the meetings resumed for the next revision, and listened to the discussions, feeling uncomfortable with such a notion that there are not enough independent director candidates. Actually, there are many independent director candidates. I believe that the problem with Japanese companies is not a small number of independent director candidates. Instead, a large number of inside directors is the problem. In other words, because there are many inside directors on boards, when companies try to appoint outside directors representing one-third of board members, the number of outside directors will become large. Such a

situation is problematic.

Looking at Toyota, the largest company in Japan, for example, the total number of directors is nine. I don't think it is right to oppose the reform because they cannot increase the number of independent directors.

Furthermore, as a major trend, they cannot waste any time on ensuring diversity. From that perspective as well, companies should increase the number of independent directors. If they cannot increase the number of independent directors, they should decrease the number of inside directors so that the percentage of outside directors increases. I think this is the right direction.

Of course, each company should consider the optimum board composition. However, as a major direction, as shown in the history of Japanese companies in the past 40 years, the number of inside directors has been reduced, although there used to be a board with 49 directors according to the empirical research. Taking it into account, I'd like companies to consider the optimum composition of directors.

That's all.

[Kanda, Chair] Thank you very much.

Next, Mr. Sampei, please go ahead.

[Sampei, member] This is Sampei. First of all, I support the direction of the Opinion Statement. Having said that, I'd like to discuss some points.

First, as for the part in the latter half of page 2 starting from "Additionally," I'd like to make 2 points for further discussion.

In revising the Code, we need to keep in mind that we should avoid the situation where companies do not establish Nomination Committee and/or Remuneration Committee, even if they secure at least one-third independent directors, in order to improve the independence of oversight. As pointed out earlier, if the revision places an emphasis only on "one-third", and therefore, companies secure one-third, but does not establish Nomination Committee and/or Remuneration Committee, it will be extremely difficult to ensure board effectiveness as intended.

Another point. As Ms. Takayama also mentioned, and as stated in the opinion paper from Kerriesan [Ms. Waring] from ICGN, it will become extremely important to secure the independence of Nomination and Remuneration Committees.

And one thing I'm concerned about in this Opinion Statement is, as Mr. Kobayashi also

mentioned, the description about the appointment of the lead independent director acting as a contact point [for dialogue with investors]. I suggest that it should be carefully reviewed.

One of the reasons [for using such a description] would be the UK's board composition as well as the UK practice of engagement with investors. In leading global companies in the UK, their boards are chaired by an independent director. It is the lead independent director who assumes the position of the board chair; and when investors engage with companies, they engage with the board chair. This is a feature of the UK's boards.

Accordingly, for such purposes, it is necessary to clarify who is the lead, and who acts as the contact point. However, Japan is not yet in such a situation. This is my first point.

In Japan, we also conduct interviews with independent directors. However, I think it has been just 5 years since the full-scale introduction of independent directors. Accordingly, on a personal basis, there are many independent directors who have not yet participated in dialogue with investors. So, considering the current status of dialogue between investors and independent directors, it is not yet the stage of talking about the lead independent director or the contact point. Instead, more independent directors are expected to interact with investors to a maximum extent.

So, in order to improve the quality, considering the current situation, we should consider this point more carefully. So I'm a little worried about whether it [the lead independent director acting as a contact point for dialogue with investors] should be included in this Opinion Statement.

As for diversity which many other members already discussed, I assume measurable [targets] provide transparency in companies' efforts, actual status, and progress in chronological order, which can be looked at objectively. The primary objective is for the use for the PDCA (Plan-Do-Check-Act) within the company. For that purpose, measurable [targets] are needed.

For external parties, disclosing such information is important to understand how the PDCA cycle is used, and whether there is progress or improvement. Without that, they cannot make evaluations.

From a global perspective, as already provided for in such guidelines as "ISO 30414", if Japan is hesitant about that, I'm concerned that Japan will further fall behind the international community in the future. Therefore, "measurable" [targets] may sound like setting a very high bar, but when we look at the international community, I think we need to do this much.

That's all.

[Kanda, Chair] Thank you very much.

Next, Professor Kansaku, please go ahead.

[Kansaku, member] Thank you very much. I also support the general direction of the Opinion Statement.

I'd like to make just one comment. It is about lead independent directors, as many members have pointed out. The ultimate significance and function of a lead independent director is to arrange opportunities of communications and exchange opinions only among outside directors, excluding executive directors, and to lead discussions there. I believe this is the ultimate significance and function of the lead independent director.

I think it also contributes to enhancing functions of Nomination Committee and Remuneration Committee as mentioned in the Opinion Statement, and further contributes to enhancing functions of the entire board.

Accordingly, as pointed out by Mr. Kobayashi as well as Mr. Sampei, "acting as a contact point for dialogue with investors" is just one of the functions. In my understanding, the most important thing is to arrange a venue only for independent outsiders excluding executives, and to play a leading role in discussions there.

When the function is redefined that way, I do believe it is desirable to appoint a lead independent director. Furthermore, as Ms. Matsuoka pointed out, when we need to take into account Companies with *Kansayaku* Board (Audit & Supervisory Board) as well, it would be reasonable to consider that the role of the lead independent director as I just mentioned can be expanded by inviting not only outside directors but also outside *kansayaku* (Audit & Supervisory Board members), so that outside directors and outside *kansayaku* can get together and exchange opinions. According to circumstances, the description of the lead independent director could be expanded to cover the case of Companies with *Kansayaku* Board, including the involvement of outside *kansayaku* as I just mentioned.

[Kanda, Chair] Thank you very much.

Next, Mr. Iwama, please go ahead.

[Iwama, member] This is Iwama. Thank you. I also basically support this Opinion Statement, but I'd like to make 2 comments.

The first comment is about independent directors, the board chair, and the lead director. Basically, for the purposes of eliminating possible conflicts of interest and respecting minority shareholders' interest, I believe that the independence of outside directors is essential. I think it is important to

consider the matters in a way to accomplish such purposes.

From that perspective, we also need to consider board evaluations – self-evaluations and third-party evaluations. It would be necessary to evaluate achievements or efforts made by boards concerning the points I mentioned earlier.

Now I'd like to express my opinion about diversity. While ensuring diversity among board members is very important, it is essential to ensure diversity among executive officers and other key employees who actually execute businesses. Boards are expected to lead diversity initiatives in such a way.

