

Audit and Supervisory Committee Regulations (Template)

Japan Audit & Supervisory Board
Members Association
Enacted on July 23, 2015
Final revision on July 13, 2021

Article 1 Purpose

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

Article 2 Organization

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

Article 3 Duties of the Audit and Supervisory Committee

The audit and supervisory committee shall perform the following duties:

- (i) auditing the 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;
- (iii) deciding the opinion of the audit and supervisory committee regarding the appointment, dismissal, or resignation of directors (excluding Audit and Supervisory Committee Members; the same applies below in this article) (Note 2);
- (iv) deciding the opinion of the audit and supervisory committee regarding the remuneration, etc. (meaning remuneration, bonuses, and other economic benefits received as compensation for the performance of duties) of directors (Note 3); and
- (v) other duties provided for in laws, regulations, and the articles of incorporation.

Article 4 Holding of Meetings

Audit and supervisory committee meetings shall be held on a regular basis (Note 4). However, an audit and supervisory committee meeting may be held whenever necessary.

Article 5 Persons with the Right to Convene Meetings

1. Audit and supervisory committee meetings shall be convened and presided over by the

chairperson.

2. Each Audit and Supervisory Committee Member may request the chairperson to convene an audit and supervisory committee meeting.
3. If the chairperson does not convene an audit and supervisory committee meeting despite a request under the preceding paragraph, the Audit and Supervisory Committee Member who made the request may convene and preside over an audit and supervisory committee meeting.

Article 6 Convocation Procedures

1. Audit and supervisory committee meetings shall be convened by sending notification to each Audit and Supervisory Committee Member at least one week before the day of the meeting (Note 5).
2. Audit and supervisory committee meetings may be held without following the convocation procedures if all of the Audit and Supervisory Committee Members so consent.

Article 7 Resolution Method

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

Article 8 Matters for Resolution by the Audit and Supervisory Committee

The audit and supervisory 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 and supervisory committee (Note 6);
- (ii) appointing or removing full-time Audit and Supervisory Committee Members (Note 7);
- (iii) appointing Selected Audit and Supervisory Committee Members;
- (iv) appointing Specified Audit and Supervisory Committee Members (Note 8);
- (v) formulating a Code of Audit and Supervisory Committee Auditing and Supervising Standards;
- (vi) matters concerning audit policies, audit plans, audit methods, sharing of audit affairs, and the like;
- (vii) matters found necessary for the Audit and Supervisory 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 and Supervisory 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 9);

- (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) approving conflict of interest transactions by directors (excluding Audit and Supervisory Committee Members; the same applies below in this article) (Note 10);
- (xv) deciding the opinion of the audit and supervisory committee regarding the appointment, dismissal, or resignation of directors;
- (xvi) deciding the opinion of the audit and supervisory committee regarding the remuneration, etc. of directors;
- (xvii) deciding to request that the appointment of Audit and Supervisory Committee Members (including substitute Audit and Supervisory Committee Members; the same applies below in this article) be included in the agenda of the shareholders' meeting;
- (xviii) deciding to request that a proposal regarding the appointment of Audit and Supervisory Committee Members be submitted to the shareholders' meeting;
- (xix) expressing the opinion of the audit and supervisory committee that must be notified to shareholders when performing an issuance of shares for subscription that will result in a change of control (Note 11); and
- (xx) other matters found necessary by the audit and supervisory committee in relation to the performance of audit and supervisory committee duties.

Article 9 Selected Audit and Supervisory Committee Members (Note 12)

1. The audit and supervisory committee shall appoint Selected Audit and Supervisory Committee Members to perform the following matters:
 - (i) requesting reports from 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) stating the opinion of the audit and supervisory committee regarding the appointment, dismissal, or resignation of directors (excluding Audit and Supervisory Committee Members; the same applies below in this article) at the shareholders' meeting;
 - (vii) stating the opinion of the audit and supervisory committee regarding the remuneration, etc. of directors at the shareholders' meeting;
 - (viii) representing the Company in lawsuits between the Company and directors; and

- (ix) representing the Company in relation to other lawsuits, etc.
- 2. If there is an audit and supervisory committee resolution in regard to collecting reports or performing investigations under item (i) or item (ii) of the preceding paragraph, the Selected Audit and Supervisory Committee Members who perform the matters stated in those items must comply with that resolution.

