

Status of Compliance with Japan's Corporate Governance Code: Policies for Board Training

The Board Director Training Institute of Japan (BDTI)
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Introduction

Principle 4.14* of Japan's Corporate Governance Code (CG Code), which has been in force since June 1st, requires that companies disclose their policy with regard to the training of directors and statutory auditors, deepen understanding of their roles and responsibilities, and strive to promote study that leads to the acquisition and suitable updating of necessary knowledge. BDTI has conducted an analysis of the status of disclosure about training policy made by the 66 listed companies that filed their corporate governance reports on an early basis, during the period between June 1st and August 7th. This is a translation of our Japanese report.

Conclusions

1. The 66 companies should be commended as forerunners, in view of the fact that they have filed their corporate governance reports or disclosed governance guidelines at an early date, and have made a proactive effort to respond to the CG Code¹. However, overall, in the future we would hope to see greater efforts to “comply or explain”.
2. Many companies make use of the characteristic ambiguity of the Japanese language in order to be vague, and there are many companies that have not really disclosed anything specific about important aspects of their training policies such as the subjects covered, the timing and frequency of the training, or which directors and statutory auditors receive it. When such disclosure is translated into English, the meaning seems more unclear than it does in Japanese. Foreign investors may view such content to be insufficient.
3. There is a huge difference in quality of disclosure between the companies which have already commenced director training as their own policy, and those which are commencing director training anew in order to comply with the CG Code, or show no sign of having considered it in depth.
4. Some companies do not seem to understand the full spirit and reasons why a provision about training was included in the CG Code. For example, there are firms that merely provide the outside directors with an “orientation” explaining details about the company, and refer to this as their “training policy for directors and statutory auditors”.
5. We suspect that there may be companies that are not fully disclosing their practices with respect to director training despite the fact that they have concrete, meaningful programs. If disclosure is made but not much is communicated to investors, it is almost meaningless.

¹ Only 20 of the 66 companies also disclosed English versions of their corporate governance reports, or separate "corporate governance guidelines".

Such companies need to improve the quality of their disclosure in terms of wording and use of media.

6. Only one company disclosed anything about the actions it actually took with respect to director training in the previous year, notwithstanding the fact that this is the information that investors most wish to know.
7. Some companies have more advanced policies than arguably are required by the CG Code. We expect to see a widening difference in disclosure quality between the “leaders” and the “laggards”, with respect to their corporate governance reports and guidelines.

*Japan’s Corporate Governance Code Principle 4.14

Principle 4.14 Director and *Kansayaku* Training

New and incumbent directors and *kansayaku* should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills. Accordingly, companies should provide and arrange training opportunities suitable to each director and *kansayaku* along with financial support for associated expenses. The board should verify whether such opportunities and support are appropriately provided.

