一般社団法人機関投資家協働対話フォーラム
Institutional Investors Collective Engagement Forum

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Institutional Investor Collective Engagement Forum

Opinions in Response to Public Consultation on the "Interim Proposals for the Revision of the Companies Act"

1. Regarding the "Specific Framework of the System" in Part 1, Section 1, 1 "Review of the Scope of Gratuitous Allocation of Shares"

Promoting the holding of shares in a listed company by its employees is considered an effective method for aligning the interests of management, employees, and investors, and we welcome this direction.

On the other hand, regarding the method of gratuitous allocation of shares, we believe that it should be handled with caution, as it affects the property rights of existing shareholders through the dilution of Earnings Per Share (EPS) and Book Value Per Share (BPS), and also affects their voting control due to the decrease in their ownership ratio relative to the total number of issued shares.

Regarding [Proposal A], we believe that enabling flexible operations and applying the framework of the Regulations on Advantageous Issuance are to be welcomed from an investor's perspective. However, even if the framework of the Regulations on Advantageous Issuance is applied, if the determination of applicability and the appropriateness of the allocation ratio are left to the discretion of the Board of Directors, concerns remain that it will be difficult for shareholders to exercise prior control.

On the other hand, regarding [Proposal B], we believe that conducting prior checks through the general meeting of shareholders and the expectation of deepening mutual understanding between companies and investors through dialogue on proposals are to be welcomed from an investor's perspective. However, regarding the specific operations after the resolution of the general meeting of shareholders, there is also a concern that transparency may be lower than in [Proposal A], which applies the Regulations on Advantageous Issuance and discloses the number of shares allocated and the number of recipients in the business report.

As described above, both [Proposal A] and [Proposal B] have their advantages and disadvantages. Therefore, we do not support unconditionally endorsing either proposal over the other. We hope that further discussions will be held, including on system designs that leverage the advantages of both proposals, such as setting an upper limit by a resolution of the general meeting of shareholders as in [Proposal B], and then conducting flexible operations under the Regulations on Advantageous Issuance as in [Proposal A].

As an additional point, regarding the common issue (supplementary explanation) for both [Proposal A] and [Proposal B], "employees of the said listed company, or directors, accounting advisors, company auditors, executive officers, or employees of subsidiaries of the said listed company" are designated as eligible recipients for the gratuitous allocation. In this regard, we would like to raise the following two points.

First, regarding accounting advisors and company auditors, who should supervise and audit companies from a fair and neutral standpoint, we believe that careful discussion is required from the perspective of ensuring independence before providing them with stock price-linked incentives.

Second, regarding listed subsidiaries, we believe that the perspective of the minority shareholders of the listed subsidiary is also important, not just that of the parent company making the allocation. If the management and employees of a listed subsidiary are given shares of the parent company rather than their own company as an incentive, it may create motivation to prioritize the parent company's interests over maximizing the subsidiary's profits, raising concerns about structural conflicts of interest with the subsidiary's minority shareholders. Conflict of interest and the protection of minority shareholders in parent-subsidiary listings are issues attracting attention from both domestic and international investors. Therefore, careful consideration of the scope of subsidiaries and the requirements for eligible recipients is desired to avoid inconsistency with overall market trends.

2. Regarding the "Requirements for Holding Virtual-Only Shareholders' Meetings" in Part 2, Section 1, 1 "Virtual Shareholders' Meetings and Virtual Bondholders' Meetings"

Regarding virtual-only shareholders' meetings, we believe this is a desirable direction from the perspective of improving operational efficiency and increasing participation opportunities for shareholders in remote locations or those with time constraints. On the other hand, we believe it should be noted that there are constraints that do not arise in physical settings, and thus they are not necessarily welcomed by all shareholders and investors.

Based on the above, we would like to comment on individual items.

