

Outline of the CGS Study Group Report

1. Clarifying the roles and functions of a board of directors

The effective and functional operation of a board of directors requires the consolidation of supervisory functions, as well as decision-making functions, and, as a premise thereof, the determination of basic management strategies and plans as important elements. To this end, the report offers recommendations of key points for companies in discussing the roles and functions of a board of directors, including: approaches to determining ideal companies and the boards of directors they wish to establish, and efforts for consolidating the supervisory functions of the board of directors in line with the directions the companies wish to seek. The report also provides the viewpoints that companies should take in discussing these key points.

2. Devising to take advantage of outside directors

The report shows that companies should streamline case-based key points on which they should make discussions in order to take advantage of the knowledge and experience of outside directors, including: clarification of roles expected for outside directors; selection of at least one person who has experienced business management among other outside directors; vesting appropriate incentive compensation in outside directors; and disclosure of information about outside directors.

In addition, it also offers recommendations that the person who has experience of business management should proactively accept the offer from other companies to assume the post of outside directors, considering the aspect of expanding the human-resource markets concerning outside directors.

3. Ideal approaches to nominating management members and determining their compensation

As management members, e.g., presidents and CEOs, should play a central role in improving corporate value from a mid- to long-term perspective, all companies need to build a system in which companies select outstanding management members, e.g., presidents and CEOs, provide such members with appropriate incentives to encourage them to take appropriate risks, and check their achievements. From this viewpoint, the report explains the importance for companies to discuss ideal approaches to nominating management members and the introduction of performance-based or

company-stock-based compensation systems in terms of such members' compensation in the form complying with their management strategies.

Concerning the appointment and dismissal of presidents or CEOs and succession plans, the report also offers a recommendation for companies to discuss the utilization of a nominating committee and compensation committee, including those voluntarily-established ones, that are mainly consisting of independent members (such as outside directors, outside company auditors or experts from outside the company), i.e., at least the majority of which consists of independent members or the chair of which is independent as for the case where half of the members are independent

4. Developing an environment for fortifying the leadership of management members

From the viewpoint that the existing management members should carry out appropriate leadership in their companies, the report explains that in the cases where companies appoint senior internal advisors or consultants (such as “sodanyaku” or “komon”) from among those who have experienced the position of president or CEO of that company, the companies should define their roles and make discussions on a treatment setting that will meet the roles. Along with this, the report also states that companies should have independent members become involved in such discussions, e.g., taking advantage of a nominating committee or compensation committee.

In addition, the report says that in cases where companies decide to select senior internal advisors or consultants from those who have been the president or CEO of that company, the companies are expected to proactively disclose information such as the number of these advisors/consultants, roles or treatments of new positions, because this disclosure is significant in the business industry.

Furthermore, as for companies that set the existing president's or CEO's compensation at a low level on the premise that the president or CEO will gain a certain level of compensation as an advisor or consultant, the report revealed that such policy could make the companies' compensation systems more appropriate on the whole if the companies undertake the policies described in the previous paragraph and the revision of their compensation systems for current management members at the same time.

5. Results of a questionnaire survey targeting companies in Japan

The study group conducted a questionnaire survey targeting listed

companies in the first and second sections of the Tokyo Stock Exchange (as of the end of June 2016), aiming to collect and analyze individual cases concerning Japan's companies' specific efforts for achieving the corporate governance reform, and compiled the results into references for the report.