Opinion Summaries Received from Investors in Response to Listed Company Corporate Governance Questionnaire for Investor

August 26, 2008

Tokyo Stock Exchange Group, Inc.

On May 27th, 2008, the Tokyo Stock Exchange Group, Inc. (TSE) published the "Listing System Improvement FY 2008." Its highest priority is on "Improving conditions to enhance the corporate governance of TSE-listed companies" as one of the measures to improve its listing system during the current fiscal year. First the TSE will identify, as soon as possible, the fundamental problems and other important issues to be realized, then develop and implement comprehensive measures to resolve them.

In order to do this, the TSE solicited investors' opinions from June 26, 2008 to July 25, 2008, by asking their views on each item ("a" to "d" in the appendix) illustrated as issues to be considered in the "Listing System Improvement FY 2008," as well as views on the actual implementation of corporate governance, including takeover defense measures, by the TSE-listed companies ("e" to "j" in the appendix).

In response, we received a total of 41 opinions from domestic and foreign investors (30 from foreign institutional investors, 6 from domestic institutional investors and 5 from domestic individual investors). Please refer to the appendix for summaries of opinions received.

The TSE intends to advance and improve conditions to enhance the corporate governance of TSE-listed companies, by reflecting these investor opinions obtained from solicitation along with opinions extracted from interviews with investors conducted in parallel with the solicitation. We appreciate your continued support on this matter.

Appendix: Opinion summaries by issues

@ An opinion supported by 10 comments or more

○ An opinion supported by 4 - 9 comments

● An opinion supported by 3 comments or less

a. Opinions on the issuance of new shares, etc., causing substantial dilution to existing shareholders

[**Assessment of the current situation concerning above issue**]

○ The issuance of new shares causing discriminatory dilution is not appropriate.

○ The issuance of new shares causing substantial dilution is unacceptable.

● The limit of authorized capital increase under Japan's authorized capital system is too high.

[Desirable measures to address the issue]

@ Any issuance of new shares, or certain issuances such as those exceeding a specific percentage of outstanding shares, etc., should require a resolution of the general meeting of shareholders.

@ In the event of any issuance of new shares or certain issuances such as those exceeding a specific percentage of outstanding shares, etc., a pre-emptive right should be granted to the existing shareholders to protect them from dilution.

@ A company that plans to raise funds through new share issues should provide its shareholders reasonable explanation of why it needs stock financing, comparing cost differences between financing methods, such as equity financing, bond financing, etc.

● Shareholders should be able to participate in the basic decision-making process relating to the long-term success of the company, such as a change in control of the company, etc.

● The limit of authorized capital increase should be revised and updated annually at the general meeting of shareholders.

● The issuance of new shares, etc. causing substantial dilution to existing shareholders may threaten their economic interests, etc. Therefore, establishment of rules on equity

finance is required to ensure the rights of existing shareholders, especially those of minority shareholders.

b. Opinions on the issuance of new shares, etc., through a private placement to a third party about whom transparent disclosure is not provided

[**Assessment of the current situation concerning above issue**]

○ The fact that almost no information disclosed between the issuer and the third party is controversial upon the placement, as well as its dilution effect. If the placement is carried out under conditions in favor of the third party, this will cause the inevitable further damage to shareholder value.

● Although transparency is one of fundamental requirements for the efficient capital market, the Japanese market, from a variety of perspectives, has low transparency.

● Rather than the fact whether the third party discloses information or not, we should focus on the fact that such placement is conducted without a prior consent of shareholders, and without appropriate and independent supervision.

● Looking back on judicial precedents, it is virtually impossible to prohibit such placement under the current Corporation Law in Japan, even though such placement is carried out by a company's management for self-protection purpose and not for the interest of shareholders.

  Therefore, not only judging the legitimacy of Corporation Law, we should also try to establish in-depth "market rules" to introduce a system to utilize market forces and disseminate the globally applicable sense of value through the industry.

● The issuance of new shares through a private placement to a third party with no transparency is possible, even though it is not common, in Japan. This fact undermines confidence of existing investors and potential investors in the Japanese market.

[Desirable measures to address the issue]

(Measures to secure transparency)

@ In order to protect minority shareholders, there should be a disclosure of detailed information for existing shareholders about all private placements (those above a

certain size) to a third party. Such information includes the fact that new issuance causing substantial dilution has been undertaken, and how such issuance will be in the interests of shareholders, etc.

- To improve transparency, companies should refer to recommendations in the "White Paper on Corporate Governance in Japan" published by the ACGA.

