

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

1. Date and Time: March 31, 2021 (Wednesday) 14:30-17:00
2. Venue: 9F, Central Government Building No. 7, Meeting Room

[Kanda, Chair] Okay, we are slightly past the scheduled start time so I would like to start today's meeting of the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code. This is the twenty-sixth meeting.

Thank you very much for taking time out from your busy schedule and participate in this meeting. Today, the secretariat will explain the three documents we have compiled based on discussions we have had so far. The first document is Revisions of Japan's Corporate Governance Code and Guidelines for Investor and Company Engagement, which is labelled "Materials", and the second document is Draft Revision of Japan's Corporate Governance Code, labelled "Appendix 1". The third document is Draft Revision of the Guidelines for Investment and Company Engagement, which I believe is labelled "Appendix 2". The secretariat will explain these three documents. After that, I'd like to ask members to discuss these documents.

Today, Ms. Waring will express her opinion in English. Today we are going to give simultaneous interpretation a try. Members who wish to listen to the simultaneous interpretation should access the link or call the number sent to you by the secretariat. For those of you watching on YouTube, please note that only the English version is being streamed, and we apologize for any inconvenience this causes.

So, I'd like the start with an explanation from the Secretariat. Director Shimazaki, please go ahead.

[Shimazaki, Director of the Corporate Accounting and Disclosure Division] Thank you. I will start by explaining the materials and then explain Appendix 1 and Appendix 2.

First, let me explain the Revisions of Japan's Corporate Governance Code and Guidelines for Investor and Company Engagement (draft). This document explains the background and concepts

behind the revisions.

First of all, please turn to “I. Introduction”. In this section, we explained that under the changing environments surrounding business firms triggered by the COVID-19 pandemic, all companies must recognize challenges and get ahead of the changes for their future growth, the background to introduction of market segmentation by the Tokyo Stock Exchange and, under such circumstances, companies are encouraged to promptly address governance issues and to advance to a higher level of governance. We received written opinions in December, which led to this revision draft. In the middle of the first page, it says, “under the comply or explain” approach which refers to the decision we made to make recommendations pertaining to the Code, etc. after clarifying this approach.

Under “II. Recommended Revisions to the Code and the Guidelines” towards the bottom of the first page, in the section, “1. Ensuring Board Independence”, as also described in Opinion Statement No. 5. ensuring board independence amidst non-linear changes in the business environment was discussed in December, and is exactly as suggested. In the last revision, we revised committees so that the CEO plays a central role in management, so the appointment and dismissal of the CEO is the most important strategic decision. We have indicated our position that committees will be revised based on comments made today.

“2. Promoting Diversity in Core Human Resources” on page 3, which was also touched on in Opinion Statement No. 5., explains that for a company to lead the non-linear changes and achieve new growth, a diversity of perspectives and values is required, not only in the board, but also in management. On top of which, we noted the importance of ensuring diversity in the core human resources that support the board and management and of human resource development and internal environment development to ensure diversity.

In “3. Attention to Sustainability and ESG”, as indicated on the first line, with the aim of increasing corporate value over the mid- to long-term, it is becoming increasingly important to positively and proactively address factors not only as a risk, but also as earning opportunities. In relation to these three points, the importance of efforts related to human capital and intellectual properties, the fact that some sustainability related issues to be tackled are common to all companies while others may differ depending on the circumstances at each company, and the importance of a substantive response is also mentioned.

In section “4. Other Individual Items”, individual issues are described, with (1) referring to “Group Governance”. Based on the recent trend of examining the nature of group management, we noted that, “A controlling shareholder should respect the interests of the company and the common interests of shareholders and should not treat minority shareholders unfairly.”, and at listed companies with a controlling shareholder, this state of governance will be revised later. This section also mentions listed companies with a controlling shareholder, and states that this type of governance will be revised later.

In (2) “Ensuring Confidence in Audits, Internal Control and Risk Management”, as discussed at the previous meeting, in response to Opinion Statement No. 4, we have presented some background information and notes on the importance of coordination between internal audit departments, directors and kansayaku (Audit & Supervisory Board members), as well as the importance of determining appropriate risks to be undertaken as a company from the perspective of improving corporate value with regard to internal control and risk management.

In (3) “General Shareholder Meetings Related Matters”, we have presented concepts and revisions relating to problem awareness in reference to making the entire decision-making process at general shareholder meetings constructive and substantive.

(4) “Major Issues other than the above”, relates to business portfolio and cross-shareholdings. I will now explain details relating to the revision of the Code.

These are presented in section “III. Implementation of the Revision of the Code”. First, in April 2022, the Tokyo Stock Exchange will start to apply a new market category and listed companies are expected to submit their corporate governance reports reflecting the revised Code by December this year at the latest. Furthermore, with respect to principles that only apply to companies listed on the Prime Market, time may be needed to prepare, so it is conceivable that companies will be asked to submit their corporate governance reports reflecting the revised principles soon after the conclusion of their general shareholder meetings that takes place after April 2022. The Tokyo Stock Exchange is expected to consider the more specific timing of the submission of the reports. We also note with regard to new market segmentation, that at companies listed in other markets, other than companies listed on the Prime Market, it is desirable to take voluntary initiatives to improve governance, using the Code items for companies listed on the Prime Market as a reference. We also note that, for companies listed on the Growth Market, in addition to ensuring that the Code’s

General Principles apply as a comply-or-explain norm, it is desirable that such companies take voluntary initiatives to improve their governance by using the Code's principles and supplementary principles as a reference, depending on their situation. Moreover, while the revision draft of the Code has been made bearing in mind the companies listed on the Tokyo Stock Exchange, other stock exchanges are expected to consider their version for their markets based on the revision draft, taking into account the characteristics of each relevant market.

Section "IV. Conclusion" mentions, with regard to revisions, the expectation that the revisions in the Code and to the Engagement Guidelines will be made promptly.

That completes my explanation of the materials. Next please look at the Appendix 1, draft revisions of the Corporate Governance Code. I will explain the revisions in page order.

First, please turn to page 6. Regarding electronic voting platforms, it says under Supplementary Principle 1.2.4, "In particular, companies listed on the Prime Market should make available the Electronic Voting Platform, at least for institutional investors".

I'm now moving on to page 8. In relation to the notes to Section 2: Appropriate Cooperation with Stakeholders Other Than Shareholders, we have noted the there is a growing awareness that sustainability is an important management issue from the perspective of increasing mid- to long-term corporate value and that in light of this, it is important for Japanese companies to further promote positive and proactive responses to sustainability issues.

I'm now moving on to page 9. Supplementary Principle 2.3.1 gives examples of dealing with sustainability issues as "the board" such as "taking care of climate change and other global environmental issues, respect to human rights, fair and appropriate treatment of workforce including caring for their health and working environment, fair and reasonable transactions with suppliers, and crisis management for natural disasters", and notes that "dealing with sustainability issues is an important management issue that can lead to earning opportunities as well as risk mitigation, and boards should further consider addressing these matters positively and proactively in terms of increasing corporate value over the mid-to long-term".

I'm now moving on to page 10. Supplementary Principle 2.4.1, reflects the details in December's written opinion that I introduced earlier, stating that "Companies should present their policies and voluntary and measurable goals 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”. It also notes that “companies should present their policies for human resource development and internal environment development to ensure diversity, as well as the status of their implementation”.

I’m now moving on to page 12. Regarding disclosure in English, Supplementary Principle 3.1.2 notes that companies listed on the Prime Market in particular should disclose information in English. Supplementary Provision 3.1.3 on the same page states with regarding sustainability disclosure that, “Companies should appropriately disclose their initiatives on sustainability when disclosing their management strategies” and that “They should also provide information on investments in human capital and intellectual properties in an understandable and concrete manner, while being conscious of the consistency with their own management strategies and issues. It then goes on to mention that, “In particular, companies listed on the Prime Market should collect and analyze the necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits, and enhance the quality and quantity of disclosure based on the TCFD recommendations which is an internationally well-established disclosure framework, or an equivalent framework”.

This issue also came up in the written opinion, in relation to the “TCFD or equivalent framework”. The IFRS Foundation, the body that sets International Financial Reporting Standards (IFRS), is currently working on a unified disclosure framework for sustainability, including climate change, based on the TCFD framework and Japan is expected to actively participate in this movement. On top of this, if a unified framework for sustainability disclosure is developed by the IFRS Foundation in the future based on the TCFD framework, as noted here, it will be expected, as indicated in the written opinion, to be equivalent to the TCFD recommendations.

