

Audit Committee Regulations (Template)

Japan Audit & Supervisory Board
Members Association
Enacted on July 23, 2015
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Article 1 Purpose

These Regulations provide for matters relating to the audit committee pursuant to laws, regulations, and the articles of incorporation.

Article 2 Organization

1. The audit committee shall be composed of all of the directors who are audit committee members appointed by the board of directors (in these Regulations, “Audit Committee Members”).
2. The audit committee shall have a chairperson.
3. The audit committee shall have full-time Audit Committee Members. (Note 1)
4. In addition to the preceding paragraph, the audit committee shall have Audit Committee Members who perform the matters stated in Article 9 (in these Regulations, “Selected Audit Committee Members”) and Audit Committee Members who perform the matters stated in Article 10 (in these Regulations, “Specified Audit Committee Members”).

Article 3 Duties of the Audit Committee

The audit committee shall perform the following duties:

- (i) auditing the executive officers’ and directors’ performance of their duties and preparing audit reports;
- (ii) deciding the contents of proposals regarding the appointment, dismissal, or non-reappointment of the accounting auditor; and
- (iii) other duties provided for in laws, regulations, and the articles of incorporation.

Article 4 Holding of Meetings

Audit committee meetings shall be held on a regular basis (Note 2). However, an audit committee meeting may be held whenever necessary.

Article 5 Persons with the Right to Convene Meetings

1. Audit committee meetings shall be convened and presided over by the chairperson.
2. Each Audit Committee Member may request the chairperson to convene an audit committee meeting.
3. If the chairperson does not convene an audit committee meeting despite a request under the preceding paragraph, the Audit Committee Member who made the request may convene and preside over an audit committee meeting.

Article 6 Convocation Procedures

1. Audit committee meetings shall be convened by sending notification to each Audit Committee Member at least one week before the day of the meeting (Note 3).
2. Audit committee meetings may be held without following the convocation procedures if all of the Audit Committee Members so consent.

Article 7 Resolution Method

1. Resolutions of the audit committee shall require a majority of the Audit Committee Members present at a meeting where a majority of the Audit Committee Members who may participate in the vote are present.
2. Audit Committee Members with special interests in a resolution under the preceding paragraph may not participate in the vote.
3. When conducting resolutions, the audit committee shall deliberate thereon based on adequate materials.

Article 8 Matters for Resolution by the Audit Committee

The audit committee shall resolve upon the following matters unless otherwise provided for in laws, regulations, or the articles of incorporation:

- (i) appointing or removing the chairperson of the audit committee (Note 4);
- (ii) appointing or removing full-time Audit Committee Members (Note 5);
- (iii) appointing Selected Audit Committee Members;
- (iv) appointing Specified Audit Committee Members (Note 6);
- (v) formulating a Code of Audit Committee Auditing Standards;
- (vi) matters concerning audit policies, audit plans, audit methods, sharing of audit affairs, and the like;
- (vii) matters found necessary for the Audit Committee Members' fulfillment of their duties, such as budgets for audit expenses and matters concerning the performance of duties to be carried out by Selected Audit Committee Members;
- (viii) preparing audit reports;
- (ix) policies for deciding to dismiss or to not reappoint the accounting auditor;
- (x) deciding the appropriateness of reappointing the accounting auditor (Note 7);
- (xi) deciding the contents of proposals regarding the dismissal or non-reappointment of the accounting auditor that will be submitted to the shareholders' meeting;
- (xii) deciding the contents of proposals regarding the appointment of the accounting auditor that will be submitted to the shareholders' meeting;
- (xiii) appointing a person to temporarily perform the duties of the accounting auditor when the office of accounting auditor is vacant;
- (xiv) expressing the opinion of the audit committee that must be notified to shareholders when performing an issuance of shares for subscription that will result in a change of control (Note 8); and
- (xv) other matters found necessary by the audit committee in relation to the performance of audit committee duties.

