Background to the Guidebook on Corporate Governance for Privacy in Digital Transformation (DX) ver.1.0

<International trends (Actions by the EU and the U.S.): Growing impact of privacy on corporate value>

- **Many business operators** in the EU and the United States **recognize that they should deal with privacy issues as a management issue**, against the backdrop of government enforcement of a large amount of fines and penalties for violators from the perspective of the fundamental human rights of individuals under the General Data Protection Regulation (GDPR) in the case of the EU and that of the protection of consumers under Article 5 of the Federal Trade Commission Act in the case of the U.S.
- **GDPR** stipulates provisions requiring companies to establish an internal system, e.g., **appointment of an independent Data Protection Officer (DPO)**.
- In this circumstance, **some companies** have begun to ascertain privacy as part of their management strategies and appropriately address privacy issues, thereby **gaining social trust and leading to improvement of corporate value**.

<Domestic trends:
Actions by Japanese companies playing a leading role worldwide and their responses to the Act on the Protection of Personal Information "The Every-Three-Year Review" Outline of the System Reform>

- Also from the viewpoint of Japan's realization of the Data Free Flow with Trust (DFFT) policy for economic growth brought about by international data flows, data security and privacy should be ensured in order to gain trust from the public and enhance trust between companies. Against this backdrop, Japanese companies, as well, need to **pay attention to the level of data security and privacy that overseas companies are required to meet**.
- **The Outline of Revision of the Systems related to the Act on the Protection of Personal Information** states that Japan should further promote **efforts led by the private sector**, in particular, in the fields utilizing digital technologies. As part of these efforts, the outline **recommends companies to take voluntary efforts, e.g., appointing personnel in charge of the handling of personal data and implementing a privacy impact assessment (PIA)**.

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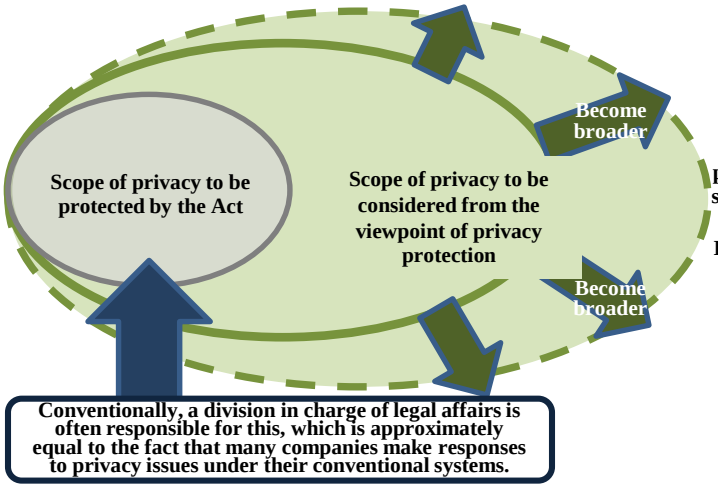
■ As business models have been dramatically changing and technical innovations have been rapidly progressing in recent years, companies engaging in data transformation (“DX companies”), which are playing a central role in innovations, **should strive to dedicate themselves to decreasing the variety of risks which may be caused by innovations**.

■ Conventionally, companies primarily discuss whether they comply with the Act on the Protection of Personal Information or not (“compliance”) with regard to privacy issues. Nevertheless, some companies, even if they comply with laws and regulations, **fail to avoid fierce criticisms of their responses to privacy issues** with such responses considered insufficient to address discrimination against, disadvantages for and anxiety of specific individuals. Such criticism, in some cases, **results in a serious problem threatening the continuance of the companies**.

■ Companies should **actively make responses to privacy issues**, proactively fulfill accountability for consumers and stakeholders and **gain trust from society**. The top management should consider approaches to facing privacy issues as an important part of corporate strategies, which may lead to improving corporate value.

Scope of privacy to be considered from the viewpoint of privacy protection and establishment of a system therefor

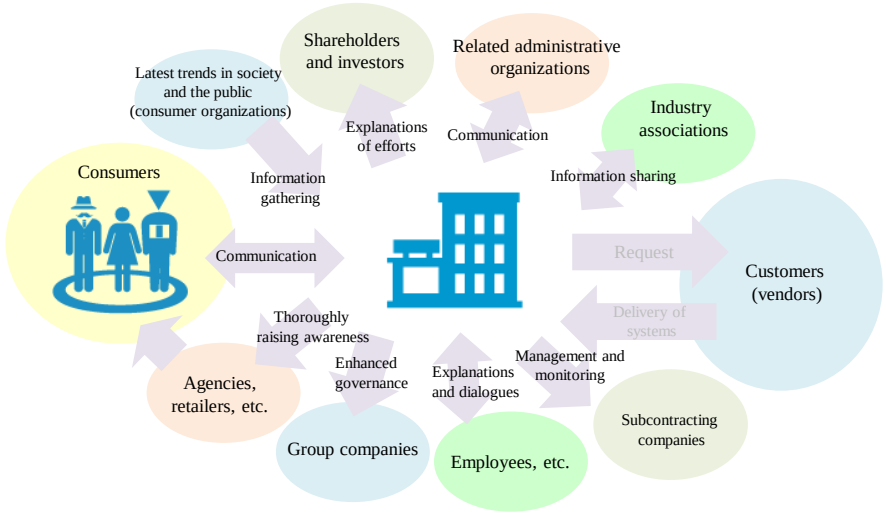
The definition of privacy changes depending on information and technologies which companies handle and on environments surrounding them.