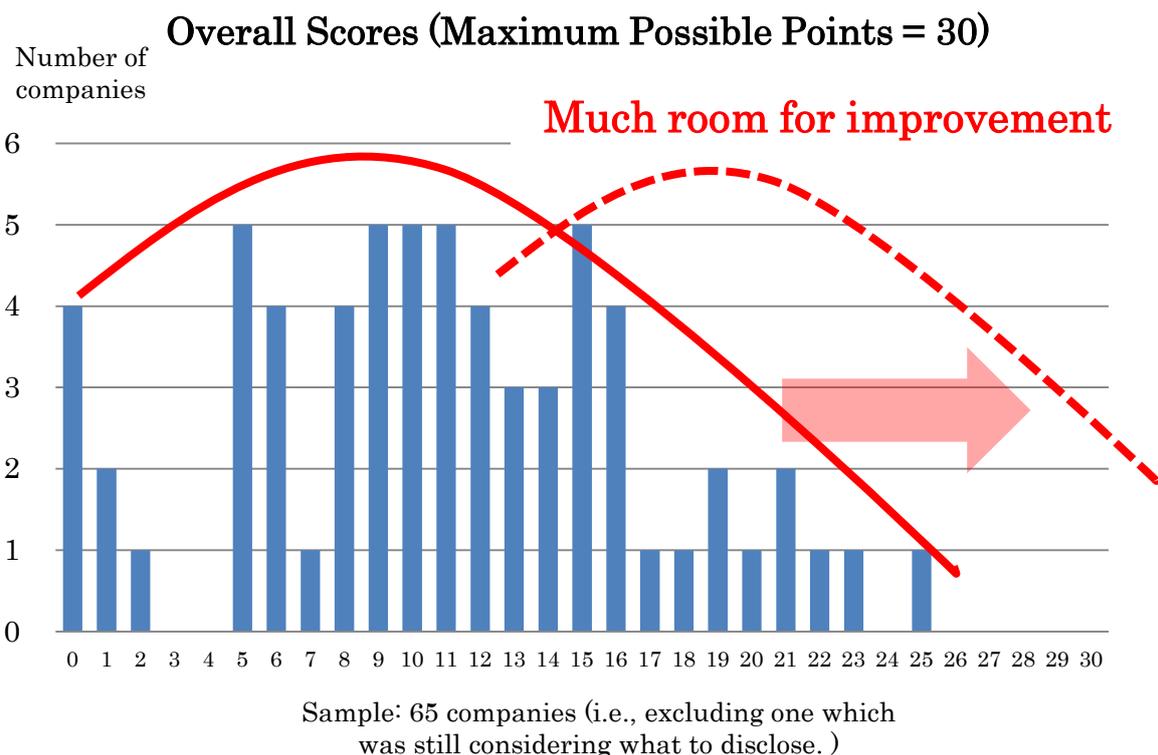
Supplementary Principles

4-14-1 Directors and *kansayaku*, including outside directors and outside *kansayaku*, should be given the opportunity when assuming their position to acquire necessary knowledge on the company’s business, finances, organization and other matters, and fully understand the roles and responsibilities, including legal liabilities, expected of them. Incumbent directors should also be given a continuing opportunity to renew and update such knowledge as necessary.

4-14-2 Companies should disclose their training policy for directors and *kansayaku*.

Summary of Analysis

Survey Universe	66 listed companies filing their corporate governance reports during the periods between June 1 st and August 7, 2015
Date	August, 2015
Methodology	We rated the each company’s disclosure about its implementation of Principle 4.14 as set forth in their corporate governance reports or guidelines (or other materials referred to in such reports). We analyzed 11 factors (aspects) which were weighted for their relative significance, and calculated the overall score for each company, based on a maximum obtainable score of 30 points. There is an explanation of the factors and weighted scoring points for each at the end of this report.



Factors Considered, and Results²

1. Whether director training is required on a regular, periodic basis

Regular training: 13 companies

Frequency unclear: 44 companies

No disclosure: 9 companies

In the past, extremely few Japanese companies have made disclosures about the content of any director training. Therefore, unless firms disclose the frequency and content of director training in concrete terms, it is difficult for investors to imagine what exactly they are doing in the way of training, and can only wonder whether a fixed “policy” actually exists.

2. Whether director training is conducted before (or just after) the AGM

Before the AGM: 4 companies

After the AGM or appointment: 17 companies

No disclosure: 45 companies

When they vote their shares, investors are also keen to confirm that there is periodic training conducted for reelected board members -- updates about laws, latest practices, examples from

² Note: For convenience, this report uses the word “director training” to indicate training for both directors and statutory auditors, and sometimes uses the word “board member” to refer to both directors and statutory auditors, as is the case with the Japanese word that is frequently used in this context.

other companies, or analysis of the issues the company faces. Such updates, when conducted before or just after the AGM and including reelected board members, facilitate effective board team-building through the sharing of the experience, knowledge and viewpoints of the continuing board members with the newly appointed board members. Conversely, unless there is public disclosure about the timing of director training, investors cannot know whether something concrete is clearly required by the “policy”, or (for example) all the company is doing is “some sort of training”, perhaps once every three years.

3. Do the training objectives include increasing skills and knowledge about law, governance and/or finance?

Yes: 20 companies

No: 42 companies

No disclosure: 4 companies

The CG Code requires directors and statutory auditors to “deepen their understanding of their roles and responsibilities as a critical governance body at a company, and ...endeavor to acquire and update necessary knowledge and skills”. This does not mean corporate information, orientation, or describing the corporate vision, although those are also important. Furthermore, merely stating that “we provide training”, or repeating a few of the same words that are stated in the CG Code, such as "we seek to improve the understanding and skills on the role of directors" is a good direction, but is not sufficient as a disclosure about a “policy”.