Article 9 Selected Audit Committee Members (Note 9)

1. The audit committee shall appoint Selected Audit Committee Members to perform the

following matters:

- (i) requesting reports from executive officers, directors, managers, and other employees on matters concerning the performance of their duties and investigating the status of the operations and finances of the Company;
 - (ii) requesting reports from subsidiaries on the businesses thereof and investigating the status of the operations and finances of those subsidiaries;
 - (iii) requesting reports from the accounting auditor regarding the audits performed thereby;
 - (iv) if the accounting auditor has been dismissed in accordance with the procedures provided for in Article 12, paragraph 1, item (i), reporting on the dismissal and the reasons therefor at the first shareholders' meeting held after the dismissal;
 - (v) convening board of directors' meetings;
 - (vi) reporting the status of the audit committee's performance of its duties to the board of directors without delay;
 - (vii) representing the Company in lawsuits between the Company and executive officers or directors (excluding Audit Committee Members); and
 - (viii) representing the Company in relation to other lawsuits, etc.
2. If there is an audit committee resolution in regard to collecting reports or performing investigations under item (i) or item (ii) of the preceding paragraph, the Selected Audit Committee Members who perform the matters stated in those items must comply with that resolution.

Article 10 Specified Audit Committee Members (Note 10)

1. The audit committee shall by resolution appoint Specified Audit Committee Members to perform the following duties:
 - (i) receiving from the directors or executive officers the business reports, supplementary schedules thereto, and accounting-related documents to be received by the audit committee and sending those business reports, etc. to the other Audit Committee Members (Note 11);
 - (ii) notifying the directors or executive officers specified as the persons to receive such notification (in this article, the "Specified Directors") of the contents of the audit reports of the audit committee regarding the business reports and supplementary schedules thereto;
 - (iii) reaching an agreement with the Specified Directors regarding the day on which the notification under the preceding item is to be made;
 - (iv) receiving notification of the contents of accounting audit reports from the accounting auditor and notifying the other Audit Committee Members of the contents thereof (Note 12);
 - (v) reaching an agreement with the Specified Directors and the accounting auditor regarding the day on which the notification under the preceding item is to be received;
 - (vi) notifying the Specified Directors and accounting auditor of the contents of the audit reports of the audit committee regarding accounting-related documents; and
 - (vii) reaching an agreement with the Specified Directors regarding the day on which the notification under the preceding item is to be made.
2. Specified Audit Committee Members shall be full-time Audit Committee Members.

(Note 13)

Article 11 Consent to the Remuneration, etc. of the Accounting Auditor

Consent for the remuneration, etc. of the accounting auditor or the person temporarily performing the duties of the accounting auditor shall be given by resolution of the audit committee unless otherwise provided for in laws, regulations, or the articles of incorporation.

Article 12 Matters for Consent by All Audit Committee Members

1. The consent of the Audit Committee Members for the following matters requiring the consent of all Audit Committee Members may be granted following deliberation by the audit committee (Note 14):
 - (i) dismissing the accounting auditor due to statutory grounds for dismissal;
 - (ii) submitting to the shareholders' meeting a proposal concerning the partial exemption of a director (excluding Audit Committee Members; the same applies below in this article) or executive officer from liability;
 - (iii) submitting to the shareholders' meeting a proposal concerning the amendment of the articles of incorporation to provide that directors and executive officers may be partially exempted from liability by a board of directors' resolution;
 - (iv) submitting to the board of directors a proposal concerning the partial exemption of a director or executive officer from liability based on the provisions of the articles of incorporation;
 - (v) submitting to the shareholders' meeting a proposal concerning the amendment of the articles of incorporation to provide that the Company may enter into an agreement with a non-executive director for his or her partial exemption from liability;
 - (vi) the Company participating in a derivative lawsuit to assist the directors, executive officers or former directors, executive officers who are defendants; and
 - (vii) the Company reaching a settlement in a lawsuit to pursue the liability of directors, executive officers, or former directors, executive officers.
2. Consent under the preceding paragraph may be granted in writing or by electronic or magnetic records in cases of urgent necessity.