I’m now moving on to page 14. Regarding group governance, the notes to Section 4 state that, “Controlling shareholders should respect the common interests of the company and its shareholders and should not treat minority shareholders unfairly, and accordingly, companies with a controlling shareholder are required to develop a governance system to protect the interest of minority shareholders”.

I will now move on to page 16. On page 16, as the role of the board in relation to sustainability, Supplementary Principle 4.2.1 states that “The board should develop a basic policy for the company’s sustainability initiatives from the perspective of increasing corporate value over the

mid- to long- term”. It goes on to note that “In addition, in light of the importance of investments in human capital and intellectual properties, the board should effectively supervise the allocation of management resources including such investments, and the implementation of business portfolio strategies to ensure that they contribute to the sustainable growth of the company”.

Next, also on page 16, in relation to internal controls and overall risk management, in light of the comments made at the previous meeting, company-wide risk management systems and the appropriate establishment of internal control and risk management systems for the entire group is described here.

I’m moving on to page 17. Principle 4 clarifies the role of the kansayaku and kansayaku board in fulfilling their roles and responsibilities such as the appointment and dismissal of kansayaku.

Next please turn to page 18. Principle 4.8, which was also a matter recommended in the December written opinion, states that companies listed on the Prime Market should appoint at least one-third of directors as independent directors (two directors if listed on other markets). It goes on to state that, irrespective of the this, if a company listed on the Prime Market believes it needs to appoint a majority of directors (at least one-third of directors if listed on other markets) as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should appoint a sufficient number of independent directors.

Then Supplementary Principle 4.8.3 states, with regard to the governance system at companies that have a controlling shareholder, that such listed companies, “should either appoint at least one third of directors (a majority of directors if listed on the Prime Market) as independent directors who are independent of the controlling shareholder or establish a special committee composed of independent persons including independent director(s) to deliberate and review material transactions or actions that conflict with the interests of the controlling shareholder and minority shareholders”. The written opinion also includes the wording that it is desirable for listed companies that have not only a controlling shareholder but also a shareholder with equivalent control to the controlling shareholder to take measures based on this proposal.

I’ll now move on to page 19. Please look at Supplementary Principle 4.10.1. It clearly states the establishment of an independent nomination committee and remuneration committee. It states that when examining nominations, “the company should seek appropriate involvement and advice from

the committees, including from the perspective of gender and other diversity and skills”. It ends by saying, “companies listed on the Prime Market should basically have a majority of the members of each committee be independent directors, and should disclose the mandates and roles of the committees, as well as the policy regarding the independence of the composition”.

In Principle 4.11, work experience and age are listed alongside gender and international experience as the diversity of the board.

Next please look at Supplementary Provision 4.11.1, which states that, “The board should identify the skills, etc. that it should have in light of their managing strategies, and have a view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size. Consistent with its view, the board should establish policies and procedures for nominating directors and disclose them along with its view the combination of skills, etc. that each director possesses in an appropriate form according to the business environment and business characteristics, etc., such as what is known as a “skills matrix”, before adding that, “independent director(s) with management experience in other companies should be included”.

Next please turn to Supplementary Provisions 4.13.3 on page 21. The description here is based on a suggestion concerning the importance of the so-called dual reporting line.

I’m now moving on to page 23. “Taking the requests and interests of shareholders into consideration, to the extent reasonable, kansayaku” with regard to persons in a position to engage in dialogue with shareholders, has been added to Supplementary Principle 5.1.1.

Finally on page 24, Supplementary Principle 5.2.1 states that “In formulating and announcing business strategies, etc., companies should clearly present the basic policy regarding the business portfolio decided by the board and the status of the review of such portfolio”.

That completes my explanation of the draft revisions to the Corporate Governance Code.

Next, I will explain Appendix 2, the Draft Revision of the Guidelines for Investor and Company Engagement.

First, please turn to page 1. Under Management Decision in Response to Changes in the Business Environment, it questions, with regard to reflecting changes in the environment surrounding the business in management strategies, etc., whether companies appropriately respond to changes in the environment surrounding the business, such as increasing social demand for and interest in ESG

and SDGs, progress in digital transformation 4, the need to address cyber security, and the need for fair and appropriate transactions throughout the supply chain in its management strategies and plans. With regard to sustainability, it asks whether companies have a structure in place, such as the establishment of a committee on sustainability under the board or the management side, to review and promote sustainability-related initiatives on an enterprise-wide basis. In the footnotes at the bottom of page 1 we have linked the realization of carbon neutrality and digital transformation to the fact that it has been pointed out that it is important to establish a management structure such as appointing a CTO.

Next, under the Investment Strategy and Financial Management Policy section, in 2.2, it states, “Does the company pursue sustainable management and investment strategies such as generating sufficient operating cash flow to support the implementation of its investment strategy?”. Then under CEO Appointment/Dismissal and Responsibilities of the Board section in 3.7 it states, “From the perspective of ensuring the effectiveness of the board, are each director and statutory and voluntary committees properly evaluated?”, thereby mentioning evaluations of each director and statutory and voluntary committees. 3.8 asks, “Does the board ensure the effectiveness of its supervision of management, including the appointment of independent directors as the chair when necessary?”. 3.10 onwards relates to kansayaku, and 3.10 asks whether appropriate persons are “appointed as kansayaku through appropriate procedures, including the consent of the kansayaku board?”. 3.11 mentions “discussions with the external auditor during the review process of key audit matters?” as a kansayaku response, and 3.12 states, in relation to whistleblowing, “For ensuring the operational effectiveness of the whistleblowing systems, are the systems related to the whistleblowing and the operational results disclosed and explained in an easy-to-understand manner?”.

I will now talk about section 4. Under “4. Specific Challenges on Governance”, first, with regard to shareholder meetings, 4.1.1 considers the response to a proposal by the company that has been approved but a considerable number of votes have been cast against. 4.1.2 considers the prompt disclosure of information included in the convening notice through TDnet and on the company’s website, and 4.1.3 considers measures to enhance constructive dialogue with shareholders, for example, by submitting the annual securities report prior to the date of the general shareholder and the way the general shareholder meeting is handled, including the appropriate setting of the dates



related to the general shareholder meeting. 4.1.4 questions whether appropriate measures are taken to ensure the interests of shareholders when the general shareholder meeting is held virtually.

Next, with regard to cross-shareholdings, the Guidelines question “whether the assessment of holding effects is sufficient based on the perspective of the common interests of shareholders, for example through the effective involvement of independent directors”, and states specifically and clearly disclosing and explaining the results of this assessment including the assessment methods.

(3) “Asset Owners” asks, when managing the corporate pension funds, whether the company avoids interfering with appropriate management by selecting an investment trustee from the perspective of maintaining relationships with business partners. Then (4) “Enhancement of Dialogue between Shareholders and Companies”, asks “Does the company appropriately make efforts regarding who should engage in dialogue with shareholders, for example, the appointment of the “lead independent director” in order to respond to the requests of shareholders and the main concerns of the dialogue?”.

That completes my explanation of the main draft revisions of the Engagement Guidelines.

That also completes all my explanations.

[Kanda, Chair] Thank you very much. With regard to the three documents that have just been explained, Ms. Matsuoka, who I understand is absent today, has submitted a written opinion, and so I would like the secretariat to provide a brief outline of his opinion.

[Shimazaki, Director of the Corporate Accounting and Disclosure Division] Let me explain. Ms. Matsuoka, on behalf of Keidanren, has been fully supportive of reforms that will contribute to strengthening the competitiveness of Japanese companies and increasing their corporate value, on the other hand, she states that there remains impression that there are still some issues to be addressed in terms of whether reforms have been sufficiently verified with regard to how they have contributed to competitiveness and the ability of value creation. On top of this, she raises four requests that are asked to be considered when implementing the revised Code.

First, from the perspective of improving the quality of management, to promote sufficient understanding among all market participants, including investors, as to the need to secure a pool of a large number of candidates for independent directors and to give due consideration as to the timeline of appointment, etc., since such a significant pool of candidates will need to be secured in order to increase the number of independent directors and their roles, while ensuring their diversity.

The second point relates to the basic concept of the Code which is to “comply or explain.” where

it is asked that the government and financial authorities to lead institutional investors and proxy advisory firms to aim to enhance corporate value through constructive dialogue, as clearly stated in the Stewardship Code, rather than making uniform and formulaic decisions.