(Measures to restrict the issuance of new shares, etc. through private placements)

○ A pre-emptive right should be granted to existing shareholders.

- It is desirable to impose restrictions on the price discount rate and the quantity which may be issued in any 12-month period other than issues to shareholders.

- After the annual limit of the issuance of shares is determined at the general meeting of shareholders, the company should prepare procedures, etc. to provide an explanation of their actions in case the number of issued shares exceeds this limit.

- Companies should obtain the prior consent of shareholders before issuance. The NYSE requires a shareholder vote when more than 20% of issued capital is to be issued in new shares. Such a rule is also required in Japan to protect the interests of minority shareholders.

- If the third party allocated intends to acquire a significant amount of shares, a TOB should be undertaken based on an appropriate price.

- The issuance of new shares other than issues to shareholders should be conditional to the consent of shareholders at the annual general meeting of shareholders.

- There is a need for appropriate supervision independent from management. Consent should be given by an independent non-executive director or auditor when issuing new shares through a private placement to related parties.

- The board of directors and management should make a decision concerning the issuance of new shares, etc. through a private placement to a third party with no transparency.

(Other measures)

○ While ensuring the flexibility of listed companies for fund raising, at the same time, certain rules on dilution should be established in order to protect the rights of minority shareholders.

- To establish such rules, companies should refer to recommendations in the "White Paper on Corporate Governance in Japan" published by the ACGA.

c. Opinions on the cross-shareholdings

[Assessment of the current situation concerning above issue]

@ Cross-shareholding represents an inefficient use of corporate funds and reduction in shareholder returns.

@ Cross-shareholding distorts the voting results at shareholder meetings and may disenfranchise minority shareholders other than cross-shareholders.

@ Cross-shareholding inhibits accountability for management and aid the self-protection of low quality management.

○ There is a problem that cross-shareholding is used for "vote trading" purposes, especially for takeover defenses.

- Public shareholders invest their money in listed companies doing business, not invest in companies making investments in securities. Therefore, it is desirable that companies do not use their funds for counter-productive cross-shareholding, instead they should reinvest excess funds in business, or return to shareholders through dividends or share buybacks so that shareholders can reinvest these funds.

- Companies should not decide whether to do business with other companies depending on whether they are cross-shareholders.

- If cross-shareholding is beneficial to business, a higher return on investment should come with companies cross-holding shares. However, there is absolutely no evidence for this.

- Insufficient explanation is given to shareholders concerning the holdings of shares of other companies.

- Cross-shareholding exposes shareholders to market risk unnecessarily, due to holding shares of other companies. Thus, if a price of a certain stock falls, stock prices of other listed companies will be affected unnecessarily.

- Cross-shareholding may effectively work well to strengthen trading relationships.

- Recently we hear many opinions against cross–shareholding itself. However, it is necessary to consider the operational benefits from the cross-shareholding system, and we should not be quick to blame cross-shareholding judging only from its fundamentals.

- The current conditions of the Japanese market where activities such as cross-shareholdings are not strictly regulated may harm investor confidence and motivation for investments.

[Desirable measures to address the issue]

○ Bolster the disclosure obligation with respect to all cross-shareholdings or those exceeding a certain size.

○ Bolster restrictions such as requiring the consent of shareholders with respect to transactions with cross-shareholders.

- In order to prevent cross-shareholdings which have no beneficial to business purpose, the necessity for and qualifications of independent directors who understand their fiduciary duty to shareholders should be clarified.

- The exercise of voting rights of cross-shareholders should be denied, although there may be a need for legal reform, in order to restrain activities of cross-shareholdings for the purpose of self-protection of management.

- If there is a plan for cross-shareholding arrangement, it should be determined by shareholder voting whether this plan will be in the interests of the company. If major/controlling shareholders are a cross-shareholder, they should be excluded from the resolution to authorize the cross-shareholding.

- Most exchanges set a high standard of floating stocks to be calculated excluding cross-shareholdings upon listing. This helps market participants to more accurately understand the ownership structure of companies they are investing.

- Efforts should be made to reduce cross–shareholdings, such as the introduction of governance system to ensure the resolution by a vote of shareholders who are independent from cross-shareholdings to determine important proposals such as takeover defensive measures as well as the fair treatment of minority shareholders.

- Regulations that require a consent of shareholders regarding a large-scale issuance of new shares should be introduced to prevent directors from imposition of

cross-shareholdings.

