

Code of Audit Committee Auditing Standards

Japan Audit & Supervisory Board
Members Association (*)

Enacted on September 28, 2005

Revised on May 10, 2007

Revised on July 9, 2009

Revised on May 12, 2011

Revised on September 29, 2015

Revised on December 16, 2021

Final revision on August 1, 2022

(Notes)

This translation is prepared only for reference purposes, and in the case of any matters falling within the ambit of the Code of Audit Committee Auditing Standards (the “Code”), reference should be made to the original Japanese text of the Code. The Code is intended solely as a best practice benchmark by which audit committees may perform their audit duties. It does not replace or supplement in any way whatsoever the current legal regime applicable to audit committees and does not give rise to duties for audit committees over and above those imposed by prevailing legal standards. Non-conformity with the Code would therefore not per se give rise to legal liability or a cause of action against the audit committee concerned. Audit committees are expected to prepare their own auditing standards applicable to the company, to the best possible level, by reference to the Code. The same shall be applied to other rules or standards prepared or enacted by the Association, including the “Audit Committee Audit Practice Standards for Internal Control Systems.”

* N.B. “Japan Audit & Supervisory Board Members Association” is the English translation of the formal name of the Association. “Japan Audit & Supervisory Board Members Association” was formerly translated as “Japan Corporate Auditors Association” but was renamed in 2013 as a consequence of the revision of the recommended English translation of “Kansayaku” from “Corporate Auditor” to “Audit & Supervisory Board Member.” To avoid confusion, previously published portions have been updated to use the current translations of the Association’s name and “Kansayaku.”

Revision of Code of Audit Committee Auditing Standards

Japan Audit & Supervisory Board
Members Association

August 1, 2022

While most of the amendments under the “Act for the Partial Amendment of the Companies Act” established on December 4, 2019 took effect from March 1, 2021, the parts relating to the “electronic provision of shareholders’ meeting materials” will take effect on September 1, 2022. The Association examined those parts upon the previous revision of the Code (in 2021), but as the legal provisions relating to that electronic provision were yet to take effect when the previous revision was announced, corresponding provisions in the Code were separately stated at the end of the Code. For this revision, as the amended Companies Act is due to take effect, corresponding provisions have been added to the Code, and revisions have been made in consideration of the actual measures and the like anticipated to be taken by audit committees (Article 57).

Revision of Code of Audit Committee Auditing Standards

Japan Audit & Supervisory Board
Members Association

December 16, 2021

I Background

The Code was enacted in September 2005 for the purpose of providing specific and systematic practice guidelines for audit committee audits in conjunction with the introduction of the companies with committees, etc. system (*iinkai-to secchi gaisha seido*, a corporate structure that includes a nominating committee, audit committee, and compensation committee) under the Commercial Code revision of 2003. Since its enactment, the Code has been revised several times to respond to various changes in the environment surrounding audit committees, such as the Companies Act being amended and the Corporate Governance Code (the “Governance Code”) taking effect, and to developments in auditing practices.

Following the previous revision (in 2015), the amended Companies Act, amended Ordinance for Enforcement of the Companies Act, etc. took effect in March 2021, and the Governance Code was revised twice in 2018 and 2021, in addition to which the auditing standards for auditors have been revised several times, and each of these included new provisions related to the responsibilities, etc. of audit committees. The Association has decided to revise the Code at this time in order to respond to these environmental changes.

Many of the provisions reflected in this revision may significantly affect audit committee practices, and there are many provisions that will need to be reviewed depending on practice trends moving forward. Accordingly, the Association will consider reviewing the Code as appropriate.

II Substance of the Revisions

1. Upon this revision, revisions have been made simultaneously to the Code of Audit and Supervisory Board Member Auditing Standards, the Code of Audit Committee Auditing Standards, and the Code of Audit and Supervisory Committee Auditing and Supervising Standards. When doing so, in addition to reflecting the various provisions stated above, an effort was made to once again examine the consistency of these documents, such as differences in the structure of their provisions and the manner in which they are written.

Additionally, supplementary notes separate from the provisions of the Code were included only in the Code of Audit and Supervisory Board Member Auditing Standards upon the previous revision in order to add explanations regarding the handling of the relevant provisions of the amended Companies Act and the Governance Code, etc. relating to the revisions, but in consideration of clarifying the purpose of such statements and ease of reference, those supplementary notes have been newly included in the Code as well.