4. Orientation for outside board members

Yes: 42 companies

No: 20 companies

No disclosure: 4 companies

The CG Code appropriately refers to the importance of “orientation” to explain about the company and the issues it faces as an essential process for the effective use of outside directors and statutory auditors.

5. Use of external training programs and seminars

Yes: 31 companies

No disclosure, or “as necessary”: 35 companies

Traditionally Japanese companies emphasize on-the-job training. Furthermore, many managers believe that the job of a director is essentially the same as that of a manager, so firms tend to use in-house training programs. However, investors fear that if a company that does not specialize in director training depends only on internally-designed programs, it will result in self-serving, inadequate training rather than new insights and a review of leading-edge best

practices. Similarly, investors are concerned that unless companies use external training to some extent, the very new (to Japan) practices that are recommended by the CG Code – such as a robust use of independent directors, advisory committees, executive sessions, a lead independent director, and self-evaluation of the board – will not be adopted on an effective basis. Furthermore, because there are wide variances in knowledge about law, governance practices, and especially finance between different board members, professional training to enhance and standardize knowledge in these areas is seen as necessary. A board only becomes a truly effective team when all of its members share some degree of knowledge about the most basic matters.

6. Who is Trained

All directors and statutory auditors: 40 companies

Outside directors and statutory auditors only: 2 companies

Executive (inside) directors only: 15 companies

No disclosure: 9 companies

The CG Code recommends that “new and incumbent directors and kansayaku”, in other words all directors and statutory auditors, should be trained. If a company does not clearly disclose that it offers training for all directors and statutory auditors, and nothing suggests that it does, investors have no choice but to interpret that training is conducted “as deemed necessary for each person”. Rather, many investors believe that companies should recognize that there is no such thing as a perfect director, that even a person with much experience can benefit from updates of certain knowledge or ideas, and that it is desirable that there be a forum for the sharing of that person’s experience and wisdom with the other board members. Furthermore, investors will tend to think that since the CG Code states “endeavor to acquire and update necessary knowledge and skills“, if a company claims to be fully compliant with the CG Code, then as a matter of course all board members should participate in some form of training.

7. Disclosure of who is in charge of training

Disclosure: 1 company

No disclosure: 65 companies

If a particular unit, committee, secretariat, person is in charge of the schedule, content and execution of the “director training policy”, investors gain much more confidence that a detailed policy truly exists, and that someone can be held accountable for its impact.

8. Disclosure about training for new board members

Evidence: 20 companies

No evidence: 46 companies

In Japan, approximately 80% or more of board members are executive (“inside”), so new directors usually do not have experience as a director. Given that investors are requested to approve such new directors by way of proxy voting, it is desirable that at the very least those directors should be trained before (or just after) their nomination, so that investors can gain assurance that they are minimally qualified.

9. Other factors considered, and why

- **Does the company encourage board members to take external seminars, with reimbursement by the company?**

One of the most important hoped-for outcomes of any director training program should be to encourage participants to take “next steps”. It is important to create a virtuous cycle whereby board members recognize the weighty responsibilities they are taking on, self-evaluate, and fortify the areas where they need to address knowledge gaps.

- **Disclosure about training for “executive officers” who are not board members**

Executive officers (“*shikkou yakuinn*”) usually support current board members and compose the pool of potential candidates for directors or statutory auditors.

- **Detail about training conducted during the previous year**

Because “actions speak louder than words”, this is one of the types of information that investors would most like to obtain.

Example Score Results (maximum obtainable score: 30 points)

“Leaders”

Score	Companies
25	Daito Trust Construction
23	Jtekt
22	Shiseido
21	Kawasaki Heavy Industries, Eisai
20	Toyota Boshoku
19	Omron, Honda Tsushin Kogyo

“Laggards”

Score	Companies
0	Kinden, Shinsei Bank, Konica Minolta, Tokyo TY Financial Group, Kimura Chemical Plants

1	Honda, Unizo Holdings
2	Sumitomo Mitsui Financial Group

“Leaders”

1. Daito Trust Construction Score: 25

- Frequency (annual) of training, and the persons trained, are both made clear.
- The company encourages participation in external seminars and covers the cost.
- The content (subject matter) of training is clearly set forth, and all board members are trained.
- Specific reference is made to training for newly appointed directors, statutory auditors and executive officers.
- There is room for improvement in disclosure (e.g., on the web site) about past director training actually received, and clarifying what unit is in charge of director training.

