

Main Details of Revision to the CGS Guidelines

September 28, 2018

**Corporate System Division,
Ministry of Economy, Trade and Industry**

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Main Details of Revision		Page *	Relevant Recommendation in Interim Report	Page
Main Text	Ideal approaches to taking actions according to the diversity of companies <ul style="list-style-type: none"> Add details concerning ideal approaches to taking actions required according to the characteristics of companies, with <u>large-scale/diversified companies that have expanded their businesses globally</u>, owner-managed firms and start-up/medium-sized companies mentioned as examples. 	5-6	2. Targets of the CGS Guidelines (Targeting)	3
	Diversity <ul style="list-style-type: none"> Exemplify <u>gender and internationality</u> as elements of diversity in the board of directors. 	15	7. Board of Directors — Diversity in the board of directors	19-20
	Chairperson of the Board of Directors <ul style="list-style-type: none"> Add the significance that <u>non-executive directors such as outside directors</u> act as chairpersons of the boards of directors at companies that <u>place an emphasis on the monitoring function of their respective boards</u>. Also, add other details in this regard, including the development of the necessary environment. 	17-21	7. Board of Directors — Chairperson of the board of directors	19
	Evaluation of the Effectiveness of the Committee <ul style="list-style-type: none"> Add that it is beneficial for each company to <u>evaluate, as part of its evaluation of the effectiveness of its board of directors</u>, whether its <u>nominating committee, compensation committee</u> and other relevant committees effectively function with the board of directors in an integrated manner. 	27	4. Utilization of the Nominating Committee and the Compensation Committee — Evaluation of the effectiveness of the committee	13
	Expansion of the Human Resources Market of Outside Directors <ul style="list-style-type: none"> Add the significance of acceptance of the office of outside director at other companies by individuals with management experience (in particular, <u>retired presidents/CEOs/CFOs, etc.</u>). 	30-31	3. Utilization of Outside Directors — Expansion of a human resource pool of outside directors	8
	Nomination and Succession Planning of a President/CEO <ul style="list-style-type: none"> Fully revise the description of succession planning, such as the importance of nomination and succession planning of a president/CEO, the responsibilities of the incumbent president/CEO, <u>monitoring by the board of directors and the ensuring of its objectivity and transparency</u>, and <u>the division of roles between insiders and outsiders (the nominating committee)</u>. 	33-38	5. Nomination and Succession Planning of a President/CEO, etc.	16
	Cooperation between the Nominating Committee and the Compensation Committee <ul style="list-style-type: none"> Add that promotion of the cooperation between the nominating committee and the compensation committee is effective from the standpoints of improving the effectiveness of appointment and dismissal of presidents/CEOs, and of efficient operation of the committees. 	50	4. Utilization of the Nominating Committee and the Compensation Committee — Ideal approaches of the committees according to matters and targets of deliberation and other matters	12

* The page numbers of the CGS Guidelines are those of the "Change History Viewable Version" that shows the changes made in the pre-revision version.

