

January 11, 2024

Toray Industries, Inc. – Collective Engagement Case Example
Collective Engagement on Corporate Culture, Organizational Climate, and Governance
in Relation to Improper Conduct — with Outside Directors and Audit & Supervisory
Board Members

As the secretariat of the Institutional Investors Collective Engagement Forum (“IICEF”), seven institutional investors—the Pension Fund Association, Dai-ichi Life Insurance Company, Sumitomo Mitsui DS Asset Management, Sumitomo Mitsui Trust Asset Management, Mitsubishi UFJ Trust and Banking, Meiji Yasuda Asset Management, and Resona Asset Management (in alphabetical order; “participating investors”)—conducted a Collective Engagement with four outside directors and audit & supervisory board members of Toray Industries, Inc. (“Toray”).

Letter from IICEF and Organization of the Collective Engagement Meeting

IICEF together with the seven participating investors sent a letter to Toray to convey the concerns of long-term investors regarding inappropriate conduct related to UL certification registration in Toray's resin business. It also expressed expectations for the management's efforts to restore corporate value and for the active role of outside directors and auditors.

Following the letter, preliminary coordination on meeting arrangements was conducted between Toray's IR Department and IICEF. In January 2023, Toray's Executive Officers, Mr. Yasuo Suga and Mr. Hideki Hirabayashi, provided a briefing session for the participating investors and IICEF regarding Toray's initiatives. Subsequently, an online Collective Engagement meeting with outside officers was held in February of the same year.

Outline of the Collective Engagement Meeting (titles as of the date of the meeting)

Participants from Toray Industries:

- Kunio Ito, Member of the Board (Outside)
- Susumu Kaminaga, Member of the Board (Outside)
- Kazuo Futagawa, Member of the Board (Outside)
- Kazuya Jono, Corporate Auditor (Outside)

Other Toray Participants:

- Yasuo Suga, Senior Vice President (Corporate Strategic Planning Division, Quality Assurance Division, HS Division)
- Hideki Hirabayashi, Senior Vice President (CSR/Investor Relations, General Administration & Communications Division, Tokyo Head Office)
- Masahiro Yamamoto, General Manager of IR Department

Participants from Investors:

Thirteen representatives from the seven participating investors and four members from IICEF.

Summary of the Collective Engagement:

The meeting was highly interactive, involving extensive questions and discussions, with active exchange of opinions from both sides. Participating investors raised issues such as organizational culture reform, excessive self-reliance tendencies, disclosure practices, organizational structure, control over subsidiaries, the effectiveness of outside directors, and external audits. Toray's outside directors and auditors responded that they were aware of these concerns, including those related to personnel and human resource development, and had been strengthening supervisory functions through broad communication with various levels of the organization. They also shared a recognition of the need to rebuild an open and candid culture, enhance cross-functional controls, reinforce the quality assurance system, and improve disclosure practices.

Feedback from Participants:

Following the Engagement, both Toray and the participating investors provided feedback.

Comments from Outside Directors and Auditors:

- "We would like to hear investors' opinions on our growth strategy as well."
- "We hope investors will evaluate Toray's stance toward Engagement."
- "We are determined to instill a culture of Engagement within Toray."
- "We realized that although we thought we had disclosed sufficient information, investors may not have fully understood it, reaffirming the importance of Engagement."

Comments from Participating Investors:

- "We understand that reforming corporate culture requires significant effort and time."
- "We believe that the role and importance of outside directors and auditors will continue to increase."
- "We hope for continued monitoring centered on governance and compliance."
- "It was encouraging to see that outside directors and auditors recognize cultural issues and are engaging with business divisions toward improvement."
- "Investors and outside directors share the same vector—pursuing stock price appreciation and maximizing corporate value. We look forward to continued Engagement toward that goal."
- "We request periodic disclosure of progress on control function strengthening initiatives."
- "Having multiple outside officers attend provided valuable diversity of thought and perspectives."
- "Although this will be a long-term effort, we investors intend to remain patiently engaged."
- "We feel that how outside officers contribute to fostering sound corporate culture is at the core of their responsibility."

This Collective Engagement allowed for frank exchanges with four outside directors and auditors from Toray, deepening mutual understanding. IICEF and participating investors intend to continue their Engagement with Toray to monitor progress toward resolving identified issues.

Contact information

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