

# **Status of Response to Revision of the Corporate Governance Code Flash Report (as of December 31, 2018)**

January 28, 2019  
Tokyo Stock Exchange Inc.



# I. Overall trends

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# Target of aggregation

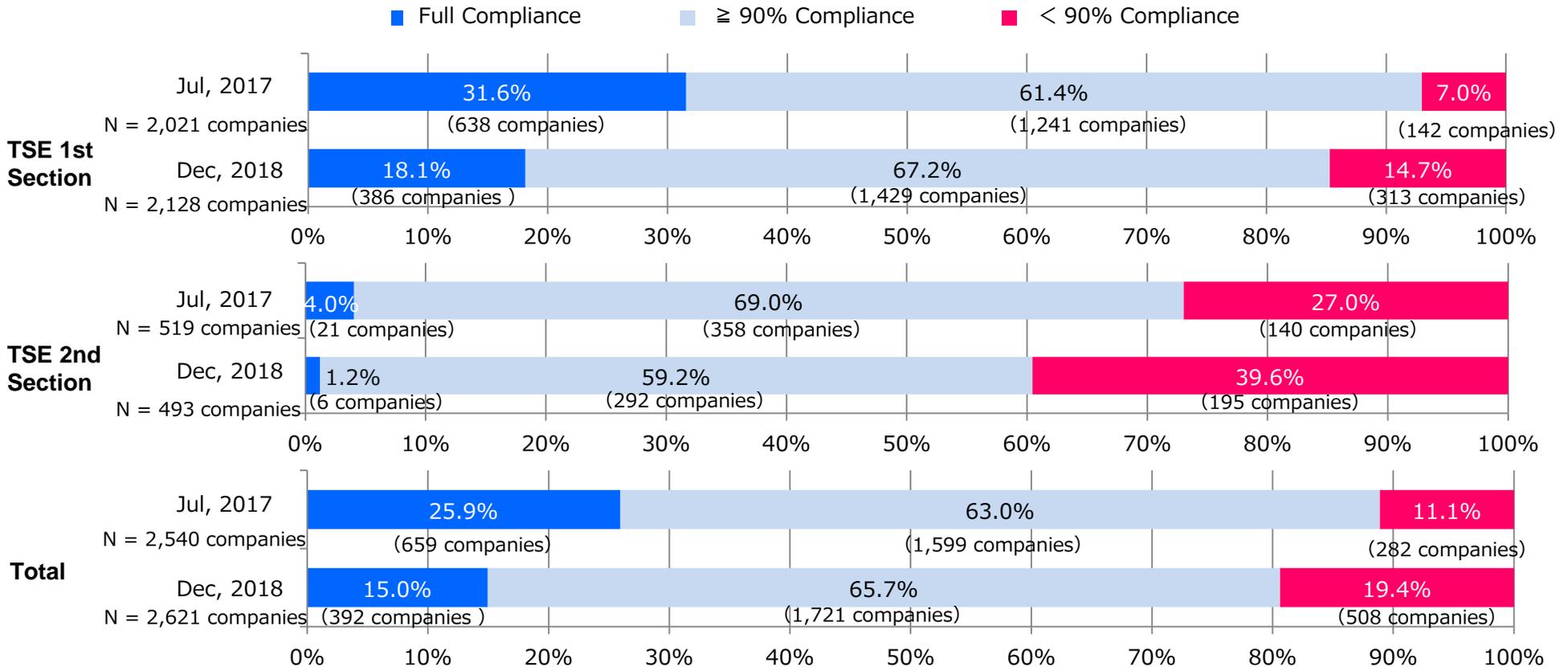
- The figures for December 2018 have been aggregated based on disclosures on the status of response to the code in corporate governance reports submitted by companies listed on the first and second sections (2,621 companies) of the TSE by December 31, 2018.
- The figures for July 2017 that were used for comparison have been aggregated based on disclosures on the status of response to the code in corporate governance reports submitted by companies listed on the TSE 1st Section and TSE 2nd Section (2,540 companies) of the TSE by July 14, 2017.

[Status of disclosure on status of response to the code by market segment]

Market segment	Number of disclosing companies		Scope of compliance or explanation
	December 2018	July 2017	
TSE 1st Section	2,128 companies	2,021 companies	All 78 principles { General Principles: 5 Principles: 31 principles Supplementary Principles: 42 principles
TSE 2nd Section	493 companies	519 companies	
Mothers	275 companies	240 companies	General Principles: 5 principles
JASDAQ	725 companies	753 companies	
Total	3,621 companies	3,533 companies	

# Status of compliance or explanation

- In the First Section, (Compared to July 2017)
- ✓ Companies that are in compliance with all 78 principles: **18.1%** (386 companies) **-13.4pt**
  - ✓ Companies that are in compliance with at least 90% of principles: **85.3%** (1,815 companies) **-7.7pt**
  - Less than 90%: **14.7%** (313 companies) **+7.7pt**