[Others]

- There is no clear definition of cross shareholding and that is the root of confusion amongst both listed companies and shareholders.
- Our view concerning cross-shareholdings is reflected the articles in the "White Paper on Corporate Governance in Japan" published by the ACGA.

d. Opinions on the reverse stock splits that deprive many existing shareholders of their shareholder's rights

[**Assessment of the current situation concerning above issue**]

○ Undertaking a reverse stock split in order to effectively remove the rights of many minority shareholders is totally unacceptable.

○ It is an unfair abuse of management rights against minority shareholders by using a reverse stock split to eliminate shareholders of less than one share unit. This will cause a high concentration of ownership in a small number of major shareholders.

- Reverse stock splits are generally considered as a potential to become legal and strategic options for companies, such as maintaining listing qualifications based on the share price standards, etc., and do not necessarily deprive existing shareholders of their shareholder rights. Furthermore, reverse stock splits are sometimes used by a listed company undertaking a reverse stock split in order to adjust its share price with share price levels of other companies in the same industry, or in order to bring its share price to the share price level prescribed in a particular institutional investor's investment guideline.

[Desirable measures to address the issue]

○ Reverse stock splits which deprive many shareholders of their voting rights should be used only in exceptional circumstances. It is important to provide clear explanation to shareholders and obtain their consent.

○ Any type of reverse stock split should be undertaken in a way to ensure all shareholders be treated fairly. Besides, there should be rules to protect minority shareholders from exploitation, or from risks of economic loss that are higher than

those of other shareholders.

- If major/controlling shareholders make a profit, that is disproportionate amount to their shareholdings, from changes in the capital structure, they should be excluded from a vote giving consent to those changes.
- The board of directors and management should make a decision concerning reverse stock splits which deprive many shareholders of voting rights.
- Not only for the purpose of reverse stock splits, companies should make a public disclosure concerning the latent impact on the ownership rights of the company prior to a reverse stock split being put to the vote of shareholders.

e. Opinions on the introduction of takeover defensive measures

[Assessment of the current situation concerning above issue]

- Takeover defense measures infringe on the interests of stakeholders. We strongly oppose all takeover defense measures.
- We are concerned about the rapid increase in the introduction of takeover defense measures. These measures are used not to protect the interests of shareholders but rather to protect management at the expense of public shareholders.
- Laws, ordinances and regulations relating to takeovers and disclosures have been revised and fair mechanisms have been built for M&A deals, including new TOB rules. Takeover defense measures are not needed to protect corporate value nor the interests of shareholders.

[Objective of introducing takeover defense measures]

@ The objective of takeover defense measures is not the protection of boards of directors and management who fail to yield results.

○ The objective of takeover defense measures is to support shareholders to obtain a better price as much as possible.

- Takeover defense measures should be carefully designed so that a takeover is undertaken at an appropriate buyout price (in other words, at a price the acquirer can produce a profit and existing shareholders who accept the takeover can be appropriately compensated).

[Procedures for the introduction of takeover defense measures]

@ When introducing takeover defense measures, a thorough explanation should be given to shareholders concerning "how the measures will contribute to an increase in shareholder value", "how the structure is not for the purpose of the self-protection of directors," etc.

@ The consent of shareholders should be obtained when introducing takeover defense measures.

○ Shareholders should be able to review takeover defense measures at the annual ordinary general meeting of shareholders.

● In order to ensure fair procedures, the composition of the board of directors should be made up by a majority of independent outside directors.

● Although takeover defense measures may function to contribute to the interests of shareholders, appropriate measures are also required in order to prevent latent abuse. Having independent directors on the board of directors is a fundamental measure.

● According to the report released by the Corporate Value Study Group, it was pointed out, as a evasion of responsibility, that directors tend to consider the approval of shareholders as an "endorsement" concerning the introduction of defense measures obtained at the resolution of the general meeting of shareholders and leave all the decision-making to a third party committee for the implementation of these measures. However, we assume that there is a different degree of interest of listed companies in reflecting recommendations described in the report that has no legally binding force into actual business operations. Therefore, not only judging the legitimacy of Corporation Law, we should also try to establish in-depth "market rules" to introduce a system to utilize market forces and disseminate the globally applicable sense of value through the industry.

● Revisions of guidelines by the Ministry of Economy, Trade and Industry are indispensable in order to impede the adoption of unfair and inappropriate takeover defense measures, or at least, to discourage companies to adopt.

[Details of takeover defense measures]

● The subject of the defense in takeover defense measures should be limited to an "abusive acquirer."