***【Principle 4.14 Director and Statutory Auditor Training】**³*

The company works to improve the knowledge and capabilities of directors, statutory auditors, and executive officers by holding training once a year for all directors and executive officers and once a year for all directors, statutory auditors, and executive officers.

In addition, for the purpose of providing each director, each statutory auditor, and each executive officer with an opportunity for personal development by learning new ideas, coming in contact with real-time information, etc., the company recommends the participation in external seminars, external organizations, and personal networks (exchanges between different industries). The costs required will be covered by the company based on internal regulations when requests are filed by a director, a statutory auditor, or an executive officer.

【Supplementary Principle 4.14.1】

A training session provided by external instructors is held after the conclusion of the General Meeting of Shareholders every year for all directors, statutory auditors, and executive officers on themes that include corporate governance, business ethics, crisis management, and organizational management.

Corporate governance training is provided through an educational program for all newly appointed directors and executive officers.

Furthermore, in addition to the training session above, training is held every December for all directors and executive officers on themes including vision recommendations for the next fiscal year and onward.

³ Based on the company’s own translation, except for standardization of terminology.

【Supplementary Principle 4.14.2】

The company holds training sessions once a year for all directors and executive officers, and once a year for all directors, statutory auditors, and executive officers as a combined single group.

2. Jtekt Score: 23

- The company provides a wide variety of training opportunities to newly appointed directors and statutory auditors.
- The company clearly explains about the content of the training for directors, statutory auditors and executive officers. It utilizes outside lecturers.
- The company covers the costs of training.
- The company could improve the quality of its disclosure, if it were to it clarify the timing and periodic nature of training.
- There is room for improvement in disclosure (e.g., on the web site) about past director training actually received, and clarifying what unit is in charge of director training.

【Principle 4-14 Director and Statutory Auditor Training】 (Supplementary Principle 4-14-2)

The company has established "Jtekt's Director Training Policy" to ensure that directors, statutory auditors, executive officers (hereinafter, "Officers") effectively fulfill their roles and duties.

(1) At the time of their appointment, the Company will provide Officers with an orientation about their roles and duties (including laws and rules with which they must comply).

1) Corporate philosophy (including JTEKT GROUP VISION, and the CSR Policy)

2) Necessary knowledge about the business, accounting and organization

3) Officers' obligations and responsibilities (legal compliance, Corporate Governance Code)

4) The internal control system

(2) The company provides and facilitates training opportunities and covers the costs, for the acquisition and updating of necessary knowledge.

1) Executive (internal) Officers Forum

2) Seminars and speeches by third-party lecturers whom the company invites (legal compliance, safety, quality and technology etc.)

3) Seminars, events and site visits organized by associations with which the company is affiliated, and other external seminars

(3) Full-time statutory auditors increase their knowledge through activities in the Japan Audit and Supervisory Board Association, and share the information with other statutory auditors.

3. Shiseido Score: 22

- The company gives detail about orientation for outside directors and statutory auditors.
- The company offers training opportunities to candidates for board member candidates, including external training programs.
- The company refers to training for executive officers.
- The company conducts training for candidates for executive officers positions.
- There is room for improvement in disclosure about past director training actually received, and clarifying what unit is in charge of director training.

<Supplementary Principle 4-14 (2) Training Policy for Directors and Statutory Auditors>

The company conducts training sessions for the outside directors and statutory auditors regarding our company's industry, history, business, strategy and other matters, at the time when they join the board. It offers candidates for newly appointed director and statutory auditor positions training sessions on their legal authorities and obligations, and as necessary, it utilizes third-party organizations.

For executive (inside) directors and executive officers, the company uses executive programs and training provided by external institutions, with the purpose of enhancing their leadership capabilities to a higher level. Furthermore, it provides managers who are candidates for executive officer positions training sessions on the leadership and management skills that are required of top-level executives.

