

Webinar



2021 JAPAN PROXY SEASON PREVIEW WEBINAR

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Our Leadership Team

Japan Research Leadership

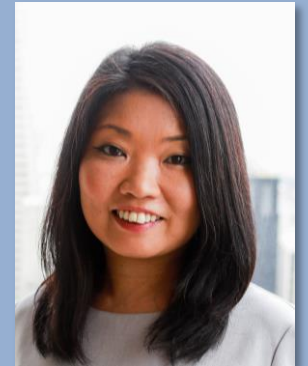
Philip Foo | VP, APAC Research & Engagement

- Joined Glass Lewis in 2018
- CFA Charterholder and Chartered Accountant, based in Sydney Australia.
- Oversees Research & Engagement function throughout all Asian and Pacific markets, working with VP, Asia Research & Engagement in setting regional strategy.



Naoko Ueno | VP, Asia Research & Engagement

- Joined Glass Lewis in 2010
- In 2020, with the opening of Glass Lewis Japan in Tokyo, moved back to Japan and has been involved in the establishment of the Tokyo office as Vice President of Research and Engagement, Asia Research, where she is responsible for setting up the office.
- Has also participated in numerous seminars and panel discussions in Japan.
- Has been responsible for the shareholder meetings of approximately 2,700 Japanese companies.



Agenda

Housekeeping

- The webinar will be available on-demand through your registration link
- Colleagues can still sign up and view on-demand via our website (or you can forward them a link)
- We will send out a copy of the slide deck in a follow-up email
- Proxy Season Preview documents will also be circulated
- Q&A to follow-contact us if your specific question does not get addressed at info@glasslewis.com
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Agenda

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- Key Trends
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- Meetings to Watch
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- Q&A



About Glass Lewis

The World's Choice for Governance Solutions

We enable institutional investors and publicly listed companies to make sustainable decisions based in research and data.

- Our customers include the majority of the world's largest pension plans, mutual funds, and asset managers, collectively managing over \$40 trillion in assets.
- We have teams located across the United States, Europe, and Asia-Pacific giving us global reach with a local perspective on the important governance issues.
- We cover 30,000+ meetings each year, across approximately 100 global markets.
- Our offerings include Proxy Paper proxy research reports, Viewpoint Proxy voting platform, and extensive thought leadership (learn more at [GlassLewis.com](https://www.glasslewis.com)).
- For public companies, our Governance Hub provides easy access to tools and resources, including Glass Lewis research and thought leadership, to help companies optimize their corporate governance programs and ESG strategies.

Contact your Glass Lewis representative to discuss further or email our teams at:

grow@glasslewis.com (institutional investors) | engage@glasslewis.com (public companies)

Japanese Footprint

Since opening in 2020, our Tokyo office has:

- Grown to a headcount of eight in Tokyo and two in Sydney under Naoko's leadership.
- Expanded beyond a simple research hub into a full functional office, with Research, Sales, Policy and IT departments.
- Is now a regional hub, covering both Tokyo and Korean AGMs.

Going forward, the Tokyo office will focus on:

- Expanded engagement activities, meeting with boards and IR & SR professionals.
- Return to a physical presence on resolution of the COVID-19 pandemic, based in Shinjuku, Tokyo.
- Grow a bench of market facing Senior and Lead Analysts, focusing solely on Japanese corporate governance practices and Japanese listed-companies.

Key Trends

Key Trends – Market Rules and Regulations

Revised Companies Act (effective from March 2021)

- Obligation to appoint at least one outside directors to Companies with a board of statutory auditors (a.k.a two-tier board).
- Obligation to disclose the policy on how to determine the content of each director's compensation and a summary of the content.
- Clarification of the content and procedures for company indemnity and company directors' and officers' liability insurance to be recognized.
- Limitation on the number of shareholder proposals that can be submitted at any one shareholder meeting to 10.

New System for Market Classification of the Tokyo Stock Exchange (effective from April 2022)

- The current five market segments of First Section, Second Section, Mothers, JASDAQ Standard, and JASDAQ Growth will be divided into three market segments: Prime Market, Standard Market, and Growth Market.
 - Prime Market - For larger companies with higher governance standards.
 - Standard Market - For companies with a certain level of market capitalization and a basic level of governance as a listed company.
 - Growth Market - For companies with high growth potential but relatively high risk in terms of business performance.