Article 13 Deliberations Regarding Exercise of Powers by Audit Committee Members

When exercising powers or performing obligations relating to the following matters, Audit Committee Members may deliberate thereon at audit committee meetings in advance:

- (i) explanations regarding questions from shareholders to the Audit Committee Members notified before a shareholders' meeting (Note 15);
- (ii) matters such as reports to the board of directors; and
- (iii) requests for injunctions against executive officers' or directors' acts that exceed the scope of the Company's purposes or other acts in violation of laws, regulations, or the articles of incorporation.

Article 14 Reports to the Audit Committee

1. Audit Committee Members shall report the status of the performance of their duties to the

audit committee on a regular basis and as appropriate, in addition to which Audit Committee Members must report thereon whenever requested by the audit committee. (Note 16)

2. Audit Committee Members who have received a report from the accounting auditor, a director, an executive officer, an employee of the internal audit department, etc., or any other person must report that fact to the audit committee.
3. The audit committee shall as necessary request reports from the accounting auditor, the directors, the executive officers, the employees of the internal audit department, etc., and other persons.
4. In relation to the preceding three paragraphs, if an Audit Committee Member, the accounting auditor, a director, an executive officer, an employee of the internal audit department, etc., or any other person notifies all of the Audit Committee Members of a matter to be reported to the audit committee, it will not be necessary to report that matter to the audit committee.

Article 15 Preparation of Audit Reports

1. The audit committee shall by resolution prepare an audit report. (Note 17)
2. If the contents of the audit report are different from the opinion of an Audit Committee Member, and the relevant Audit Committee Member so requests, the audit committee shall append a note with the opinion of that Audit Committee Member to the audit report.
3. Each Audit Committee Member shall affix his or her signature or his or her name and seal impression (including by electronic signature) to the audit committee audit report. Full-time Audit Committee Members and outside Audit Committee Members shall state their positions as such. (Note 18)
4. The provisions of the preceding three paragraphs shall apply *mutatis mutandis* in cases where the Company prepares temporary accounting documents or consolidated accounting documents.

Article 16 Minutes

1. The audit committee shall prepare minutes stating the following matters, and the attending Audit Committee Members shall affix their signatures or their names and seal impressions (including by electronic signature) thereto:
 - (i) the date, time, and location at which the meeting was held (including the method of attendance in cases where a director, executive officer, or the accounting auditor was not present at that location but attended the audit committee meeting);
 - (ii) the outline and the results of the proceedings;
 - (iii) if any Audit Committee Member has special interests in a matter requiring a resolution, the name of that Audit Committee Member;
 - (iv) if any opinions were expressed or any statements were made at the audit committee meeting in regard to the following matters, a summary of those opinions or statements:
 - (a) a report from an executive officer that he or she has discovered a fact that is likely to cause the Company significant damage; and
 - (b) a report from the accounting auditor to the effect that it has discovered, in connection with the executive officers' or directors' performance of their duties, any misconduct or any material fact constituting a violation of any law,

- regulation, or the articles of incorporation;
- (v) the names of any director, executive officer who attended the audit committee meeting and the name of the accounting auditor if the accounting auditor attended the meeting; and
 - (vi) the name of the person who chaired the audit committee meeting.
2. If it is determined that a report to the audit committee is not necessary pursuant to the provisions of Article 14, paragraph 4, minutes stating the following matters shall be prepared:
- (i) the details of the matters regarding which it was determined that a report to the audit committee is not necessary;
 - (ii) the day on which it was determined that a report to the audit committee is not necessary; and
 - (iii) the name of the Audit Committee Member who performed the duties relating to the preparation of the minutes.
3. The Company shall retain the minutes provided for in the preceding two paragraphs at its head office for ten years.

Article 17 Audit Committee Secretariat

Administrative duties for convening audit committee meetings, the preparation of minutes, and other administrative duties relating to the operation of the audit committee shall be performed by employees who support audit committee duties, such as audit committee staff.