As Professor Ikeo mentioned earlier, without the labor market reform, this will not be achieved. Therefore, it would be important that the corporate management side consider possible approaches to ensuring diversity from the perspectives of both maintaining advantages from lifetime employment and effectively ensuring diversity in the future.

That's all from me.

[Kanda, Chair] Thank you very much. Ms. Okina, please go ahead.

[Okina, member] I basically agree with the essence of this Opinion Statement. Especially, I highly appreciate the extensive descriptions with respect to ensuring diversity.

I'd like to briefly make 3 comments. The first point is about demonstration of diversity, through skills matrices for boards. I think it is intended for ensuring necessary skills as a team in light of their business strategies, and ensuring diversity.

As Mr. Okada and Dr. Ueda mentioned earlier, I think boards should discuss their skills matrices first. As for demonstration methods, disclosing their skills matrices itself may be a big step for companies which start considering it from now. However, I feel more advanced companies should be allowed to creatively demonstrate diversity of the team in a substantive way, which is ahead of such skills matrices.

Second, as Ms. Takayama pointed out earlier, I also believe it is very important to consider succession planning for outside directors, with the involvement of Nomination Committee. Although it is not written in the draft Statement, I wanted to express my view as my feedback.

The last page refers to ensuring diversity among core human resources other than directors. I think this is a very important point. Human resources development is essential from the perspective of diversity as well. Meanwhile, looking at the entire Japan, the ratio of investment in intangibles to

GDP is not necessarily high compared to other advanced countries, and in the midst of such a major trend as DX, human resources development will be connected to future investments in intangibles, and to an increase in corporate value. So I suggest that it should be described in a way that readers can understand such an intention.

That's all.

[Kanda, Chair] Thank you very much.

Next, Mr. Oguchi, please go ahead.

[Oguchi, member] First of all, there is no particular objection to the Opinion Statement, and I agree with the draft.

The reason is like this. While various opinions were expressed today, do we stop the governance reform here? If not, what is written in the draft will be naturally required. Therefore, although I understand there are various opinions, I suggest that we should publish what is stated in the draft. And as for the timing of publishing this Opinion Statement, now is the good timing, because the Corporate Governance Code is to be revised next year, and companies are expected to have active discussions from early next year in light of a proposed direction of the revision.

Having said that, due to the time constraint, I'd like to make just one comment about the lead independent director, which seems to be the hottest topic of today. First of all, what does the current Code say about the lead independent director? It says, "Independent directors should endeavor to establish a framework for communicating with the management and for cooperating with *kansayaku* or the *kansayaku* board by, for example, appointing the lead independent director from among themselves." The lead independent director is described as an important intermediary or internal coordinator. This is the precondition.

As for the description "contact point for dialogue with investors" in today's Opinion Statement, I suppose it is based on the expected role described in the UK's code or the like. In the UK's code, as someone pointed out earlier, shareholders initially contact a company through a normal contact route including the board chair, the CEO and executive directors. If they cannot dispel their concerns through such a route, or if they consider such a contact is not appropriate in light of their concerns – probably because they have concerns about those of a normal contact, then the shareholders can contact the lead independent director. It is written in this way.

In my understanding, the lead independent director does not always act as a contact point of

dialogue. Instead, the lead independent director is the last resort for investors, as they can contact him/her when they cannot rely on the normal route. I think the contact information of the lead independent director is also disclosed. Such positioning seems meaningful.

When I asked overseas investors about this role, many of them told me that the role is very important. So it is recognized that way. However, considering the current situation in Japan, I'm not sure whether the lead independent director is necessary at this point.

Various views were expressed today, but it may certainly be premature to require such a role, when dialogue or engagement is still at a learning stage. Nevertheless, it will become necessary to discuss this issue over time. In that sense, the problem here would be how to articulate the matter. So, I'd appreciate it, if you revised the expression, taking into account what I mentioned.

That's all from me.

[Kanda, Chair] Thank you very much.

Next, Mr. Kawakita, please go ahead.

[Kawakita, member] This is Kawakita. Due to the time constraint, I think I should not use much time, but let me make 2 comments.

First, listening to the opinions of other members, I got an impression that there is a lack of strong recognition that this Opinion Statement is intended for the Corporate Governance Code, which adopts the 'Comply or Explain' approach. Accordingly, many considered that companies must follow what is written in the Statement. As explained at the beginning, I suggest that we should clearly mention this is based on the 'Comply or Explain' approach somewhere in the Opinion Statement. These are principles, so companies can choose to explain their unique responses, emphasizing their exclusive characteristics. I would appreciate it, if such an explanation was included in the Opinion Statement.

However, I'm concerned about the expression concerning the Prime Market. It is stated that [companies listed on the said market] "should be required" to appoint independent directors to account for at least one-third of the board. I'm a little concerned about how it is incorporated in the Listing Rules. I suggest that the TSE should consider its Listing Rules, taking into account that this is strictly based on the 'Comply or Explain' approach.

Another point I'd like to make is about the function of the lead independent director. From my experience, I'm aware that processes of selecting board agendas are often opaque. Considering such

a situation in Japan, the most important function of the lead independent director would be to play a coordinating role in discussion for selecting agendas.

That's all.

[Kanda, Chair] Thank you very much.

Next, Mr. Oba, please go ahead.

[Oba, member] As time is running out, I'll make just 2 comments. I generally support the draft, but I'd like to point out 2 things.

The first point is the expression used on the first page. It is stated that, as changes around companies are accelerating, companies need to work on various things quickly. I assume it reflects the fact that, while the Code has become widespread, many companies still lack the ability to create value.

In this regard, as Ms. Takayama may have made comments as an expert in this area, disclosures of evaluations of boards or directors are very ambiguous. I believe companies should explain, in their disclosures, specifically what impedes the ability to create value.

The second point is the expression on the second page. It may be the TSE's judgment. In the middle of the page, it is stated "in the Prime Market, a high standard of governance will be required for the market for companies representing Japan." The definition of companies representing Japan seems very vague.

Furthermore, as for a high standard of governance, as long as I read the Statement, I'm concerned that all of such standards are expressed in terms of numbers. As Professor Ikeo pointed out, we should have further discussion on how to express the quality issues. It is not limited to skills. Both inside and outside directors' sense of ownership, and the awareness of the problem that governance has not led to enhance the ability to create value – I believe these are very important.

That's all.

[Kanda, Chair] Thank you very much.

Next, Mr. Tsumuraya, please go ahead.

[Tsumuraya, member] Thank you. As I'm the last speaker, I'll briefly make 2 points.