Key Trends – Market Rules and Regulations

Revised Corporate Governance Code (expected to be announced in Spring of 2021)

- Key items that are expected to be updated
 - Independent outside directors account for at least 1/3 of the board of directors of the Prime Market listed companies.
 - Disclosure of skills metrics.
 - Disclosure in response to climate change.
 - Ensuring diversity in the company's core human resources.

Special provisions for the realization of virtual-only shareholder meetings

- Virtual-only shareholder meetings can be held starting with the June 2021 shareholder meetings.
- For the first two years after the enforcement of the law, with the permission of the Minister of Economy, Trade and Industry and the Minister of Justice, a virtual-only general meeting can be held without changing the articles of incorporation.
- Some companies may propose amendments to their articles of incorporation to enable them to hold virtual-only shareholder meetings in the future. Before the amendment can be proposed, it will need to be approved by the ministers.

Key Trends – Summary

Board Independence

- The independence of the board of directors of companies (big companies) wishing to list on the Prime Market, a new category of the Tokyo Stock Exchange, is expected to be at least 1/3 ahead of schedule of regulatory changes.

Diversity

- Both domestic and international investors are interested in all aspects of diversity but as for Japanese companies, particularly interested in gender diversity.
- Perhaps in consideration of the gender disparity in Japanese society as a whole, even if gender diversity has been established as voting policies, it is limited to overseas institutional.
- Many companies explain that they are unable to promote the advancement of women at a rapid pace due to the lack of sufficient pool of qualified female director candidates.
- Although there is a temperature difference in the attitude toward the promotion of gender diversity in Japan and the rest of the world, the Corporate Governance Code also calls for further promotion of women's activities in companies, so although we cannot expect speedy progress, we can expect steady progress in gender diversity.

Key Trends – Summary

ESG Management & Oversight Functions

- ESG will continue to be a focus for companies and investors.
- E&S reporting and oversight, including climate change related disclosures among Japanese companies, has improved in some areas; however, only a minority of companies have board-level oversight of E&S. The majority of companies approach the issue with E&S-related departments (or other relevant department) having responsibility for such reporting.

Disclosure Regarding Directors' Compensation and Equity Compensation

- Amendments to laws and regulations have led to an increase in the introduction of performance-linked compensation.
- The disclosure of executive compensation in Japanese companies is expected to improve, but the disclosure of performance targets and the adoption of non-financial information as KPI have yet to progress.
- Further, due to the low level of executive compensation in Japan compared to other markets around the world, disclosure of compensation at the individual level is not implemented by most companies (except for compensation exceeding ¥100 million).
- More and more companies are expected to introduce stock-based compensation plans in addition to cash-only fixed directors' fees.

Key Trends – Summary

Shareholder Proposals

- Old-fashioned joke shareholder proposals are rarely seen, and shareholder proposals seeking to improve capital efficiency and governance are on the rise.
- Last year, a shareholder proposal on climate change was submitted to a major financial group. It is reported that similar shareholder proposals have been submitted to Japanese companies for upcoming Japan's proxy season in June. Climate change-related disclosure will become increasingly important for Japanese companies.
- Last year, despite the COVID-19 pandemic, the number of shareholder proposals trended upward. This trend is expected to continue this year, and more shareholder proposals are likely to receive a large percentage of approval, and possibly even majority support. However, it is also possible that some shareholder proposals would be approved, as was the case at Toshiba's extraordinary general meeting of shareholders held in March 2021.

Key Trends – Good Disclosure

Strategic Shareholding

- Mitsui & Co. (TYO: 8031)
 - Disclosure of the detailed purpose of each strategic shareholding stock in its securities report.
- Asahi Group Holdings, Ltd. (TYO: 2502)
 - Disclosure of information on strategic shareholding of the most recent fiscal year in the notice of meeting.

Skill Matrix & Other Governance Information

- Ebara Corp. (TYO: 6361)
 - Disclosure of Directors' Skill Matrix in the notice of meeting.
 - Disclosure of detailed composition information of the board of directors and committees.

Gender Diversity

- Recruit Holdings Co., Ltd. (TYO: 6098)
 - Disclosure of detailed information on efforts and achievements to promote the advancement of women in its annual report.



