

Board Practices in Japan 2016



Introduction

Corporate governance reforms have been promoted by amendments to the Companies Act in May 2015 and implementation of the Corporate Governance Code in June the same year. In particular, the roles and responsibilities of the board are described in Section 4 of the Corporate Governance Code, drawing attention to the effectiveness of boards of listed companies in Japan.

For the purpose of contributing to improvements in board effectiveness, Deloitte Touche Tohmatsu LLC conducted the survey “Board Practices in Japan 2016”, and invite listed companies to use the results as a benchmark to analyze and evaluate board effectiveness.

The survey was distributed to about 500 companies, comprising companies covered by the JPX-Nikkei Index 400 and those selected by Deloitte Touche Tohmatsu LLC. Our company compiled the feedback from 169 respondents, and prepared this report to analyze the results.

This report outlines and summarizes excerpts from the survey results.

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About this report

“Board Practices in Japan 2016” is the summary of results from a survey conducted by Deloitte Touche Tohmatsu LLC for specific listed companies. The report uses content partially excerpted from the full survey results.

Japanese and English versions of this report can be accessed from the Deloitte website at <http://www.deloitte.com/jp/cgsurvey2016>.

The complete version of the survey results for all 35 questions has been shared with companies that participated in the survey.

Survey methodology

The survey was sent to the board secretariats of selected companies. Responses were returned by mail, e-mail, web system or other methods from December 1, 2015 to December 25, 2015.

Companies surveyed

- Companies covered by the JPX-Nikkei Index 400 (as of August 31, 2015).
- Other companies selected by Deloitte Touche Tohmatsu LLC.

Total of 509 companies.

Outline of respondent companies

Of the companies surveyed, 169 companies responded (response rate: 33%) .

Method for preparing this report

- The survey responses to each question are analyzed by sales volume (consolidated sales of more than 500 billion yen/less than 500 billion yen).
- Responses are aggregated for questions that allow multiple answers. Therefore, the total number of responses in the aggregate results is not same as the number of respondents (169 companies).
- For the responses described as “others”, the content was examined and then transferred partially by our secretariat to other response items. Common items with many responses were separately extracted and aggregated (footnotes are added for the applicable questions).
- Ratios described in the commentary for the survey result use the number of respondents (169) as the denominator, rounded off to the nearest whole number and expressed as a percentage.

Points of attention

This document is prepared based on the result of a survey conducted by using the expert experience of Deloitte Touche Tohmatsu LLC.

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The survey is structured based on operating the PDCA cycle properly (Composition “Plan”, Agenda items/operation “Do”, Analysis/evaluation “Check”, Review of roles and responsibilities “Action”), which enables the board to fulfill its roles and responsibilities.

P Composition (Plan)

The most desired experience and knowledge for independent directors are “management/executive experience”, “knowledge of compliance and legal” and “experience of international business”.

Responses suggest that for independent directors to perform the role that is expected of them, both management experience [e.g. “management/executive experience”, “experience of international business”] and specialized knowledge [e.g. “knowledge of compliance and legal”, “knowledge of finance and accounting”] are required.

D Agenda items/operation (Do)

On average, the annual number of matters to be resolved and matters to be reported are 55.4 and 45.9 respectively. The combined average is 101.5.

Many respondents say that the number of matters to be resolved per annum is “31 to 40” or “41 to 50”. The average number is 55.4.

Many respondents say that the number of matters to be reported is “21 to 30” or “31 to 40”. The average number is 45.9.

Most respondents say that matters to be resolved makes up 60%-70% of the board agenda, whilst matters to be reported makes up the remaining 30%-40%. Overall, the ratio of matters to be resolved tends to be higher. This suggests that there are more operational agenda items, rather than those related to oversight.

C Analysis/evaluation (Check)

Information on matters required for the oversight function is insufficient.

Information on “progress of succession planning for the CEO and other top executives”, “matters for dialogues with investors/shareholders”, “progress on the execution of important operations”, and other areas which are required to exercise the oversight function of the board, appears to be insufficient. Regarding dialogue with investors/shareholders, such dialogue may not be fed back to the board, which could result in stakeholder viewpoints being under represented when the board deliberates on strategy or mid- and long-term management plans.