2. The main contents of the revisions are as follows.

- (1) Main revisions in consideration of amendments to the Companies Act, the Ordinance for Enforcement of the Companies Act, etc.
 - Provisions were added regarding audits of indemnity agreements provided for in Article 430-2 of the Companies Act and insurance agreements executed for the

benefit of directors, etc. provided for in Article 430-3 of the Companies Act (Article 27). Additionally, provisions were added regarding procedures for consent to judicial settlements provided for in Article 849-2 of the Companies Act, and revisions were made regarding the procedures for determining whether to object to settlements (Articles 50 and 51).

- Other than the above, the Association examined responses to the electronic provision of shareholders' meeting materials provided for in Article 325-2 of the Companies Act, but as the legal provisions relating to the matter are yet to take effect as of the announcement of this revision, provisions in the Code regarding those systems are stated separately.

(2) Main revisions in consideration of revisions to Governance Code

- Audit and supervisory board members, etc. were added as parties that should engage in dialogue with shareholders and other stakeholders in Supplementary Principle 5.1.1. Upon the previous revision of the Code, it was anticipated that the expectation for audit and supervisory board members, etc. to engage in dialogue with shareholders and other stakeholders would increase in the future, and provisions regarding responses to that situation were included, but a statement to the effect that this intent has become more clear due to the subsequent revision of the Governance Code has been added to the supplementary notes (Article 13).

(3) Main revisions in consideration of revisions to auditing standards for auditors

- Due to the revision of auditing standards for auditors, key audit matters (KAM) are required to be stated in the audit reports of auditors under the Financial Instruments and Exchange Act. As the Code mainly addresses the authorities and responsibilities of audit committees under the Companies Act, no reference is made to KAM in the provisions, but a statement in regard to this has been made in the supplementary notes (supplementary notes to Article 42).
- However, in regard to measures by auditors regarding statements in the parts of disclosed documents, including audited financial statements, other than those financial statements and audit reports ("Other Statements"), in consideration of the fact that the business report and supplementary schedules thereto constitute "Other Statements" under the Companies Act, provisions were revised and a supplementary note was added regarding measures in regard thereto (Article 42, paragraph 2).

(4) Other revisions

- Previously, the Code addressed both specified audit committee members and selected audit committee members in the same provisions, but this was changed to be consistent with the organization used in the "Audit Committee Regulations (Template)," and provisions have been organized and added in accordance with the matters stated in the Companies Act and the Ordinance for Enforcement of the Companies Act (Article 9).
- Other differences regarding detailed wording were reexamined.

III Companies to which the Code Applies

As with the previous revisions, the Code applies to large companies, as defined in the Companies Act, and has been written mainly in consideration of listed companies. For companies that are not large companies, it is desirable that audit committees refer to the Code while keeping in mind the company's specific audit environment.

Revision of Code of Audit Committee Auditing Standards

Japan Audit & Supervisory Board
Members Association

September 29, 2015

I Background

The Code was enacted in September 2005 for the purpose of providing specific and systematic practice guidelines for audit committee audits in conjunction with the introduction of the companies with committees, etc. system (*iinkai-to secchi gaisha seido*, a corporate structure that includes a nominating committee, audit committee, and compensation committee) under the Commercial Code revision of 2003. Subsequently, the Code was revised several times in response to events such as the amendment of the Companies Act and related laws and regulations.

Following the previous revision in May 2011, the amended Companies Act, amended Ordinance for Enforcement of the Companies Act, and the like took effect in May 2015, and the Corporate Governance Code (the “Governance Code”) took effect in June of that year. The Association has decided to revise the Code at this time in order to respond to these changes in the environment surrounding audit committees and developments in auditing practices.

As many of the matters reflected in this revision, due to the major amendment of the Companies Act and the introduction of the Governance Code, may significantly affect audit committee practices, there are provisions that will need to be reviewed depending on practice trends moving forward; accordingly, the Association will consider reviewing the Code as appropriate.