# Status of compliance with newly established and revised principles

Principle	Summary of newly established and revised principles	Compliance rate (compared to July 2017)		
		1st Section	2nd Section	Total
Principle 1-4	Disclosure of policies and approaches regarding the reduction of cross-shareholdings, assessment of whether or not to hold individual cross-shareholdings and disclosure of this assessment, establishment and disclosure of specific standards on voting rights	86.5% (-10.7pt)	82.8% (-12.6pt)	85.8% (-11.0pt)
Supplementary Principles 1.4.1	Prohibition of hindering with sales of cross-shareholdings through means such as implying a possible reduction of business transactions	99.4% (New)	99.8% (New)	99.5% (New)
Supplementary Principles 1.4.2	Ensuring the economic rationale of transactions with cross-shareholders	99.7% (New)	99.6% (New)	99.7% (New)
Principle 2.6	Support as sponsor companies to ensure that corporate pension funds perform their roles as asset owners and management of conflicts of interest	95.5% (New)	93.5% (New)	95.1% (New)
Principle 3.1	Disclosure of the policies and procedures for the dismissal of the senior management and explanations with respect to the individual dismissals	92.7% (-1.5pt)	86.0% (+0.5pt)	91.5% (-0.9pt)
Supplementary Principle 3.1.1	Documentation including disclosures in compliance with relevant laws and regulations	99.6% (-0.3pt)	99.4% (-0.4pt)	99.5% (-0.3pt)
Supplementary Principle 4.1.3	Involvement in the establishment and implementation of a succession plan for the CEO and other top executives and oversight on the systematic development of succession candidates	70.4% (-17.3pt)	60.6% (-21.4pt)	68.6% (-18.0pt)
Supplementary Principle 4.2.1	Design of remuneration system in accordance with objective and transparent procedures for the remuneration of management and determining actual remuneration amounts	69.9% (-5.1pt)	48.9% (-5.6pt)	66.0% (-4.9pt)
Supplementary Principle 4.3.2	Appointment of the CEO in accordance with objective, timely, and transparent procedures	84.2% (New)	78.7% (New)	83.2% (New)
Supplementary Principle 4.3.3	Establishment of objective, timely, and transparent procedures for the dismissal of the CEO when it is determined that the CEO is not adequately fulfilling the CEO's responsibilities	86.4% (New)	83.6% (New)	85.8% (New)
Principle 4.8	Appointment of a sufficient number of independent directors at companies that believe they need to appoint at least one-third of directors as independent directors	91.4% (+2.1pt)	69.4% (+1.9pt)	87.2% (+2.5pt)
Supplementary Principle 4.10.1	Establishment of independent advisory committees such as an optional nomination committee or remuneration committee to which independent directors make significant contributions	52.1% (-27.2pt)	31.8% (-34.6pt)	48.3% (-28.4pt)
Principle 4.11	Constitution of board that achieves both diversity, including gender and international experience, and appropriate size, and the appointment of persons with appropriate experience and skills as well as necessary knowledge on finance, accounting, and the law as <i>kansayaku</i>	69.9% (-27.0pt)	64.5% (-30.3pt)	68.9% (-27.6pt)
Principle 5.2	Articulation of cost of capital and review of business portfolio	82.7% (-10.4pt)	67.1% (-14.4pt)	79.8% (-10.9pt)

# Status of compliance with all principles (TSE 1st Section)

Principle	Compliance rate	Compared to July 2017	Principle	Compliance rate	Compared to July 2017	Principle	Compliance rate	Compared to July 2017	Principle	Compliance rate	Compared to July 2017
General Principle 1	99.95%	0.0pt	Principle 2.3	99.7%	0.0pt	Supplementary Principle 4.3.1	98.0%	-0.6pt	Principle 4.13	99.4%	-0.5pt
Principle 1.1	100.0%	0.0pt	Supplementary Principle 2.3.1	99.7%	+0.1pt	4.3.2	84.2%	New	Supplementary Principle 4.13.1	100.0%	0.0pt
Supplementary Principle 1.1.1	99.3%	+0.1pt	Principle 2.4	99.6%	0.0pt	4.3.3	86.4%	New	4.13.2	100.0%	0.0pt
1.1.2	99.9%	-0.1pt	Principle 2.5	99.9%	+0.3pt	4.3.4	99.95%	+0.1pt	4.13.3	100.0%	0.0pt
1.1.3	100.0%	+0.1pt	Supplementary Principle 2.5.1	97.7%	+0.3pt	Principle 4.4	99.9%	-0.1pt	Principle 4.14	99.4%	+0.2pt
Principle 1.2	99.7%	+0.7pt	Principle 2.6	95.5%	New	Supplementary Principle 4.4.1	99.5%	+0.2pt	Supplementary Principle 4.14.1	99.6%	+0.4pt
Supplementary Principle 1.2.1	99.9%	-0.1pt	General Principle 3	99.9%	0.0pt	Principle 4.5	99.95%	0.0pt	4.14.2	98.6%	+0.8pt
1.2.2	97.9%	+0.9pt	Principle 3.1	92.7%	-1.5pt	Principle 4.6	99.5%	0.0pt	General Principle 5	99.9%	0.0pt
1.2.3	99.1%	0.0pt	Supplementary Principle 3.1.1	99.6%	-0.3pt	Principle 4.7	99.5%	+0.2pt	Principle 5.1	99.4%	0.0pt
1.2.4	52.7%	+0.9pt	3.1.2	78.9%	-0.2pt	Principle 4.8	91.4%	+2.1pt	Supplementary Principle 5.1.1	99.9%	0.0pt
1.2.5	95.8%	+0.9pt	Principle 3.2	100.0%	0.0pt	Supplementary Principle 4.8.1	93.6%	+1.5pt	5.1.2	99.4%	0.0pt
Principle 1.3	98.2%	+0.2pt	Supplementary Principle 3.2.1	98.3%	+0.2pt	4.8.2	91.8%	+1.8pt	5.1.3	99.7%	0.0pt
Principle 1.4	86.5%	-10.7pt	3.2.2	99.7%	+0.2pt	Principle 4.9	98.0%	+0.8pt	Principle 5.2	82.7%	-10.4pt
Supplementary Principle 1.4.1	99.4%	New	General Principle 4	99.9%	0.0pt	Principle 4.10	92.9%	-2.9pt			
1.4.2	99.7%	New	Principle 4.1	99.2%	-0.4pt	Supplementary Principle 4.10.1	52.1%	-27.2pt			
Principle 1.5	99.8%	+0.2pt	Supplementary Principle 4.1.1	99.6%	-0.1pt	Principle 4.11	69.9%	-27.0pt			
Supplementary Principle 1.5.1	99.95%	0.0pt	4.1.2	88.8%	-0.7pt	Supplementary Principle 4.11.1	96.1%	-2.8pt			
Principle 1.6	100.0%	0.0pt	4.1.3	70.4%	-17.3pt	4.11.2	99.9%	0.0pt			
Principle 1.7	99.9%	0.0pt	Principle 4.2	91.6%	+0.4pt	4.11.3	82.5%	+6.6pt			
General Principle 2	99.95%	0.0pt	Supplementary Principle 4.2.1	69.9%	-5.1pt	Principle 4.12	99.8%	-0.2pt			
Principle 2.1	99.6%	0.0pt	Principle 4.3	99.5%	+0.1pt	Supplementary Principle 4.12.1	99.3%	0.2pt			
Principle 2.2	99.9%	+0.1pt									
Supplementary Principle 2.2.1	99.4%	+0.3pt									