A Review of roles and responsibilities (Action)

Companies are starting to discuss or review “the scope of important operations that should be discussed by the board”.

75 percent of respondents say that they “discuss” or “want to review but cannot discuss” the scope of important operations that should be discussed by the board, and the delegation of authority over operations execution to management. General Principle 4 of the Corporate Governance Code illustrates the roles of the board with several examples, including; “setting the broad direction of corporate strategy”, “establishing an environment where appropriate risk-taking by the senior management is supported” and “carrying out effective oversight of directors and the management from an independent and objective standpoint”. The survey results suggest that many companies either intend or want to delegate operations execution to management within the scope permitted by law, and reconsider the balance of board agenda items in relation to strategy and oversight.

Survey results (excerpt)



Sales volume

Please indicate your sales volume for the most recent business year (on a consolidated basis, if applicable).



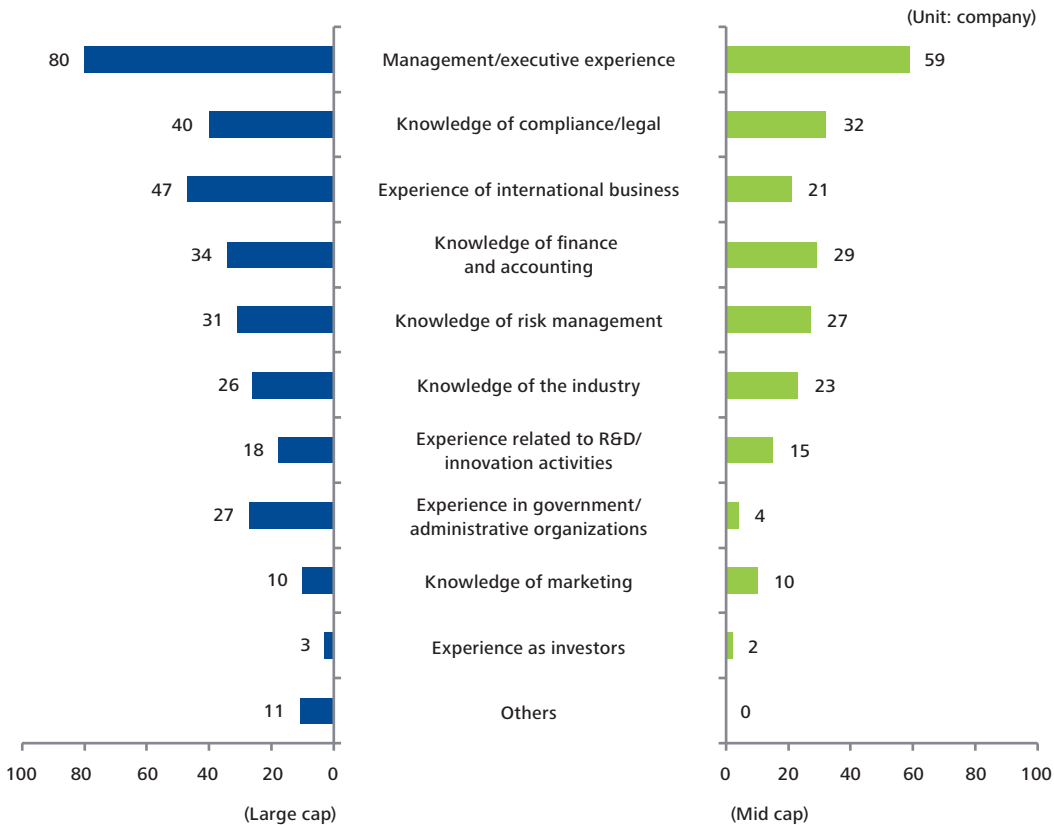
- ※1 More than 1 trillion yen.
- ※2 Between 500 billion yen and 1 trillion yen.
- ※3 Less than 500 billion yen.

Of the 169 companies that responded, 126 are covered by the JPX-Nikkei Index 400.

P

Experience/knowledge that your company considers as important for independent directors

Please indicate the experience/knowledge that your company considers as important for independent directors to play their anticipated roles. (Multiple answers allowed)



The results suggest that respondents place importance on both specialized knowledge [e.g. "management/executive experience", "experience of international business"] and management experience [e.g. "knowledge of compliance and legal", "knowledge of finance and accounting"].