Article 18 Code of Audit Committee Auditing Standards

Matters concerning audits by the audit committee and Audit Committee Members shall be governed by the matters provided for in laws, regulations, the articles of incorporation, and these Audit Committee Regulations as well as the Code of Audit Committee Auditing Standards established by the audit committee.

Article 19 Amendment and Abolition of these Regulations

These Regulations may be amended or abolished by the audit committee.

Supplementary Provisions

These Regulations shall take effect from [TBD].

- (Note 1) It is not required under laws and regulations to have full-time Audit Committee Members on the audit committee; however, because having full-time members enables high-quality information gathering through the advanced information gathering capabilities of the full-time members, and because the functions and activities of the full-time Audit Committee Members are important in regard to utilizing internal control systems and in regard to cooperation with the accounting auditor and the departments responsible for internal controls, etc., this template provides for the audit committee to have full-time Audit Committee Members as part of the audit committee. Whether or not full-time Audit Committee Members have been appointed and the reasons therefor are required to be stated in the

business report (Article 121, item (x)(b) of the Ordinance for Enforcement of the Companies Act). If full-time Audit Committee Members are not appointed, then in regard to the directors or supporting employees of the internal audit department who assist in audits by Audit Committee Members, it is necessary to devise measures to ensure independence and the effectiveness of audits.

- (Note 2) For “on a regular basis,” please state something such as “once per month” based on the actual circumstances of the company.
- (Note 3) It is possible to stipulate a shorter period in the articles of incorporation (Article 411, paragraph (1) of the Companies Act). In that case, state the period stipulated in the articles of incorporation.
- (Note 4) There are no provisions in laws and regulations regarding the procedures for appointing the chairperson of the audit committee, but this template provides for the chairperson to be appointed by a resolution of the audit committee.
- (Note 5) There are no provisions in laws and regulations regarding the appointment and removal of full-time Audit Committee Members, but as it is necessary to state whether or not full-time Audit Committee Members have been appointed in the business report, this template provides for the appointment and removal of full-time Audit Committee Members to be a matter for resolution by the audit committee.
- (Note 6) There are no provisions in laws and regulations regarding the procedures for appointing specific persons as Specified Audit Committee Members, but this template provides for such persons to be appointed by a resolution of the audit committee.
- (Note 7) In regard to the term of office of the accounting auditor, in laws and regulations, it is only stated that it will be deemed that the accounting auditor has been reappointed at an annual shareholders’ meeting unless otherwise resolved at that annual shareholders’ meeting (Article 338, paragraph (2) of the Companies Act), and there are no provisions stating that the audit committee must perform duties such as deliberating on or deciding the reappointment of the accounting auditor. However, in light of the purpose of the provisions that the contents of proposals regarding the appointment, dismissal, and non-reappointment of the accounting auditor be decided by the audit committee (Article 404, paragraph (2), item (ii) of the Companies Act), this template provides that the audit committee will decide the appropriateness of reappointing the accounting auditor every year.
- (Note 8) In relation to an issuance of shares for subscription resulting in a change of control of a public company, if a subscriber of shares for subscription comes to hold a majority of voting rights as a result of receiving shares for subscription due to an allotment, etc. thereof, information regarding that allotment must be notified to the shareholders (Article 206-2 of the Companies Act). The opinion of the audit committee regarding that issuance of shares for subscription must be stated in the notification to the shareholders (Article 42-2, item (vii) of the Ordinance for Enforcement of the Companies Act).
- (Note 9) In this template, the duties to be performed under laws and regulations by Audit Committee Members selected by the audit committee are set out in this article.
- (Note 10) Under laws and regulations, if specific Audit Committee Members are determined as the persons to perform duties such as the notification of audit committee audit reports concerning business reports, supplementary schedules thereto, and accounting-related documents, those Audit Committee Members are Specified Audit Committee Members, but if specific persons are not determined, then any of

the Audit Committee Members are Specified Audit Committee Members (Article 132, paragraph (5), item (iv) of the Ordinance for Enforcement of the Companies Act and Article 130, paragraph (5), item (iv) of the Ordinance on Accounting of Companies). This article is provided for cases in which specific persons are determined as Specified Audit Committee Members, so in cases where specific persons are not determined as such, this article is not necessary.