Compliance rate of 100%

Compliance rate of 90% or above

Compliance rate of under 90%

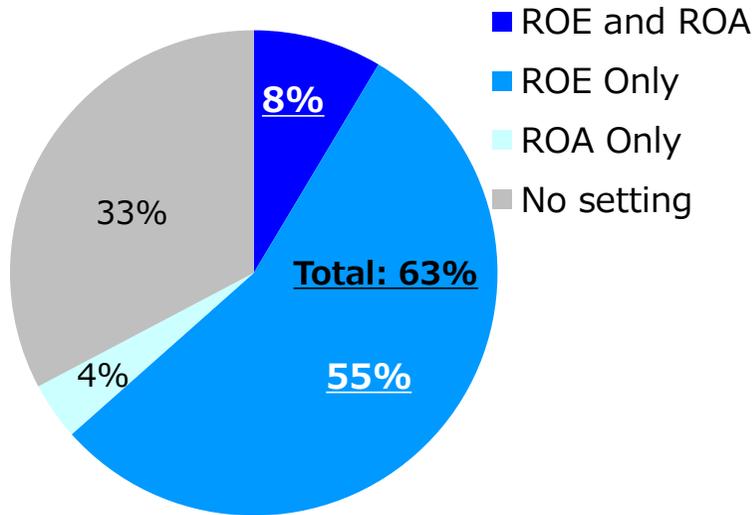
## II. Status of individual initiatives

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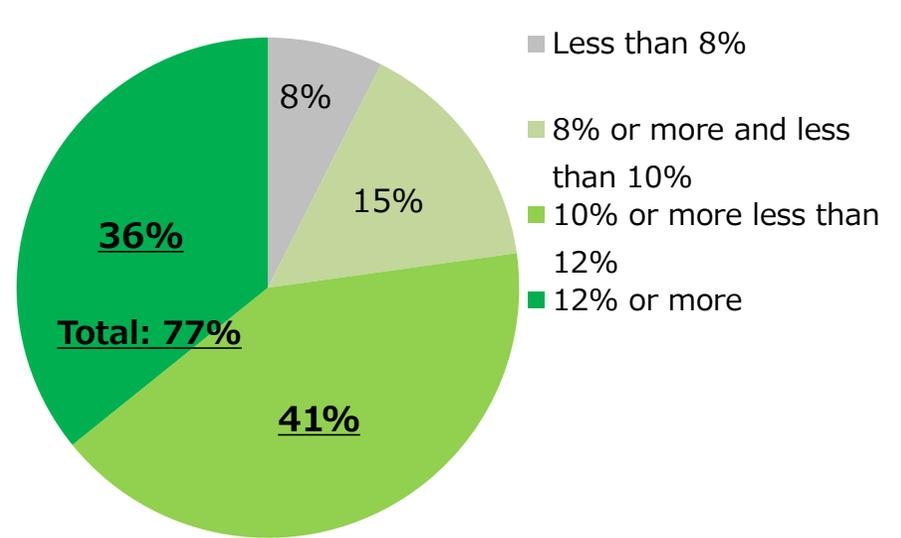
(1) Management in recognition of capital costs

[Principle 5-2. Establishing and Disclosing Business Strategies and Business Plans]  
 When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company's cost of capital. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human resources, and specific measures that will be taken in order to achieve their plans and targets.

**Setting targets related to capital efficiency\* (JPX Nikkei 400)\*ROE and ROA**



**Corporate target values set as targets related to ROA (JPX Nikkei 400)**



- In the medium-term management plans formulated and released by companies,
  - ✓ Companies setting targets related to ROE: 63%
  - ✓ Of which, companies that have set target of ROE of 2-digits or more: 77%

## II. Status of initiatives for individual principles

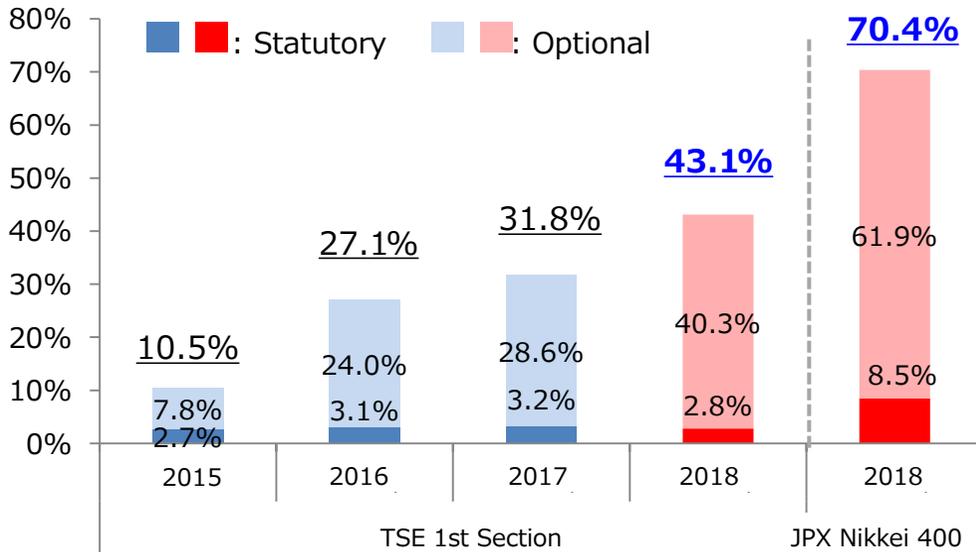
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### (2) Roles of the board of directors

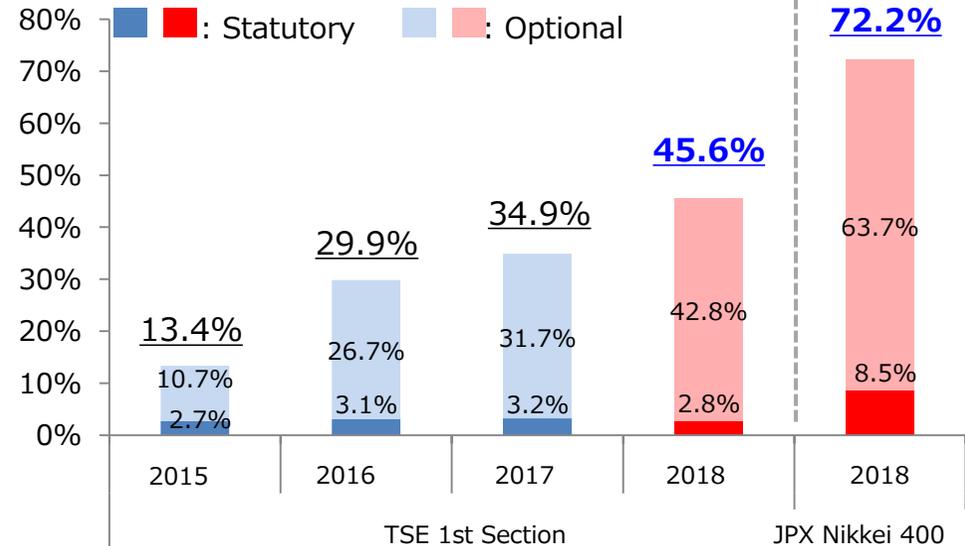
[Supplementary Principle 4-10 (1)]

If the organizational structure of a company is either Company with Kansayaku Board or Company with Supervisory Committee and independent directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from independent directors in the examination of such important matters as nominations and remuneration by establishing independent advisory committees under the board, such as an optional nomination committee and an optional remuneration committee, to which independent directors make significant contributions.