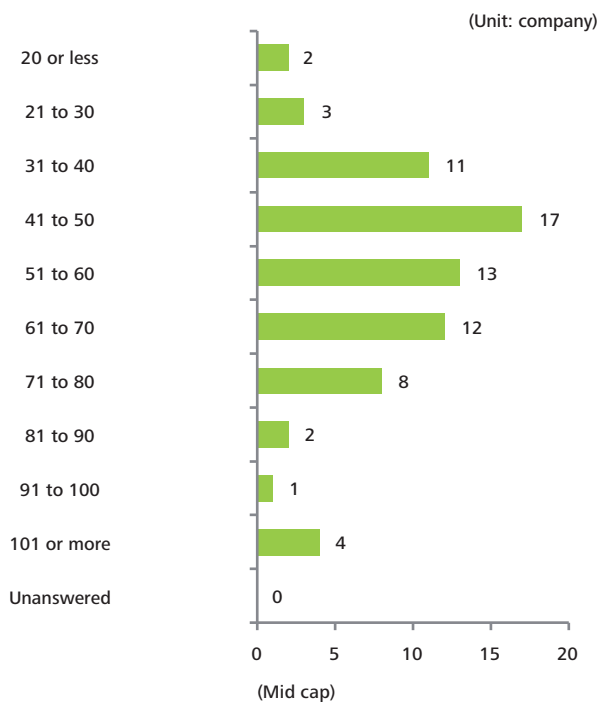
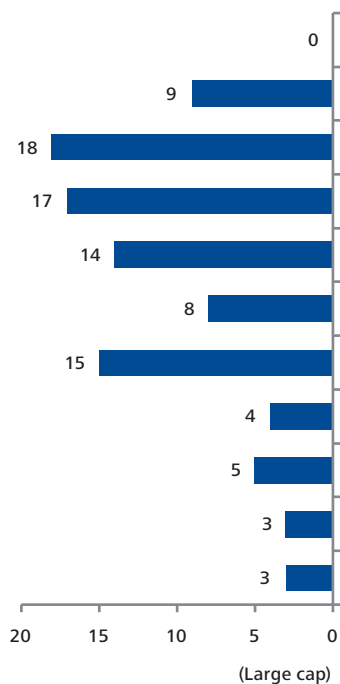
* The responses in the "others" column are transferred partially by our secretariat to other response items and then aggregated.

D The number of matters to be deliberated by the board

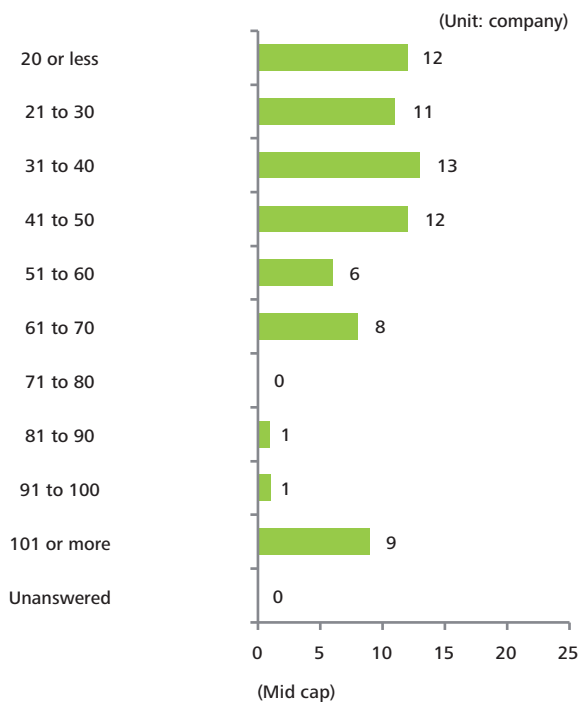
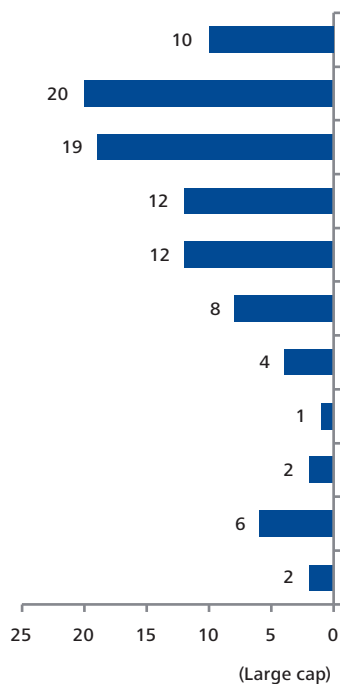
With regard to the number of board agenda items, please indicate the numbers of matters to be resolved and matters to be reported for the most recent business year (one year).

