Corporate Governance Reform in Japan

Your Exchange of Choice
Japan Exchange Group NY Office
April 3, 2018
Corporate Governance Code Compliance

Rates of Compliance With Code

<table>
<thead>
<tr>
<th>Year</th>
<th>Fully comply</th>
<th>≥90% Comply</th>
<th>&lt;90% Comply</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>11.6%</td>
<td>66.4%</td>
<td>22.0%</td>
</tr>
<tr>
<td>2016</td>
<td>21.0%</td>
<td>63.5%</td>
<td>15.5%</td>
</tr>
<tr>
<td>2017</td>
<td>25.9%</td>
<td>63.0%</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

Principles With Highest “Explain” Ratios

Source: TSE Corporate Governance Reports
Issues Observed

- **English Disclosure/Electronic Voting**
  - 50% of TSE 1st Section disclose the summary of financial results in English (993 out of 1,973 companies).
  - 25% of all listed companies participate in the ICJ’s electronic voting platform (894 out of 3,603 companies).

- **Board-related Issues**
  - The number of independent directors has improved, but more diversity (background, gender, nationality) is needed.
  - 70% of listed companies reported to TSE that they DO NOT have performance-linked compensation.
  - Need more transparency on Advisors & Honorary Chairman.

Source: TSE, ICJ, Zaihon
Corporate Governance Code is to be revised soon, based on the comment letter issued by the “Council of Experts Concerning the Follow-Up of Japan’s Stewardship Code and Japan’s Corporate Governance Code.”

- Comment letter proposes that a listed company...
  - accurately grasp its cost of capital to accomplish decisive judgement such as review of its business portfolio.
  - establish objective, timely, and transparent processes/structure to nominate/dismiss CEO.
  - enhance the diversity of its board members in order to encourage the board as a whole to maintain appropriate knowledge, experience and capabilities.
  - fully analyze the purpose and benefit of cross-shareholdings individually and disclose its plan for reduction in cross-shareholdings.
  - proactively engage in personnel/operational issues of its own corporate pension, in order to make it effectively function as an asset owner.

Source: TSE, PSA
Other Efforts

Interim Proposal for the Companies Act Reform (comment period: until 4/13/2018)

- New framework for providing shareholder meeting documents online (Notice & Access)
  - Provide meeting materials online: either 4 or 3 weeks prior to the meeting; and
  - Notify shareholders of relevant meeting information: either 4, 3, or 2 weeks prior to the meeting.
- Restrictions on abusive shareholder proposals
  - Maximum number of proposals per shareholder: 5 or 10
  - Proposed limitations on subject matter: prohibit proposals whose content is defamatory, confusing, seeks unlawful benefit, and/or disturbs the orderly conduct of the meeting.

Principles for Preventing Corporate Scandals (comment period: closed)

- JPX-Regulation is going to implement new principle-based guidelines, as a measure against recent corporate scandals among Japanese companies.
- Outline of the “Principles for Preventing Corporate Scandals”:
  - Gain a thorough understanding of the actual internal compliance situation
  - Fulfill responsibilities with a sense of mission
  - Encourage two-way communication
  - Detect non-compliance early and respond swiftly
  - Execute consistent business management throughout the entire corporate group
  - Be accountable for supply chain matters
Appendix: Average Japanese Board

New Japanese CEOs (2016):
✓ Average age: 61
✓ External experience: 33%
✓ Global experience: 13%
✓ MBA holder: 4%
✓ Previous CEO dismissed: 3.5%
✓ Average term length: 5.5 years
✓ Female: 0.6%

World Average
✓ Average age: 53
✓ External experience: 74%
✓ Global experience: 33%
✓ MBA holder: 36%
✓ Previous CEO dismissed: 2.4%
✓ Average term length: 5 yrs.
✓ Female: 3.8%

✓ At 36% of companies, at least one director serves on another board

✓ 8 directors on average

✓ 2 outside directors on average
✓ Percentage of those are:
  • From other companies: 59%
  • Attorneys: 16%
  • CPAs: 10%
  • Academics: 7%
  • Tax Professionals: 3%
  • Other: 5%

✓ Have CEO succession framework: 75%
✓ CEO selects successor candidates: 49%
✓ Successor plan deliberated by external directors, among others: 52%

Source: TSE Corporate Governance Reports, METI Corporate Governance Survey of 874 listed companies, PWC/Strategy& 2016 CEO Survey