

We agree that capital efficiency is sufficiently problematic in Japan to warrant holding directors responsible for financial performance.

A ROE threshold of 5% appears to be a reasonable minimum for companies in Japan. While we agree that a five year measurement period is generally appropriate, we recommend that ISS apply extra scrutiny to companies with a mixed track record of achieving the threshold. In these circumstances, ISS should apply a case-by-case approach and consider whether the company's ROE performance above the minimum was the result of short-term actions taken by management, such as share buy-backs, that may reverse in subsequent years. The concern is that companies may focus on strict compliance with the brightline threshold, as opposed to taking meaningful steps to improve profitability.

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