- (Note 11) Under laws and regulations, business reports, supplementary schedules thereto, and accounting-related documents are to be received from the directors by the audit committee. In this template, in consideration of practical convenience, receiving those documents from the directors and sending them to the other Audit Committee Members are included in the duties of the Specified Audit Committee Members.
- (Note 12) There are no provisions in laws and regulations regarding the Specified Audit Committee Members notifying the other Audit Committee Members of the contents of accounting audit reports received from the accounting auditor, but in this template, in order to clarify the duties of the Specified Audit Committee Members, notifying the other Audit Committee Members of the contents of those accounting audit reports is included in the duties of the Specified Audit Committee Members.
- (Note 13) Under laws and regulations, it is not necessary for Specified Audit Committee Members to be full-time Audit Committee Members. Accordingly, please consider the necessity of this provision based on the actual circumstances of the company.
- (Note 14) Under laws and regulations, a resolution of the audit committee is not required for the consent of all Audit Committee Members to the dismissal of the accounting auditor due to statutory grounds for dismissal, the consent of all Audit Committee Members regarding the partial exemption of directors and executive officers from liability, the consent of all Audit Committee Members to the participation of the company in derivative lawsuits to assist directors, executive officers, or former directors, executive officers who are defendants, and the consent of all Audit Committee Members to the company reaching a settlement in a lawsuit pursuing the liability of directors, executive officers, or former directors, executive officers (Article 340, paragraph (1) and paragraph (6); Article 425, paragraph (3); Article 426, paragraph (2); Article 427, paragraph (3); Article 849, paragraph (3); and Article 849-2 of the Companies Act). However, in light of the importance of these matters, this template provides that consent may be granted following deliberation by the audit committee.
- (Note 15) In regard to advance questions, under laws and regulations, even if it is necessary to conduct an investigation in order to provide an explanation regarding a matter for which a shareholder has requested an explanation, if that shareholder has notified the company of that matter “a reasonable period of time prior” to the day of the shareholders’ meeting, it is necessary to provide an explanation regarding that matter (Article 314 of the Companies Act and Article 71, item (i) of the Ordinance for Enforcement of the Companies Act). Here this template provides that, as a preferable approach, the audit committee will in principle deliberate on matters notified to the Company before the shareholders’ meeting.
- (Note 16) There are no provisions in laws and regulations stating that Audit Committee Members must report the status of the performance of their duties to the audit committee. However, as reporting to the audit committee is a natural duty in the course of performing organizational audits, this template provides that reports be made on a regular basis and as appropriate.

(Note 17) Under laws and regulations, in cases where the audit committee prepares an audit report, the audit committee must determine by resolution the contents of the audit report (Article 131, paragraph (2) of the Ordinance for Enforcement of the Companies Act and Article 129, paragraph (2) of the Ordinance on Accounting of Companies).

(Note 18) Under laws and regulations, the signatures or names and seal impressions of the Audit Committee Members are not required to be affixed to the audit report, nor is it required to indicate which Audit Committee Members are full-time Audit Committee Members and outside Audit Committee Members. However, in order to ensure the authenticity of the audit report and reliability of audits, it is preferable for each Audit Committee Member to sign his or her name and then affix his or her seal impression (or electronic signature if the audit report is prepared as an electronic or magnetic record) and for full-time Audit Committee Members and outside Audit Committee Members to be indicated as such.

For views regarding signatures and seal impressions, please refer to page 11 and below in “Regarding Statements in Audit Reports of Audit and Supervisory Board Members, etc. in Consideration of Matters Such as Key Audit Matters and Changes in Practices During the COVID-19 Pandemic” (available in Japanese only) by the Japan Audit & Supervisory Board Members Association.

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