Regarding virtual-only shareholders' meetings, listed companies are already permitted to hold them under special measures of the Act on Strengthening Industrial Competitiveness. We believe that, in principle, as long as the system aligns with this existing framework, there are no particular issues. Furthermore, under the said Act, transitioning to a virtual-only shareholders' meeting requires an amendment to the Articles of Incorporation by a special resolution of the general meeting of shareholders. Therefore, when incorporating this into the Companies Act, we believe it is appropriate to similarly make "provisions in the Articles of Incorporation" mandatory to ensure shareholder involvement.

Under a structure that requires provisions in the Articles of Incorporation by a resolution of the general meeting of shareholders, if issues such as a decline in the quality of dialogue or system failures become apparent after a company transitions to a virtual-only shareholders' meeting, shareholders can propose amendments to the Articles of Incorporation to revert to a hybrid or other format. We believe this is appropriate from the perspective of serving as a safety mechanism.

3. Regarding "Procedures, etc. for Holding a Virtual-Only Shareholders' Meeting" in Part 2, Section 1, 2

First, regarding "(Note 1) Specific details of communication records, etc. required to be preserved," in a virtual-only shareholders' meeting, the greatest concern is improper administration, such as the arbitrary exclusion of questions or motions from shareholders that are inconvenient for the company. Therefore, we believe that when defining the scope of records to be preserved, it is crucial to take the perspective of deterring such improper conduct of proceedings. Considering these characteristics unique to virtual-only shareholders' meetings, we do not believe it is appropriate to limit the scope of records to be preserved solely on the grounds that such records are not required for physical meetings.

Second, regarding "(Note 2) Preservation period," under modern digital technology standards, there are virtually no constraints on the preservation period for electromagnetic records, and additional burdens such as preservation costs are also limited. Therefore, we see no compelling reason to limit the preservation period to a short term. However, as investors, we do not demand an unnecessarily prolonged preservation period; rather, we hope that a realistic period will be established in future discussions, while considering the perspective of ensuring post-hoc verifiability by shareholders.

Third, regarding "(Note 3) Inspection or copying of communication records, etc. by shareholders," we agree with setting certain hurdles from the perspective of preventing requests made for improper purposes or abusive requests. However, if those hurdles are too high, they may fail to act as a deterrent against arbitrary administration, which in turn could lead to a decline in confidence in the governance of Japanese companies. Therefore, we believe careful consideration is required. While we cannot support making court permission a requirement as it would make post-hoc verification extremely difficult, we believe that when providing information, it should be done with sufficient attention paid to the protection of personal information, such as by applying appropriate masking measures to sensitive information related to individual privacy.

4. Regarding the "Right to Demand the Holding of a Shareholders' Meeting with a Designated Location" in Part 2, Section 1, 5

As investors, we understand the concern that fully recognizing the right to demand the holding of a shareholders' meeting with a designated location could necessitate wasteful arrangements, such as securing a venue, and potentially undermine the benefits of introducing virtual-only shareholders' meetings. However, completely disallowing the holding of physical meetings under any circumstances seems to go too far.

Given the potential downsides of fully recognizing this right, we agree with the direction of establishing certain reasonable restrictions. The opinions presented in (Note 1) and (Note 2) — such as limiting this right to cases where there are reasonable grounds, such as an ongoing proxy fight, or to requests from shareholders holding a certain percentage or more of voting rights — seem appropriate. However, we hope that care will be taken to ensure that this does not excessively infringe upon shareholder rights.

5. Regarding the "System for Companies to Identify Beneficial Shareholders" under Part 2, Section 2, 1 "Beneficial Shareholder Identification System"

(1) Regarding Regulations Mainly Concerning Intermediaries

Regarding the Beneficial Shareholder Identification System as a whole, we fully understand the desire of listed companies to grasp the status of beneficial shareholders as dialogue partners, and we believe that investors should approach this initiative positively.

However, its purpose should be limited to "promoting constructive dialogue between companies and shareholders." If listed companies focus excessively on dialogue with beneficial shareholders and neglect dialogue and IR activities with market participants, including potential shareholders, it could run counter to the purpose of this system, which is to promote constructive dialogue. We believe that sufficient attention should be paid to such side effects.

