

Summary of the Interim Report
Compiled by the CGS Study Group
(The Corporate Governance System Study Group)

May 18, 2018

The Ministry of Economy, Trade and Industry

Position of the interim report and future policies

Background to the study group's discussions

- (1) Current situation uncovered in the follow-up surveys conducted at the end of 2017 targeting listed companies concerning the CGS Guidelines, and progress in related matters over the past year
- (2) Actions involving the revision of the Corporate Governance Code (the Financial Services Agency and the Tokyo Stock Exchange)

Interim report

Given these circumstances, the CGS Study Group* held discussions on efforts deemed significant in advancing the corporate governance reform from the stage of formality to the stage of substantiality and compiled the results as an interim report.

*Note: The study group started meetings in July 2016 and formulated CGS Guidelines in March 2017. The study group resumed meetings in December 2017 and is scheduled to compile guidelines concerning group governance by around the end of FY2018.

Future efforts in response to the interim report

Based on the interim report, the CGS Guidelines will be revised by around this summer.

Highlights of the interim report

Directions for revising the guidelines presented in the interim report

Highlights of the existing CSG Guidelines

Utilization of outside directors

- Presenting specific step-by-step measures for utilization of outside directors, such as clarification of the roles expected of such directors before selecting them.
- Recommending selection of at least one outside director who has experience in corporate management.



Nominating committee and compensation committee

- Recommending establishment and utilization of a nominating committee and a compensation committee mainly consisting of outside personnel.
- Presenting composition of these committees, agendas, schedules, etc.



Appointment of the president and CEO, and plans concerning successors

- Recommending utilization of a nominating committee in appointment of the president and CEO, etc. and preparation of plans concerning successors; recommending nomination of several candidates therefor.



Designing compensation of the top management

- Recommending introduction of performance-based or company-stock-based compensation systems and conveying of information on progress in such introduction.



Chair the board of directors

- Suggesting that a chair of the board of directors should be a person other than executing persons in considering the reduction of details of business execution by the board of directors.



The guidelines;

- Should clearly state that outside directors are expected to have the minimum required literacy on corporate management and satisfy availability and that these overall outside directors should be considered in the aggregate and ensure required quality and capabilities as a whole.
- Should recommend that companies are to consider the establishment of certain standards for the reappointment of outside directors.
(Companies should also consider measures for enriching the talent pool.)

- Should provide well-organized and detailed best practices concerning compositions or ideal approaches to operation methods of such committees depending on differences in agendas and circumstances, i.e., peacetime or emergency.
- Should clearly state that such committees are to place outside directors at the core while outside auditors are to serve complementary roles.

- Should newly present best practices for plans concerning successors, including matters and processes to be included in such plans.

- Should organize best practices concerning the policies on compensation for top management and ideal approaches to designing such compensation.

- Should provide that companies are to decide specific circumstances under which persons other than company executives should chair the board of directors, and are to re-organize the circumstances to include cases other than the case on the left.