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Main Text	Dissemination of Information on the Advisor/Consultant System <ul style="list-style-type: none"> - Add that active dissemination of information by utilizing the Tokyo Stock Exchange's "Corporate Governance Report" is expected. 	56-57	—	—
	— (Not revised)	—	—	—
Appendix 1	— (Not revised)	—	—	—
Appendix 2	Diversity (Reproduced) <ul style="list-style-type: none"> - Exemplify gender and internationality as elements of diversity in the board of directors. 	73	7. Board of Directors — Diversity in the board of directors	19-20
	Qualifications, Backgrounds and Eligibility Expected from Outside Directors <ul style="list-style-type: none"> - Add the standpoint that the board of directors and outside directors should be regarded as a whole (collective body) and <u>equipped with the qualifications and backgrounds they require as a whole</u>, and the standpoint that such whole should be composed of individuals with <u>multiple and diverse perspectives</u>. - Add that with regard to the qualifications of outside directors, a minimum level of literacy is required as a minimum standard. - Add the importance of outside directors' <u>availability, sense of responsibility and preparedness</u> in order for them to fulfill substantive roles and functions, and <u>the confirmation of the situations of their main businesses and concurrent posts</u>, among other matters. 	73, 75, 77	3. Utilization of Outside Directors — Securing of the literacy and qualifications required from outside directors	6
	Upper Limit on Reappointment of Outside Directors <ul style="list-style-type: none"> - Add the significance of <u>setting an upper limit on reappointment (length of service)</u> at each company from the standpoints of ensuring the independence of outside directors and realizing the regeneration of the board of directors. 	85	3. Utilization of Outside Directors — Setting of an upper limit on the length of service of outside directors, etc.	7-8
	Standards for Reappointment of Outside Directors <ul style="list-style-type: none"> - Add that the nominating committee should consider establishing <u>standards for reappointment of outside directors</u> from the standpoints of guaranteeing the quality of outside directors and ensuring the independence and effective monitoring function of outside directors. 	86-87	3. Utilization of Outside Directors — Clarification of appointment and reappointment processes of outside directors	6-7

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Appendix 3	Cooperation between the Nominating Committee and the Compensation Committee (Reproduced) <ul style="list-style-type: none"> - Add that promotion of the cooperation between the nominating committee and the compensation committee is effective since there are many common parts, such as performance evaluation, between the nomination of presidents/CEOs and the determination of their compensation. 	90	4. Utilization of the Nominating Committee and the Compensation Committee — Ideal approaches of the committees according to matters and targets of deliberation and other matters	12
	Matters That Should Be Discussed by the Compensation Committee <ul style="list-style-type: none"> - Add the matters that should be discussed by the compensation committee from the standpoints of granting appropriate incentives and securing excellent human resources. 	92-93	6. Compensation, Performance Evaluation, etc. of Senior Management	17
	Composition of the Committee <ul style="list-style-type: none"> - Clarify the points that outside directors are, in principle, the best qualified to be committee members, and that the utilization of outside auditors should be merely supplementary. Furthermore, add issues concerning external experts (professionals). - Change the view on the composition of a committee: from the composition based on "outsiders" to the composition chiefly consisting of "outside officers" (whether [1] outside officers make up a majority of the committee members; or [2] the number of outside officers makes up at least the half of the committee members and an outside officer acts as the committee chairperson). 	100-105	4. Utilization of the Nominating Committee and the Compensation Committee — Scope of outside committee members	12-13
	Ideal Approaches to the Composition and Operation of the Committee <ul style="list-style-type: none"> - Add that a desirable committee composition and desirable committee operation may differ depending on the advice targets of, and matters on which advice is sought from, the committee concerned, and the circumstances of the company. 	107-108	4. Utilization of the Nominating Committee and the Compensation Committee — Ideal approaches of the committees according to matters and targets of deliberation and other matters	12
	Evaluation of the Effectiveness of the Committee (Reproduced) <ul style="list-style-type: none"> - Add that it is beneficial for each company to evaluate, as part of its evaluation of the effectiveness of its board of directors, whether its committees effectively function with the board of directors in an integrated manner. 	108-109	4. Utilization of the Nominating Committee and the Compensation Committee — Evaluation of the effectiveness of the committee	13
Appendix 4 (Newly Established)	Succession Planning of a President/CEO <ul style="list-style-type: none"> - Organize the best practice and points of view to which companies willing to embark on the succession planning of their presidents/CEOs can refer, and introduce some of the approaches taken by leading companies as examples. <ul style="list-style-type: none"> ▸ E.g.: the actions constituting succession planning, time lines for succession planning, seven basic steps for engaging in the formulation and administration of a succession plan, the division of roles between insiders and outsiders, the roles of the nominating committee, the verbalization and documentation of succession planning, the invitation of external human resources, ideal approaches to succession planning for companies falling under special cases, information dissemination, etc. 	Whole	5. Nomination and Succession Planning of a President/CEO, etc.	16