First of all, I generally agree with the draft Opinion Statement, and would like to comment on 2 points. The first point is about the number of outside directors. I conducted a search on past empirical studies in Japan. In case of Japanese companies, many empirical studies found that

companies increased corporate value when they had discretion [over the number of outside directors], so I'm in agreement with the statement which gives companies choice.

Another point is about skills matrix. As you know, in other countries, there are many examples of disclosing directors' skills by means other than the skills matrix. So I recommend that we should make it clear that the skills matrix is just an example. The preparation of the skill matrix should not be a clerical task.

According to the research conducted by my research laboratory, approx. 130 companies have disclosed their skills matrices in Japan; and one-third of such companies have only disclosed skills of outside directors. So if companies formally prepare skill matrices only for outside directors, I don't think it is necessary to prepare such matrices. I suggest that we should encourage companies to disclose skills of all directors, including inside directors, in their own ways.

That's all.

[Kanda, Chair] Thank you very much.

Now all members, who wished to talk, expressed their opinions. Mr. Takei, you don't have to share your opinions today?

[Takei, member] Thank you. Just a few words from me.

The 'Comply or Explain' approach is very important, as Professor Kawakita mentioned. Certainly, we should value the 'Comply or Explain' in the Governance Code. In the meantime, recently, I have seen several formal responses on the side of institutional investors: unless a company complies with all Principles of the Governance Code, they vote against the company's proposals when they exercise their voting rights. Such an attitude damages the substance of the 'Comply or Explain' approach. This is also the issue on the side of the Stewardship Code. Since this Council is for the follow-up of both Codes, we should keep the 'Comply or Explain' approach to the Governance Code, including the improvement of the environment where such formal responses are not observed.

That's all.

[Kanda, Chair] Thank you very much.

I apologize for your inconvenience caused by the trouble with our communication environment or connection. I'd like to close the discussion on the draft Opinion Statement now.

The general direction of this draft Opinion Statement is agreed upon among the members, although degrees of support vary and the members have various views, so I think we should prepare

the final version this way. The members expressed their opinions about degrees of recommendations, expressions, and some important points concerning certain elements. Taking into account the members' views, I'd like to undertake an adjustment process for finalization mainly by e-mail communications.

After such a process, I'd like you to leave the finalization of the Opinion Statement to be published to my discretion. There may be a case where we need to meet again, but I'd like to compile your opinions and finalize the Opinion Statement this way. Would this be all right with you?

("No objection" was stated)

[Kanda, Chair] Thank you. Then I'll go for that.

In addition, final checking or review for unifying expressions and standardizing grammar is also needed. I'd appreciate it, if you could leave it to my discretion as well. Is that all right with you?

("No objection" was stated)

[Kanda, Chair] Thank you very much.

Now the session for the draft Opinion Statement is completed. Next, in the latter half of today's meeting, I'd like you to discuss issues concerning general shareholder meetings.

I'd like to ask the Secretariat to explain issues concerning general shareholder meetings.

Mr. Shimazaki, I'm handing it over to you.

[Shimazaki, Director of the Corporate Accounting and Disclosure Division, FSA] I'll explain it in accordance with Material 2 and Material 3.

Please look at page 1 of Material 2. In order to contribute to sustainable growth and to increase corporate value over the mid- to long-term, it is crucial for companies to engage in constructive dialogue with shareholders throughout the year. General shareholder meetings are particularly important opportunities for dialogue with shareholders. Therefore, beyond the date of the meetings, the entire process for decision-making is required to be constructive and substantive.

The current Code describes shareholder rights and other related matters in Section 1. Principle 1.1. is titled "securing the rights of shareholders" and followed by several Supplementary Principles.

Principle 1.2 is titled "exercise of shareholder rights at general shareholder meetings" and followed by Supplementary Principles about information, convening notices, date of general shareholder meeting, electronic voting, and so forth.

I'm moving on to page 2. Various challenges including the existing challenges have been recognized through COVID-19. It is expected for listed companies to accelerate their efforts to develop appropriate measures for the exercise of shareholder rights and to enhance the provision of information that contributes to appropriate decision-making by shareholders in relation to them. In the table below, the right-hand columns show challenges recognized: early disclosure of convening notices in light of securing the time to consider the agenda in response to the problem with delay in dispatch; reviewing schedule related to general shareholder meetings in consideration of contingencies; the development and use of electronic voting platform and virtual shareholder meetings from the perspective of preventing the spread of infectious diseases, etc.; and provision of English translation of convening notices, etc. in light of trends in non-English-speaking regions, which I will discuss in detail later.

From page 3, the current status concerning each challenge is summarized for your reference. I'll explain the key points.

The first section is about electronic voting platform. Currently, electronic voting platform is used by only approx. 30% of all listed companies and approx. 13% of institutional investors in Japan. Meanwhile, in Europe and the US, the ratios of electronic voting are extremely high, as shown in the reference data below.

Please turn to page 4. With respect to the use of this platform, we summarized advantages and challenges below, concerning time required for mail delivery, and instruction flow. We also included opinions after the spread of COVID-19. As advantages, it is pointed out that the time from sending to arrival of convening notices is reduced; instruction rights can be exercised up to the day before the shareholder meeting; and voting results become available earlier.

As other opinions after the spread of COVID-19, it is pointed out that electronic voting will enable the prevention of the spread of infectious diseases and human errors. As challenges, such issues as overlapping of instruction flow and the lack of merits of participation depending on the percentage of ownership are pointed out.

I'm moving on to page 5 about virtual shareholder meetings. General shareholder meetings are being organized in ways in which shareholders can participate or attend from remote locations via the Internet or other means. We compiled insights from various sources below. In addition to physically-conducted shareholder meetings, the table shows several types of virtual shareholder

meetings: hybrid virtual type, and virtual-only type, along with related forms (sub-types) of shareholder meetings first. And below the table, current trends are presented.

Please turn to page 6. Similarly, advantages and points to be noted are pointed out [by investors, listed companies, and the society]. Advantages include securing opportunities to participate in or attend general shareholder meetings while preventing the spread of infectious diseases; reducing travel costs; and activating the exercise of voting rights.

As points to be noted, we are aware that there are issues of ensuring two-way and immediate Q&As; ensuring transparency and fairness in Q&As and other interactions, and so forth.