The average number of matters to be resolved is 55.4 while the average number of matters to be reported is 45.9. The combined average number is 101.5*.

〈The number of matters to be resolved〉

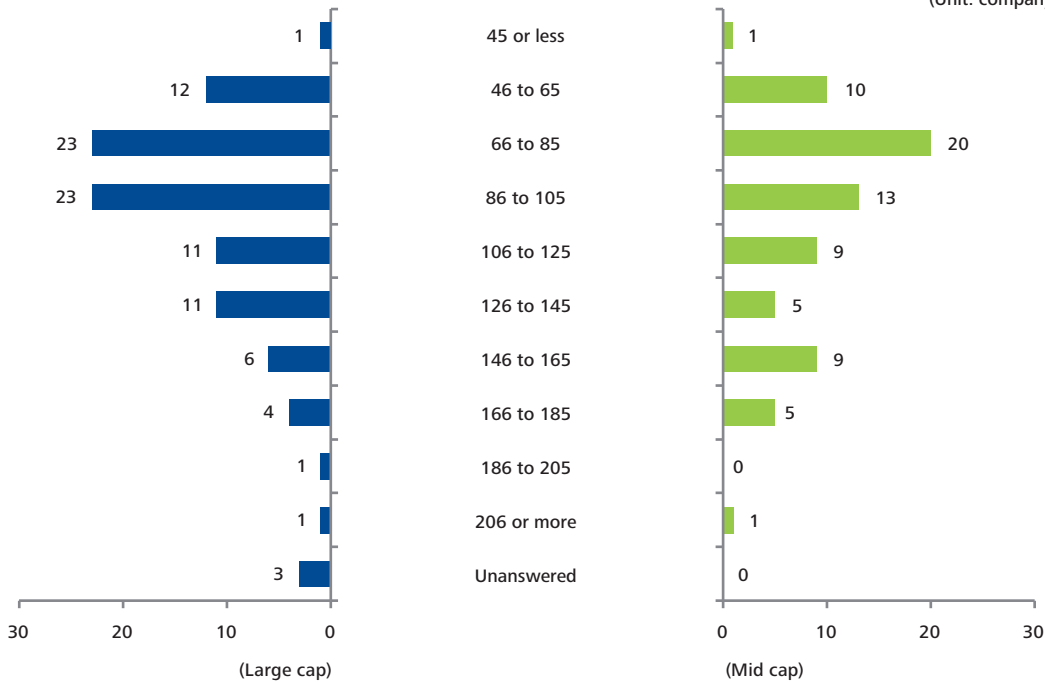


〈The number of matters to be reported〉



〈The combined number of matters to be resolved and matters to be reported〉

(Unit: company)



With regard to the ratio of matters to be resolved and matters to be reported, most companies answer that matters to be resolved makes up 60%-70% of the board agenda, while matters to be reported makes up 30%-40%. Overall, the ratio of matters to be resolved tends to be higher.

* With regard to responses, the combined number is calculated on the assumption that "20 or less" is 15, "101 or more" is 105, and the midpoints of each range of response alternatives are for other ranges (for example, the midpoint of the range "21 to 30" is 25).

* The analysis is only performed for the number of agenda items on the board. The deliberation time per agenda item is not incorporated. Therefore, it should be noted that the survey result does not directly reflect the depth of actual discussion.