“Laggards”

1. Unizo Holdings Score: 1

- It is unclear whether the company does much other than orientation.

【Supplementary Principle 4-14-2】

To ensure that directors and statutory auditors are able to perform their management supervision and audit functions adequately, the company provides necessary information appropriately and in a timely manner. To ensure that outside directors and statutory auditors can fully deliberate upon matters, the company explains materials and gives relevant information in advance of board meetings, and provides an orientation and a tour of its buildings.

2. Honda Score: 1

- The Company does not detail whether it provides board members with any “training” other than an orientation and visits to company facilities.

Director and Corporate Auditors Training⁴

The company shall provide training in the company’s business, finances, organizations, internal control system and other matters to directors and statutory auditors when they assume their respective positions. The company shall provide incumbent directors and statutory auditors with opportunities to visit business establishments and subsidiaries, etc. in order to deepen their understanding of the company’s business.

3. Sumitomo Mitsui Financial Group Score: 2

- The language, “provide other such opportunities necessary for the directors and statutory auditors to fulfill their expected roles”, is ambiguous.
- It does not clear whether the company offers anything other than orientation.

Article 23 Support system and training policy for directors and statutory auditors⁵

1. SMFG will develop an internal system necessary and sufficient for the directors and statutory auditors to effectively fulfill their roles and responsibilities.

2. Upon assuming their positions and on a continuing basis thereafter, SMFG will provide directors and statutory auditors with information and knowledge related to business activities necessary in overseeing management, and will provide other such opportunities necessary for the directors and statutory auditors to fulfill their expected roles.

3. SMFG will establish a system to sufficiently share internal information with outside directors and statutory auditors.

4. SMFG will promote the understanding of our Mission and corporate culture and will continually provide information regarding its management environment and other such matters to outside directors and statutory auditors.

5. SMFG will develop an environment to enhance the sharing of information and the exchange of views among officers through such means as the outside directors and statutory auditors holding regular meetings with executive officers or other non-executive officers.

6. SMFG will bear the expenses necessary for outside directors and statutory auditors to fulfill their duties.

⁴ Based on the company’s own translation, except for standardization of terminology.

⁵ Based on the company’s own translation, except for standardization of terminology.

Reference: The Sort of Disclosure That Investors Would Like to See

BDTI prepared an example CG Code report statement for Principle 4.14 as it might be written by XYZ Corporation, a fictional company that BDTI uses to illustrate potential best practices. XYZ Corporation seeks to seriously implement the spirit of the CG Code by thoroughly considering the issues that the Code’s provisions are intended to address, in the context of its own firm. In order to prevent any future disagreement or laxity about its policies, and for simple self-discipline, it produces its own “Corporate Governance Guidelines” which it publicly discloses to society and its shareholders. These detailed guidelines are available in both Japanese and English, and the fictional disclosure set forth below is largely based on them.

【Principle 4-14 Director and Statutory Auditor Training】

We provide training to all directors, statutory auditors, and executive officers (hereinafter, “Officers”) on the topics based on our needs, such as best practices of corporate governance, corporate ethics, corporate law, securities law, accounting, finance, and organizational management. Our philosophical approach is to “seek to learn from other global companies”. Training programs focusing on emerging issues and new practices are provided annually by external training professionals to enhance the skills, effectiveness, and knowledge of all officers. In addition, at least once per year, our general planning department holds a session for all Officers to explain and debate about our financial status and long-term strategic challenges.

For all newly appointed directors and statutory auditors, before each AGM (or just after at the latest), we provide thorough training by external professionals on the basic and crucial knowledge that all Officers should have, including corporate governance, law, and finance. Furthermore these persons are required to attend an orientation sessions organized by the general planning department describing the company, its corporate philosophy, management performance, and the strategic challenges it faces going forward. At the orientation, executive (inside) Officers, in collaboration with the staff of general planning department, actively explain necessary information to outside board members. All outside directors visit our major facilities.

All statutory auditors participate in the introductory seminars organized by the Japan Audit & Supervisory Board Members Association before their appointments, and acquire necessary knowledge to fully understand their roles and responsibilities. They must keep themselves up-to-date during their terms of office, by attending seminars and study groups on a regular basis.