Status of nomination committee establishment



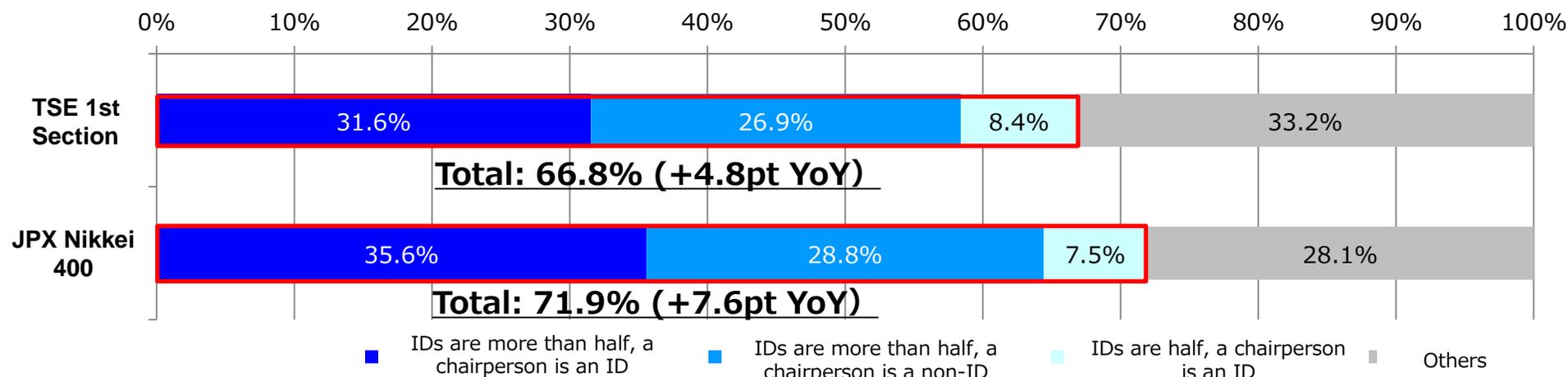
Status of remuneration committee establishment



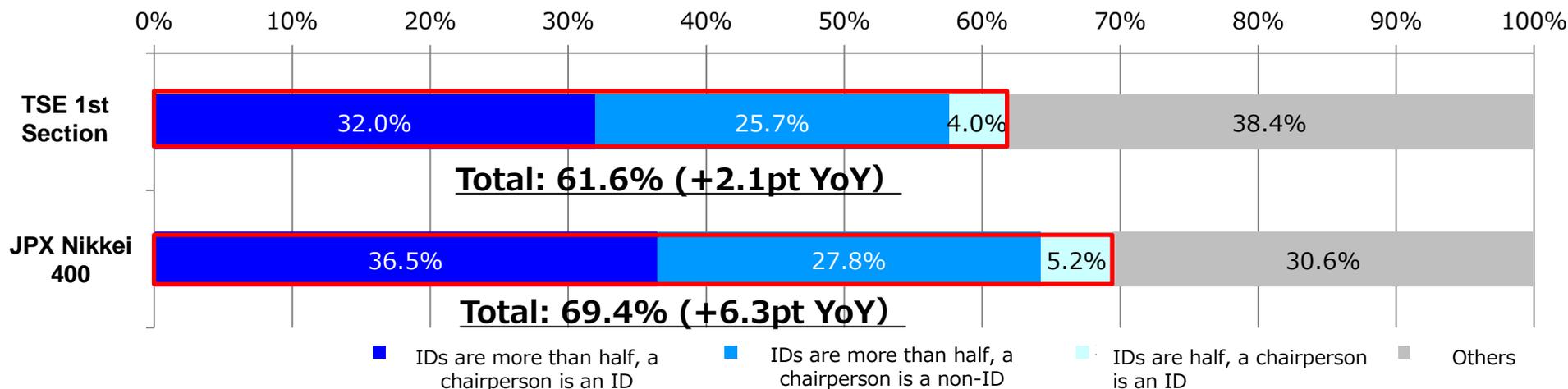
- Companies with a nomination committee or a remuneration committee have increased by about 10% to **43.1% and 45.6%**, respectively
- Among companies that have not established a remuneration committee, **approximately 30%** of companies are considering establishment

# Independence of advisory committees

[Independence of nomination committees] \*Total for statutory and optional



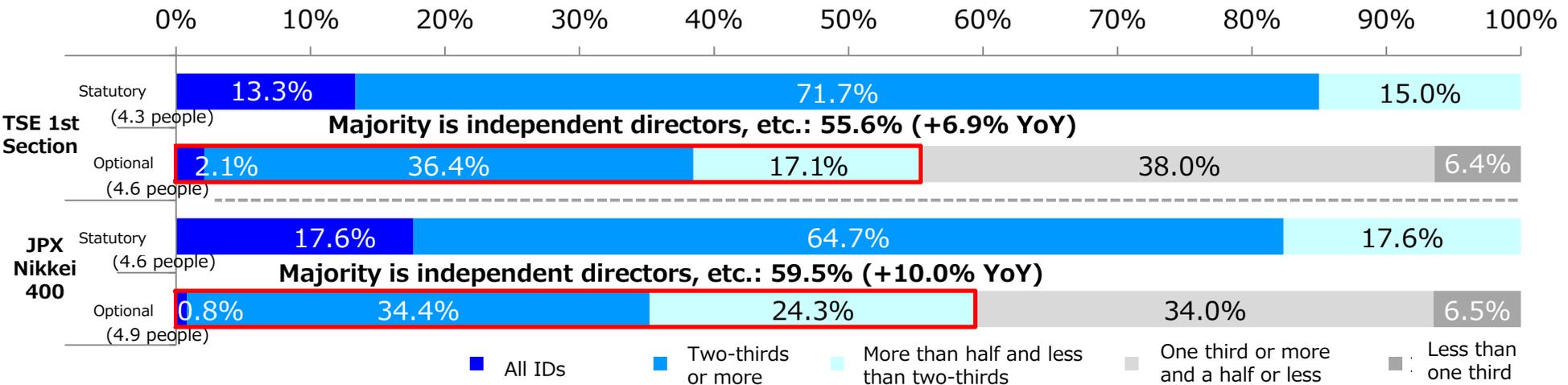
[Independence of remuneration committees] \*Total for statutory and optional