Now I'm moving on to page 7 about early sending and early disclosure of convening notices. The ratio of companies sending convening notices more than 3 weeks prior to the general shareholder meeting has been increasing since 2015. However, in 2020, the ratio decreased due to the COVID-19. Although some listed companies disclosed convening notices on TDnet after sending them, there is a large gap among listed companies in terms of early disclosure. Below on the page, the graph shows the cases of electronic disclosures, including those made after dispatching convening notices, by indicating figures.

Page 8 shows great expectations from investors including, for example, desirable date of arrival of convening notices. Furthermore, while early dispatch may become difficult under unforeseeable circumstances such as COVID-19, it is considered that the contents of the convening notices could be electronically disclosed 10-12 business days prior to the mail-out date. The chart at the bottom shows the schedule of sending convening notices, etc. at least 2 weeks prior to the shareholder meeting, including time required for printing and enclosure.

Now I'm moving on to page 9 titled "(4) Dates associated with general shareholder meetings". In order to enhance constructive dialogue with shareholders and to provide accurate information for that purpose, two possible plans are proposed. In Plan A, both the record date for voting and the record date for dividends are set later than the account closing date. In Plan B, the account closing date (for the general shareholder meeting) is moved to an earlier date than the current closing date, in order to avoid changes in the timing of general shareholder meetings and the record date for dividends.

In addition, we summarized opinions concerning dates associated with annual general shareholder meeting (AGM) at the bottom. Convening notices should be issued at least 30 days prior

to the AGM date. Security Reports should be filed prior to the AGM date. Corporate Year-End Closing of Accounts, Auditing and Shareholders meeting in Response to the Increasing Impact of COVID-19 states that it will support companies in changing their record dates.

Page 10 summarized pros and cons of setting the general shareholder date after 3 months or more from the closing date as a result of postponing the record dates or advancing the account closing date.

Pros include smoothing out voting-related operations, enhancing information provision which leads to increasing the quality of voting decisions, improving the ability to respond to contingencies, and reducing the risk of correcting documents. Cons or points to be noted include the need for reviewing associated schedule, a burden of explanations to investors, and possible impact on the timing of replacing officers.

From page 11, you can see the section titled “(5) Provision of English translation”. Supplementary Principle of the Code refers to the provision of English translation. Among the companies listed on the TSE First Section, more than half of the companies have provided English translations for some of their disclosure documents. On the other hand, the number of companies that provide English translations of their Securities Report is limited. The table below shows the percentages of English translations of various disclosure documents.

Furthermore, overseas investors call for the provision of such English translations. We also summarized the status of providing English translations in Taiwan, Germany, and Korea as examples of initiatives in non-English-speaking countries.

Now I’d like to provide some supplementary explanations according to Material 3. Page 20 is titled “Dealing with proposals with a large number of ‘against’ votes”. This is written in the Code as well. The number of listed companies which had 20% or more votes against a proposal at a general shareholder meeting is increasing.

On page 21, with respect to proposals with a significant proportion of “against” votes, it was pointed out that there is a gap between companies’ efforts and investors’ expectations. In case of the UK, although the Code used such an expression as “a significant proportion of” before the revision, it was revised in 2018 by clarifying the threshold of “20 percent or more” that needs corporate responses.

Furthermore the Stewardship Code was also revised in a way to strengthen accountability of institutional investors with respect to disclosures of reasons for voting decisions. This is one of the

subjects to be discussed, so I explained it by using the supplementary material.

Returning to Material 2, the last page listed up subjects which we'd like you to discuss today. As mentioned earlier, listed companies are expected to develop an appropriate environment in which shareholders can exercise their rights, and to enhance their disclosures.

In response to COVID-19 pandemic, in order to further enhance the entire decision-making process at general shareholder meetings, it was suggested that we should review general shareholder meetings from the following viewpoints: digitization of general shareholder meetings and voting process based on IT development; disclosures; and dates associated with general shareholder meetings to ensure the high-quality exercise of voting rights.

In light of the said viewpoints, we'd like you to discuss the use of electronic voting platform; the use of virtual-only shareholder meetings; early sending and early disclosure of convening notices; necessity of reviewing dates associated with general shareholder meetings; and provision of English translation. If there are any other issues to be reviewed related to Principles 1.1 and 1.2 of the Corporate Governance Code, please raise such issues.

That's all for the explanation from the Secretariat.

[Kanda, Chair] Thank you very much.

We have received an opinion paper from Ms. Waring, who is absent today, so I'd like to ask the Secretariat to briefly explain the overview.

[Shimazaki, Director of the Corporate Accounting and Disclosure Division, FSA] Well, I'll explain Ms. Waring's opinions about Annual General Meetings of Shareholders (AGMs).

First, she stated that, during the COVID crisis, virtual-only AGMs have become the 'new normal'. While recognizing the need for hybrid and virtual-only AGMs, she suggested that certain minimum shareholder rights should be guaranteed, and interactivity and transparency should be ensured in AGMs in order to hold companies properly to account.

With respect to the timing of AGMs, in order to solve the problem of the clustering of AGMs, she recommended that companies with March fiscal year-end should move their record dates to a later time, enabling them to hold AGMs beyond the traditional period.

Furthermore, since the Securities Reports include valuable information, she suggested that the Securities Reports should be published prior to AGMs, and provide English translations as well.

In the spirit of entering into constructive dialogue, she encourages companies to demonstrate

their accountability to shareholders by providing clarity around how shareholder concerns are addressed. She recommended that when 20% or more votes have been cast against a company's proposal, the company should explain to shareholders what actions it intends to take, and disclose an update on the views received from shareholders and actions taken.

That's all.

[Kanda, Chair] Thank you very much.

Now I'd like you to express your opinions and comments. As just explained by the Secretariat, the Secretariat presented the subjects to be discussed today on the last page – page 13 – of Material 2. I'd appreciate it, if you could focus on these subjects.

I'm sorry for your inconvenience caused by the trouble with the connection environment. Since you are taking the long time from your busy schedule, while I'd like you to raise questions and express your opinions from now, I'd like to close the meeting at 12 o'clock today and resume discussion in the next meeting.

Now I'd like Mr. Kobayashi and Dr. Ueda to speak in this order. Mr. Kobayashi, I'm handing it over to you.

[Kobayashi, member] First, with respect to the electronic voting platform, the data on page 3 shows that the platform use rate among institutional investors is only 12.8%. Obviously, there are advantages for institutional investors, as well as advantages for issuing companies, so I suggest that we should continue actively promote the use in order to benefit from capturing voting results in real time.

