

Overview of the “Practical Guidelines for Independent Directors”

- In line with the purposes of the Corporate Governance Code, the guidelines streamline the roles and specific efforts of independent directors from a practical point of view.
- The guidelines consist of three chapters, and additionally, present two references titled “Comments from Independent Directors” and “Results of the Questionnaire Surveys.”

Contents

Details

Main text	Chapter 1: Mindsets which Independent Directors should Develop	<ul style="list-style-type: none"> • This chapter streamlines the provisions of the Companies Act and interpretations thereof concerning: the duties and rights of a board of directors; and the obligations and roles of directors, and based on this, it offers a compilation of key points which are particularly important for independent directors in playing such roles and developing their mindsets as a collection of best practices taking into consideration such directors’ positions under the Companies Act. • Specifically, Mindsets 1, 2 and 5 explain mostly the basic roles of independent directors, while Mindsets 3 and 4 describe the mindsets which such directors should develop to fulfill these roles. (→p.2)
	Chapter 2: Ideal Approaches to Specific Actions Which Independent Directors should Take	<ul style="list-style-type: none"> • This chapter streamlines ideal approaches to specific actions which independent directors should take in order to play the roles expected of them, which are streamlined in Chapter 1. (→pp. 3 and 4)
	Chapter 3: Support Systems and Environments Which Companies should Build	<ul style="list-style-type: none"> • This chapter explains support systems and environments which companies should build to help independent directors play their roles.
Reference 1: Comments from Independent Directors		<ul style="list-style-type: none"> • This reference presents comments which METI has received through an interview-based survey targeting independent directors and the free-comment columns provided in a questionnaire survey targeting such directors. These comments appear in a manner corresponding to the respective contents arranged in line with the composition of the main text.
Reference 2: Results of the Questionnaire Surveys		<ul style="list-style-type: none"> • From among the results of the questionnaire survey targeting independent directors and those of another questionnaire survey targeting companies, this reference picks up and streamlines the results related to the guidelines.

Five Mindsets which Independent Directors should Develop

Mindset 1

- The most important role of independent directors is supervising business management. The role's core lies in assessment of the management members, in particular, the president and/or CEO, who are responsible for business management, and decision-making on nominating and renominating and compensation of such members based on assessment results, including, if necessary, exercising initiatives in replacing the president and/or CEO.

Mindset 2

- Independent directors should endeavor to: keep their positions free from conventional, stereotypical ideas which the given companies have; hold a wide variety of mid- to long-term perspectives; place eyes on the futures of the companies from such perspectives while taking into consideration expected changes in markets and industrial structures; and deliberate management strategies for sustainable growth of the companies.

Mindset 3

- Independent directors should endeavor to: keep their positions independent of business execution of the given companies; and, based on such positions, deliver statements and take actions towards management members, in particular, the president and/or CEO, of the companies without hesitation.

Mindset 4

- Independent directors should endeavor to keep an appropriate level of distance from management members, including the president and CEO, of the given companies while communicating and building trusting relationships with such members.

Mindset 5

- Supervising conflicts of interest between the given companies and management members and/or controlling shareholders, etc. is an important duty which independent directors should fulfill.

Specific Actions: Supervising Business Management by Independent Directors

- Actions expected of independent directors in supervising business management are: playing a role for improving the effectiveness of a board of directors through holding discussions from a birds-eye view; and proactive commitments to decision-making on nomination and compensation by taking opportunities of a nomination committee and a compensation committee.

Improving the effectiveness of a board of directors

1. Commitments to ideal approaches to a board of directors

- ◆ Independent directors should request a board of directors to **commit themselves to setting an agenda** and focus on any important proposed agenda, e.g., mid- to long-term strategies for business management and review of business portfolios.
- ◆ They should request a board of directors to **hold repeated discussions** on such important agenda **before finalizing the agenda**.

2. Designing creative approaches to vitalizing discussions at a board of directors

- ◆ Independent directors should endeavor to encourage directors in attendance to **deliver more statements and simple, high value-added statements**.
- ◆ They should **have a discussion period** where directors in attendance are not required to draw a conclusion immediately.
- ◆ They should conduct **follow-ups** concerning matters on which they have requested management members to take actions.

3. Efforts for holding constructive discussions at a board of directors

- ◆ Independent directors should inaugurate any **voluntary committees** at which they hold discussions on certain subjects.

Commitments to decision-making on nomination and compensation

1. Ideal approaches to commitments to decision-making on nomination and compensation

- ◆ Independent directors should effectively supervise a board of directors to encourage them to appropriately **formulate and operate a plan concerning their successors**.
- ◆ They should confirm whether or not **compensation design is consistent with the mid- to long-term key performance indicators (KPIs)** based on the corporate philosophies or strategies for business management of the given companies.