Voting Guidelines Updates

2021 Guidelines Updates - Japan

Excessive Strategic Shareholding

- Will generally recommend voting against the chair of the company (or the most senior executive in the absence of a company chair) when the size of strategic shares held by the company exceeds 10% or more of company's net assets in the securities report disclosed in the previous fiscal year.
- However, if the latest figures are disclosed in the materials for the general meeting of shareholders, the latest figures will be used.
- Will carefully review a company's disclosure of its strategic shareholding policies and practices and may refrain from recommending shareholders vote against directors for this issue alone when the company has disclosed a clear plan to reduce the size of its strategic shareholdings, has a track record of reducing such shares, or discloses clear, detailed, and reasonable reasons for holding each strategic shareholding stock.

2021 Guidelines Updates - Japan

Results of Applying the New Policy during the 2021 March Shareholder Meetings

*The calculation is based on the companies that held AGMs in March 2021 under GL converge

- % of companies with strategic shareholdings of 10% or more of consolidated net assets
 - Approximately 15.4% (of all Glass Lewis coverage in March 2021)
- % of companies with strategic shareholdings of 10% and GL recommended voting against top management
 - Approximately 6.2% (of all Glass Lewis coverage in March 2021)
- % of companies that GL did not recommend voting against even though companies do have extensive strategic shareholdings
 - Approximately 40% (of the companies with strategic shareholdings of 10% or more of consolidated net assets)
- Major reasons of Glass Lewis did not recommend voting against based on extensive strategic shareholdings
 - A clear trend toward reduction
 - Disclosures that confirm that the reasons for holding the relevant strategic shareholding shares are directly related to the current business plan.

While 36% of companies with the June shareholder meeting (30% for companies of GL coverage) do not meet our strategic shareholding policy, we expect that our recommendations to follow the similar trend of the above March meeting results. However, the against recommendation rate may increase because many companies in industries with large strategic shareholdings will hold shareholder meetings in June.

2021 Guidelines Updates - Japan

Virtual-only shareholder meetings

- Stemming from the disruptions triggered by the COVID-19 pandemic, Japanese companies will be able to hold virtual-only type general meetings (expected from June 2021).
- Summary of Planned Legal Changes
 - Companies must always obtain permission from the Minister of Economy, Trade and Industry and the Minister of Justice to hold a virtual-only general meeting or to amend their articles of incorporation to allow for a virtual-only general meeting.
 - Intended to be a law that does not infringe on the rights of shareholders for ordinary shareholder meetings, except that the venue of the meeting will be a virtual space and will be an article of the current law that protects the rights of shareholders.
- While the new law is expected to protect the rights of shareholders, Glass Lewis will look for robust disclosure in a company's proxy statement that assures shareholders that they will be afforded the same rights and opportunities to participate as they would at an in-person meeting.

Meetings to Watch

Meetings to Watch

Toshiba Corp. (TYO: 6502)

- The first annual general meeting of shareholders after the March 2021 extraordinary meeting at which the shareholder proposal concerning shareholder rights was approved.

Sumitomo Mitsui Trust Holdings, Inc (TYO: 8309)

- Improper handling of counting voting form of shareholder meetings.

Mizuho Financial Group, Inc. (TYO: 8411)

- Recurrence of system failure.
- Improper handling of counting voting form of shareholder meetings

Mitsubishi UFJ Financial Group (TYO: 8306)/Sumitomo Cor (TYO: 8053)

- Climate change related shareholder proposal.

Net One Systems (TYO: 7518)

- Fourth time for accounting fraud.

What's Next at Glass Lewis

- Focus on further engagement with Japanese issuers in 2021 and beyond.
- New features in **Viewpoint** and **Proxy Paper**.
- New **Thematic Policies** – Climate Policy.
- **Issuer Data Report (IDR)** - Registration for public companies is always open and available to companies that disclose their meeting documents at least 28 days in advance of their meeting date.
- Board Diversity Disclosure Data.
- Using the **Governance Hub**, public companies can access the Proxy Paper for their company and for their peers, with watchlists and alerts for immediate notification as research is published.
- Included with the Governance Hub is the ability to provide a **Report Feedback Statement (RFS)**, which enables public companies to have their opinions on our research and recommendations delivered directly to investor customers.

Contact your Glass Lewis representative to discuss further or email our teams at:

Institutional Investors | GROW@glasslewis.com | Public Companies | ENGAGE@glasslewis.com

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Q&A

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