II Substance of the Revisions

1. The Code includes both provisions on legal duties under the Companies Act and other laws and regulations as well as provisions on conduct that is desirable in consideration of good corporate governance; it is necessary for each company to appropriately adjust the latter type of provisions in consideration of its own environment when formulating its own audit committee auditing standards. Therefore, in order to make the Code easier to use, the Association has altered the format to include the level of each provision, meaning that the provisions have been categorized into levels according to their meanings, and standard phrasing is used for each level to the extent possible. The meaning of each level is stated at the start of the Code, and each provision’s level is indicated after that provision. Please note that the level categorization of the provisions is based solely on the views of the Association and has not been confirmed by public or governmental agencies, and please make use of the levels as a reference when establishing or reviewing your company’s own audit committee auditing standards in consideration of the company’s environment.

Additionally, in the Code of Audit and Supervisory Board Member Auditing Standards revised on July 23, 2015, supplementary notes were added to indicate the provisions of the amended Companies Act relevant to the revision and explain the application of the Governance Code. The application of the Governance Code in regard to the Code of Audit Committee Auditing Standards is different in some aspects from that set out in the Code of Audit and Supervisory Board Member Auditing Standards as audit committee members are also directors, but the functions expected of the audit committee are almost

the same as those of audit and supervisory boards (or members thereof), and revisions to the Code of Audit Committee Auditing Standards in consideration of the Governance Code are the same in substance to the revisions to the Code of Audit and Supervisory Board Member Auditing Standards; accordingly, to avoid redundancy, supplementary notes have not been added to the revised Code of Audit Committee Auditing Standards. Please refer to the supplementary notes to the Code of Audit and Supervisory Board Member Auditing Standards as necessary.

2. The main contents of the revisions are as follows.

- (1) The main revisions in consideration of amendments to the Companies Act, the Ordinance for Enforcement of the Companies Act, and the like are as follows.
 - Responses to the expansion of the matters listed in the Ordinance for Enforcement of the Companies Act as the contents of systems to ensure the appropriateness of corporate affairs
 - Other than the above, responses regarding the multiple derivative lawsuit system, the expression of the opinion of the audit committee upon notification to shareholders in cases such as when issuing shares for subscription resulting in a change in control, and other matters
- (2) Some of the principles of the Governance Code apply directly to audit and supervisory boards (or members thereof), which are read as being directly applicable to audit committees. Even for many of the principles focused on management or the board of directors, when the audit committee performs its audits, it is necessary for it to monitor and verify how management or the board of directors is addressing those principles, in addition to which, depending on the details of the principle, audit committee members' perspectives as directors may also be necessary. Regarding this point, the current revision not only sets out a provision to respect the principles of the Governance Code in general, but also includes provisions in response to principles that the Association believes deserve special consideration.

However, the Governance Code is not legally binding, unlike laws and regulations such as the Companies Act. Instead, it utilizes a "principles-based approach" in which companies are expected to understand the intent of the Governance Code's principles and endeavor to achieve effective corporate governance in a way that suits the circumstances surrounding the company; even if a company decides not to adopt the principles and supplementary principles of the Governance Code due to the company's circumstances, it can explain those circumstances and the company's measures in response thereto (known as the "comply-or-explain approach") and leave ultimate evaluation to the market. Therefore, it is not appropriate to make each principle and supplementary principle in the Governance Code a standard of conduct to be universally complied with, so the Association has devised a way to reflect the Governance Code in auditing standards.

Additionally, in consideration of General Principle 2, General Principle 4, and other principles of the Governance Code, provisions have been added regarding responses to the Governance Code by the audit committee, which bears part of the company's supervisory functions (Article 11).

- (3) Other than above, necessary revisions have been made regarding phrasing and expressions based on the terminology used in official documents.

III Companies to which the Code Applies

As with the previous revisions, the Code applies to large companies, as defined in the Companies Act, and has been written mainly in consideration of listed companies. For companies that are not large companies, it is desirable that audit committees refer to the Code while keeping in mind the company's specific audit environment.

Revision of Code of Audit Committee Auditing Standards

Japan Audit & Supervisory Board
Members Association

May 12, 2011

I Background

The Code was enacted in September 2005 for the purpose of providing specific and systematic practice guidelines for audit committee audits in conjunction with the introduction of the companies with committees, etc. system (*iinkai-to secchi gaisha seido*, a corporate structure that includes a nominating committee, audit committee, and compensation committee) under the amendment to the Commercial Code and the like that took effect from April 2003. Following that, due to the Companies Act, the Ordinance for Enforcement of the Companies Act, and the like taking effect in May 2006, the Code was revised to reflect the Companies Act in May 2007 and July 2009. The Association has decided to revise the Code at this time in order to respond to various changes in the environment surrounding audit committees that have occurred since the previous revision and to reflect developments in auditing practices.