- “Companies with a majority of members who are independent directors and a chairperson who is an independent director” were **approximately 30%**
- When including “companies with a majority of members who are independent directors and a chairperson who is a non-independent director” and “companies with an equal number of inside directors and independent directors and a chairperson who is an -independent director”, the results were **66.8% and 61.6%**, respectively

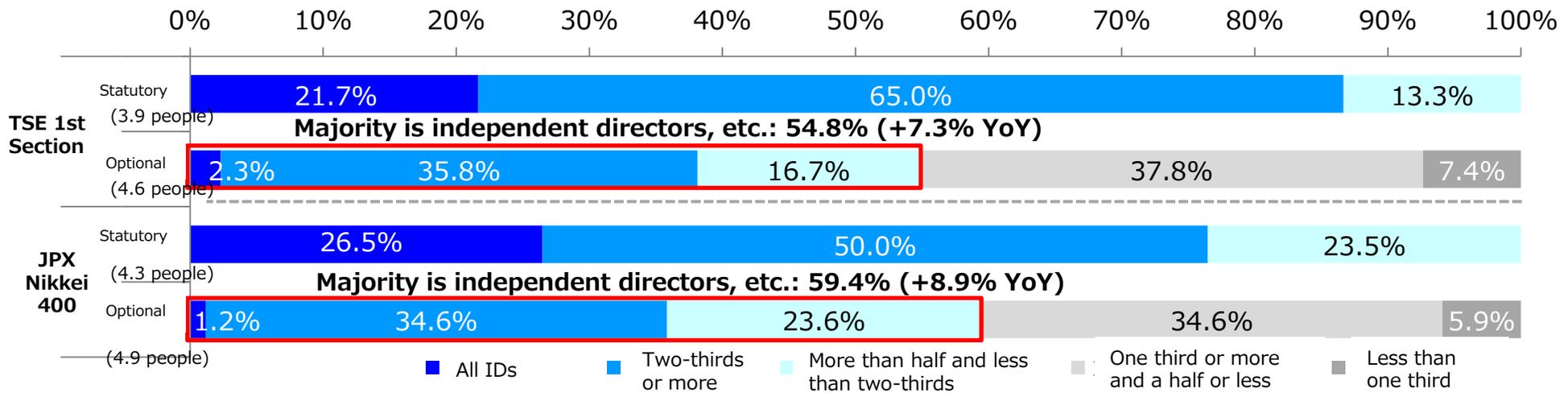
# [Reference] Ratio of independent directors, etc. at advisory committees

[Ratio of independent directors, etc. at nomination committees]



\*The numbers in the parentheses are the average number of nomination committee members

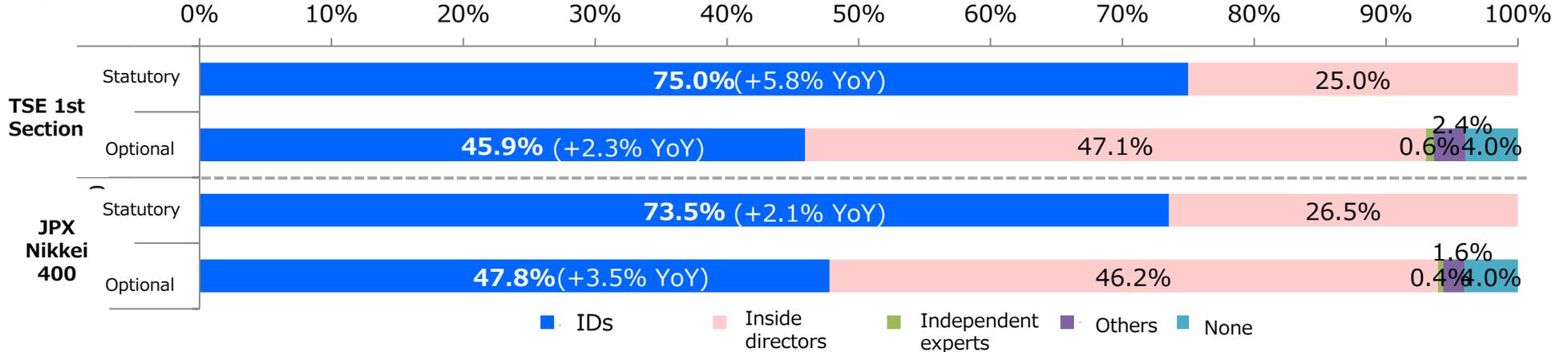
[Ratio of independent directors, etc. at remuneration committees]



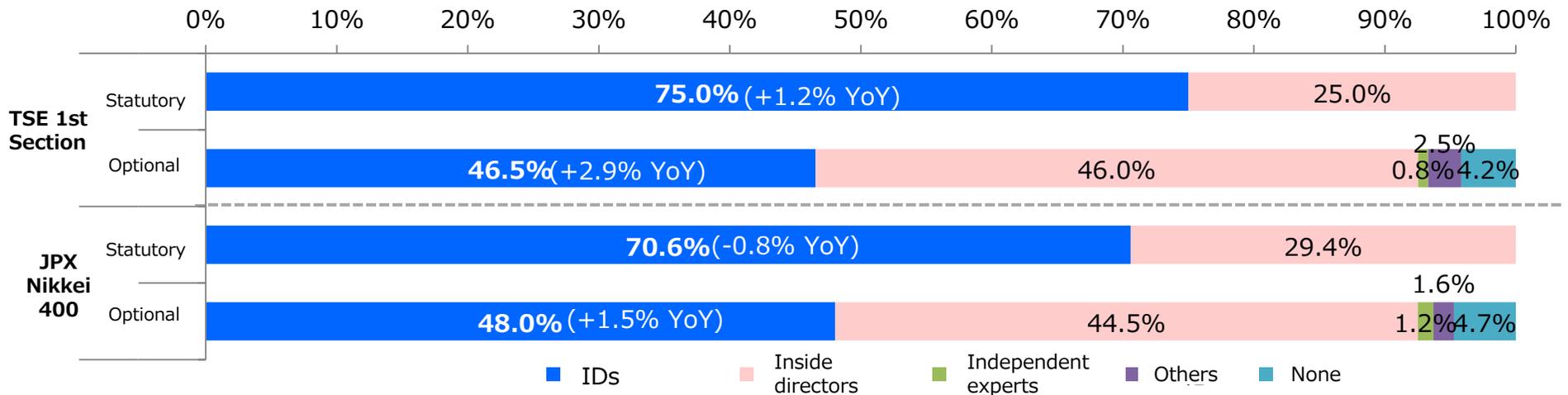
\*The numbers in the parentheses are the average number of remuneration committee members