Furthermore, in designing the system, we hope for a cautious approach, keeping in mind that no unfairness should arise based on whether an entity is domestic or overseas, or based on the type of asset management, and that excessive costs and administrative burdens should not be imposed on the asset management value chain, including intermediaries and investors. There are concerns that cases targeting specific investors, or the occurrence of excessive practical burdens, could lead to a decline in confidence and investment attractiveness of the Japanese market.

Based on the above, as investors, we hope that the following points will be taken into consideration.

First, regarding the point in the supplementary explanation suggesting that consideration should be given to enabling the suspension of voting rights of a nominal shareholder if they fail to provide information or provide false information. While we understand the perspective of ensuring the effectiveness of the Beneficial Shareholder Identification System, in the global custody chain, there is a possibility that the impact could be widespread due to procedural issues at intermediaries that are not the fault of the beneficial shareholders. From this perspective, we hope that the introduction of measures to suspend voting rights will be carefully considered.

Second, regarding the discussion in the supplementary explanation as to whether, when Asset Owners delegate investment instruction authority, disclosure by the delegated Investment Managers is sufficient, or whether Asset Owners should also be disclosed as beneficial shareholders. From the perspective of the Beneficial Shareholder Identification System for constructive dialogue, we believe that disclosure of the Investment Managers, who engage in substantive dialogue with companies and hold the authority to instruct trading and the exercise of voting rights, is sufficient. Furthermore, limiting disclosure to Investment Managers is also consistent with the approach of utilizing the Large Shareholding Reporting System under the Financial Instruments and Exchange Act in Part 2, Section 2, 2 "System to Obligate Notifications from Shareholders to Companies."

(2) Regarding Regulations Mainly Concerning Beneficial Shareholders

The direction of granting status and rights as shareholders while imposing obligations on beneficial shareholders is important in terms of maintaining symmetry between obligations and rights. Furthermore, we believe this aligns with the current state of the capital markets, where the institutionalization of shareholding has progressed, and the separation of nominal shareholders and beneficial shareholders has rather become the norm.

Regarding limiting the scope of recognized proxies to the scope recognized by listed companies as beneficial shareholders, even under the interpretation of current law, it should be understood that a beneficial shareholder acting as a proxy for a nominal shareholder cannot be restricted even by the articles of incorporation, and we believe it is appropriate to cover all persons with instruction authority. Furthermore, from the perspective of the rights of beneficial shareholders, we hope that a review of the entire legal system will be advanced so that the exercise of shareholder proposal rights by beneficial shareholders, as well as claims for damages under the Financial Instruments and Exchange Act and the Civil Code, will be recognized.

6. Regarding the "System for Obligating Shareholders to Notify the Stock Company" in Part 2, Section 2, 2

Regarding this proposal, we have no objection to its direction, if consistency is maintained with the obligation to submit large shareholding reports and change reports stipulated under the Financial Instruments and Exchange Act (FIEA).

However, since the sanction for non-compliance is a severe penalty — namely, the suspension of voting rights for a considerable period — we strongly hope that careful consideration will be given to the specific design of the system, including the conditions for its triggering.

Based on the above, we would like to comment on individual items.

First, regarding the threshold for the notification obligation, we believe it is practically appropriate to set it at the same level as the FIEA (exceeding 5%).

Second, institutional investors and other entities to which the special reporting system applies repeatedly and continuously buy and sell share certificates, etc., in their daily operations. Consequently, they are highly susceptible to violating the notification obligation due to administrative errors. On the other hand, their purpose of holding shares is generally not to engage in acts of making material proposals, etc. Therefore, we believe they should be excluded from the scope of voting rights suspension. If these institutional investors were to face penalties such as the suspension of voting rights, which could have a significant impact on their clients (beneficiaries and Asset Owners), they would be forced to establish more rigorous management systems than before to avoid such situations. The costs of doing so would ultimately be passed on to clients or would reduce the investment capacity of institutional investors. We believe that such an outcome is not what the legislative amendment intends.