Third, it asks that verifications be conducted on the actual effect of the of governance reforms on enhancing corporate value Fourth, it is asked that thorough follow-up is done on practical issues expected in implementing the Code.

Finally, it states that Keidanren will submit its opinions on key issues during the call for public comments, and looks to contribute to enhancing corporate value of Japanese companies over the mid-to-long term, long-term based on sustainable capitalism, as well as to e the revised Corporate Governance Code be known to the public.

That completes my summary of Ms. Matsuoka's opinion.

[Kanda, Chair] Thank you very much.

Now, I would like to ask for your comments on the three documents that the secretariat has just explained, namely, the materials, Appendix 1 and Appendix 2, which relate to the revision of the Code and the Engagement Guidelines.

As usual, if you would like to speak, please use the online meeting system's chat function to send a message containing your name to all participants. Please try and keep your comments and opinions to no more than five minutes per person.

As I mentioned at the beginning, I would like to ask Ms. Waring to speak first. Her comments will be interpreted simultaneously. Ms. Waring, please go ahead.

[Waring, member] Chairman Kanda, ladies and gentlemen, I would like to start by thanking you for the opportunity to present the ICGN's opinion on revisions to Japan's Corporate Governance Code and the Guidelines for Investor and Company Engagement. Both promote enhancing long-term corporate value and contributing to sustainable economic growth by promoting high standards of corporate governance and dialogue between investors and companies. Of the proposed revisions to the Code, ICGN welcomes five major revisions in particular.

First, new Supplementary Principle 2.4.1 requires companies to disclose their diversity policies and human capital management policies, including measurable objectives. In the future, we recommend adding a reference to a period over which diversity goals are to be achieved and an annual report as a requirement. We also recommend that you consider the importance of equality

and inclusivity, in addition to diversity to address social inequalities, especially racism and equitable treatment.

Secondly, we welcome the new Principle requiring companies listed on the new Prime Market to engage in climate related disclosure based on the TCFD model. We recommend that this be extended to all listed companies in the future. Disclosures should explain the impact of climate change on the company's business model and how it will adapt to meet the needs of a net-zero society. This includes setting and disclosing targets for carbon emission reductions and the timing for achieving such targets.

We welcome the increased requirement for companies that will be listed on new Prime Market to appoint at least one-third of the board to be independent directors. We also welcome the requirement for the majority of directors to be independent directors at listed companies with a controlling shareholder that are listed on the Prime Market.

In the future, we recommend that at least one-third of the board at all listed companies should be independent directors, and that in the Prime Market, where higher governance standards exist, the majority of board members should be independent directors. We also recommend mentioning the importance of a highly transparent and rigorous director appointment process under the responsibility of the nomination committee, comprised of a majority of independent directors.

Fourthly, we also welcome the requirement for boards of Prime Market listed companies to establish nomination and remuneration committees, comprised of a majority of independent directors. We also welcome the new requirement for disclosure of the composition and duties of such committees. In the future it would be beneficial if this is extended to all listed companies, not just companies listed on the Prime Market.

Fifthly, we welcome the new Principle that requires the board to disclose its basic policies and reviews of the company's business portfolio. We recommend that, in the future, this Principle make clear that the board should to review their business portfolio annually and disclose a clear policy on the company's approach to capital allocation as a foundation for long-term value creation.

Next, I would like to talk about three items that the Follow-up Council should consider in the future, which are not included in these revisions.

The first is the disclosure location. We welcome the Code's new requirements for companies to disclose climate change-related information, diversity policies, human capital initiatives, and

committee mandates. However, the Code does not specify where such information will be disclosed. ICGN advocates that such information is important for the long-term value creation of a company and should, therefore, be disclosed in the annual securities report, in English, before the shareholders' meeting.

The second relates to cross-shareholdings which has not been changed from the original Code. This Principle should be strengthened to require disclosure around the reason and nature of the cross-shareholding, for example, if it is a parent company, subsidiary or supplier. The time period over which cross-shareholdings will be reduced or eliminated should also be disclosed.

The third point that should ideally be revised in the future is board evaluations. We recommend that Supplementary Principle 4.11.3 require boards to be evaluated by an external consultant periodically, preferably every three years. This review of performance would result in long-standing directors stepping down, thus unlocking vacancies to enable appropriate board diversity, independence and succession planning.

We would like to make three points regarding the proposed revisions to the Guidelines on Investor and Company Engagement.

The first point concerns Guideline 3.8, the appointment of independent directors. We welcome the inclusion of reference to whether the Chair of the Board is an independent director. We believe this reference could be strengthened in the future to include whether the Chair is an independent director on the date of appointment. The responsibilities of the chair, CEO, lead independent director and committee chairs should be disclosed.

The second point concerns Guideline 4.1.3. ICGN appreciates the reference to the publication of the annual securities reports to be made prior to the annual general meeting. However, this should also be mentioned in the Corporate Governance Code, specifically in the Supplementary Principle 3.1.2.

The third and final point concerns Guideline 4.1.4. When holding a hybrid or virtual-only AGM, we encourage companies to ensure interactivity with shareholders and to replicate as best as possible the in-person AGM experience. Companies should allow shareholders the opportunity to submit questions/make statements in advance of the shareholder meeting date and during the meeting proceedings.

Finally, I would like to thank the Follow-up Council for considering the opinion of ICGN during the review process. We applaud the efforts of the FSA in continuing to reform corporate governance policies and practices in Japan. We recognize the latest revision to the Code and the Guidelines as positive steps forward. Corporate governance reform is not a goal in itself, rather it is an ongoing journey. Each country is at a different stage of evolution, taking into account its own rules, regulations, corporate culture, and shareholding model. However, companies and investors have a common global responsibility. The goal is to maintain and enhance long-term value, thereby contributing to economic growth, social prosperity, safety, and a healthy environment now and in the future. It is in this spirit that I have made my comments today.

Thank you very much. We look forward to continuing our discussions.

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

Based on the requests to speak in the chat I would like to ask Mr. Toyama to speak.

[Toyama, member] Thank you. I would like to start by saying that I was very impressed by Ms. Waring's comments.

Thank you.

In particular, the last part, when she said that the company, the board, as well as investors should all take responsibility for the future of the planet, the future of the human race, and the future humanity, as this is probably the most important governance issue right now and I would like to keep this in mind.

As for my own comments, to be honest a lot of what I want to say has just been said. I think the revised Code and Guidelines, etc., are more than good enough for what we can achieve at this point. In that sense, I agree with everything that has been stipulated. However, I believe that there are four major factors that are defining or accelerating the changes that are taking place in the world today in terms of accelerated change brought about by COVID-19 while the Code and Guidelines are being formulated. The first one is globalization, which has already started, and which in both good and bad ways, cannot be stopped, even by COVID-19. On the flip side is the so-called digital transformation, or digital revolution, if you ask me. This is accelerating. Another point is that global environmental issues are finally becoming a real agenda, which is exactly what sustainability is all about. Lastly, one of the major factors that is occurring right now is the change in the political situation, the so-called battle for hegemony has started again. The situation brought about by these

four enormous variables is that there is more and more discontinuity and incoherence in management, and also, as Ms. Waring just mentioned, human value in management. This is an issue of human resources and intangible value as a source generating value. Put another way, human knowledge and wisdom are the source of value, and at the same time, as was discussed earlier, acts by a company or an investor are ultimately designed to serve people. I believe that this will further accelerate the circulation of human and capital that focuses on humans.

So, in the materials and documents mentioned earlier, there was a discussion about measuring effects, and while I understand the intention behind this, to be honest, I think the situation will be even more acute in the next five or ten years. By which I mean that the situation will be too chaotic to measure effectiveness. I honestly believe that in 20 years only half of the names of the companies that exist now will remain, whether they are JPX 400 or Nikkei 225, and that is a serious matter. I am also a director at Panasonic, but at least, this is how I feel about the situation. I reckon half will disappear. They will either disappear, or their name will disappear, or they'll merge with another company, or something.

So, what I am trying to say is that we should think about the future, and how, in the future, to go about revising the Governance Code when we revise it next time, as Ms. Waring mentioned earlier. And then, of course, with regard to these disclosure rules, I think we need to accelerate what we are doing now. For example, there are all kinds of issues in terms of disclosure of human assets, and then with regard to diversity issues, diversity is no longer, how should I put it, it is no longer CSR. It is a source of competitiveness, and without it, there is no future. In which case, and there has been a lot of discussion about this, I think we should venture into the quota system, for the issue of women too, in the next stage. Then there is also the issue of human resources for director candidates. This is a bit like the chicken and the egg. In the end, the reason why there are so few female directors is because there are few women who are involved in management at the executive level. And that is why there are so few candidates for outside directors.