II Substance of the Revisions

While various issues were being raised both domestically and internationally regarding corporate governance in Japan, securities exchange listing rules were revised as part of an effort to improve listing systems, and the Association set out best practices to serve as practical guidelines for audit committee audits in the “Final Report Regarding Findings of the Panel of Experts” published by the Association in April 2010. The Association believes it is desirable to implement these best practices in day to day audit activities and has therefore made the necessary revisions.

The substance and main contents of the revisions are as follows.

1. Due to revisions to listing rules for the Tokyo Stock Exchange and other securities exchanges, listed companies are required to have at least one independent director/ASBM. Because outside audit committee members are often designated as independent directors, provisions on independent directors have been added (Article 4, paragraph 4).
2. In the “Final Report Regarding Findings of the Panel of Experts” prepared in April 2010, best practices were set out regarding development of an audit committee audit environment, auditing of internal control systems, auditing of third-party allotments, consent to audit remuneration for accounting auditors, and appointment procedures; the contents of these best practices have been reflected in the relevant provisions of the Code (Article 28 and Article 31 regarding exercising the right to consent to determination of accounting auditor remuneration and appointment procedures; Article 37, paragraph 4 and others regarding strengthened cooperation with accounting auditors).
3. In consideration of the prevalence of group management and the increasing importance of maintaining the soundness of the corporate group (such as taking measures to prevent significant damage to the company due to misconduct in subsidiaries), fundamental provisions regarding audit committee audits in the corporate group have been included (Articles 20 and 38).

4. The importance of audit committee audits to prevent corporate wrongdoing is increasing. In particular, in consideration of preventing the spread of damage due to misconduct, the duty of accountability, and other matters, thorough and highly transparent responses are sought, and there are increasing instances of third-party committees being established. Provisions regarding a basic view of the response of the audit committee to these circumstances have been added (Article 23).
 - (1) Provisions have been added stating that, in cases of corporate wrongdoing, in consideration of preventing the spread of damage and maintaining trust in the company, the audit committee must audit whether executive officers are responding appropriately and thoroughly in accordance with their duty of care (paragraph 1).
 - (2) In cases of significant corporate wrongdoing, such as those involving executive officers, in order to quickly restore trust in the company and prevent the spread of damage, it is necessary for companies to promptly take corrective actions, such as identifying causes and preventing reoccurrence, for which transparency is ensured. In consideration of the company's corrective actions, it is important for audit committee members, as non-executive officers, to exercise the authority to audit operations and other such authorities granted to them under the Companies Act and thereby play a leading role in establishing a third-party committee with no conflicts of interest to thoroughly examine matters such as the identification of causes and the prevention of reoccurrence. Additionally, when finding it necessary, audit committee members should deliberate at meetings of the audit committee and examine the establishment of a third-party committee by outside audit committee members or the like (paragraph 2).
 - (3) Unless they are found to have clear interests in the corporate wrongdoing in question, it is desirable that audit committee members, as non-executive officers, serve as members of the third-party committee and appropriately perform their duties, keeping in mind their duty of care to the company. Additionally, whether or not audit committee members serve as members of the third-party committee, the audit committee will, taking care not to interfere with requests to promptly identify causes, relationships with the relevant authorities, and other matters, take such steps as receiving explanations regarding matters such as the process of the establishment of the third-party committee and the status of its response measures (paragraph 3).
5. Due to the increasing importance of appropriate disclosure for listed companies, provisions have been added regarding audit committee audits of the appropriateness of corporate information disclosure, including securities reports (Article 21).
6. In consideration of factors such as the audit committee being required to express an opinion if a third-party allotment is carried out, provisions have been added regarding audit committee audits for third-party allotments (Article 40).
7. The term "development" is used in connection to internal control systems in Article 416, paragraph 1, item 1(e) of the Companies Act, and it was defined in the previous revision of the Code to include "operation"; however, it was pointed out to the Association that this might cause misunderstanding in practice because "development and operation" is a phrase commonly used for internal controls of financial reporting. Accordingly, "development" has been replaced with "establishment and operation" where appropriate.