As for the use of virtual-only annual general meetings of shareholders (AGMs), there are 2 types: participation-type and remote attendance-type. According to the survey conducted by a trust bank, this year the participation-type accounted for 4.8%, and the remote attendance-type accounted for 0.4%. I suppose the percentage of the participation-type will significantly increase next year. From the perspectives of providing easy access for shareholders and increasing choice of attendance methods, I believe we should actively promote virtual AGMs as well.

Speaking of technical details, it is recommended to clarify that voice-only communications, without video, are allowed, or that companies may limit the number of shareholders who participate in or attend AGMs within a reasonable range. In addition, for the purpose of protecting privacy and portrait rights of shareholder who physically attend the AGMs, it is recommended to consider such

rules that companies can prohibit online participants from audio/video recording and reproduction.

Furthermore, the digitalization of company's access to shareholders is also an important point. As a temporary measure for the AGMs held in 2020, companies were allowed to disclose their non-consolidated financial statements on their websites instead of physically dispatching them. This is so-called deemed provision. I believe this temporary measure should be made permanent.

Finally, I'd like to talk about the provision of English translations. In case of Mitsubishi Chemical Holdings, we provide English translations of reference materials except the Securities Report. As long as aiming at establishing the market which enables global investments, I suggest that we should actively promote the provision of English translations of reference materials, starting from earnings release, while taking into account a burden on issuing companies.

That's all.

[Kanda, Chair] Thank you very much.

Next, Dr. Ueda, please go ahead.

[Ueda, member] Thank you. Let me briefly make 3 comments.

The first point is about the electronic voting platform. As Mr. Kobayashi just mentioned, the low use rate of the electronic voting platform in Japan is striking. Especially, considering that the Prime Market is to be an international market, I think it can be incorporated into the market infrastructure to a certain extent.

However, while institutional investors bear costs of voting platforms in other countries, issuing companies bear such costs in Japan, so there may be various reasons for the slow adoption of the use. Including the said point, I'd like to suggest that creative measures should be taken to help the platform gain foothold in the infrastructure of Japan.

The second point is about the provision of English translations. According to Material 2, among timely disclosure documents, roughly 40% of companies have already disclosed convening notices and other documents. I understand that companies which feel the practical need for English translations have been working on the provision.

Considering that the Tokyo market, especially, the new Prime Market is positioned as a globally-competitive market, the provision of English translations is indispensable for companies listed on the market. It also questions the credibility of the market. Accordingly, I suggest we should discuss the issue of such disclosures once again in terms of whether it is appropriate to address the issue by

means of the Code being a soft law, or whether we should reconsider the issue, including possible stipulation by a hard law.

Finally, I'd like to make another point. As described in the reference material [Material 3], in the UK, when "against" votes account for 20% or more, such a company is required to investigate reasons for that, and proceed with dialogue with shareholders. Even in the UK, before the numerical standard of 20% was introduced, this practice had not been actively exercised, so they set the threshold of 20%. That's what I heard from a UK regulator.

The 20% threshold is rather high in the UK, and naturally in Japan as well. There should be pros and cons for setting such a numerical standard, but when the proportion of "against" votes is deemed significant from a general viewpoint, it is considered as evidence of a failure in the engagement with shareholders and investors.

Therefore, considering the fact that the Stewardship Code encourages the enhancement of constructive dialogue or engagement, and these two Codes in tandem are expected to drive Japan's governance reform, I think we are already at the stage of considering corporate responses to a significant proportion of "against" votes in the Corporate Governance Code.

That's all.

[Kanda, Chair] Thank you very much.

Next, Ms. Matsuoka, please go ahead.

[Matsuoka, member] I believe it is important for me to responsibly represent many companies and communicate their reality today. In this light, I'd like to make comments on such points as moving the closing date to an earlier date, which is Plan B stated on page 9, and whether the Corporate Governance Code should describe Plan A and Plan B.

With respect to Plan B, moving the closing date to an earlier date actually means a change in the fiscal year-end date or the fiscal period, which is highly related to various operational process, including personnel affairs, schedule of disclosure of financial results, and the timing of tax payment, so it requires significant changes in practical operations of companies. It substantively imposes a heavy burden on companies.

Therefore, you need to consider this issue taking such an effect in account. This is my first point. For example, if a company decides to move its closing date several months earlier than the current date, there will be a huge gap between the date of filing the Securities Report and the AGM date.

Then it results in providing the Securities Report which does not contain the latest information. I'm wondering whether it really contributes to interests of shareholders.

Consequently, although both Plan B and Plan A are theoretically possible, both of them will cause a significant impact on practical operations of companies in reality. It requires considerations in light of the reality and practical operations, so I don't think it is appropriate to include such descriptions in the Corporate Governance Code.

That's all.

[Kanda, Chair] Thank you very much, Ms. Matsuoka.

Next, Mr. Okada, please go ahead.

[Okada, member] Today's Material is well-organized and summarized various issues concerning general shareholder meetings, and it made me reacknowledge the breadth of issues.

However, considering the current digital environment or the IT environment, I got an impression that there are many issues which can be solved by using such technologies. For example, I hope things like the use of the electronic voting platform and virtual shareholder meetings will be realized promptly – speedy realization is desired.

Next, with respect to early sending and early disclosure of convening notices, as I used to be in charge of disclosures of a company, I'd like to make comments.

In Japan, time required for disclosures is much longer than in other countries, but it does not necessarily mean our administrative ability is inferior. Instead, I feel this is a problem with the disclosure regime.

For example, we have to prepare both Annual Business Report and Securities Report, which require duplicate work. At least for companies listed on the Prime Market, it would be desirable to unify requirements under the Companies Act and the Financial Instruments of Exchange Act, instead of imposing dual requirements. Otherwise, early disclosure will merely increase the burden on companies.

This is the point which has been discussed in association with disclosures of KAM (Key Audit Matters) or non-financial information: as for such matters required under the Financial Instruments of Exchange Act, many companies disclose such information only in their Securities Reports, without including such information in their Annual Business Reports. This issue will not be solved even if convening notices are dispatched earlier.

Furthermore, I have a doubt about whether it is appropriate to require companies to fully disclose convening notices and Securities Reports early. I don't think it is appropriate. What investors and shareholders need are key points of financial results, and risk information concerning tangible/intangible assets which serves as a basis for non-financial information and KAM – especially, information on impairment risk. I believe it is desirable to make early disclosures of such information, without waiting for full disclosures [required by the said two Acts and the Listing Rules].