The scope of privacy (privacy issues) to be considered from the viewpoint of privacy protection becomes broader compared to that seen from innovations (technical innovations).

Establishment of a system for ascertaining an overview of privacy issues is necessary.

Communication with stakeholders



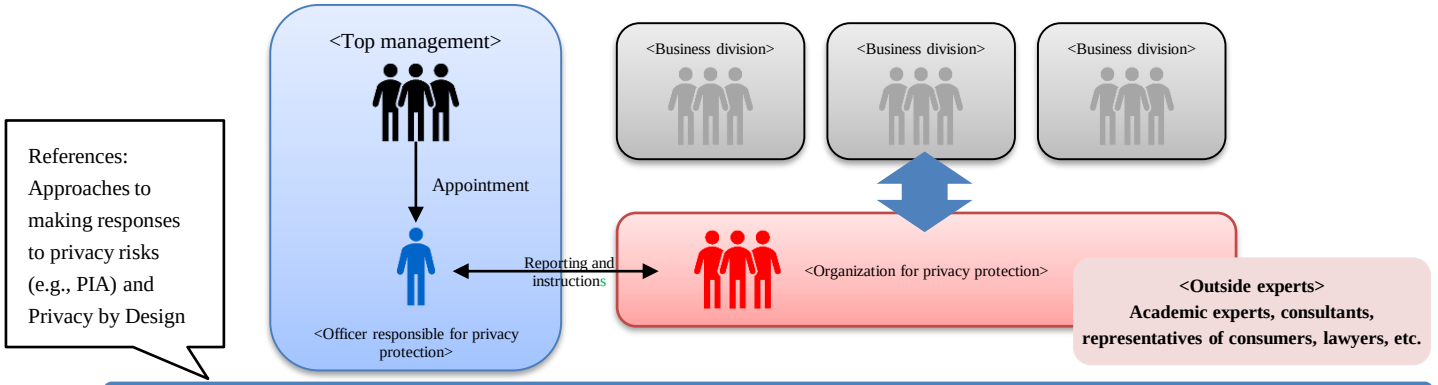
Toward companies’ establishment of privacy governance for gaining social trust, METI **organized the basics which companies should begin with in the guidebook**.

Overview of the Guidebook on Corporate Governance for Privacy in Digital Transformation (DX) ver.1.0

Target readers: The following personnel working for: a company which provides products or services by making use of personal data and which is expected to be urged to take care of consumers' privacy; a vendor which is trading with such company; or other business:
[i] Personnel in a managerial posts, etc. who are eligible to offer a proposal to the top management or **to business operator of the company**;
[ii] Managers and personnel in a division responsible for comprehensively addressing matters involving the utilization or protection of personal data; and others.

Three requirements to which the top management should be committed

Requirement 1: Documentation of commitments to efforts for privacy governance
As a key challenge in corporate strategies, the top management should clearly document their basic approaches or commitments to efforts for privacy and convey them to stakeholders inside and outside the company. The top management are required to ensure accountability for their actions in accordance with the approaches or commitments clearly documented.
Requirement 2: Appointment of personnel responsible for privacy
The top management should appoint an officer responsible for addressing privacy issues across the organization and grant the officer both power and responsibility.
Requirement 3: Input of resources to efforts for privacy
The top management should successively input necessary and sufficient business resources (human resources, goods and money) and engage in establishment of a system for privacy as well as deployment, fostering and securing of human resources.



Important matters of privacy governance

1. **Establishing a system for privacy**
   (internal control, establishing an organization for privacy protection, and collaboration with outside experts)
2. **Formulating operation rules and raising internal awareness thereof**
   (formulating rules for thoroughly operating such system and raising internal awareness of the rules)
3. **Fostering a culture involving privacy inside the company**
   (fostering a corporate culture to encourage individual employees to be aware of privacy)
4. **Communication with consumers**
   (dissemination of the organization's efforts, attracting public attention to them and continuous communication with consumers)
5. **Communication with other stakeholders**
   (communication with business partners, group companies, etc., investors and shareholders, administrative organizations, industrial associations, employees and others)

Improving corporate value and business advantages

Gaining social trust

Consumers and other stakeholders

Reference:
Examples of efforts for privacy governance