Board effectiveness can be enhanced

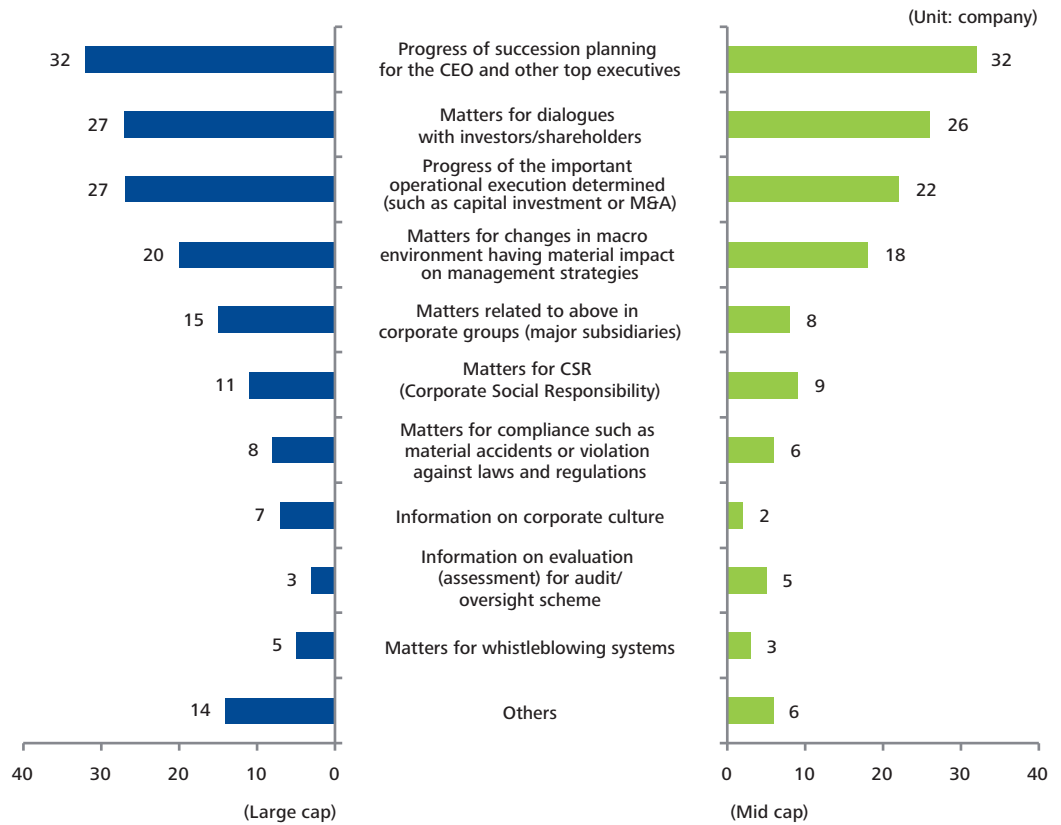
by reviewing board composition (Plan), considering the balance of agenda items/operations (Do) and clarifying/analyzing items that needs to be resolved (Check), enabling the board to identify specific areas for improvement (Action).



Insufficient information

Based on the information that is obtained by the board, please indicate what information your company considers insufficient. (Multiple answers allowed)

The most common response to the question “areas the board cannot discuss” (not listed in this report) is “succession planning for the CEO and other top executives”. In response to the question “matters your company should discuss with stakeholders” (not listed in this report), 62 percent of respondents listed “stance on information disclosure” regarding investor and shareholder relations. However, many respondents answer to this question also indicated that the information obtained by the board regarding “matters for dialogues with investors/shareholders” is insufficient. This suggests that such dialogue may not be fed back to the board.



A

The scope of operational execution

Please indicate if your company discusses the scope of important operations that should be discussed by the board (for companies with *Kansayaku*) or the delegation of authority over operations execution to management (for companies with three committees [Nomination, Audit and Remuneration], or Supervisory Committee).



75 percent of respondents say that they “discuss” or “want to review but cannot discuss” the scope of important operations that should be discussed by the board or the delegation of authority over operations execution to management. As the report* published by METI in July 2015 shows, “separation of execution and oversight functions” can limit the scope of matters to be discussed by the board and increase the review momentum.

*Report of the Corporate Governance System Study Group, Ministry of Economy, Trade and Industry: “Implementation of Corporate Governance -Incentives and Reforms toward an Increase in Corporate Value”.
http://www.meti.go.jp/english/press/2015/0724_03.html

GRC Service is

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