In this regard there are people who question their ability and their skills, but in my opinion, if you look at the level of people involved in management in the world today, that argument seems to be to be a bit like a tennis player ranked 1,000 in the world admonishing a player ranked 1,100 for lacking skill. Despite using so many men, we are ranked 1,000. This is clearly the average level of management in Japan today. So, we've lost our market capitalization, we've lost our global ranking,

and our sales ranking has dropped, we lack profitability, we don't have any operating cash. If we use that many men and we're still ranked 1,000, then if we bring out the women who are not yet active, we'll definitely have a good chance of going up in the rankings. I'm sure of it. Look at it this way, in tennis and golf, the first Japanese to win a grand slam and a major tournament were woman. The same goes for soccer, women were the first to win the World Cup. So, I would like to see the next revision of the governance code go further in this area. For disclosure too, I would like to see further progress being made in the disclosure rules.

That's all from me.

[Kanda, Chair] Thank you very much.

Next I would like to ask, Mr. Obata from NEC to speak.

[Obata, member] This is Obata. Thank you for the opportunity to speak. I basically agree with the proposed revisions, but I have one question and three requests. The first one relates to is 4-3 of the Code, is that okay?

[Kanda, Chair] I'm sorry, Mr. Obata.

[Obata, member] Mr. Shimazaki, can you hear me now?

[Shimazaki, Director of the Corporate Accounting and Disclosure Division] Mr. Obata, it is a little difficult to hear you, can you close one screen or something? What do you think? Can you do that please?

[Obata, member] I closed a screen. How is it now?

[Kanda, Chair] We're good.

[Shimazaki, Director of the Corporate Accounting and Disclosure Division] Can you continue?  
Thanks.

[Obata, member] Thank you. My apologies. I basically agree with the proposed revisions, but I have one question and three requests.

I'll go through them in order.

The first one relates to is 4.3.4 of the Code, which is about risk and internal control.

Regarding this, the phrase "investing necessary resources" was added to the written opinion, and I would appreciate it if the Code could also include the phrase "investing necessary resources" in regard to internal control systems. This is my first point.

Moving on to my second point. My second point relates to Principle 4.8. I think this is an

important point. It says that a company listed on the Prime Market that believes it necessary to appoint a majority of independent director should appoint a sufficient number of independent directors. I think the intention here is for the companies involved to think about this on their own. What it is saying here is that even if you think a majority is necessary, if you cannot currently get a majority due to various reasons, but you have a sufficient number, then you are probably compliant, and I would like to confirm whether my interpretation is correct. This is my first question. Moving on to the Engagement Guidelines. Thank you for all your help with the Guidelines. My first point relates to 1.3, and in addition to ESG and SDGs, I am glad to see that digital transformation and cyber security have been added. I believe that this field is becoming more and more important. METI is also putting together a DX Governance Code. Since they are working on such a Code, if possible, I would appreciate it if you would consider including this point in the Code, rather than in the Engagement Guidelines.

The fourth and final point relates to 3.12 of the Guidelines. Regarding whistle-blowing, if it is possible, it would be very helpful if you could change the phrase “for ensuring the operational effectiveness,” to, for example, “investing the necessary resources to ensure the operational effectiveness and a system relating to whistle-blowing” or something along those lines. That completes my one question and three comments. I would appreciate it if you would take them into consideration.

That’s all from me. Thank you for the opportunity to speak. I’m sorry for the sound issues.

[Kanda, Chair] Thank you very much. What shall we do about the question?

[Shimazaki, Director of the Corporate Accounting and Disclosure Division] I’ll respond. As you pointed out, 4.8 is something that should be considered by listed companies, and in the past, this was essentially not an area that was subject to comply or explain, and so companies that considered it necessary took measures to comply.

That’s all from me.

[Obata, member] Thank you.

[Kanda, Chair] Thank you very much.

Now, I would like to move on to the next speaker, but so far I have not received any requests to speak in the chat. Does anyone have any questions or comments?

Thank you. Mr. Haruta, please go ahead.



[Haruta, member] This is Haruta from the Japanese Trade Union Confederation. I would like to express my sincere appreciation to Chair Kanda and the secretariat for efforts they went to in compiling the revised drafts.

I would like to offer two opinions. First, the importance of dialogue with stakeholders was included in the written opinion. With regard to this, I believe that dialogue with stakeholders will become increasingly important as the industrial structure is transformed, from the perspective of digitalization, green recovery and carbon neutrality. So, I would like to express my gratitude for its inclusion in the written opinion given that the importance of dialogue with employees, business partners, and local communities, including labor unions, will increase.

Specifically, Principle 2.3 on page 9 of the Governance Code. As the industrial structure continues to change, we believe that it will become increasingly important to take appropriate action to address social and environmental issues and other sustainability issues. I am aware that Supplementary Principle 2.3.1 was developed bearing in mind our requests, but when we think about the future, it is not enough to simply say that we should take appropriate measures to address social, environmental and other sustainability issues. I believe that we need to dig a little deeper into this area, and that we need to examine this issue further, while taking into account the future transformation of the industrial structure.

My second point relates to an opinion we have always held, namely that, the S of ESG (labor and human rights) is extremely important. As the way workers work is changing drastically due to work-style reforms and the adoption of telework, etc., we believe that companies are being required to proactively disclose information on labor and human rights, in other words on “S”. We recognize that it is important to encourage the disclosure of information in the Corporate Governance Code.

With regard to labor and human rights, I am aware that international labor and human rights issues have recently come under close scrutiny, including the issue of human rights violations by the Myanmar military and various issues related to the Tokyo Olympics and Paralympics. I believe that it will be increasingly important for companies to respect and comply with international rules on labor and human rights, such as the ILO’s core Labor Standards and the OECD’s Guidelines for Multinational Enterprises. While it was not included in the review of Corporate Governance Code on this occasion, I think it is an issue that should be considered in future reviews.

That’s all from me.

[Kanda, Chair] Thank you very much.

Next, Mr. Okada, please go ahead.

[Okada, member] I am basically in favor of the proposed revisions to the Corporate Governance Code and the Engagement Guidelines that have been put together. I would like to express my sincere gratitude to Chair Kanda and the secretariat for compiling these documents.

I would like to share my thoughts with you. First, I think that at the core of these revisions, is the fulfillment of the board's functions, diversity, and sustainability. These are all strongly interrelated issues that require consistent initiatives by companies. As a result, companies are expected to be ready to tackle environmental and CO2 issues head-on through highly transparent disclosure by enhancing ESG- disclosure, etc. and, with regard to diversity, companies are expected to transition from simple number-crunching to substantive diversity. However, I believe that developing the Code is only the beginning. In order to rise up to a global level, further efforts are expected through dialogue between companies and investors.

Next, with regard to ensuring the reliability of audits, I have expressed a number of opinions about the independence of kansayaku, and in reality kansayaku have a great deal of authority under the Companies Act, but do not fully exercise that authority. Whether the independence of kansayaku is underestimated because it is not exercised or vice versa is a chicken and egg situation. Kansayaku are one of the key players in corporate governance. The Code now indicates that kansayaku should meet with investors together with directors, as a rule, and I am painfully aware of the need to demonstrate a proactive approach to improving governance.

Lastly, and this may not be related to the Follow-up Council, but having participated in these meetings I feel that it is time to consider unifying the three organizational structures that make up governance in Japan, namely companies with a kansayaku board, companies with an audit and supervisory committee, and companies with three committees (nomination, audit and remuneration). In addition to the increased adoption of the Governance Code, during the Governance Code review process, we discussed whether the majority of directors should be outside directors. A situation was predicted in which the skills matrix of directors would be enriched and the enhancement of outside director human resources would take off. Based on these changes to the governance environment, I would like revisions to the Companies Act to be considered with regard to the organizational structure of listed companies subject to the Governance Code.

That's all from me.

[Kanda, Chair] Thank you very much.

The next speaker is Mr. Sampei. Please go ahead.