# [Reference] Attributes of chairman at advisory committees

## [Attributes of chairman at nomination committees]



## [Attributes of chairman at remuneration committees]



# [Reference] Status of nomination and remuneration committee establishment

Market segment, etc.	Number of companies	Nomination committee (statutory/optional)		Remuneration committee (statutory/optional)	
		Number of companies	ratio	Number of companies	ratio
First Section	2,128 companies	918 companies	43.1%	970 companies	45.6%
		(+276 companies)	(+11.3%)	(+265 companies)	(+10.7%)
Second Section	493 companies	75 companies	15.2%	80 companies	16.2%
		(+28 companies)	(+6.2%)	(+26 companies)	(+5.9%)
Mothers	275 companies	10 companies	3.6%	20 companies	7.3%
		(+3 companies)	(+0.8%)	(+8 companies)	(+2.4%)
JASDAQ	725 companies	22 companies	3.0%	28 companies	3.9%
		(+9 companies)	(+1.4%)	(+11 companies)	(+1.7%)
Total listed companies	3,621 companies	1,025 companies	28.3%	1,098 companies	30.3%
		(+316 companies)	(+8.2%)	(+310 companies)	(+8.1%)
JPX Nikkei 400	399 companies	281 companies	70.4%	288 companies	72.2%
		(+54 companies)	(+13.4%)	(+49 companies)	(+12.1%)

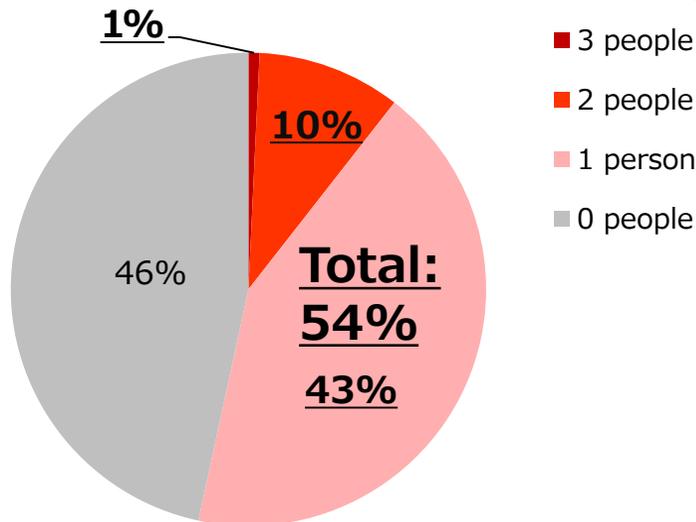
\*Numbers in the parentheses are comparisons with July 2018

[Principle 4-11. Preconditions for Board and Kansayaku Board Effectiveness]

The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity, including gender and international experience, and appropriate size. In addition, persons with appropriate experience and skills as well as necessary knowledge on finance, accounting, and the law should be appointed as kansayaku. In particular, at least one person who has sufficient expertise on finance and accounting should be appointed as kansayaku.

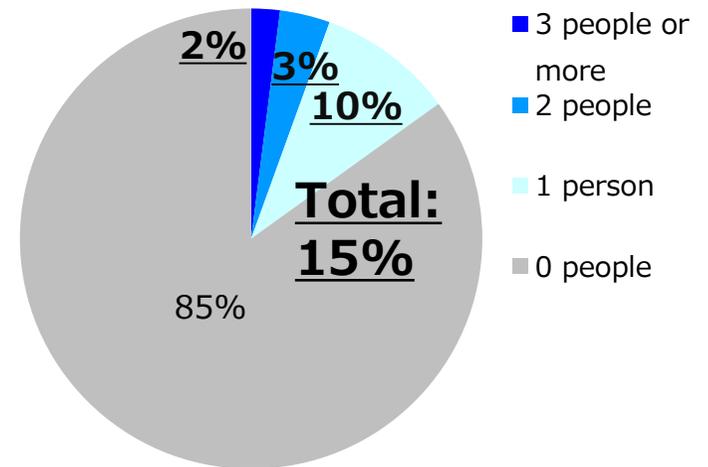
The board should endeavor to improve its function by analyzing and evaluating effectiveness of the board as a whole..

**Number of female directors (JPX Nikkei 400)**



**Number of directors with a foreign nationality\* (JPX Nikkei 400)**

\*Limited to people who can be determined to have a foreign nationality from the name notation



- 54% of companies have appointed female directors. Note that among companies listed on the First Section that have opted to explain this principle, approximately 50% of companies are considering the appointment of female directors.
- 15% of companies have appointed directors with a foreign nationality.

## II. Status of initiatives for individual principles

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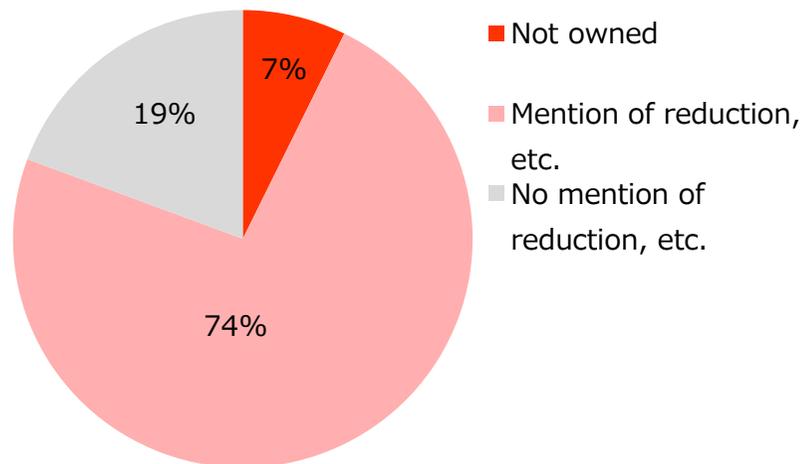
### (3) Cross-shareholdings