Other necessary revisions have been made, as well.

III Status of the Code; Companies to which the Code Applies

Under the principle of “clarifying the roles and duties currently expected” that was set out when the Code was established, the Code includes best practices to serve as practical guidelines for audit committees in order to increase the effectiveness of audit committee audits. These best practices are not standards that must be followed without fail by audit committees, so if audit committee auditing activities do not conform to these practices, audit committees will not be subject to automatic legal liability; however, if the Code is adopted as-is to serve as the company’s own standards, or the company’s audit committee resolves on its own audit committee auditing standards with the Code as a reference, it must be noted that the audit committee will bear a duty to perform audits in accordance with those auditing standards.

As with the previous revisions, the Code applies to large companies, as defined in the Companies Act, and has been written mainly in consideration of listed companies. For companies that are not large companies, it is desirable that audit committees conduct audits in reference to the Code while keeping in mind the company’s specific audit environment.

Revision of Code of Audit Committee Auditing Standards

Japan Audit & Supervisory Board
Members Association

July 9, 2009

The “Ministerial Ordinance for Partial Amendment of the Ordinance for Enforcement of the Companies Act and the Ordinance on Accounting of Companies, etc.” (Ministry of Justice Ordinance No. 7 of 2009) took effect on April 1, 2009, and amended parts of the Ordinance for Enforcement of the Companies Act and the Ordinance on Accounting of Companies. Accordingly, the Association has decided to revise the Code of Audit Committee Auditing Standards.

The main contents of the revisions are as follows:

- (1) Necessary revisions were made due to the clarification of the scope of “specified audit and supervisory board members” in companies with committees as well as the clarification of rules in cases where the audit committee has not determined “specified audit and supervisory board members” (it has been made clear that if audit committee members to perform acts such as the notification of the contents of audit reports are not determined, then the audit committee members to perform those acts are any of the audit committee members).
- (2) The necessary revisions were made to the Code’s provisions on disclosure of “basic policies regarding those who control the company’s determination of its financial and business policies” (commonly called takeover defense measures) in business reports due to the disclosure requirements for those basic policies having been changed to only include “a summary of the contents of the basic policy” and “a summary of the specific contents of measures.”
- (3) In cases where there is a demand from shareholders to file a lawsuit pursuing the liability of directors, but a lawsuit is not filed, the above amendment clarified that in addition to the determination of whether the parties subject to the demand had responsibilities or duties, the reasons for that determination must also be submitted or provided to the parties making the demand (as a “notice of reasons for not filing lawsuit”) when certain shareholders or the like so request; accordingly, the necessary revisions were made to the Code.

Revision of Code of Audit Committee Auditing Standards

Japan Audit & Supervisory Board
Members Association

May 10, 2007

I Background

The Code was enacted in September 2005 for the purpose of providing specific and systematic practice guidelines for audit committee audits in conjunction with the introduction of the companies with committees, etc. system (*iinkai-to secchi gaisha seido*, a corporate structure that includes a nominating committee, audit committee, and compensation committee) under the amendment to the Commercial Code and the like that took effect from April 2003.

Following that, due to the Companies Act and the ministerial ordinances of the Ministry of Justice thereof taking effect in May 2006, the name of the companies with committees, etc. system was changed to the “companies with committees” system, in addition to which changes in the legal sphere regarding that system were seen, such as provisions regarding the development of internal control systems being amended and new provisions related to the responsibilities, etc. of audit committees being added.

In regard to practices as well, several years have passed since the introduction of the companies with committees (etc.) system, and a certain level of practical experience regarding audit committee audits has been accumulated.

In order to respond to these changes of law and environmental changes, the Japan Audit & Supervisory Board Members Association has revised the Code again.

II Perspectives of the Code

Upon the current revision of the Code, the Association carefully examined the contents of the Companies Act and the ministerial ordinances of the Ministry of Justice thereof and determined that there is no need to change the fundamental philosophies and perspectives used throughout the previous version of the Code.