Article 10 Specified Audit and Supervisory Committee Members (Note 13)

- 1. The audit and supervisory committee shall by resolution appoint Specified Audit and Supervisory Committee Members to perform the following duties:
 - (i) receiving from the directors the business reports, supplementary schedules thereto, and accounting-related documents to be received by the audit and supervisory committee and sending those business reports, etc. to the other Audit and Supervisory Committee Members (Note 14);
 - (ii) notifying the directors specified as the persons to receive such notification (in this article, the “Specified Directors”) of the contents of the audit reports of the audit and supervisory 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 and Supervisory Committee Members of the contents thereof (Note 15);
 - (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 and supervisory 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 and Supervisory Committee Members shall be full-time Audit and Supervisory Committee Members. (Note 16)

Article 11 Matters for Consent by the Audit and Supervisory Committee

The audit and supervisory committee shall give consent by resolution for the following matters requiring the consent of the audit and supervisory committee unless otherwise provided for in laws, regulations, or the articles of incorporation:

- (i) directors submitting to the shareholders’ meeting a proposal regarding the appointment of Audit and Supervisory Committee Members (including substitute Audit and Supervisory Committee Members); and
- (ii) the remuneration, etc. of the accounting auditor or the person temporarily performing the duties of the accounting auditor.

Article 12 Matters for Consent by All Audit and Supervisory Committee Members

- 1. The consent of the Audit and Supervisory Committee Members for the following matters requiring the consent of all Audit and Supervisory Committee Members may be granted

following deliberation by the audit and supervisory committee (Note 17):

- (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 and Supervisory Committee Members; the same applies below in this article) from liability;
 - (iii) submitting to the shareholders' meeting a proposal concerning the amendment of the articles of incorporation to provide that directors 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 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 or former directors who are defendants; and
 - (vii) the Company reaching a settlement in a lawsuit to pursue the liability of directors or former directors.
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 and Supervisory Committee Members

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

- (i) explanations regarding questions from shareholders to the Audit and Supervisory Committee Members notified before a shareholders' meeting (Note 18);
- (ii) matters such as reports to the board of directors;
- (iii) reports on proposals, documents, and other materials intended to be submitted to the shareholders' meeting;
- (iv) requests for injunctions against 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; and
- (v) stating opinions at the shareholders' meeting regarding the appointment, dismissal, resignation, and remuneration, etc. of Audit and Supervisory Committee Members.

Article 14 Deliberations Regarding Remuneration, etc.

Deliberations regarding the remuneration, etc. of Audit and Supervisory Committee Members may be conducted at audit and supervisory committee meetings if all of the Audit and Supervisory Committee Members so consent. (Note 19)

Article 15 Reports to the Audit and Supervisory Committee

1. Audit and Supervisory Committee Members shall report the status of the performance of their duties to the audit and supervisory committee on a regular basis and as appropriate,

in addition to which Audit and Supervisory Committee Members must report thereon whenever requested by the audit and supervisory committee. (Note 20)

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

Article 16 Preparation of Audit Reports

1. The audit and supervisory committee shall by resolution prepare an audit report. (Note 21)
2. If the contents of the audit report are different from the opinion of an Audit and Supervisory Committee Member, and the relevant Audit and Supervisory Committee Member so requests, the audit and supervisory committee shall append a note with the opinion of that Audit and Supervisory Committee Member to the audit report.
3. Each Audit and Supervisory Committee Member shall affix his or her signature or his or her name and seal impression (including by electronic signature) to the audit and supervisory committee audit report. Full-time Audit and Supervisory Committee Members and outside Audit and Supervisory Committee Members shall state their positions as such. (Note 22)
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 17 Minutes