2. Assessing effectiveness of a board of directors and a nomination or compensation committee

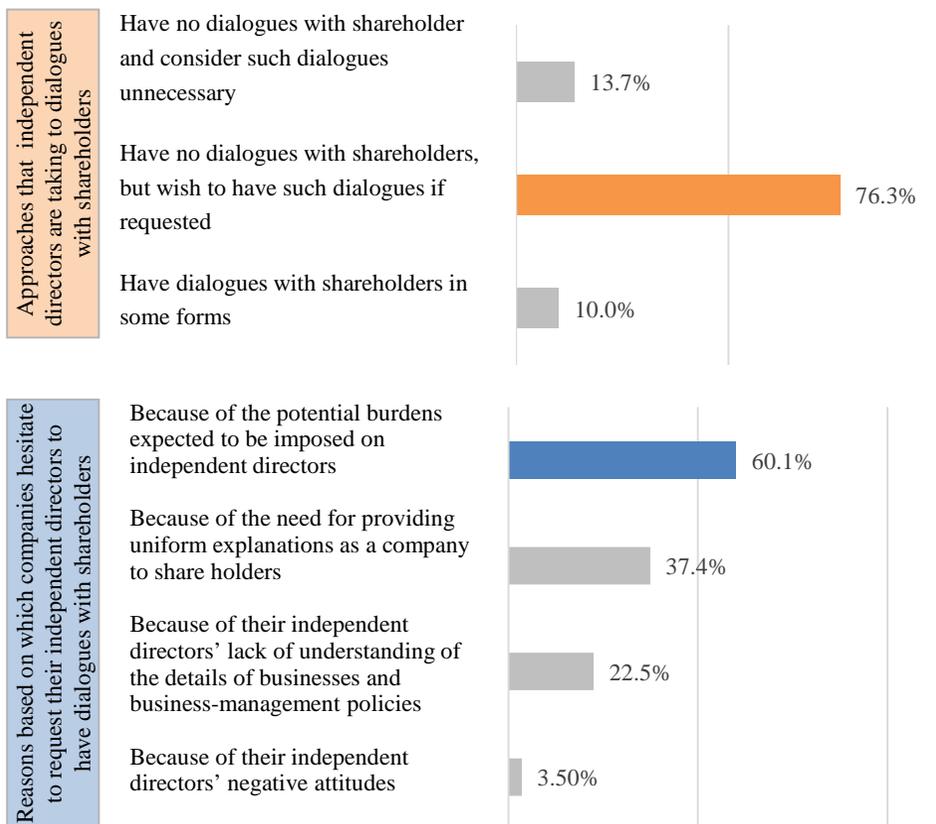
- ◆ **Independent directors should assess themselves** in a humble manner on whether or not they are fully contributing to the given companies and should autonomously rotate a plan-do-check-act (PDCA) cycle.
- ◆ They should proactively consider **the composition of independent directors and succession plans**, placing a nomination committee at the center of this effort and setting a mid- to long-term framework.

Specific Actions: Commitments to Dialogues with Shareholders and Investors Relations (IR)

- Independent directors are expected not only to have dialogues with investors and reflect the perspectives of investors in discussions at a board of directors but also to convey, as supervisors of business management, information and explanations to investors and other stakeholders.

Results of the questionnaire survey on independent directors' engagement

About 76% of respondent independent directors said that they are proactive in having dialogues with shareholders, while about 60% of respondent companies said that they hesitate to request their independent directors to have dialogues with investors since they consider the potential burdens imposed on the independent directors.



Proposals shown in the guidelines

- Independent directors should **have dialogues with investors** and **reflect the results in discussions at a board of directors if the results are useful** for gaining sustainable growth and improving mid- to long-term corporate value.
- They, **as supervisors**, should **convey information and explanations to investors and other stakeholders** and, if necessary, strive to gain such investors' understanding of and consent to the rationality and validity of the policies on which a board of directors has decided.

Reference: Case example of Takeda Pharmaceutical Company Limited



Takeda Pharmaceutical Company Limited held a press conference on the acquisition offer by the company for Shire plc. At the conference, Mr. Sakane Masahiro, external director and chair of the board meeting of the company, explained the discussion results of a board of directors on the proposed acquisition of Shire plc, and Ms. Higashi Emiko, external director of the company, explained the strategic grounds for the offer.

Sources: The results of the survey were aggregated by METI.

This photo was excerpted from the official website of Takeda Pharmaceutical Company Limited.