[Principle 1.4 Cross-Shareholdings]

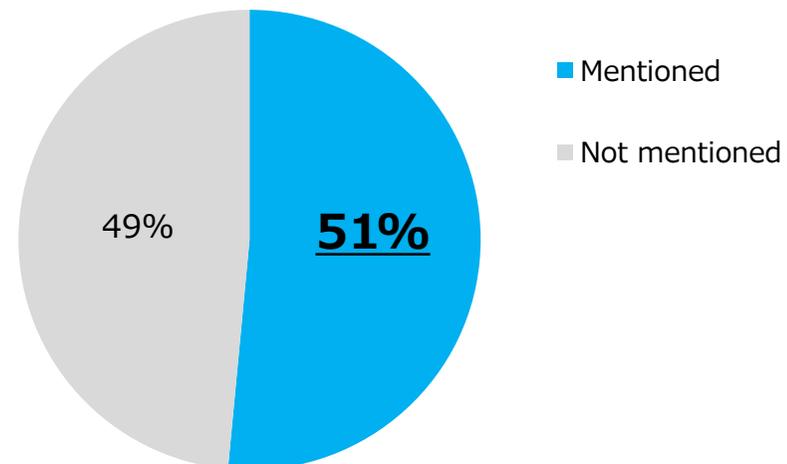
When companies hold shares of other listed companies as cross-shareholdings, they should disclose their policy with respect to doing so, including their policies regarding the reduction of cross-shareholdings. In addition, the board should examine the mid- to long-term economic rationale and future outlook of major cross-shareholdings on an annual basis, taking into consideration both associated risks and returns. The annual examination should result in the board's detailed explanation of the objective and rationale behind cross-shareholdings annually assess whether or not to hold each individual cross-shareholding, specifically examining whether the purpose is appropriate and whether the benefits and risks from each holding cover the company's cost of capital. The results of this assessment should be disclosed.

Companies should establish and disclose specific standards with respect to the voting rights as to their cross-shareholdings, and vote in accordance with the standards.

Type of policies regarding reduction, etc. (JPX Nikkei 400)



Mentions of the cost of capital in disclosure on the details of the examination (JPX Nikkei 400)



- 74% of companies have explicitly mentioned reduction, etc. in policies regarding cross-shareholdings, such as “we will reduce cross-shareholdings that are held with little reason”.
- 51% of companies have explicitly mentioned cost of capital in the details of the examination disclosed.

## II. Status of initiatives for individual principles

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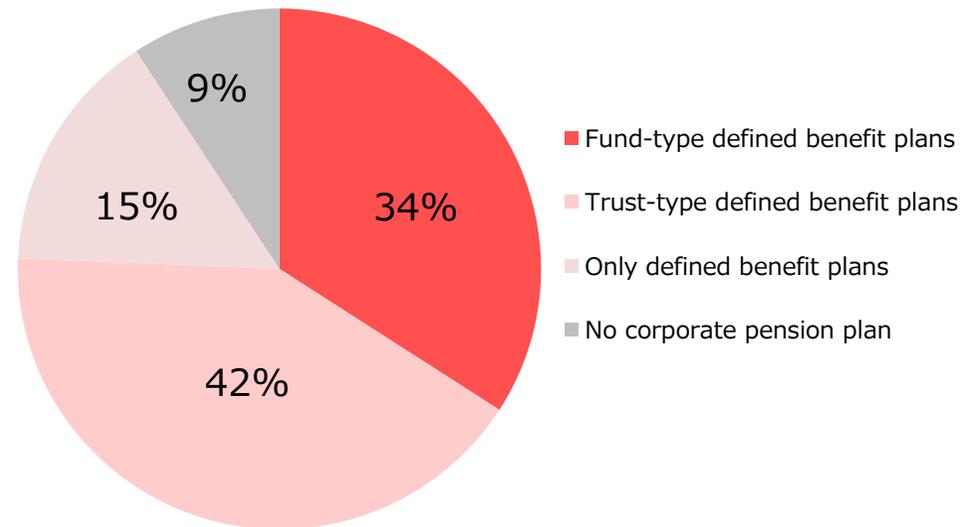
### (4) Asset owners

[Principle 2.6 Roles of Corporate Pension Funds as Asset Owners]

Because the management of corporate pension funds impacts stable asset formation for employees and companies' own financial standing, companies should take and disclose measures to improve human resources and operational practices, such as the recruitment or assignment of qualified persons, in order to increase the investment management expertise of corporate pension funds (including stewardship activities such as monitoring the asset managers of corporate pension funds), thus making sure that corporate pension funds perform their roles as asset owners. Companies should ensure that conflicts of interest which could arise between pension fund beneficiaries and companies are appropriately managed.

**Details of measures to improve human resources and operational practices (JPX Nikkei 400)**

**[Reference] Status of corporate pension plans**



■ In terms of measures to improve human resources and operational practices, “assignment of qualified persons” was mentioned by the highest number of companies (**216 companies**)