Furthermore, when there are multiple joint holders of the same shares (particularly Item 1 joint holders based on capital relationships, etc.), it lacks rationality to collectively suspend, by association, the voting rights of other holders who were not involved in a violation solely because of non-compliance by some holders. In particular, should institutional investors have their voting rights suspended due to the negligence of other joint holders, careful consideration must be given to the risk that the rights of their clients (beneficiaries and asset owners) could be significantly impaired. In this regard, under the Large Shareholding Reporting System, it is highly questionable whether it is appropriate to define institutional investors within a financial group as joint holders alongside entities from different business sectors, such as banks and securities firms. These institutional investors exercise their voting rights independently from other companies within the financial group in accordance with their fiduciary duties to clients, casting doubt on the validity of treating them as joint holders. Taking these perspectives into account, a re-examination should be considered in conjunction with the Financial Instruments and Exchange Act (FIEA).

As mentioned in the supplementary explanation, errors arising from joint holders could include cases where a delay in aggregating the holdings of a single entity within a global custodian's group leads to an error in aggregating the holding ratio of share certificates, etc., for the entire group. In such cases, the scope of impact could be extensive. Therefore, we hope that the scope of application for the suspension of voting rights concerning joint holders will be carefully considered.

7. Regarding "Rationalization of Resolutions at Shareholders' Meetings in Cases Where Voting Rights Have Been Exercised in Advance" in Part 2, Section 4, 1 "Review of Rules Concerning Shareholders' Meetings, etc., as 'Deliberative Bodies'"

We recognize the significant administrative burden that holding shareholders’ meetings places on listed companies. Furthermore, from an investor’s perspective, we understand the argument that some measures should be taken to address instances of seemingly abusive questions or behavior.

However, we believe it should be recognized that the shareholders' meeting serves as an important forum for shareholders to ask questions, make proposals, and express their opinions. Furthermore, explaining to shareholders at large that management is conducting appropriate business operations and that directors are performing proper oversight, and seeking their confidence, is an important process from the perspective of corporate self-governance.

In addition, while dialogue between companies and investors has become active in recent years, such dialogue is not legally mandated, nor is it conducted with all investors. In this sense, we believe that individual dialogue between companies and investors cannot completely replace the discussions held at shareholders' meetings.

Based on the above, we would like to comment on individual items.

First, regarding [Proposal A], we are concerned that there will no longer be any room to make a final decision on whether to vote for or against a proposal based on the discussions on the day of the meeting. For example, even if a sufficient explanation is not obtained at a shareholders' meeting held immediately after a scandal, shareholders would not be able to change their advance votes to "against." We question whether losing such options for shareholders to correct management of their own accord is something that should be traded off for efficiency.

Second under [Proposal B], even if the administration of the meeting on the day violates laws, regulations, or the articles of incorporation, or is conducted in an extremely unfair manner, the resolution itself is deemed to have been passed as long as the resolution requirements were met in advance. We have concerns about this from the perspective of ensuring the fair administration of shareholders' meetings.

Not limited to shareholders' meetings, violations of laws, regulations, or articles of incorporation, as well as extremely unfair treatment of specific targets, should not be tolerated. If such situations occur even in a fraction of companies, it could significantly shake confidence in listed companies as a whole. In fact, in past judicial precedents, there have been cases where resolutions were rescinded by courts due to extremely unfair treatment in the administration of the meeting.

We believe that the risk of inducing such moral hazard should not be underestimated.

As investors, we ultimately desire the fair administration of shareholders' meetings in compliance with laws, regulations, and articles of incorporation, and we do not believe that the abusive exercise of shareholder rights is desirable from the perspective of making the shareholders' meeting a forum for constructive dialogue and decision-making. Furthermore, we do not believe it is appropriate for resolutions that have effectively been approved to be rescinded due to minor procedural errors or similar issues. If these points are indeed problematic, we believe that establishing a safe harbor rule that clarifies the definitions of material errors and extreme unfairness could be one possible approach.