[Sampei, member] This is Sampei. First of all, regarding the draft written opinion, I think it is very easy to understand as it is eight pages long and carefully lays out the intention, purpose and expectation of the revisions to the Code. I would like to thank the secretariat for their efforts. It goes without saying that the intentions, purpose, and expectations of individual items are important, but I believe that the most important prerequisite is to undertake initiatives having fully understood the spirit of the principle-based approach.

In that sense, specifically, the second half of the second paragraph in "I. Introduction" in the written report that relates to, "companies listed on the Prime Market making advance efforts toward a higher level of corporate governance" and "companies listed on other markets" is very important. I think we should aim higher than just comply or explain with regard to the items in the Code. However, given this, the part on page 7, in "III. Implementation of the Revision of the Code", that says that, "for companies listed on the Growth Market, in addition to ensuring that the Code's General Principles apply as a comply-or-explain norm" seems to contradict this. I think it is desirable for companies listed on the Growth Market to gradually improve governance towards compliance, even if there are many items that need to be explained at the beginning.

Moreover, I am very happy that the draft opinion carefully describes the concept of the timing of submission of corporate governance reports in line with the revised Code, and I am especially happy that it carefully explains giving consideration to the timing of submission of corporate governance reports and indicates expectations with regard to items for which compliance becomes effective after the shareholders meeting.

Now for my final point regarding the draft written opinion. I think that, as an issue for future consideration, we need to develop a common awareness with respect to major shareholders who have control similar to that of controlling shareholders (controlling shareholders), as described in "(1) Group Governance" on page 5.

I have two points I would like to make regarding the draft revision of the Code in Appendix 1. First, the word "unfair" appears in the notes underneath General Principle 4, and I think we need a common understanding of this word. I think it is necessary to clarify what constitutes unfairness in

this situation. This is just an example, but I think it is important to have a clear image.

My last point relates to Supplementary Principle 4.2.2. I am slightly concerned that the allocation of management resources, including investment in human capital and intellectual property, and the execution of strategies relating to business portfolios may be thought of as one thing here, or maybe it incorporates two different things. For example, a business restructuring may start with a review of the business portfolio from a financial perspective, or it may start with the optimization of human capital functions, or it may start with a review of the business model through digital transformation. There are many possible starting points. In this sense, I can understand the inclusion of investment in human capital and intellectual property. But I am concerned that investment in human capital and intellectual property may be used as an excuse to maintain the current system, and that this will have the effect of restraining the transfer of businesses and withdrawal, which should be undertaken, and as a result, restructuring will be forgone. As Mr. Toyama mentioned earlier, when staggering changes come about, and we have to deal with the situation in whatever way we can, if investment is used as an excuse to maintain the current system, then I think it would be like putting the cart before the horse and this concerns me a little.

That's all from me.

[Kanda, Chair] Thank you very much. Does anyone else have anything to say? Do any other members have any opinions?

Thank you. I received messages in the chat from Mr. Kawakita, Ms. Ueda, and Ms. Takayama, in that order. Mr. Kawakita, please go ahead.

[Kawakita, member] This is Kawakita. Thank you for the opportunity to speak. I have no major issues with the written opinion, the Code, or the Engagement Guidelines, but there are some areas that are a slight cause for concern or that may be issues for the future and so I would like to raise three points.

My first point relates to Principle 2.4. This Principles refers to ensuring diversity, and cites women and foreigners as examples. It has now become extremely important for companies to hire and promote a diverse range of human resources from various perspectives, not just women or foreigners.

On a related note, some companies take a traditional approach to hiring. I think that hiring new graduates in one go and training them under the lifetime employment system remains the popular

approach at Japanese companies. Considering whether this is really appropriate would be a good starting point for embarking on diversity development. I think it would then be natural to think about training and promotion after that. That is why I would like companies to be properly aware of this point and I would like to ask them not to treat the Code superficially.

Next I would like to talk about Supplementary Principle 4.8.3. Regarding the issue of parent-subsubsidiary listings, I don't think that the establishment of a governance system as described in the Code will completely solve the problems hidden in parent-subsubsidiary listings. Ultimately, I am not sure if this is an issue with the listing system, but I would like to see some deeper discussion of this point in the Code, and I would be grateful if those concerned could discuss parts that are outside the Code as well.

Next, with regard to the Engagement Guideline 4 "1. Shareholders Meetings", I gave my opinion at this meeting that dividends should be decided by the board, but I don't think I got much support from the members. However, dividend policy is inextricably linked to capital policy, and is also deeply intertwined with capital costs. Put another way, deciding dividend policy takes into capital investment and capital costs account and is the same as deciding overall capital policy. In this sense, I think it would be a logical contradiction to make dividend policy a matter for resolution at a shareholders meeting, while not doing so for capital policy. Therefore, although I am not specifically requesting any amendments to the Engagement Guidelines, I would like to ask investors, in particular, to be aware of capital policies and growth strategies when discussing dividend policies, and to discuss them thoroughly as a set.

That's all from me.

[Kanda, Chair] Thank you very much.

The next speaker is Ms. Ueda. Please go ahead.

[Ueda, member] This is Ueda. Thank you. First of all, even though we were unable to meet in person due to the pandemic, I would like to thank you for creating such a wonderful draft of the Code. I believe that the maximum consideration was given to our opinions as members. Meetings were held frequently, and I was able to express my opinion at all of them, and I believe that they were taken into consideration, so I am in agreement with the drafts overall. With that in mind, with regard to future issues, there are three points that I would like to see the FSA or the TSE focus on in order to encourage adoption of the Code in the future.

First, I would like to talk about sustainability disclosure. This time, the TCFD with regard to climate change, and, as the Director mentioned earlier, the IFRS Foundation's new initiatives, which is a kind of a globally shared platform, were suggested. Especially with regard to the environment, I think that the EU has been leading the way, and Japan and other countries are being dragged along. As far as companies are concerned, the burden of environmental policies, especially given that they are different to energy policies, must have been enormous. I think various new initiatives will be launched in the future and I expect the Japanese government authorities, and companies and investors to participate in the discussions and take the lead.

In particular, as stated in 2.4.1 of the Code, investment in human resources and diversity disclosure have been mentioned again this time, and of these, human capital has become very important. I think there will be more investors worldwide who will want this information. On the other hand, the framework is not yet clearly defined, and so companies may struggle to decide what information to provide. I really would like to see all related parties, and government agencies, as well as Japanese companies and the Japanese market take the lead internationally in creating a framework that will allow us to promote our efforts in these areas.

My second point relates to the responsibility of the controlling shareholder having been clearly stated. The notes to the Code mention responsibility as something akin to the responsibility of the controlling shareholder. I believe this part is a big step forward as it is a very new way of thinking that is not mentioned in the Companies Act. Furthermore, I think it is a big step to include expanding the discussion from parent-subsidary listings to controlling shareholder, to shareholders who can grasp the situation more comprehensively, due to, conversely, the definition being vague, and the responsibilities, and the structure of companies with such shareholders.

On the other hand, with regard to controlling shareholders, for companies, there will probably be differences in the dialogue between investors and companies regarding the percentage, or what the actual criteria should be, and therefore, I hope that some kind of guideline will be put together to clarify this and that the investor community, or rule setters, or companies will work together to clarify the definition. In this regard, Supplementary Principle 4.8.3 states, with regard to listed companies with a controlling shareholder, in principle, one third of directors should be independent director, or on the Prime Market, the majority of directors should be independent, or a special committee should be established. It says that the special committee should be made up of

independent directors, and in the future I would really like it to be emphasized, through public relations activities, that this committee should also be independent from the controlling shareholder. With regard to the framework that monitors the special committee to ensure it is not reduced to a formality, I would like to see investors and others keep a close watch over the committee.

Finally, I would like to talk about Supplementary Provision 4.10.1. This relates to the impartiality of committees. In the paragraph that refers to the “Prime Market”, it says that committees should “basically” have a majority of the members be independent directors. In many cases, when it says “basically”, companies are a bit worried about how strong the requirement is. From what I have learned from my past experience with the Code, I believe that the “basically” is intended to mean that is appropriate for the majority of directors to be independent directors, and cases could be envisaged in which half of the directors are independent directors and half are not, but the chairman is an independent director. So, I would like to ask you to make sure that there is no confusion regarding the meaning of “basically” and for public relations activities to be undertaken to explain the purpose of independence in the Code.

That’s all from me. Thank you very much.

[Kanda, Chair] Thank you very much.

The next speaker is Ms. Takayama. Please go ahead.