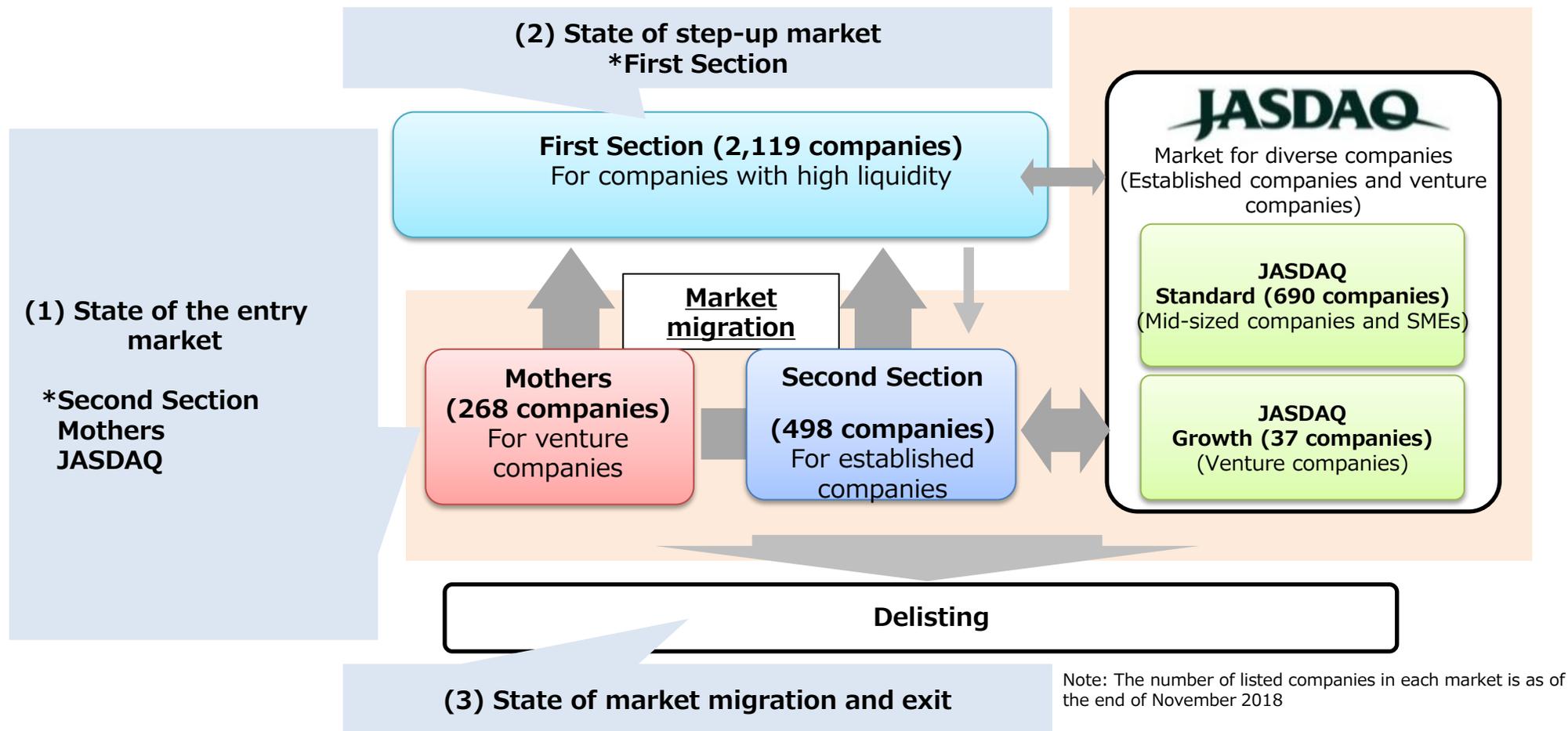
# Reference

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Consideration of the state of market structure

# Current market structure

- For the current general investor market, the market structure in Tokyo and Osaka has basically been maintained until the integration of the spot market in 2013



→ 5 years have elapsed since integration, and matters regarding market structure that should be improved have emerged  
 → In consideration of the characteristics of listed companies in each market and the current state of the hierarchical structure, consider the situation from the three angles of (1) to (3)  
 (Review deepened through the establishment of the Advisory Group to Review the TSE Cash Equity Market Structure in October of last year)

# Representative markets for overseas exchanges (comparison with the First Section)

	Market with hierarchal design					No hierarchal design		
	TSE	NASDAQ	London	Germany	Euronext	NYSE	Hong Kong	Singapore
Name	1st Section	Global Select	Premium	Prime	Regulated Market (Compartment A)	NYSE	Main Board	Main Board
Concept	–	The highest initial listing standards of any exchange in the world	Higher initial listing standards	For international investors	Market capitalization (More than 10 bil€)	For large & mid cap. companies	For established companies	For established companies
Number of companies	2,119	1,445	500	310	292	2,434	1,889	465
Junior market Number of companies	498 (2nd Section)	814 (Global)	324 (Standard)	144 (General)	233 (Compartment B)	282 (AMEX)	391 (GEM)	212 (Catalist)
Market capitalization medium	52 billion	126 billion	127.7 billion	84.6 billion	532.5 billion	205.4 billion	21.7 billion	11.7 billion
Market cap. top 5% average	1.3 trillion	2.3 trillion	2.8 trillion	3.6 trillion	9.7 trillion	5.7 trillion	0.87 trillion	0.44 trillion
Market cap. bottom 5% average	6.9 billion	8 billion	6.8 billion	3.4 billion	118.6 billion	11.7 billion	2.9 billion	0.77 billion
Upgrade		Request for transfer			Automatic	–	-	-
Downgrade	Involuntary	Request for transfer			Automatic	–	-	-
Trading value (2017)	680 trillion	1,133 trillion	200 trillion	169 trillion	222 trillion	1,453 trillion	213 trillion	24 trillion

As of end of November 2018

- The state of market structure is being reviewed from the following two perspectives

- ◆ Indicating the differences in the characteristics of companies to investors

- ✓ Up until now, TSE has expanded the scope of exchange markets in order to provide listing opportunities for over-the-counter stocks and start-up companies.
- ✓ At that time, new markets have been created to indicate the differences in the risk characteristics of companies to investors.
- ⇒ The current market structure should be reviewed in consideration of the background of providing categories for companies with differing characteristics and developing an environment that makes it easy for investors to invest.

- ◆ Contributing (from the sideline) to improvements in corporate value by listed companies

- ✓ TSE positions the First Section as a step-up market.
- ✓ Currently, many listed companies aim for the First Section at the time of initial listing.
- ⇒ In consideration of the fact that market hierarchy has also served the function of motivation for improvements in corporate value and maintenance of internal management system by listed companies, it would be preferable to maintain and improve this function.



- **By reviewing once more the state of market structure from these perspectives, (1) develop an environment that makes it easy to invest for diverse investors from both overseas and Japan, and (2) promote an improvement in the appeal for the actual listed companies that are invested in**

⇒ **Aim for the sustainable development of capital markets, and by extension, contributions to the development of the Japanese economy**

Currently, public comments are being accepted regarding the Consultation Paper "Review of the TSE Cash Equity Market Structure" (until January 31).

Chairman	H i d e k i K a n d a	Professor, Graduate School of Law, Gakushuin University
Member	K a z u h i t o I k e o	Professor, Faculty of Economics, Rissho University
"	S a d a k a z u O s a k i	Fellow, Center for Strategic Management & Innovation, Nomura Research Institute
"	Y u r i O k i n a	Chairperson of the Institute, The Japan Research Institute, Limited
"	E t s u r o K u r o n u m a	Professor, Graduate School of Law, Waseda University
"	K a z u h i r o T a k e i	Lawyer, Nishimura & Asahi

Total of 6 members