

Current Issues relating to Corporate Disclosure

Members of the Disclosure Working Group have been discussing the topics below since last December. We would like to seek your views on these topics, from an investor's perspective, including what information is needed and why, especially in Annual Securities Reports. Please see pages 1 - 4 for details.

Roles of Corporate Disclosure

- ① To furnish necessary information to investors adequately, accurately, clearly and in a timely manner.
- ② To promote dialogue between companies and investors

Current issues relating to Corporate Disclosure

I. Enhancing financial and narrative (non-financial) information

Supplementing financial information, how to enhance narrative information such as business strategy, MD&A, and risk information, etc. in order to provide investors with more insights regarding long-term vision, trends, and analysis of companies

II. Providing corporate governance information for constructive dialogues

How to enrich governance-related information, including cross-share holdings and executive remuneration, to promote constructive dialogues between investors and companies

III. Assuring reliability and timeliness of information

What information should be included in order to enhance reliability and timeliness of disclosure (e.g. information on audit, timing of disclosure)

IV. Other issues

Accessibility of EDINET, English translation, etc.

It has been suggested that narrative information, such as business strategy, MD&A, and risk information, provided by Japanese companies has room for improvement, compared to that provided by US/UK companies, in both quantity and quality. In order to facilitate investment decisions and constructive dialogues between investors and companies, it has been suggested that companies should enrich the disclosure for each of the items below and also link this disclosure with each other in Annual Securities Reports.

【Business Strategy】

- Q1** Are companies' purpose, objectives, business model and mid-to-long-term strategic plans appropriately disclosed? If not, how should the disclosure be improved?
- Q2** Companies are obliged to disclose the business strategy that should be linked with MD&A and risk information, etc. in the United Kingdom. Do you think this would be useful for Japanese companies? If yes, how should the disclosure be improved?

【MD&A】

- Q3** Are management's views and involvement of top level managers important? If yes, how should the management's views be presented in disclosure? Also, how should top management participate in the process of disclosure?
- Q4** Is information by segments adequately disclosed? If not, how should it be improved?
- Q5** Some investors point out that more information on cash flow, capital usage, fund needs/resources, KPIs, etc. should be disclosed. Do you agree? If yes, what information on these items should be disclosed? From what perspectives?

【Risk Information】

- Q6 Some are of the view that the current disclosure of risk information is boilerplate, that it is not specific to companies, and that there is not much information on mitigation measures, latest changes and materiality. Do you agree? How should the risk information be improved?

【Employee Information】

- Q7 Should employment expenses (wages), turnover rate, etc. be disclosed on a consolidated basis? Is there any other information on employees necessary for investment decisions and dialogues between investors and companies?

Corporate governance-related information is important in order to facilitate constructive dialogues between investors and companies. It has been pointed out that more information regarding cross-share holdings and executive remuneration should be provided.

【Cross-Share Holdings】

- Q8 It has been noted that more disclosure on cross-share holdings, including a more detailed purpose and benefits of cross-share holding, cost/benefit analysis, discussion at the board, changes from the previous year and contents of proxy voting. What information should be disclosed? From what perspectives?
- Q9 Some investors have suggested that the coverage of cross-share holdings disclosed in Annual Securities Reports should be broadened beyond the current requirement of top 30 holdings. Do you agree? If so, how many cross-share holdings should be disclosed?

- Q10** Some investors mention that when Company A discloses cross-share holdings of Company B, Company A should also disclose the number of Company A shares held by Company B. Do you agree?
- Q11** Some investors point out that all the material holdings of shares should be disclosed since there may be some cases where companies classify cross-share holdings as non cross-share holdings to avoid disclosure. Do you agree? If so, how should it be disclosed?
- Q12** There is the view that since annual securities reports are not translated into English, foreign investors do not have easy access to information regarding cross-share holdings. Do you agree?
- Q13** It has been proposed that the information regarding cross-share holdings should be provided before annual general shareholder meetings. Do you agree?

【Executive Remuneration】

- Q14** Should calculations regarding portions of fixed salary, annual bonus, and long-term incentives be disclosed with more detail? Also, should a company disclose how business results and progress of KPIs are reflected in remuneration? If so, how should it be disclosed? From what perspectives?
- Q15** Should a company disclose who ultimately decides the amount of remuneration, with what authority and discretion, including information regarding statutory or voluntary remuneration committees and their composition, if any?
- Q16** There are some who argue that the current rule that requires the disclosure of individual remuneration in excess of 100 million yen may be preventing companies from compensating directors to avoid disclosure. Do you agree? If so, how should it be solved?

【Others】

- Q17** Are there any other governance-related information that should be included in Annual Securities Reports? Should information on the activities of the board, independent directors and board committees be included?
- Q18** US and UK companies provide audit committee reports that include information on the length of tenure of the current audit firm and assessment of the effectiveness of the external audit. Should there be more information on audit in Japanese disclosure? If so, what should be included?