[Takayama, member] This is Takayama. I agree with the revisions to the Code. I would like to thank the Chair and all the members of the secretariat for their efforts in putting together the revised Code.

That said, I would like to make two comments. Principle 2.3 of the Code states the board’s approach to sustainability. A more proactive and active approach is recommended here than in the past. In addition, page 4 of the written opinion states that it is important to take a substantive rather than a formal approach to addressing sustainability. I think this part is very important. Some companies may try to be more formal in their responses. However, I think that it is clear from reading the written opinion that it is not the formality but the substantive response, the substantive discussion by the board, that is important.

I have one request in this regard. When talking to companies to which the Code applies, I have found that it is often the case that they read the Corporate Governance Code very carefully when they first got it, but they took less interest in the written opinion and Engagement Guidelines that

were issued at the same time, than they did in the Code, and did not pay much attention to them. I am sure that there will be many opportunities for the TSE and the FSA to explain the contents of the Code and help companies understand it. At such times, I hope you will also inform companies that the Engagement Guidelines and written opinion are equally important for gaining a deeper understanding of the revised Corporate Governance Code. That is my first point.

Now I would like to talk about Supplementary Principle 4.11.3, which relates to board evaluations. Supplementary Principle 4.11.3 was not revised this time. On the other hand, the written opinion and Engagement Guidelines state that evaluations should not be limited to the board, but that it is important for them to also cover committees and individuals, which I am very glad to see. I think that when the Code is revised again in the future, it would be better to clearly state in Supplementary Principle 4.11.3 that committees and individuals should be evaluated as well as the board as a whole.

There are two reasons for this. The first is consistency with the key revisions made this time. The second is a global perspective. First, I will explain consistency with the key revisions points, the first reason. In the revised Code, for example, companies in the Prime Market are required to have at least one-third of directors as independent directors, and committees are required to be more independent, so I think the importance of individual independent directors and of committees is increasing. In which case, I think that the individuals or committees should be evaluated more strictly in terms of whether they are really effective. I think that board evaluations are appropriate as the means of evaluation, and I think that in the future, board evaluations should include not only the board as a whole, but also evaluations of individuals and committees.

The second reason is a global perspective. I believe that the primary goal of the Corporate Governance Code is to increase the corporate value of Japanese companies. Based on this, I think the next, or rather an equally important step is to appropriately and sufficiently communicate to the global capital markets that Japanese companies are undertaking such initiatives. At that time, global investors will wonder how to make comparison against other global norms. The governance codes of major countries such as the UK and France in Europe, and Singapore in Asia, require evaluations of committees and individuals in addition to the overall evaluations of the board. In the US, although there is no code, the listing rules of the New York Stock Exchange require an evaluation of board as a whole and of committees. There is no requirement for individual evaluations, but



many companies undertake such evaluations. Compared to these global standards, the Japanese Code does not clearly state evaluations, and this makes me think that this may make investors around the world may feel uncomfortable. Therefore, in the future, I think it would be better to add such details to the Code.

That's everything I want to say.

[Kanda, Chair] Thank you very much.

The next speaker is Mr. Tsumuraya. Please go ahead.

[Tsumuraya, member] Thank you. First off, I agree with the revisions to the Code. Thank you very much.

That said, I would like to make two comments. My first comment, as others have already said, is to ask you to focus on various activities to ensure that the intentions and objectives of the revisions to the Code are fully understood. For example, this time a new skill matrix has been included, and if we talk about how to increase the number of circles in the skill matrix then that will change the original purpose of the matrix. So I think it is necessary to take some measures, including measures by committee members, so that people can fully understand why the matrix necessary, even if it takes some time. That is my first point.

My other point relates to the cross-holdings in Principle 1.4. I understand that no revisions were made to cross holdings in the main text of the Code this time, as figures were published in the revised Engagement Guidelines and in the ratio of shares traded by the TSE. In Supplementary Principle 1.4.1, when a party has expressed an intention to sell shares, others are prohibited from interfering with that intention. I personally think that the problem stems from the fact that it is not possible to express an intention to sell. So now, after you have expressed your intention to sell, you should not be prevented from doing so. I hope that you will consider some kind of revision in the future to address situations in which people cannot say that they want the other party to sell and cannot say that they want to sell, even when they want to sell.

These are my two comments. Thank you very much.

[Kanda, Chair] Thank you very much.

The next speaker is Mr. Oguchi. Please go ahead.

[Oguchi, member] Thank you. I am very grateful to the secretariat for the effort they have gone to in organizing and reflecting the many discussions that we had. I would like to endorse the written

opinion and draft revisions to the Code and Engagement Guidelines presented to us today.

That said, I would like to say a few words about the future. After confirming the issues considered at the 20th meeting of the Follow-up Council, we discussed each issue during the 21st to 25th meetings, and I understand that the results of those discussions were presented today in the form of a revised draft Code and revised draft Guidelines. I understand that the discussions at each meeting were seamless and there was no awareness of the distinction between the Code and the Guidelines, as summarized in each item of the written opinion presented today. With regard to the Guidelines, as stated in the introduction, the fact that comply or explain is not required means that there is a significant gap in terms of awareness as interpreted by investors and companies addressed from the Stewardship Code and the Corporate Governance Code, and as a result I fear that the Guidelines will remain a formality and not be used effectively. I think Ms. Takayama also pointed this out just now.

So, with regard to the Codes and the Guidelines, I think there are items have been put in the Guidelines as they have been judged to be premature at this point. However, as has been pointed out today, reality is highly likely to change beyond expectations, and so I actually think that the Guidelines, which include premature items, are of great significance. The main objective of our ongoing corporate governance reform is to go from formality to enhancing substance, and I believe that this is the role of the Follow-up Council. In addition to the Follow-up Council discussing this point, I believe that we need to be ingenious to find various other opportunities to ensure that the Engagement Guidelines are understood to be an annex to both Codes and contribute to corporate governance reform.

That's all from me.

[Kanda, Chair] Thank you very much.

Next up is Mr. Takei, please go ahead.

[Takei, member] Thank you. This is Takei. First of all, I would like to express my gratitude to all the members of the secretariat and to Professor Kanda as chair, for their hard work in bringing together the many different things we've been discussing since last autumn into the three document presented to us today. Thank you for working so hard during these difficult times, amidst the pandemic.

Today we have heard a number of comments from various people. I don't think there is anything

in particular that needs to be changed with regard to the current wording of these documents presented today. Rather than trying to include more detail, especially when it comes to the Code, and as others have commented today, I think it is important for those who will be involved with the Code at the public companies and other related parties to read the minutes of today's meeting, etc., and understand the purpose of the Code and so on and then to get going on implementing governance code initiatives. Moreover, as Mr. Sampei mentioned earlier, since such a comprehensive written opinion has been prepared, I think it is important tackle the principles used in the wording of the revisions with reference to the written opinion. So I think the original draft is fine. This is my first point.

Based on this, my second point is that, although there was a lot of discussion covering a wide range of issues, I think the strongest message that came out of the discussions relates to sustainability initiatives. With regard to this point, I think the revisions will have a considerable impact in many ways as they tackle this issue head on, and I think these revisions are of great significance. In regards to the Governance Code, not only has Supplementary Principle 2.3.1 been amended, but Supplementary Principle 4.2.2 has also been amended, to clarify that the board should carefully develop a basic policy in regard to sustainability initiatives. Given current practice, I feel that this point will actually have a considerable impact. In addition to not only that, Supplementary Principle 3.1.3 clearly states that such initiatives should be properly disclosed. In addition to these two points, there are also clear references to human capital and intellectual property. I think we have achieved a major overhaul that tackles many of the issues facing Japanese companies today.

In regard to the details regarding sustainability, Supplementary Principle 2.3.1 of the Code relates to TCFD, respect for human rights, the labor environment, fair and appropriate trade throughout the supply chain, and natural disasters. In addition, as others have mentioned, if we look at the Engagement Guidelines, we see that the Code also covers important issues such as digital transformation and cyber security. Looking at these as a set, I think we are in a situation in which companies need to tackle sustainability issues head-on in order to achieve sustainable growth. As companies move forward with these initiatives, I hope that they will use the Governance Code as a reference and I would really like to see companies using the Code to enhance their corporate value and achieve sustainable growth. I believe that these revisions are of great significant.

