

# Future Directions of Amendment of the Companies Act to Encourage Companies' Investment for Growth

This document is a provisional translation; please refer to the official Japanese version for accuracy.

- From the perspective of encouraging corporate management to take bold risks and invest for growth to enhance companies' earning power, it is important to amend promptly, as part of the integrated reform of corporate management and capital markets, the corporate law system, which is the foundation of business activities, in a way that contributes to increasing options that companies can choose from in carrying out their value creation story and promoting meaningful shareholder engagement (by making dialogue more substantial and efficient).
- In addition, it is necessary to further enrich integral discussions on how the regulations should be regarding the design of organizations and shareholders' meetings, which are closely related to the corporate governance system, while taking into consideration future changes in the corporate management of Japanese companies as well as in the capital markets.

## Issues related to the reform of corporate management (increasing options that companies can choose from)

### Execution of a value creation story

- **Promoting human-resource investment by utilizing stocks:** Allowing companies to issue shares without contribution to their employees and their subsidiaries' officers and employees (in addition to directors and executive officers).
- **Promoting M&As by utilizing shares:** Allowing companies to deliver their shares as consideration even in cases where companies acquire foreign companies (in addition to cases where they acquire domestic companies).
- **Creating an environment for encouraging investment for growth by utilizing corporate bonds:** Allowing companies to virtually hold bondholder meetings in a flexible manner.
- **Encouraging management to appropriately take risks:** Allowing management (directors and executive officers) to enter into agreements limiting liability (in addition to outside directors).

### Establishment of a value creation story

- **Reviewing the design of organizations:** In companies with nominating committees, etc., vesting in their board of directors, rather than respective committees, the authority to finally decide on the appointment (or remuneration), only in cases where the majority of the directors are outside directors. [Discussions on future directions involving this issue should be continued, including whether or not this review is necessary.]

## Shareholder engagement (making dialogue more substantial and efficient)

- **Improving information disclosure:** Encouraging companies to enhance shareholder engagement through information disclosure of both the company and the shareholders:
  - ✓ Helping companies to acquire information on beneficial shareholders who are subject to dialogue (those who give instructions to exercise voting rights but are not listed in a shareholder register) (establishment of a system for the right to request disclosure)
  - ✓ Creating an environment in which companies seek solutions to duplicated preparation of documents for disclosure under the Companies Act (e.g., business reports) and disclosure under the Financial Instruments and Exchange Act (annual securities reports), and striking a balance between enhancing the efficiency of information disclosure by companies and improving the quality of information acquisition by investors [Discussions on this issue should be continued, including obstacles in business practices.]
- **Introducing virtual shareholders' meetings and enhancing the efficiency of shareholders' meetings:** Encouraging companies to utilize human resources and time in holding constructive and effective dialogue outside shareholders' meetings.
  - ✓ Realization of virtual-only shareholders' meetings: Allowing companies to hold virtual-only shareholders' meetings under the Companies' Act instead of the Act on Strengthening Industrial Competitiveness (aiming to remove the process of confirmation from the competent minister)
  - ✓ Relaxation of the requirements for omission of resolutions: Relaxing the requirements for the omission of resolutions at shareholders' meetings by non-listed companies and helping such companies to flexibly make decisions.

## - Issues to be discussed further -

## Issues related to the reform of corporate management

- **Ideal design of organizations for companies seeking to adopt the monitoring model:** Holding further discussions on whether or not the three designs of organizations under the current Companies Act provide appropriate options for companies to realize optimal corporate governance, in particular, discussions on ideal design of organizations for companies seeking to adopt the monitoring model, while taking into consideration future changes in corporate management as well.

## Shareholder engagement

- **Further enhancement of efficiency and rationalization of shareholders' meetings:** Further holding discussions on ideal approaches to a system for enhancing the efficiency and rationalization of shareholders' meetings, in the cases where the deliberations on the date of the meeting can be considered less important.
- **Rationalization of shareholders' right to propose:** Further holding discussions on whether or not the requirements for shareholders' right to make proposals should be limited in companies whose board of directors fully exercises its monitoring function.