1. The audit and supervisory committee shall prepare minutes stating the following matters, and the attending Audit and Supervisory 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 an Audit and Supervisory Committee Member, a director (excluding Audit and Supervisory Committee Members), or the accounting auditor was not present at that location but attended the audit and supervisory committee meeting);
 - (ii) the outline and the results of the proceedings;
 - (iii) if any Audit and Supervisory Committee Member has special interests in a matter requiring a resolution, the name of that Audit and Supervisory Committee Member;
 - (iv) if any opinions were expressed or any statements were made at the audit and supervisory committee meeting in regard to the following matters, a summary of those opinions or statements:
 - (a) a report from a director 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 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 who attended the audit and supervisory 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 and supervisory committee meeting.
2. If it is determined that a report to the audit and supervisory committee is not necessary pursuant to the provisions of Article 15, 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 and supervisory committee is not necessary;
 - (ii) the day on which it was determined that a report to the audit and supervisory committee is not necessary; and
 - (iii) the name of the Audit and Supervisory 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 18 Audit and Supervisory Committee Secretariat

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

Article 19 Code of Audit and Supervisory Committee Auditing and Supervising Standards

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

Article 20 Amendment and Abolition of these Regulations

These Regulations may be amended or abolished by the audit and supervisory 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 and Supervisory Committee Members on the audit and supervisory 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 and Supervisory 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 and supervisory committee to have full-time Audit and Supervisory Committee Members as part of the audit and supervisory committee. Whether or not full-time Audit and Supervisory Committee Members have been appointed and the reasons therefor are required to be stated in the business report (Article 121, item (x)(a) of the Ordinance for Enforcement of the Companies Act). If full-time Audit and Supervisory 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 and Supervisory Committee Members, it is necessary to devise measures to ensure independence and the effectiveness of audits.

- (Note 2) The audit and supervisory committee has the right to state opinions at the shareholders' meeting regarding the appointment, dismissal, resignation, and remuneration, etc. of directors who are not Audit and Supervisory Committee Members. Every year, it is necessary for the audit and supervisory committee to consider whether or not to state opinions regarding these matters and, if doing so, to consider the contents of those opinions. Opinions are stated at the shareholders' meeting by the Selected Audit and Supervisory Committee Members.
- (Note 3) Please refer to Note 2.
- (Note 4) For "on a regular basis," please state something such as "once per month" based on the actual circumstances of the company.
- (Note 5) It is possible to stipulate a shorter period in the articles of incorporation (Article 399-9, paragraph (1) of the Companies Act). In that case, state the period stipulated in the articles of incorporation.
- (Note 6) There are no provisions in laws and regulations regarding the procedures for appointing the chairperson of the audit and supervisory committee, but this template provides for the chairperson to be appointed by a resolution of the audit and supervisory committee.
- (Note 7) There are no provisions in laws and regulations regarding the appointment and removal of full-time Audit and Supervisory Committee Members, but as it is necessary to state whether or not full-time Audit and Supervisory Committee Members have been appointed in the business report, this template provides for the appointment and removal of full-time Audit and Supervisory Committee Members to be a matter for resolution by the audit and supervisory committee.
- (Note 8) There are no provisions in laws and regulations regarding the procedures for appointing specific persons as Specified Audit and Supervisory Committee Members, but this template provides for such persons to be appointed by a resolution of the audit and supervisory committee.
- (Note 9) 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 and supervisory 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 and supervisory committee (Article 399-2, paragraph (3), item (ii) of the Companies Act), this template provides that the audit and supervisory committee will decide the appropriateness of reappointing the accounting auditor every year.