In addition, as companies press ahead with sustainability initiatives, boards need to promote

“substantialization from numbers to skills”, that is, the substantialization by developing skills and developing diversity. Moreover, if the number of independent directors is increased accordingly, then substantialization will occur and so in this sense, the message has also been presented in a way that takes care of the issue of moving from formality to substance. I believe that the message in the Governance Code contains lots of suggestions for listed companies in Japan to improve their corporate value by tackling the issue head-on.

Finally, my third point is that, and this is included in the above points, I think the purpose of comply or explain in the Governance Code is extremely important. In particular, when the Governance Code was first created, it included a preamble that stated the importance of having fundamental principles. People tend not to read the preamble when the Code is revised but I think we should not forget that the preamble is still quite important. From this perspective, I think it is important for companies to ensure the substance of comply or explain in a way in which, that which should be explained, according to the situation, is explained, rather than simply complying as a formality. On top of that, companies should then work to increase the value in various ways, including through dialogue with institutional investors. Furthermore, institutional investors should not make uniform, formal judgments, but rather they should respond by leveraging the characteristics of each company through dialogue that properly meets comply or explain objectives. In this way, I hope that both companies and institutional investors will promote a principle-based approach based on the principle of substance. Amidst such a situation, I think we can expect considerable progress, and I think the revisions to the Code will enable us to move forward. I would like such message to be incorporated into the various Code revision documents, written opinion and Engagement Guidelines and I would like to see companies using the Governance Code in their strategies and improving their corporate value.

That’s all from me.

[Kanda, Chair] Thank you very much.

Next, Mr. Tanaka, please go ahead.

[Tanaka, member] I am also in favor of the draft revisions to the Corporate Governance Code. I think the revised version has been put together very well done, and I am very happy with it.

At the beginning of his presentation, Mr. Toyama said something that really resonated with me, and as a person working for an operating company, I would like to see a presentation from the

perspective of how, specifically, to apply Corporate Governance Code. In reality, the business environment has undergone tremendous change, and it is already clear that many managers and CEOs are very worried. Mr. Kawamura of Hitachi, who used to be a member of the Follow-up Council, wrote in a magazine article that global warming and carbon neutrality are issues that absolutely must be addressed, but that there is a possibility that the industry itself will be drastically changed, or that the industry will disappear. He said this in a recent magazine interview. I am sure that there are a lot of companies and listed companies that are wondering if they will find themselves in such a situation.

In addition to the carbon-neutral issue, the issue of decoupling also occurred recently. This is a geopolitical issue that will have a huge impact. On the other hand, it is just plain difficult for Japanese companies to find opportunities for growth without globalization. Supply chain problems have been occurring in many places recently, and the risks associated with globalization are starting to appear in these areas. In addition, with the advancement of DX, we are quickly becoming connected to the rest of the world in a variety of ways. Given this environment, the revisions to the Corporate Governance Code which we are putting together now, apply, as far as Japanese companies and global companies are concerned, to their entire global organization. The Code has this aspect to it. We are working on a very challenging topic. Japanese companies are now being faced with the task of applying Japan's Corporate Governance Code to their subsidiaries and acquired companies in various countries around the world, this is especially so for those companies that have been involved in M&A overseas.

I think this is an extremely challenging task that requires a lot of energy as managers. I think it is that kind of a task. Therefore, I think we have created an excellent Code, but that it will take a lot of time and persuasion for companies, especially companies with global operations, to put this into practice and to make their global peers aware of the purpose of this Governance Code. I would like you to understand that this aspect exists.

Also, regarding the issue of independence, as Ms. Ueda mentioned earlier, the issues of independence has been written about in several places. For example, the following has been added in the middle of page 2 of the draft revisions document, "it is important to appoint individuals who are capable of fulfilling the role expected of them besides satisfying independence criteria. It is also important for independent directors to be well aware of the expected roles and fulfill them", and

then, for example, on page 5 of the same document, in the section on group governance, it states ensuring the protection of the common interests of shareholders and independence of the board from the controlling shareholder.

This issue of independence is one that I have mentioned before, and I think it is important to always keep in mind what directors are being independent from. When it comes to the independence of the board, there are, of course, things like independence from management, as well as independence from controlling shareholders, and especially, if there is a listed subsidiary, the independence of the outside directors of that subsidiary. Also, recently, I had a number of conversations with some well-informed people, who have told me that in the US, economic independence is starting to be regarded as being very important. Being an outside director of a company, when your livelihood depends on being an outside director of that company, lacks independence. That is their take on it.

On the other hand, as Ms. Matsuoka mentioned, there is naturally the opinion that the pool of independent directors, the available human resources, is very small. In this context, people who used to work at financial institutions sometimes meeting these criteria, formally, as if they are not independent given that they used to work for the main bank. This came up at our recent shareholders' meeting. However, just because someone used to work for a financial institution does not necessarily mean that that person has been sent to be a director by that financial institution and has ties to that financial institution. I would like to suggest that we loosen the formal criteria a little in practice and create a place where these people can play an active role because I have many extremely talented seniors and juniors working at financial institutions. In that sense, I think that based on these revisions, the securing of independent directors will probably be modified by Japan Exchange, and I hope that you will consider this at that time.

Finally, one last point, as Mr. Okada mentioned earlier, there are three governance systems in Japan. Someone suggested that we should start thinking about tweaking the Companies Act and consolidating these systems. I agree with that. And with that I have finished making my comments. Thank you.

[Kanda, Chair] Thank you very much.

Next, Mr. Tsukuda, please go ahead.

[Tsukuda, member] Thank you. I think that the revised draft has been very well put together

based on our discussions to date. I have no objections to it. I agree with everything in it. I would like to thank Chair Kanda and the secretariat for their hard work. Thank you very much. I think that everything I wanted to say has already been covered in opinions and comments given by others. In particular I strongly agree with what Kellie Waring and Mr. Toyama said at the beginning. From that perspective, I will not repeat what has already been said but I would like to comment on some things I felt during this series of discussions.

That is, that the boards of Japanese companies must change more drastically than ever before. Moreover, that change must be discontinuous, not continuous. General Principle 4 states that the boards of listed companies should set the broad direction of their corporate strategy. Amidst a drastically changing business environment, I recognize that it is an extremely difficult task for most Japanese companies to achieve carbon neutrality on the one hand while continuing to raise returns in excess of the cost of capital and to raise shareholder value and corporate value on the other. Therefore, in the future, the board will not be all about dreams, rather, I can envisage a situation in which the board must for example, make decisions on withdrawing from its core business, or even, in some cases, selling itself to another company.

I am currently serving as an independent director for a listed company. It is extremely difficult for the board to discuss corporate strategy in more depth, as stated in General Principle 4. In other words, discussing how to realize a corporate strategy that increases corporate value while achieving carbon neutrality is extremely difficult, and I thus feel that the weight of responsibility on boards at Japanese companies will become heavier and heavier in the future.

Therefore, I was strongly convinced that now is the time for governance reform. It is said that tough times bring opportunity, and I really hope that we can turn the tough times we are facing now into opportunities.

That's all from me.

[Kanda, Chair] Thank you very much.

Thank you very much for the many valuable suggestions and opinions from so many of you, as always. For those participating today who have not yet said comments, by which I mean, listed in order of the names on the list, or rather [Japanese] alphabetical order, Mr. Iwama, Mr. Oba, Ms. Okina, and Mr. Kansaku, while there is no need to force yourselves, if you have any comments, we would appreciate hearing them. I'll call on you in order.

Mr. Iwama, do you have anything to say?

[Iwama, member] This is Iwama. Thank you. I apologize for being slightly late to this meeting. Regarding the revisions, I too, think they have been excellently put together. However, as was mentioned at the beginning, there are still many issues that we need to think about how to address given the rapidly changing business and other environments. I think others have already said this but I understand that the Governance Code is revised roughly every three years as a rule. When things change, we have to think about how to respond to them flexibly. In such cases, I think it would be better to think about how to look at the issues and, how should I put it, how to be a little more flexible. This is one of the thing I have been thinking about.

Another thing is the governance system, as mentioned by Mr. Tanaka and others. I think it would be good in many ways to consolidate the three parallel systems as soon as possible. I think it is important to move in a direction that will make it easier to understand how Japan's governance system works globally.

That's all from me. Thank you.

[Kanda, Chair] Thank you very much.

Mr. Oba, if you have any anything to add, please go ahead.

[Oba, member] As everyone has already said what I want to say, I have nothing special to add, but I would like to say that, as I think Ms. Waring mentioned, one issue that remains is the location of disclosure. There are many different types of reports, and when investors are asked which one they pay most attention to, the answer is generally the annual securities report. Therefore, I think it would be good to be a little more specific about the location of disclosure, and I see this is as an issue for the future.