8. Regarding "Review of Cash-Out Procedures" in Part 2, Section 4, 4

As investors, we consider the direction of accelerating business restructuring through M&As and other means to support proactive management by Japanese companies to be desirable.

However, a cash-out by a controlling shareholder or similar party is a procedure to compulsorily purchase the holdings of minority shareholders, and it is necessary to note that structural conflicts of interest and information asymmetry exist, particularly in parent-subsidiary listings and MBOs. From this perspective, incorporating the concept of "Majority-of-Minority (MoM) Conditions" into the Companies Act holds significant meaning, and as investors, we welcome this.

Furthermore, the shareholders' meeting held to decide on a cash-out is the final opportunity for general shareholders to express their opinions, and we believe that if such a meeting is not to be held, appropriate consideration must be given to general shareholders. Therefore, we cannot agree with opinions such as those in the supplementary explanation that suggest not imposing Majority-of-Minority (MoM) Conditions.

9. Regarding "Review of Requirements for the Number of Voting Rights for Shareholder Proposal Rights" in Part 2, Section 5, 1 "Review of Regulations on Shareholder Proposal Rights"

As investors, we can understand the concerns that in companies with a large number of outstanding shares or small investment unit amounts, even shareholders with extremely low voting right ratios can satisfy the 300-unit requirement, leading to an increase in abusive proposals.

Furthermore, we believe that this issue is not limited to a subset of companies; rather, in order to enable more citizens to hold shares and share in the fruits of corporate growth in the future, continuous efforts to lower the minimum investment amount are necessary, making this a common issue for all companies.

On the other hand, excessively restricting shareholder proposal rights would infringe upon shareholders' rights and, by extension, lead to a decline in confidence in the Japanese market. In this sense, we believe the key is not to take an "all-or-nothing" approach, but rather to set a reasonable level that is generally acceptable to all stakeholders.

Based on the above, we would like to comment on the individual items.

Under [Proposal A], the abolition of the requirement for the number of voting rights is proposed. However, even if shareholder approval is required through the establishment or amendment of the Articles of Incorporation, we believe there may be cases where sufficient consideration is not given to the proposal rights of minority shareholders in newly listed companies or companies with certain major shareholders.

Shareholder proposal rights are an essential component of shareholder rights and serve as an important means for shareholders themselves to resolve inappropriate management without relying on external resolution methods such as legal remedies. We believe that the possibility of imposing excessive restrictions should be eliminated to the greatest extent possible.

Furthermore, as investors, we do not anticipate that actions deviating from the intent of the law in this manner would be widely practiced across many listed companies. On the other hand, the Companies Act applies to all companies, and we believe that a safeguard-like perspective is also necessary.

Under [Proposal B], it is proposed to raise the requirement for the number of voting rights from "300 units," and we believe this direction is appropriate. However, applying a uniform number of units to individual companies regardless of the significant differences in their total number of voting rights raises questions about its rationality, and further consideration is desired.

Regarding the discussion on thresholds, with respect to the current provision of "300 units or 1% or more of the total voting rights," we believe there is room to consider consolidating this into a ratio relative to the total voting rights. However, in that case, the current 1% threshold would not be realistic, particularly for large enterprises, as the monetary amount required to make a shareholder proposal would become extremely large, and we believe a reexamination would be necessary. In Europe, there are examples such as a sliding-scale system where the shareholding ratio required for proposals is gradually reduced according to the size of the company, and we look forward to future discussions that include such methodologies.

Furthermore, while [Proposal B] (Note 3) discusses raising the requirement for the number of units through the Articles of Incorporation, it is necessary to consider that once the requirement is raised by the Articles of Incorporation, neither the company nor the major shareholders who satisfy the requirement would have any incentive to lower it to extend proposal rights to other general shareholders, which could potentially entrench the change and make it difficult to reverse.