- In order to prevent the abuse of takeover defense measures, structural measures including eligible offer clause, sunset clause and consent by shareholders, etc. are required.
- Takeover defense measures should be made to be in line with proposals by the ISS (Institutional Shareholder Services), including the necessity of a trigger clause.

[Others]

○ A takeover proposal is made to the shareholders of listed companies and it is the shareholders that make a decision concerning the proposal. It is the shareholders, and not the management that has an intrinsic conflict of interest, therefore, should make the final decision on any takeover proposal.

○ The best defense against takeover proposals is to have a high share price based on business management and capital management supported by shareholders.

- Taking into consideration the recent report released by the Corporate Value Study Group etc., we want the TSE to restrict the policies that allow the self-protection of management.
- Takeover defense measures should be strictly controlled by a committee completely independent from management.
- Ultimately, whether takeover defense measures introduced by a company can protect its shareholders, or just contribute to the self-protection of management by depriving shareholder rights should depend largely on how these measures are composed and introduced in a fair manner. It is worth noting that in many countries takeover defense measures are considered intrinsically unfair.
- The report of the Corporate Value Study Group should be recommended by the TSE in some way.
- We should stop referring to “takeover defense measures” and change the term to “procedures for dealing with a large-scale acquisition of shares.”
- When considering the appropriateness of takeover defense measures, it is important to recognize that TOB is able to serve an important role in increasing company performance. In fact, the possibility of TOB itself helps to increase corporate value by bringing real discipline to management and by forcing management to focus on improving shareholder value. Furthermore, a takeover by a strategic acquirer has the

potential of bringing value synergies which increase common interests of shareholders. Therefore, we should not allow a company to inhibit these possibilities by introducing takeover defense measures which are simply for the personal interests of management.

● Takeover defense measures accompanied by handing over monies to an acquirer may encourage certain shareholders to involve in destructive activities by seeking short-term profits. Therefore, supporting this kind of takeover defense measures is not in the interest of shareholders.

f. Opinions on the implementation of takeover defense measures

[Assessment of the current situation concerning above issue]

○ We oppose the implementation of takeover defense measures for the purpose of the protection of boards of directors and management with poor performance, because such measures may be abused against public shareholders.

● We strongly oppose all takeover defense measures because they damage the interests of stakeholders.

● Takeover defense measures should be exercised for the benefit of shareholders and must not impede the efficient operations of the market for corporate control.

● It is inappropriate that management holds action to consider a takeover proposal as it delays significantly the execution and completion of the takeover by the acquirer. This action has essentially the same effect as the implementation of defensive measures and deprives a part of or a majority of shareholders, who may approve the takeover, of the opportunity to sell their shares.

[Procedures for the implementation of takeover defense measures]

(Decision-maker of the implementation of takeover defense measures)

@ The person who makes a decision on the implementation of and procedures for takeover defense measures should be completely independent of management and related companies.

○ Objective definitions of “independence” required for the independent/special committee should be provided.

- Independent directors should be able to play an important role in situations such as takeover defenses where the interests of management, the company and shareholders diverge. In order to ensure the fairness of the decision to implement takeover defense measures, outside directors should make up a majority of the board of directors.
- An appropriate representative of shareholders should assess a takeover proposal.
- The decision-maker concerned with implementing takeover defense measures should be a person who has considerable business experience in the related area.
- When TOB is started, a committee made up of independent directors should assess and give advice on the proposal. However, if the committee advises the adoption of poison pills, the consent of two-thirds of the shareholders should be obtained to implement takeover defense measures.
- Members of the independent/special committee should have a responsibility for the interests of shareholders and, if necessary, hold discussions with shareholders.
- Generally, an independent/special committee acts on behalf of shareholders but does not have any authority to overturn the decision by the board of directors on the implementation of takeover defense measures. Therefore, election of independent/special committee is not enough to protect the interests of shareholders.
- Doubts about the independence of committee members cannot be dispelled because the members who compose the independent/special committee are ultimately appointed by existing managers. Furthermore, there are cases such as where members without sufficient experience and knowledge concerning business and investments have been appointed or where the quality of the committee has been questioned. Thus, we propose the establishment of a committee composed mainly of members of the TSE to ensure a high degree of independence in name and reality.
- Under the circumstances where executive directors have fiduciary duty and legal liability to their company (shareholders), or outside directors are not really independent from management, and the value of outside directors is not generally understood in Japan, we are skeptical about the advantage of having outside directors as a principal decision-maker when implementing takeover defense measures.
- Taking into consideration that cross-shareholdings are increasing, if the implementation of takeover defense measures is approved by majority shareholders who are cross-shareholders, this implementation cannot be fully justified.