We encourage all Officers to join external seminars, governance-related associations and networking events, and cover the costs. We also encourage executive officers in particular to obtain positions as outside directors of other companies in industries other than our own, in

order to gain diverse perspective and experience, as long as they comply with the rules restricting over-boarding as set forth in our Corporate Governance Guidelines.

Executive officers attend training in stages before their appointments (before being appointed as department heads at the latest), in view of their important responsibility to efficiently manage so as to increase the value of the company. Training contents include not only leading-edge management techniques and general corporate finance topics, but also basic corporate governance and compliance topics.

The lead independent director meets annually with each Officer and gives each of them feedback regarding necessary training.

Each year, we disclose statistics and details about the actual training received (or not) by all Officers, in the business report for the final fiscal period before the AGM, and on our website.

This training policy has been approved by the board of directors based on the advice of our independent advisory committee as submitting in writing. Details are available in our Corporate Governance Guidelines on our website. The advisory committee consists solely of independent directors, and is required to confirm that the training policy has actually been implemented in full each year.

Appendix: Factors Considered, and Scoring

Factor / Aspect	Scoring Methodology and Points	Maximum Points Available
1. Training required on a regular, periodic basis?	Choose the closest from among: <ul style="list-style-type: none"> ● The company conducts training regularly and periodically to directors, statutory auditors and executive officers. (4) ● The company's training frequency is not regular (e.g. vague wording such as "provide opportunities", "a wide variety of opportunities", "if necessary", and "when necessary"). (2) ● It is not clear whether the company conducts training other than "orientation" (introduction) to the firm. (0) 	4
2. Timing of training - before or just after the AGM?	Choose the closest from among: <ul style="list-style-type: none"> ● Training is conducted before the AGM, to the extent possible (3) ● Training is conducted after the AGM (e.g., "at appointment"). (2) ● No disclosure about the timing of training. (0) 	3
3. Training objectives	The subject matter of the training is clearly and concretely set forth, and is useful for improving the general capabilities of board member and executive officers (topics such as law, governance, and corporate finance). (4) (For this factor, mere "orientation" is not sufficient, nor is "introducing the corporate vision" etc., or simply stating "we conduct training" or repeating the words of the CG Code itself, as in "we deepen understanding about roles and responsibilities".)	4
4. Orientation for outside board members?	The company discloses the subject matter of training for outside directors and statutory auditors, and it includes (at minimum) information about the company, "orientation", explanation of the corporate vision, and similar matters. (1)	1
5. Use of external programs and lecturers?	The company utilizes training by outside lecturers and professionals and programs. (4)	4
6. Who is trained?	Choose the closest from among: <ul style="list-style-type: none"> ● Training provided to all executive (inside) and outside directors. (3) ● Training only provided to executive directors. (2) ● Training only provided to outside directors. (1) ● Unclear (0) 	3
7. Disclosure of who is in charge of training?	The company specifies the unit (officer, secretariat, committee, etc.) that is responsible for the training content and schedule.(2) (Wording such as "based on individual judgment", or "when necessary" does not qualify.)	2
8. Newly appointed officers	The company explains that there is special training for newly appointed directors and statutory auditors.	2

9. External seminars	Choose all applicable from (1 point for each): The company: <ul style="list-style-type: none"> ● Encourages enrollment in external seminars and programs ● Covers the costs for them ● ...for all directors and statutory auditors 	3
10. Training for “executive officers”?	The company makes disclosure about training for executive officers. (2)	2
11. Discloses prior year training “record”?	The company discloses the details of director training actually received during the past year. (2) } (Details and statistics about exactly who received what courses or seminars in the prior year.)	2

Disclaimer

- *The evaluations in this report are based on review of the Corporate Governance Reports submitted by each firm, and other disclosed materials referred to therein. The evaluations are not, and do not purport to be, comprehensive analyses of the actual status of director training at each company.*
- *In order to ensure objectivity and fairness, the evaluations in this report are based on scoring criteria developed by The Board Director Training Institute of Japan (hereinafter, "BDTI") itself. However, that does not preclude the fact that even then, subjective judgments must be made with respect to the nuances of wording in disclosed materials, or the overall impression created by disclosure statements viewed in their entirety.*
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