10. Regarding "Review of the Deadline for Exercising Shareholder Proposal Rights" in Part 2, Section 5, 2

As investors, we can understand companies' desire to reduce the burden of preparing for shareholders' meetings amid the heavy workload of financial disclosure. To this end, investors have historically supported the integration of disclosures under the Companies Act and the Financial Instruments and Exchange Act, as well as the unification of audits, which contribute to reducing the burden on companies. These elements have been incorporated into the current Interim Proposals for the Revision of the Companies Act.

Furthermore, looking at materials from the council and other sources, we understand that the proposed review is also backed by the increased burden associated with the early disclosure of annual securities reports. However, regarding this point, investors are not necessarily demanding early disclosure at all costs. Rather, we desire that shareholders' meetings be held after sufficient information has been disclosed, in conjunction with measures such as postponing the date of the shareholders' meeting by changing the record date. Therefore, we believe that the issue of early disclosure and the deadline for exercising shareholder proposal rights should be considered separately.

On that basis, if there is a long period between the drafting of a shareholder proposal and the vote, changes may occur in the business environment that forms the premise of the proposal, and serious management issues such as scandals may also arise. Therefore, it is basically desirable for the deadline for exercising shareholder proposal rights to be closer to the date of the shareholders' meeting. In light of the ongoing progress in initiatives to reduce the disclosure burden and provide flexibility regarding schedule constraints, we believe there is insufficient justification for investors to support [Proposal A]. From a similar perspective, we also cannot support [Proposal B].

Therefore, we believe that [Proposal C] is appropriate. However, we would like to emphasize once again that this does not mean the status quo is acceptable, but rather that it is premised on the promotion of various measures to reduce the burden on companies as described above.

11. Regarding "Review of the Inspector System Provided for in Article 316, Paragraph 2 of the Companies Act" in Part 2, Section 6, 1 "Others"

While we can understand to some extent companies' concerns regarding the leakage of confidential information by Paragraph 2 inspectors, given that the appointment of Paragraph 2 inspectors itself is rare and there are no visible concrete examples of such leakages, using this as a reason for abolition seems to be an excessive concern.

Furthermore, as a way to address such concerns, there is also the method of strengthening legal liability, and it does not seem necessary to reject the Paragraph 2 inspector system itself. Rather, even amidst numerous governance reforms, misconduct involving management continues to occur. Under these circumstances, we believe that moving in a direction that reduces the options for investigation by shareholders is not necessarily appropriate.

In addition, regarding third-party committees established in the event of misconduct, some argue that investigations conducted by members appointed by the company may not always be neutral. If such doubts actually arise, having countermeasures available to shareholders is meaningful as a deterrent.

On the other hand, it is not desirable for a Paragraph 2 inspector to be decided solely by those attending the shareholders' meeting through a motion on the day of the meeting, and we believe that certain measures are necessary. In addition, in light of companies' concerns, we believe it is appropriate to strengthen penalties for violations of laws and regulations, such as confidentiality obligations.

12. Regarding "Review of the Authority of the Nominating Committee, etc." in Part 3, Section 1, 1 "Review of the System for Companies with a Nominating Committee, etc."

In a Company with a Nominating Committee, etc., where outside directors constitute a majority of the entire board of directors, we believe that the direction of Proposal (1)—which allows the board of directors, by resolution, to change the content of the Nominating Committee's decision regarding the proposals for the election and dismissal of directors—is appropriate and does not feel out of place even when compared with systems in other countries.

However, this is premised on what is mentioned in (Note 2): "if the content of the Nominating Committee's decision is changed by a resolution of the board of directors, the stock company must notify the shareholders to that effect, and the Nominating Committee may state its opinion at the shareholders' meeting."

If the decisions of the Nominating Committee can be easily overturned, the Nominating Committee would become a mere formality, and the organizational design aimed at a monitoring model would lose its meaning. Therefore, we believe it is essential to impose accountability to shareholders.

On the other hand, regarding (2) [Proposal A], which applies the same discipline as (1) [Proposal A], while the perspective of consistency is important, as mentioned in the supplementary explanation, there are other perspectives, such as how likely the situations assumed in the Nominating Committee's decisions are to occur, and how the supervision of remuneration levels should be shared between the Remuneration Committee and the shareholders' meeting. Therefore, this should not be discussed solely from the standpoint of consistency, and we believe it is appropriate to adopt (2) [Proposal B] until further thorough discussions are held.