- Directors must be responsible to existing shareholders for all decision-making on investments. Official procedures with a high degree of transparency are required.
- TOB rules in the guidelines concerning takeover defense measures by the Ministry of Economy, Trade and Industry and the Ministry of Justice as well as in the Financial Instruments and Exchange Act should be revised to make clear the role and responsibility of the board of directors of a listed company, in order to ensure the fair adoption of takeover defense measures upon takeover proposals to such listed company which has introduced takeover defense measures.

(Information disclosure pertaining to the decision on the implementation of takeover defense measures)

- A high level of accountability and transparency in respect to all shareholders should be required in the process of implementation of takeover defense measures. Especially, it is desirable to have an explanation about the terms and conditions for the implementation of such measures, and why and how such measures will benefit the interests of shareholders in the long-term. In the case of hostile takeover, shareholders should be given the opportunity to receive appropriate information concerning the company's future plans from both existing management and the acquirer.
- In order to implement defense measures, unless the acquirer is a greenmailer, the listed company should give an explanation and information about its theoretical share price that exceeds the TOB price.
- In order to avoid an easy decision on the implementation of defense measures by judging a takeover proposal harmful to the common interest of shareholders, we expect more strict disclosures (for example, managers should disclose their estimated shareholding ratio of stable shareholders).

(Monies delivered to an acquirer)

- The implementation of takeover defense measures in which monies are handed over to the acquirer should not be implemented due to the risk of harming the interests of public shareholders, such as causing a massive outflow of capital from the company.

[Others]

- While a certain type of defense measure in which the implementation of takeover defense measures are confirmed at the general meeting of shareholders is increasing, we believe there is a major risk that a company introducing defense measures may be

tempted to manipulate stable shareholder voting to its own advantage. As persons involved in capital markets, we are extremely concerned that the capital markets can be controlled by stable shareholders, such as cross- shareholders, and that this will damage the soundness of governance and reduce the dynamism of Japanese companies.

g. Opinions on the function and role of directors

[Role and function required for directors]

@ The role of a director is, ultimately, by representing the interests of shareholders, to formulate mid and long-term strategies, supervise management which executes those strategies, seek the growth of the company, and maximize corporate value. Directors bear a fiduciary duty to shareholders.

- The responsibilities of directors are to execute the following duties; a) to have an executable, long-term business strategy; b) to have a system in order for the company to achieve that strategy; c) to employ and evaluate the CEO; d) to introduce appropriate financial practices and internal controls and to have financial figures accurately reflect the company's performance; and e) to introduce a compensation system which encourages employees towards the achievement of the company's long-term objectives.
- The interests of other stakeholders such as creditors, customers, business partners, employees, regional societies, etc. are also important to directors; but, as these interests are related to the fundamental role of representing the interests of shareholders in the company's long-term success, they coalesce with the interests of shareholders.

[Assessment of the current situation concerning the function and role of directors]

- Due to the fact that a company with the auditor system has no obligation to appoint outside directors, and that companies are free to voluntarily appoint independent outside directors and comparatively few companies do this, the current situation shows that the management is granted broad discretionary powers, and almost no effective and independent supervision is undertaken regarding business decisions.
- Compared to other markets of advanced countries, the number of independent non-executive directors or outside directors is extremely small in Japan.

● Many people have doubts about the real independence of outside directors in Japan. In fact, an appointed outside director is often a person related to the main bank, parent company, other group companies, business partners, etc.

● Taking the current situation into consideration, the Japanese market is still not ready to put in place effective checks and balances in relation to the self-interested acts of directors, particularly in cases of takeover defense measures.

[Governance structures]

● The board of directors should set up 3 important committees for remuneration, nomination, and audit. All committees should be made up, at a minimum, of a majority of independent directors, and the chairpersons of these committees should be independent of the company.

● All companies should establish separately from the board of directors a compensation committee and a supervision committee composed of independent directors.

● Even when a company chooses to remain a company with auditor system, the requirements for the independence of the board of directors should be applicable.

[Composition of the board of directors]

@ A certain number of outside directors should be appointed. The appointment of outside directors should be promoted.

○ Even though the function of the board of directors is to supervise management, it is a mistake to have the board of directors, made up largely from management. The board of directors should not be composed of management but rather should be made up of a large number of independent directors who are able to change management and policies when needed.