Information, which investors request early disclosure of, varies depending on companies, so it is suggested that companies should understand investors' needs through dialogue, and make disclosures as needed.

Especially, in case of companies listed on the Prime Market, they are not allowed to take a stance where they do not disclose matters, which are not required by the Companies Act, before the AGM, and instead disclose such matters in Securities Reports after the AGM.

Another point is about disclosures of Securities Report before the AGM. Of course, early disclosure is desirable, but if we regard Securities Report as equivalent to Form 10-K in the US, please remember that, in the US, they have approx. 60 days from the closing date until they file Form 10-K. That is because Form 10-K is the document for disclosing accurate information of a company. The same could be said of Securities Report. It requires disclosure of accurate information. So I'm not comfortable with the argument of merely requiring early disclosure.

That's all.

[Kanda, Chair] Thank you very much.

At the moment, it is displayed that Dr. Ueda serves as the host, since I have an Internet connection problem with my PC, and Webex automatically assigns the next person as the host. That's why it is displayed that way, but there is no problem with proceeding with the online meeting on the side of the Secretariat, so allow me to continue the meeting.

Next, Mr. Oguchi, please go ahead.

[Oguchi, member] Thank you. I'd like to briefly refer to the issues listed on the last page [of Material 2]. Due to the time constraint, I'd like to tell you that, among 5 points listed there, I support the idea of moving forward with the electronic voting platform, virtual shareholder meetings, and provision of English translations, although I'm aware there remain some issues.

Having said that, I'd like to talk about the remaining 2 points. Needless to say, it is desirable to

realize early sending and early disclosure of convening notices. However, as other members pointed out, it should not be achieved at the cost of reducing the effectiveness of account closing or auditing. As shown in the diagram of schedule on page 16 of Material 3, when AGM must be held within 3 months from the closing date according to the current legal requirement, even if companies try to further shorten the period from the dispatch date to the AGM date, there will be a physical limitation.

Accordingly, in order to solve this issue, it is important to reconsider the AGM date after all. The Code has Supplementary Principle 1.2.3 concerning dates associated with general shareholder meetings. When this Principle was formulated, there was a supplementary explanation or background information in the original draft. In addition to the argument that it is necessary to secure a certain period for the purpose of securing effective accounting audits, there were two conditions or requests. One is that it is desirable to make the period between the record date and the AGM date as short as possible for the purpose of securing the effectiveness of governance. It refers to the so-called empty voting issue. Another is that it is desirable to make the period between the date of convening notice to the AGM date as long as possible for the purpose of allowing careful consideration of agendas.

In order to fulfill these 3 requests at the same time, it was stated like this: in case of companies with a fiscal year ending in March, one possibility that can be considered is holding their AGMs in July. Looking back at the past 5 years since the introduction of the Code, the majority of listed companies still designate their record dates for voting and for dividends on the fiscal year-end date. Almost nothing has changed, and that is the reality.

I'm aware that there are various issues. As mentioned on page 10 of Material 2, if companies with a fiscal year ending in March hold AGMs in July, there will arise the risk of heat disorder and will be an impact on summer holidays. Then, even though it was pointed out that it will impose a heavy burden on companies, Plan B, which moves the fiscal year-end date to an earlier date, will theoretically be an alternative. The adoption of either Plan A or Plan B will result in practically facilitating the submission of Securities Reports prior to AGMs. There certainly is the issue of burden and we need to consider such an issue. However, from the perspective of ensuring the effectiveness of AGMs, I think what is stated on page 9 should be the standard.

Then what should be done? As pointed out several times during the first half of this meeting, as the Code adopted the 'Comply or Explain' approach, we can take advantage of these characteristics. For example, we could introduce a new principle, stipulating "The determination of the record date

for voting and the record date for dividends should be made by securing appropriate time from the fiscal year-end date, in consideration of enhancing constructive dialogue with shareholders, and ensuring the accuracy of information necessary for such dialogue.”

Under the ‘Comply or Explain’ approach, as pointed out earlier, if companies find it difficult to do so, they can explain the reasons. Through such a process, if they have in-depth discussions on this matter, and proceed with specific initiatives, there will be progress in the long-standing issue of the concentration of AGMs, and we will be able to expect meaningful dispersion of AGM dates beyond the current physical limit.

That’s all from me.

[Kanda, Chair] Thank you very much.

The chat waiting list shows the names of Mr. Kansaku, Mr. Kawakita, and Mr. Sampei in this order, so Professor Kansaku, it’s your turn.

[Kansaku, member] Thank you very much. The exercise of voting rights at AGMs and constructive dialogue with the management of companies to that end are core elements of stewardship activities. From that perspective, I believe that all 5 points listed on page 13 are important, and should be promoted. Having said that, I’d like to make comments about the timing of AGMs and virtual AGMs.

Concerning page 9 of Material 2, as Mr. Oguchi just pointed out, when considering dates associated with AGMs, I think there are 3 points to be noted in particular.

In both Plan A and Plan B, Securities Reports will be submitted prior to AGMs. Japanese companies are behind in this area. I think disclosing Securities Reports prior to AGMs is quite desirable, but only a limited number of companies have actually implemented such a practice in Japan.

I believe that, at first, our discussion should be steered to a direction seeking disclosures of Securities Reports before AGMs. Specifically, the Companies Act revised in 2019 introduced the electronic provision system with respect to reference materials for AGMs, together with the special exception called the EDINET special provision. If a Securities Report contains information necessary for the AGM, then, by submitting the Securities Report [via EDINET], the company is exempted from the electronic provision requirement. Although the revision is not yet in force, I think it is desirable that companies take advantage of the EDINET special provision.

Another point to be noted is that the period between the closing of financial account and the

AGM date should not be too long. Accordingly, this may sound like a conflicting request, but it is desirable to make the period between the closing date and the date of finalizing financial statements after the AGM as short as possible.

Third, I think it is desirable to make the period between the record date for voting and the AGM date as short as possible. Accordingly, I'd like this Council to discuss ideal ways of determining record dates for voting.

The next point is about virtual AGMs. I agree with the direction of discussion for promoting virtual AGMs. However, as Mr. Kobayashi pointed out earlier, it is important to ensure that shareholders' rights and interests will never be neglected. There may be occasions of facing new issues, including the issue of shareholders' privacy, but for the purpose of further increasing the effectiveness of the exercise of voting rights, I'd like to say that it is necessary to promote virtual AGMs while securing shareholders' rights as well as ensuring that AGMs are run normally.

