

Towards Better Corporate Governance –Interim Discussion Paper on Key Issues- [summary]

Basic Philosophy of Corporate Governance

- The issue of corporate governance is how to build a corporate management structure oriented towards the long-term enhancement of corporate value from the perspectives of prevention of unfair practices and of enhancing the competitiveness and profitability.
- It is essential to have a pliant legal framework that allows flexible implementations of diverse and voluntary measures taken by companies
- Effective initiatives are needed that are oriented toward substantiality rather than formality

【Background of the discussion】

Requests from US, EU, and institutional investors to improve Japanese corporate governance system

- strengthening the independence of outside officers, mandatory appointment of outside Directors
- large-scale capital increase by third-party allotment, etc



Various discussion forums on the revision of corporate governance system are set at FSA, METI, and TSE.



Business community must respond to the discussions and explain its thinking on key issues, so as to improve credibility of Japanese companies and the capital markets in Japan.

1. Appointment of outside Directors

- The discussion based on formality where the existence of outside Director is a sign of good corporate governance is not productive. Individual companies should be able to choose voluntarily what governance organizations they should take.
- Qualification of Directors, that is whether the company is equipped with capable Directors who can properly supervise the execution of operations, should be judged by the shareholders from the disclosed information on who they are.

2. Review of conditions for externality (strengthening of independence)

- As to the definition of outside Directors or *Kansayaku*, diversity should be recognized and the propriety should be judged by the shareholders based on disclosed information, rather than requiring rigid formal conditions.

3. Role and authority of *Kansayaku* as non-executive company officers

- Within current legal framework, *Kansayaku* are already equipped with strong authorities and independence. In order for *Kansayaku* to be able to fully function with its vested power, companies must enhance the cooperation between the Board of Directors and *Kansayaku-kai* so as to improve the in-house support system for *Kansayaku* and to develop the collaboration with internal-control unit.

4. So-called “Distortion of incentives (*incentive no nejire*)”

- If *Kansayaku* are to be given an authority to decide on remuneration and proposals for the election of accounting auditors, that will be against the basic principle of *Kansayaku* being an independent supervisor of the management and will lead to the duplication of decision making of business operation.

5. Disclosure of the results of the exercise of voting rights at general meetings of shareholders

- Individual companies’ voluntary disclosures are commendable. However, each company should be given discretion responding to different situation/conditions each company faces.

6. Large-scale capital increases by third-party allotment

- Each issuing company should improve accountability to shareholders and attend not to unfairly infringe the interests of existing shareholders.