○ A more strict definition of the "independence" of outside directors should be established.

○ A listing rule which requires listed companies to appoint outside directors with the "comply or explain" approach should be established.

● Directors who were formally with the company and who are thoroughly familiar with the business engaged in by the company should also be appointed to the board of directors.

- The chairperson of the board of directors should be a person other than the CEO and an outside director without executive authority should serve in this position.
- The "OECD Principles of Corporate Governance" clearly stated that the board of directors should be able to make an objective and independent decision on the issues of the company, and that a sufficient number of members of the board of directors must be independent from management to ensure the independence of the board.
- Management can be a member of the board of directors only if the management owns a significant equity position in the company or is recommended by a major shareholder.
- Although we understand that the legal framework as well as practices relating to the board of directors in Japan differ from those of other countries, we strongly believe that independent supervision from outside undertaken on behalf of all shareholders is necessary.
- An upper limit on the number of people on the board or directors should be established.
- A finance specialist should be assigned as an outside director.
- We expect a supervisorial function by outside directors.
- Companies operating overseas should consider appointing a foreign director.

[Qualifications of outside directors]

- Independent/outside directors do not need to have special knowledge of the industry where the company belongs.
- Outside directors should have related business experience.
- Outside directors should have sufficient business experience or similar insights to be able to play a constructive role in debates in the board of directors.
- Outside directors should have appropriate and varied abilities, knowledge and experience.
- Outside directors should have no connection with important related companies.
- Outside directors should be independent from management.
- A person who was an efficient executive director may not always be an efficient

“non-executive director.”

- Outside directors should be an outsider and have no relationship with the company from the past up to the present.

[Function and role required for outside directors]

- The presence of independent outside directors would be beneficial, by encouraging appropriate external viewpoints, to improve the efficient use of capital, help companies to become more competitive, and adept at risk management. Outside directors provides an independent spirit and external viewpoints to the debate at the board of directors, and the presence of genuinely independent directors also provides an important safeguard against the potential for managerial self-interest and weak execution of company strategy.
- Having genuinely independent directors on the board of directors helps the board to be sensitive to its judiciary duty to shareholders.
- The proactive attendance of outside directors at meetings of the board of directors is desirable.

[Others]

- In order to avoid potential areas where a conflict of interest may arise with management and to protect the independent supervisory function of the board of directors, an internal structure is needed to support the independent work of the board of directors, including ensuring their authority to hire outside consultants without the interference and consent of management.
- With respect to the guidelines related to directors and the definition of an independent director, we agree with the ACGA guidelines.
- A clear explanation about the role of outside directors and the structure of the company’s corporate governance should be given in the annual report. The disclosure of information should include information concerning details of related committees and how many times the board of directors and the committees met .
- When selecting directors, it is desirable to have materials to judge the qualification of candidates for directorships.
- For companies which do not appoint outside directors, it is difficult for them to voluntarily accept outside directors without any motivational reason to make that

appointment.

h. Opinions on the function and role of auditors

[Role and function required for auditors]

○ For companies adopting the traditional auditor-style corporate governance system, it is expected that outside auditors serve as a supervisorial function which is generally served by outside directors in companies adopted the committee-style corporate governance system.

[Assessment of the current situation concerning the function and role of auditors]

○ Internal auditors do not take the same role and responsibility as outside directors. Internal auditors have no clear and accurate knowledge about corporate governance and no right to vote for the board of directors; therefore, they cannot be a substitute for independent directors.

○ In reality, the function of auditors is rather limited, focusing on issues on compliance with laws and ordinances, and accounting audits.

● The function of auditors in Japan is completely different from that of the United States. As the board of directors is not independent in Japan, shareholders can only have auditors as a safeguard. However, in many cases auditors are not completely independent from management. Furthermore, as there is a custom of paying auditors a lump sum retirement allowance, it is difficult to dispel concerns that they act for management rather than shareholders.

[Governance structure]

○ Listed companies should adopt the committee-style corporate governance system which is the international standard.

● If a company chooses to continue the auditor-style corporate governance system, independent auditors are a key for effective supervision of the company. In this case, a system should be established including formulating the number of outside auditors, frequency of elections, etc. to enable effective supervision of management.

[Required qualifications of auditors]

○ Auditors should be independent from management.