[Kanda, Chair] Thank you very much.

Next, Professor Kawakita, please go ahead.

[Kawakita, member] This is Kawakita. I'd like to make two comments.

First, I'd like to talk about spreading out the dates of AGMs. This is a very important issue. If the dates are spread out, the arrival dates of convening notices and other materials will be also spread out, and shareholders can secure time to make voting decisions. In that sense, I think the Secretariat's Material concerning the timing of AGM is an informative proposal for spreading out the dates.

Additionally, although I already mentioned this before, I'd like to remind you that it is also an important option to change a decision on dividends to be resolved by the board, and exclude it from matters to be resolved by AGM. By doing so, the flexibility of determining AGM dates will increase.

As a part of directors' roles, obviously they need to consider cost of capital, internal reserve, and new investments. They are responsible for performing their roles. By taking responsibilities of deciding on dividends and internal reserve on the other side, directors will increase their awareness, and it is also expected that they will become more effective.

Currently, dividend payout ratios are concentrated around 30%. After all, companies pay a similar level of dividends to other companies. This is not an action expected of directors.

I'm not necessarily arguing that they should increase dividends. The US companies, Amazon and Alphabet, do not pay dividends, because they chose to increase internal reserve for their growth.

I assume that professional investors currently engage with companies to discuss a dividend decision. If they find directors' decision on dividends is not right, they can vote against a proposal for electing such directors, or sell the company's shares. This is not the issue in the spectrum of the Governance Code, but investors could think about that.

Another point is about provision of English translations. Considering the Prime Market where professional investors, including overseas investors, play an active role, disclosure in English is naturally required. Although there may be the cost issue, there are advantages of being listed on the Prime Market on the other hand. Taking it into account, I would say they should naturally bear the cost of disclosure.

In this regard, as Dr. Ueda pointed out, we should consider whether this is a matter of the Governance Code, or a matter of higher-level rules, in other words, a regulatory issue.

That's all.

[Kanda, Chair] Thank you very much.

Next, Mr. Sampei, please.

[Sampei, member] This is Sampei. I'd like to briefly make three points.

The first comment is about the issues presented in the Material. Basically, these issues should be overcome, but not one by one. We need to address the issues as a package.

For example, we are discussing the issue of securing a sufficient lead time before AGMs. For that purpose, the electronic voting platform can be used. However, taking the use of the electronic voting platform and the change of the record date for example, these are choices for companies listed on the Prime Market, and the companies do not necessarily have to do both of them.

In connection with the provision of English translations, for example, when they use the electronic voting platform, unless they provide English translations as well, it does not make much sense. Therefore, whether to present such issues as choices, or whether to consider them as a package would be an issue to be discussed.

The second point is related to Supplementary Principle 1.1.1. It's about dealing with proposals with a significant proportion of "against" votes. Aside from the issue of setting a threshold, majority voting under democracy never means "Decision was made by majority vote. That's it." If there was a significant proportion of "against" votes, they should understand concerns of those who cast "against" votes, and explain how they address the concerns.

Therefore, it is necessary to reaffirm in the revised Code that the majority voting system is established only when minority opinions are not ignored even if decisions are made by majority votes. On that premise, because it is useless if it is not implemented, a threshold comes in sight. I suggest that it should be reaffirmed in this revision.

The third point is about virtual AGMs. As for virtual AGMs in Japan, only hybrid virtual AGMs could be held this year, but new discussion on virtual-only AGMs is underway. On the contrary, in many countries, virtual-only AGMs was the only option in this year due to regulations.

Upon reviewing the virtual AGMs there, it was regretted that the conditions for protecting basic shareholder rights, including interactivity, immediacy, transparency, and fairness, were not met. So, in other countries, they are discussing that the virtual-only type may not be the best solution, and the hybrid virtual type may be a better alternative. In due consideration of such discussions, we should examine virtual AGMs.

That's all.

[Kanda, Chair] Thank you very much, Mr. Sampei.

Next, Mr. Haruta from RENGO, please go ahead.

[Haruta, member] Thank you. Since time is running out, I'll briefly make some comments.

In the trend of digitalization, I have no objection to proceeding with what is considered now. From the perspective of responding to contingencies in light of the COVID-19 crisis, I think we need to use creativity in various aspects, so I hope our discussions will move forward, addressing that point as well.

Besides, speaking from the standpoint of workers, while considering issues concerning AGMs as well as early sending and early disclosure of convening notices, I'd like you to take into account the fact that an increased burden on companies means an increased burden on workers.

In this regard, while digitalization is advancing, there will arise the digital divide issue. Some people can keep up with the digitalization, and others cannot. Some companies can keep up, and others cannot. There is a possibility of facing such a digital divide issue, so I suggest that we should keep it in mind in our discussion.

The final point is about virtual shareholder meetings. As pointed out earlier, I'm aware that some people call for "virtual-only". However, there are various shareholders. In connection with the possible digital divide as I just mentioned, before considering virtual-only AGMs, it is very important

to sort out pros and cons of physically-conducted AGMs and virtual AGMs, and secure transparency, fairness, and protection of shareholder rights. We need to discuss the matter, including whether such things can be secured. Thank you.

That's all.

[Kanda, Chair] Thank you very much.

Next, Mr. Iwama, please go ahead.

[Iwama, member] This is Iwama. Thank you. Basically, I believe it is important that the Corporate Governance Code and the Stewardship Code work together and drive the move to a desirable direction. So, from such a viewpoint, I believe that all points listed here should be taken up.

However, as pointed out earlier, if companies are required to do all at once, there will be various technical problems. So what can be done should be done. As for the use of the electronic voting platform, I suggest that it should be included in the prerequisites of listing on the Prime Market. This suggestion may be a little too bold, but I think it may be necessary to make a breakthrough in that way.

Overall, I believe all the issues presented in the Material should be promoted in a comprehensive manner.

That's all from me. Thank you.

[Kanda, Chair] Thank you very much.

Mr. Tsumuraya, please go ahead.

[Tsumuraya, member] Thank you. I'd like to briefly make 2 comments.

On the last page [of Material 2], under the fourth arrow, we are asked whether there is any issue to be reviewed in relation to Principle 1.1 and Principle 1.2 of the Governance Code. While Supplementary Principle 1.1.1 refers to the analysis of the reasons behind opposing votes when the proportion of such votes is considerable, disclosure of the analysis is not required at present. I recommend that the following words should be added to the Code: once the analysis was conducted, companies should disclose the results in their Corporate Governance Reports. Disclosure should be required, instead of mere analysis or examination.