Furthermore, the awareness of the issue regarding whether a general review of the organizational structure for companies aiming for a monitoring model is necessary is shared by investors. While we understand that there are various obstacles, we strongly hope that this will be addressed as a long-term challenge. On the other hand, in Japan, three types of corporate organizational structures already coexist, making the system complex and difficult to understand from the perspective of global investors. We hope that discussions will deepen, not merely in the direction of increasing options, but also with a view to organizing and consolidating these existing organizational structures.

13. Regarding the "Review of the Authority, etc. of the Audit Committee" in Part 3, Section 1, 2

In an audit committee of a company with a nominating committee, etc., allowing an executive officer who is the subject of an audit to inspect or copy the minutes of the audit committee meetings could potentially affect the effectiveness of the audit. Therefore, we believe that Proposal (1), which suggests restricting this, is reasonable, and we have no objection to it.

Furthermore, the status of each committee member, including audit committee members, in a company with a nominating committee, etc., has an aspect of being more easily influenced by the intentions of management compared to a company with an audit & supervisory board or a company with an audit and supervisory committee. Requiring the disclosure of the reasons for appointment and dismissal in the business report, etc., is expected to deter arbitrary personnel intervention by management and lead to the stabilization of the status and the strengthening of the independence of each committee member, including audit committee members. Therefore, we believe that Proposal (2) is also appropriate.

Furthermore, given the current situation where corporate scandals involving management continue to occur, we believe that further consideration is necessary regarding the improvement of the effectiveness of audits in Japanese companies. In Supplementary Explanation 3, there is mention of appointing full-time audit committee members even in companies with a nominating committee, etc., or companies with an audit and supervisory committee, where full-time audit & supervisory board members are not mandatory, as well as mention of full-time assistants. However, we believe that, while the question of whether they are full-time is important, the perspective of how to ensure independence from the executive side is crucial. If full-time assistants are under the influence of the executive side, it may not necessarily lead to strengthening the effectiveness of audits. We hope that discussions will be conducted with such points taken into consideration.

In addition, not limited to the current review, the unique situation in Japan where three organizational structures—companies with an audit & supervisory board, companies with an audit and supervisory committee, and companies with a nominating committee, etc.—coexist is also an aspect that complicates the issue. In the long term, we hope that discussions will be held with a view to organizing and consolidating the current corporate governance structures.

14. Regarding Part 3, Section 3 "Rationalization of Disclosure of Business Reports, etc. and Annual Securities Reports"

The issue where business reports, etc. under the Companies Act and annual securities reports under the Financial Instruments and Exchange Act have significant overlap in content, while having differences in details, thereby creating a heavy preparation burden for listed companies, is a long-standing concern recognized by investors as well. We believe that initiatives toward resolving this issue are to be welcomed.

Furthermore, reducing the burden on accounting auditors by unifying accounting audits is believed to contribute to ensuring high-quality audits amid a situation where corporate accounting scandals show no signs of decreasing, and we believe this should also be welcomed.

In addition to the above, if a system to disclose a single document prior to the general meeting of shareholders is realized in the future through the integration of these disclosure documents and the unification of accounting audits, as is the case overseas, it is expected that confidence in the Japanese market will be further enhanced.

However, as investors, we do not needlessly demand early disclosure in exchange for such integration and unification. What investors truly desire is to exercise their voting rights appropriately based on sufficient and accurate information. To achieve this, it is indispensable to secure a sufficient review period between the disclosure of disclosure documents such as annual securities reports and the holding of the general meeting of shareholders. We would like to strongly point out that the goal of this institutional reform should not be a mere shortening of the process, but rather the effective establishment of a so-called "Post-Disclosure Shareholders' Meeting" where sufficient information disclosure and a sufficient review period are secured.

End

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