- Although companies are required to have outside auditors, this should be advanced one step further to require companies to have independent auditors who are free of conflicts of interest with the company. The definition of an independent auditor should be stated focusing on the cases where an auditor has no independence, contrary to the definition of an outside auditor described in the Corporation Law.
- Auditors should be selected based on their finance and accounting experience by independent directors.
- Standards should be established which bolster the independence of outside auditors.
- We doubt whether the independence requirement for auditors is actually met.
- Enhancement of independence of auditors is desirable. Measures should be taken to reduce the involvement of management concerning the independence of auditors. Also, it should be obligatory that the appointment of auditors is made by shareholder voting.

[Others]

- Even for companies with the auditor system, it is necessary to appoint at least one or two genuinely independent directors.
- The auditor's primary line of reporting should be to the audit committee (if one exists) and not to management. Ultimately, auditors are employed to serve the shareholders, not management. Therefore, shareholders should be given an opportunity to vote on their appointment or re-appointment at the annual general meeting of shareholders.
- With respect to the function and role of auditors, I agree with the ACGA guidelines.
- I recommend a change of outside auditors to outside directors.

i. Opinions on the exercise of voting right by institutional investors

[Clustering of shareholder meetings]

@ The clustering of general meetings of shareholders which prevents shareholders from exercising their voting rights effectively should be alleviated. The concentration of meetings not only physically inhibits shareholder attendance at the general meeting but also diminishes the desire of institutional investors to exercise their voting rights,

thus reduces the quality of decision-making in the exercise of voting rights.

- ○ In order to reduce the concentration of the general meetings of shareholders, regulations which require listed companies to hold their annual general meetings within 90 days of their record date should be relaxed, such as permitting companies to hold shareholder meetings within 120 or 150 days of their year-end.

[Delivery of information concerning shareholder meetings to shareholders]

- @ Information such as shareholder meeting notices, reference documents for the exercise of voting rights, etc. should be disclosed at an early period (3 weeks or 4 weeks before the meeting).
- ○ Companies should translate the meeting notices, reference documents for the exercise of voting rights, etc. into English.
- ● Companies should offer more detailed Information concerning meeting notices, reference documents for the exercise of voting rights, etc.
- ● The shareholder meeting notices should be distributed in PDF format.

[Exercise of voting rights at the shareholder meetings]

- @ Detailed vote results that state the total number of votes for and against each resolution of the general meeting of shareholders as well as any abstentions should be disclosed.
- ○ In order to function the electronic voting and facilitate the exercise of voting rights by overseas investors, it should be compulsory for listed companies to register on ICJ (the electronic voting platform for institutional investors).
- ○ For resolution at the general meeting of shareholders, the voting method should be taken with respect to all resolutions.
- ● Restrictions on the attendees to the general meetings of shareholders need to be relaxed and brokers should be recognized as legal proxies.
- ● In order to provide information concerning whether institutional investors are carrying out their stewardship responsibilities, we should make it obligatory to disclose the voting records of institutional investors.
- ● Shareholders should have the right to vote separately on each agenda and companies should not conduct a vote on different agendas collectively.

- Shareholders should be able to vote secretly.

- Each shareholder should be given as many votes as there are positions to be filled for director and entitled to cast those votes for one candidate or distribute them among the candidates. By using this cumulative voting, shareholders will be able to cast their votes so as to increase the probability that their interests will be represented in the board of directors.

- Overseas investors who hold shares through nominee accounts should be able to exercise voting rights and be given the right to attend the general meeting of shareholders to the extent that shares are held on the date of record.

- Institutional investors should exercise their voting rights. Institutional investors should not vote based on their own business interests.

j. Other opinions

[Disclosure of director remuneration]

○ With respect to the policies on management and director compensation and related structures, timely disclosures should be made to shareholders in a highly transparent manner. Although the information in the corporate governance report is useful, information concerning the compensation system as well as the incentive scheme is still not comprehensive.

- Disclosures of individual compensation of directors and auditors, background of directors, and the attendance rate of each director at meetings of the board of directors should be required.

- The compensation structure should make the interests of management/directors be linked to the performance of the company (ideally return to shareholders) and consistent with the interests of shareholders.

[Listed subsidiaries]

- The listing of subsidiaries is not desirable because there is a possible conflict of interest between the parent company and minority shareholders of the listing subsidiary.

- In order to strengthen the corporate governance of listed subsidiaries, strict

requirements for the independence of outside directors of the listed subsidiaries should be introduced. It is desirable to avoid selecting persons come from the parent company as an outside director or outside auditor of the listed subsidiaries.

- In principal, it is desirable to strictly limit the listing of subsidiaries by regulation, etc. With respect to existing listed companies, we expect the exchange provide guidance so that appropriate capital policies are taken to avoid conflicts of interest.