Also, as Mr. Tanaka pointed out, I think there is still one issue to be resolved, and that is how to define independence. To put it simply, there is economic independence and psychological independence, and they are closely related, and so I think we should delve more into this.

Another point relates to cross-holdings. I think there will still be issues in the future, such as how to specify a specific schedule for the scale and duration.

That's all for the three points I wanted to make.

[Kanda, Chair] Thank you very much.

Next, Ms. Okina, do you have anything to say?



[Okina, member] Thank you very much for compiling the documents. I too agree with their content. In particular, that we were able to put together these revisions to the Corporate Governance Code during a pandemic makes them very valuable. After all, now is the time for change. Including diversity is of great value as is stating that investment in human capital is very important. I think there is value in pointing out how important it is for boards to discuss and consider sustainability and long-term corporate value enhancement. Also, as Mr. Toyama and Ms. Waring mentioned at the beginning, the world is changing drastically, and I think it would be good to convey the sense of crisis that we cannot continue as we are.

Also, as a specific issue for the future, I want to mention, as Mr. Oba just mentioned, and as I also mentioned last time, the issue of the kind of disclosure that should be made and where information should be disclosed. I think that the impact of disclosure varies considerably depending on how and where information is disclosed. I'm not sure if this is something to be discussed in regard to the Corporate Governance Code or in regard to disclosure, but it is a very important, and I would like to see discussions continue in the future.

That's all from me.

[Kanda, Chair] Thank you very much.

Next, Mr. Kansaku, do you have anything to say?

[Kansaku, member] Thank you. This is Kansaku. I am fully in favor of the proposed revisions to the Corporate Governance Code and the proposed revisions to the Engagement Guidelines, and I was very impressed with the way the written opinion explains them, including the concepts behind the two draft revisions. In particular, I would like to express my sincere gratitude to the secretariat and to Professor Kanda for compiling the revisions and incorporating the opinions of members, including myself, as much as possible.

Lastly, I would like to offer some thoughts. In the comments made by members so far today, for example, comments were made about the definition of the controlling shareholder or dominant shareholder, and in particular the issue of defining the dominant shareholder. I think there was a comment about more objectively sharing awareness with regard to the meaning of fairness in cases where a controlling shareholder must not treat subordinate shareholders or minority shareholders unfairly, and in some cases, explaining this in the Engagement Guidelines. I agree with this point, and I think the issue of independence from the controlling shareholder and unfair ways in which

controlling shareholders treat minority shareholders cannot be resolved merely through dialogue and engagement. Having some objectivity or standards is desirable.

In my opinion, and this is just my personal opinion, first, with regard to controlling shareholders, I think that shareholders who have the authority to appoint the majority of directors are the controlling shareholders, in terms of control based on voting rights in the Companies Act. In this case, the ratio of the shares held by the controlling shareholder may vary from company to company depending on the shares held, or rather the holding of shares. Therefore, I think it is extremely difficult to uniformly define controlling shareholders in terms of shareholding ratio and so on. However, I think the primary definition of a controlling shareholder is having enough voting rights to elect the majority of the management team. Another issue is that if a shareholder has the power to influence management through a contract, especially a contract between the shareholder and the company, the shareholder with that kind of power would be the controlling shareholder. Actually, in regard to contracts I just mentioned, it is possible that a person who is not really a shareholder could be given a controlling position based on a contract, and so I think we need to have further discussions about such issues in the future.

Regarding points raised as opinions, for example, what matters should be considered when creating an independent committee, as is stated in the written opinion, there may be unorthodox or group-specific transactions. For example, if shares or equity is transferred between groups, this affects the organization or structure of the group, or if allocating markets and resources among groups, or if supporting a group company in crisis, etc., and I think it is desirable to handle situations based on a common understanding of what kind of unconventional actions are particularly likely to harm the interests of shareholders in a subordinate position to the controlling shareholder in the group. On the other hand, routine transactions between parent and subsidiary companies are basically controlled through an internal control system, and I do not feel that this is a matter that should be dealt with by establishing an independent committee.

In either case, I fully agree with the draft revisions to the Code and Engagement Guidelines, as well as the written opinion. Thank you for asking me to speak.

[Kanda, Chair] Thank you very much.

We have now heard comments from everyone. Thank you very much. If you would like to make any additional comments, please go ahead, I would like to hear them. Anyone?

We are aiming to finalize the documents today if possible, and we have received some specific suggestions here today. First, my understanding is that all members have agreed on the basic direction with regard to the three documents, the draft revision of the Code, the draft revision of the Engagement Guidelines, and the materials, which I would not really call a written opinion, and which are referred to as the materials, Appendix 1 and Appendix 2. Some members have made specific suggestions and comments for revisions, and I would like to consider these in the future. Mr. Shimazaki, is there anything else you would like to say at this point? Please go ahead.

[Shimazaki, Director of the Corporate Accounting and Disclosure Division] I'm good thanks.

[Kanda, Chair] Regarding whether we should hold another meeting, it may be easy to hold another meeting because we are holding them online, but it would require you to dedicate a considerable amount of your time, and my impression is that there is no need for us to hold another meeting to summarize the situation. In other words, based on the suggestions we received today, I feel that it would be better for the secretariat to consider aspects that can be revised and aspects that should be revised, and to coordinate with you all via email, etc., and finalize the documents by having you look through them, and then publishing them at a later date. Once you have checked through the documents, I would like to ask you to leave to me the final detailed check of the tone of the wording and the grammar, and so on.

I would like to ask you to approve or rather whether you agree to this path as the way forward for compiling the documents.

(Sound of people saying "no objection")

[Kanda, Chair] Thank you very much. In order to stabilize the communication environment, we asked everyone to turn their cameras off during this meeting, so I could not see your facial expressions, but I would like to thank you very much for speaking just now. Thank you for approving the path forward.

Now, I would like to ask the secretariat to explain the procedure for receiving public comments, etc. in the future.

[Shimazaki, Director of the Corporate Accounting and Disclosure Division] The Chair just talked about finalizing the documents. We would like the TSE to solicit comments from the public on the final draft of the revised Code, and the FSA to solicit comments from the public on the final draft of the revised Engagement Guidelines, over the course of roughly one month, in an effort to obtain

opinions from a wide range of stakeholders. We would also like you to solicit public comments regarding the English versions.

I would like to express my gratitude to all members who have offered us various opinions on the revision of the Corporate Governance Code and the Engagement Guidelines since the 20th meeting in October last year. In addition to the suggestions you made today regarding revisions to the Code, I believe that you have provided input on efforts to implement and establish the revised Code, the need for initiatives to ensure that those concerned thoroughly understand the purpose of the project, the need to explain the written opinion, the Code, and the Engagement Guidelines as a set, and the importance of dialogue, including dialogue between investors and companies and explanations from companies so that decisions are not made on a one-size-fits-all basis. I think there was also a discussion about considering governance reforms. We plan on taking affirmative action to move forward.

We received many opinions on a variety of topics, including drastic changes in the business environment, sustainability, human capital, group governance, evaluations of the board, cross-shareholdings, and so on. Moreover, there were discussions that pertain to matters going forward and matters for the future relating to the state of disclosure and the state of disclosure rules, as well as forms of governance. With your help, the secretariat hopes to continue to review and respond to your comments in order to realize effective corporate governance. We look forward to cooperating with you in the future.

[Kanda, Chair] Thank you very much. We will finalize revisions to the Code and the Engagement Guidelines based on the public comments we receive as was just explained, and then publish and implement the revised Code and Guidelines. Depending on the situation, after receiving public comments, there is a possibility that we may need to meet again or hold an online meeting, to finalize the revisions to the Code and Guidelines. We hope that you will cooperate with us if such a meeting is necessary.

In any case, today marks the end of our discussions on the current set of revisions to the Code and the Engagement Guidelines. However, I would like to ask for your continued support and encouragement as we will continue to hold Follow-up Council meeting in the future. Due to the pandemic, we tried several new initiatives, such as holding meetings online and simultaneously broadcasting them on YouTube. While there were a few problems, which caused a lot of

inconvenience to you, you remained extremely active and positive, and provided us with many constructive and perceptive comments and suggestions, for which we are very grateful.

I hereby declare today's meeting adjourned. Thank you very much for attending.

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