Another point is concerning Supplementary Principle 1.2.1. It is stipulated that companies should provide accurate information to shareholders as necessary in order to facilitate appropriate decision making at general shareholder meetings. I suggest that the revised Code should include key items in

the Securities Report, which shareholders may need, if not the entire Securities Report.

For example, cross-shareholdings and other key items should be disclosed prior to the AGM. In this way, it is suggested that such wording as “key items of the Securities Report” could be added in this Principle.

In addition, as for overall expressions, while the term “early sending and early disclosure” is used in the Material, considering that disclosures will be electronically made in the future, it should be changed to “early disclosure and early sending” by putting “disclosure” first, followed by “early sending”. This is a minor thing, but I think it is recommended.

That’s all.

[Kanda, Chair] Thank you very much.

According to the order of the chat waiting list, I’d like to ask Mr. Obata and Mr. Takei to share their views, and close today’s discussion.

Mr. Obata, please go ahead.

[Obata, member] Thank you. Since I am in charge of AGMs of a company, I’d like to make comments on 4 points from that standpoint.

First, I believe the electronic voting platform is a very effective tool, so I’d like to suggest that we should encourage wider adoption of it among companies.

Second, I think that moving forward the closing date, etc. will put a heavy burden on companies. Even more so when they must work on various matters in response to COVID-19. They cannot afford time for considering this issue. That is the reality. So this discussion may become reasonable in the future, but even if the Code provides specific guidance, I assume only a limited number of companies can consider it in a proactive manner.

The third point is about early dispatch of convening notices. Currently, persons in charge of AGMs review materials to be printed again and again until proofreading is completed. They work overtime and work on weekends as well.

Accordingly, considering current resources, they are already close to capacity, and we cannot expect earlier sending. Currently, most companies dispatch reference materials 3 weeks prior to AGMs, and it is at the edge of their capabilities. That’s what I feel.

The last point is about virtual AGMs. Due to COVID-19, our company was also requested to restrict physical attendance of shareholders this year, and held the participation-type virtual AGM,

not the remote attendance-type. I expected that many shareholders would participate in the virtual AGM, but actually, few shareholders participated in the AGM online. The number was much smaller than expected. Honestly, I questioned how many shareholders actually feel the need for virtual AGMs. Above all, the discussion on the remote attendance-type AGMs involves significant amendments of relevant laws and regulations, companies' responses to such laws and regulations, and identity verification. From the viewpoint of companies, a feasible option would be the remote attendance-type virtual AGM. I think many companies regard it as a realistic solution.

That's all.

[Kanda, Chair] Thank you very much.

Mr. Takei, please go ahead.

[Takei, member] This is Takei.

I'd like to make 3 comments. First, I agree with Professor Kawakita's opinion about the AGM date. In terms of the flexibility of deciding the AGM date, this year in the midst of COVID-19 pandemic, the flexibility of AGM date did matter. In such a process, we found that only about 30% of listed companies have granted authority to make dividend decisions to their boards, and that was one of the causes of difficulties in response to COVID-19. For the purpose of securing the flexibility of determining the AGM date, it is very important to add an option that companies grant authority to make dividend decisions to their boards. This is my first point.

The second point is about provision of English translations. When we discuss the provision of English translations of Securities Reports, we should be aware that the Securities Report basically bears a heavy legal responsibility on the issuers, so it would be better to take measures on the premise that English versions are merely provisional translations for reference purpose, and do not hold the companies legally responsible to the same extent as Japanese versions. This is my second point.

The third point is about "against" votes in Principle 1.1 of the Corporate Governance Code. I'm reluctant to include such a numerical standard as 20% in Principle 1.1. I'll tell you the reasons. For example, at present, many proposals, against which more than 20% of votes have been cast, are related to the independence of independent officers. In this regard, even if companies explain, "This independent officer is independent from the company. Besides, appointing him/her as an officer is beneficial for the company", passive investors and/or proxy advisors merely formally apply their own proxy voting standards and cast "against" votes. In that way, frequently, about 30% of votes are

cast against such a proposal. Taking into account such a problem on the side of institutional investors, we need to look at the threshold of 20%. In not a few cases, the reason for opposing votes is not necessarily because the company in question has not reflected on the results of engagement with institutional investors, or because there is any problem with the company. Consequently, I'm not comfortable with putting pressure on the companies, implying "Because companies are not properly dealing with engagement, if 20% of votes have been cast against their proposals, companies should revise such proposals."

Furthermore, in connection with this 20% threshold, the UK's practice is often introduced. However, the background of such UK movement includes pay-ratio disparity due to a high level of officers' remuneration. Despite the fact that a significant proportion of votes were cast against proposals concerning officers' remuneration at AGMs, the amounts of officers' remuneration were not reduced. Due to this social issue, and then the 20% threshold was introduced as a measure to make companies reduce officers' remuneration. On the other hand, there is a huge difference between Japan and the UK in terms of the level of officers' remuneration and pay ratio in the background. If the Code stipulates the threshold of 20% at this stage, it will give an impression as if companies have not taken shareholders' opinions seriously. That is not at all appropriate. It is required to take necessary measures to change merely formal responses by institutional investors as well. Therefore, I suggest that we should be more careful about stipulating the 20% threshold in Principle 1.1.

That's all.

[Kanda, Chair] Thank you very much.

I apologize for the inconvenience caused by the trouble with the equipment of the Secretariat today. Now I'd like to close today's discussion. If you have more opinions or questions about these topics, please express them in the next meetings.

Now I'd like the Secretariat to make an administrative announcement, if any.

[Shimazaki, Director of the Corporate Accounting and Disclosure Division, FSA] As for the next meeting date of the Follow-up Council, we will fix the date, which is convenient for you, upon consultation with the chair, and let you know later.

We hear that YouTube and other streaming platforms for observers also got disconnected in the middle of the meeting due to the trouble with the equipment of the Secretariat. We are sorry for the inconvenience caused. We will take necessary measures, including earlier disclosure of the meeting

minutes. Thank you for your understanding.

That's all from the Secretariat.

[Kanda, Chair] Thank you very much.

Once again, I apologize for the inconvenience caused by a problem with the equipment.

Now I declare the meeting adjourned. Thank you for your active participation for long hours.

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