

**Japan Policy – Director Elections – Outside Directors**

- Do you consider the proposed threshold of one-third of the board comprising outside directors appropriate as applicable to companies with three committees or with an audit committee? If not, what percentage of outsiders would your organization consider acceptable when voting on the election of directors at companies with an audit committee and companies with three committees?

*The threshold of one-third is already a very low threshold. As an OECD country, Japanese companies should ideally follow best practice guidelines of having a majority of independent/outside directors on the Board, especially at companies that have adopted the three committee or audit committee governance structure.*

- Should the proposed policy be applied as well to companies with a statutory auditor system? (Note: if the policy is to be applied to companies with that governance system, adverse recommendations will be made at 73.2 percent of such companies based on ISS data as of August 2017.)

*Yes. As noted, the uptick in companies adopting the two governance structures has been quite remarkable since 2015. Also, there does not seem to be trouble in finding such directors, as ISS points out (in 2014, only 32.6% of companies had multiple outside directors, but as of June 2017, 84.7% of companies had multiple outsiders on the board). We believe that the environment in Japan is conducive to a rapid improvement in corporate governance practices as seen by the introduction of a governance code in 2015, stewardship code in 2014 and Japan's largest asset owner, GPIF, focus on and promotion of improving ESG practices on a market-level.*

- Do you think that a one-year transition period, i.e. with implementation of the proposed policy from February 2019, is sufficient? If not, please explain why it is not sufficient.

*Yes; it is more than sufficient.*

- The proposed policy does not require independent directors, but requires outside directors, because of concerns that too much emphasis on independence would prompt companies to recruit individuals with little business background. Notwithstanding such concerns, should the proposed policy still require independent directors?

*Yes. The proposed policy should still require independent directors. We don't believe that an emphasis on independence at this moment of Japan's corporate governance development would prompt companies to recruit individuals with little business backgrounds. Japan is a very highly developed market with extensive human capital and we don't believe that there is shortage of individuals with business backgrounds that could serve as Board members. Indeed, such a requirement would encourage the development of private sector infrastructure for identifying and training qualified independent directors.*

*Additionally, because the Japanese CG code itself says that companies should appoint a certain number of independent directors, we see no reason why ISS' voting policy should not require them. As the ACGA*

*pointed out in its 2016 CG Watch report, TSE statistics show a steady adoption of independent directors among its listed companies. In mid-July 2016, almost all companies (97%) in the first section of the TSE had appointed independent directors, while almost 80% had appointed two or more. Both figures indicated substantial jumps from the year before. This data is irrespective of the board governance structure in place at these companies.*

### **Japan Policy – Poison Pill Proposals**

- Do you think it is appropriate to add the duration of maintaining a pill since it was first introduced to the "necessary conditions" in the first stage of analysis? If not why?

*Yes. We agree that it is appropriate to add the duration of a poison pill to the "necessary conditions" before ISS would consider supporting the adoption of a pill.*

- If you think it is appropriate to add this criterion, what length of time do you consider acceptable for such duration as a new necessary condition in the first stage of analysis?

*We consider three years to be an acceptable maximum duration.*