[Transactions with controlling shareholders]

- From the perspective of the protection of minority shareholders, the following three steps of regulations should be considered in relation to transactions with related companies; (1) Listed companies will be requested to disclose the content and implementation status of measures that ensure the fairness when conducting transactions with related companies; (2) With respect to the measures to ensure the fairness when conducting transactions with related companies, best practices should be stipulated. Listed companies will be requested to conform to the comply-or-explain regulations; and (3) Listed companies will be requested to obtain a consent of the special committee with respect to important transactions with their parent company, fellow subsidiaries, or controlling shareholders.

[Necessity of awareness of capital costs]

- Listed companies should be conscious of capital costs in managing the business. If investments are made in the business and attractive returns are not generated, shareholder capital should not be held as retained earnings. Surplus cash should be returned to shareholders, and shareholders can reallocate such cash efficiently in other investments.

- Disclosures concerning economic profit, awareness of capital costs, and return to shareholders policies should be made in the corporate governance report, etc.

[Promotion of dialogue with shareholders]

- Directors of listed companies should have a dialogue proactively with their shareholders so that they can learn what public shareholders expect from the board of directors.

- Although we see progress in the spread of timely disclosures in English, still some companies do not provide information in English. It should be made mandatory that all listed companies make disclosures in English.

[MBOs and takeovers by parent companies and controlling shareholders]

- In MBOs and takeovers by parent companies/controlling shareholders, corporate governance relating to these transactions should be strengthened in addition to enhancement of disclosures, to avoid possible conflicts of interests between shareholders and directors/management.

- From the perspective of the protection of investors and minority shareholders in the case of MBOs and takeovers by controlling shareholders, the following policies, in the same way as "transactions with related companies," should be adopted; (1) Listed companies will be requested to disclose the content and implementation status of measures that ensure the fairness when conducting the related transactions; (2) With respect to the measures to ensure the fairness when conducting the related transactions, best practices should be stipulated. Listed companies will be requested to conform to the comply-or-explain regulations; and (3) Listed companies will be requested to obtain a consent of the special committee with respect to important transactions with their parent company, fellow subsidiaries, or controlling shareholders.

- The MBO price must not be less than the price at the time of the public offering.

[One share - one vote principle]

- We prefer a share structure that gives all shareholders equal voting rights. We do not support the issuance of shares which gives greater or lesser voting rights. We also do not agree on a company fund raising where capital structure does not give equal voting rights.

- Under a share structure which permits one group of shareholders to have unequal voting rights, small number of shareholders may, for their personal benefit, disregard the will of large number of minority shareholders. If the dual-class share structures continue to be legal, companies adopted such structure should disclose their adoption and situation, and in what way and how much degree such structure will affect other shareholders.

[Overall corporate governance]

- We should develop principles of corporate governance, etc. to stipulate best practices in corporate governance as well as introduce the comply-or-explain regulations to

ensure constructive dialogues between shareholders and a company.

- The board of directors of a listed company should have a clear corporate governance guideline. It would be a good first step to adopt the corporate governance principles of the Pension Fund Association.

[Others]

- Director's term of office should be one year only, instead of several years, and should not be extended.
- Among responsibilities of directors, the most important is shareholder value including raising share price in the long-term and increasing the value of the company, and returning surplus funds to shareholders including periodic dividends.
- Like the ERISA (Employee Retirement Income Security Act of 1974) in the United States, Japan also needs clear standards relating to the fiduciary duty of brokers (investment managers, trustees, pension funds, endowment funds, etc.). A similar obligation should be placed on directors of listed companies.
- Accounting auditors should serve as audit functions only and should not provide services to companies such as consulting and tax preparation, etc.
- Japan needs to develop an effective market for corporate control. For this purpose, harmonization of laws and regulations such as the Corporation Law and the Financial Instruments and Exchange Act is necessary.
- We expect the corporate governance report be made into a database in a format which would allow compilation with spreadsheet software.
- Impose penalties against companies which do not pay dividends.

The objective of this document is to introduce summaries of opinions received in response to listed company corporate governance questionnaire for investor, and does not suggest any view of the TSE concerning each of issues discussed in this document nor indicate any direction of

future policies of the TSE.

All opinions we have received are equally helpful to determine the direction of our policies in the future, and our decision will not depend on a majority opinion.

Among opinions, there are those discussing specific and concrete examples. We have introduced those opinions as generalized.

End