- (Note 10) Under laws and regulations, if the audit and supervisory committee has approved in advance conflict of interest transactions conducted by directors, the directors are released from the presumption that they neglected their duties (Article 423, paragraph (4) of the Companies Act). When considering conflict of interest transactions, it is necessary for the audit and supervisory committee to make careful judgments by verifying the contents of the conflict of interest transactions, the background to the transactions, and the deliberation process up to present.
- (Note 11) 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 and supervisory 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 12) In this template, the duties to be performed under laws and regulations by Audit and Supervisory Committee Members selected by the audit and supervisory committee are set out in this article.
- (Note 13) Under laws and regulations, if specific Audit and Supervisory Committee Members are determined as the persons to perform duties such as the notification of audit and supervisory committee audit reports concerning business reports, supplementary schedules thereto, and accounting-related documents, those Audit and Supervisory Committee Members are Specified Audit and Supervisory Committee Members, but if specific persons are not determined, then any of the Audit and Supervisory Committee Members are Specified Audit and Supervisory Committee Members (Article 132, paragraph (5), item (iii) of the Ordinance for Enforcement of the Companies Act and Article 130, paragraph (5), item (iii) of the Ordinance on Accounting of Companies). This article is provided for cases in which specific persons are determined as Specified Audit and Supervisory Committee Members, so in cases where specific persons are not determined as such, this article is not necessary.
- (Note 14) Under laws and regulations, business reports, supplementary schedules thereto, and accounting-related documents are to be received from the directors by the audit and supervisory committee. In this template, in consideration of practical convenience, receiving those documents from the directors and sending them to the other Audit and Supervisory Committee Members are included in the duties of the Specified Audit and Supervisory Committee Members.
- (Note 15) There are no provisions in laws and regulations regarding the Specified Audit and Supervisory Committee Members notifying the other Audit and Supervisory 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 and Supervisory Committee Members, notifying the other Audit and Supervisory Committee Members of the contents of those accounting audit reports is included in the duties of the Specified Audit and Supervisory Committee Members.

- (Note 16) Under laws and regulations, it is not necessary for Specified Audit and Supervisory Committee Members to be full-time Audit and Supervisory Committee Members. Accordingly, please consider the necessity of this provision based on the actual circumstances of the company.
- (Note 17) Under laws and regulations, a resolution of the audit and supervisory committee is not required for the consent of all Audit and Supervisory Committee Members to the dismissal of the accounting auditor due to statutory grounds for dismissal, the consent of all Audit and Supervisory Committee Members regarding the partial exemption of directors from liability, the consent of all Audit and Supervisory Committee Members to the participation of the company in derivative lawsuits to assist directors or former directors who are defendants, and the consent of all Audit and Supervisory Committee Members to the company reaching a settlement in a lawsuit pursuing the liability of directors or former directors (Article 340, paragraph (1) and paragraph (5); 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 and supervisory committee.
- (Note 18) 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 and supervisory committee will in principle deliberate on matters notified to the Company before the shareholders’ meeting.
- (Note 19) In regard to the remuneration, etc. of each Audit and Supervisory Committee Member, if there are no provisions in the articles of incorporation and no resolution by the shareholders’ meeting, it is necessary for the Audit and Supervisory Committee Members to determine the remuneration, etc. by deliberation within the range resolved upon by the shareholders’ meeting (Article 361, paragraph (1) and paragraph (3) of the Companies Act). This template provides that audit and supervisory committee meetings can be used to deliberate on remuneration, etc. Even in this case, that deliberation requires the consent of all Audit and Supervisory Committee Members.
- (Note 20) There are no provisions in laws and regulations stating that Audit and Supervisory Committee Members must report the status of the performance of their duties to the audit and supervisory committee. However, as reporting to the audit and supervisory 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 21) Under laws and regulations, in cases where the audit and supervisory committee prepares an audit report, the audit and supervisory committee must determine by resolution the contents of the audit report (Article 130-2, paragraph (2) of the Ordinance for Enforcement of the Companies Act and Article 128-2, paragraph (2) of the Ordinance on Accounting of Companies).
- (Note 22) Under laws and regulations, the signatures or names and seal impressions of the Audit and Supervisory Committee Members are not required to be affixed to the

audit report, nor is it required to indicate which Audit and Supervisory Committee Members are full-time Audit and Supervisory Committee Members and outside Audit and Supervisory Committee Members. However, in order to ensure the authenticity of the audit report and reliability of audits, it is preferable for each Audit and Supervisory 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 and Supervisory Committee Members and outside Audit and Supervisory 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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