As with the previous version of the Code, the newly revised Code does not only addresses legal requirements, but also provides specific and systematic guidelines for audit practices and thereby clarifies the audit practices that will be evaluated and provides the standards by which audit committees will be held accountable, and the fundamental perspective of the Code is that audit committees are responsible for preventing corporate wrongdoing, ensuring sound and continuous growth of their company, and establishing a good corporate governance system that accommodates society’s trust by auditing the executive officers’ and directors’ performance of their duties from an independent position. These fundamental philosophies and perspectives are the same in the Code of Audit and Supervisory Board Member Auditing Standards (final revision on January 12, 2007) separately established by the Association, and that is because regardless of the differences between the audit committee system and the audit and supervisory board member system, persons and organizations responsible for audit duties and the practical guidelines used thereby should understand and include these fundamental philosophies and perspectives, and they represent the fundamental attitudes of the Association regarding audits. We wish to once again confirm this point in this revision of the Code.

Based on these fundamental philosophies and perspectives and taking into consideration matters such as the characteristics of the audit committee system and practical experience, this

revision of the Code adds specific provisions regarding audit committee audits from the following perspectives.

1. For companies with committees, regardless of the scale of the company or whether it is a public or private company, it is legally required for the board of directors to resolve on a basic policy for internal control systems, and the audit committee is required to determine the appropriateness of the contents of those board of directors' resolutions taking into consideration the status of internal control systems developed pursuant thereto. Additionally, based on an understanding that under the audit committee audit system, the appropriate development of internal control systems, particularly "systems to ensure the effectiveness of audit committee audits," which are one component of the internal control systems, is essential for effectively conducting audit committee audits, and in consideration of this particular importance of developing internal control systems, provisions have been added regarding the best standards of conduct to be taken by the audit committee for that purpose.
2. Under the companies with committees system, it is intended for systematic audits to be centered around the audit committee, and in order to clarify that in the Code, "audit committee" is used as the grammatical subject that performs actions. Additionally, in regard to the performance of audit duties by the audit committee, systematic audits through coordination with the internal audit division, etc., the internal control division, the accounting auditor, and the like under the leadership of the audit committee are anticipated, and provisions have been added to ensure that those systematic audits are conducted effectively.
3. Under laws and regulations, it is required for companies with audit and supervisory boards to have full-time audit and supervisory board members, but there are no similar provisions regarding companies with committees. Whether or not to have full-time audit committee members should be decided based on the unique audit environment and the like of each company, but the Code has been prepared on the premise that both types of companies, those that have full-time audit committee members and those that do not, may exist.
4. Audit committee members in companies with committees are also directors and therefore are in a position to participate in deciding the business of the company as members with voting rights in the board of directors. Therefore, in the Code, particular attention has been given to the dual positions of audit committee members in order to avoid the conflict of self-audits, and provisions have been added regarding efforts to ensure independence from business execution and appropriate decisions on business. Furthermore, as information obtained through audit activities by the audit committee should be effectively utilized when the board of directors or the like performs supervisory obligations regarding business execution, certain provisions have been added regarding cases in which directors who are audit committee members should actively fulfill their roles in deliberations of the board of directors or the like.
5. The Code applies to large companies, as defined in the Companies Act, and has been written mainly in consideration of listed companies.

III Substance of the Revisions

In this revision of the Code, the points primarily taken into consideration are as follows:

1. In conjunction with the amendment of provisions regarding the development of internal control systems in the Companies Act and the ministerial ordinances of the Ministry of Justice thereof, necessary revisions were made to the provisions regarding the development of internal control systems in the Code. Additionally, a separate chapter titled “Development of the Audit Committee Audit Environment” was added regarding the development of systems to ensure the effectiveness of audit committee audits, which are the foundation of effective audit committee audits, and specific provisions in regard to that development were added.

With respect to establishing a more concrete manner of auditing internal control systems, etc., we have decided to separately enact the “Audit Committee Audit Practice Standards for Internal Control Systems” based on the Code.

2. In the Code, from the perspective of providing more specific practice standards in line with actual practices, the departments and the like in charge of internal control functions within the company are divided into the internal audit division and other departments and the like in charge of monitoring functions in internal control systems (the internal audit division, etc.) and departments in charge of other internal control functions (the internal control division). In regard to the internal audit division, etc., close coordination should be maintained in order to systematically and efficiently perform audit committee audit duties, and in regard to the internal control division, in principle, it is an important audit matter in audits of the development of internal control systems, and coordination should be requested as necessary. Specific provisions have been added based on this classification.
3. Matters that are required to be disclosed, such as matters pertaining to candidates for directors and the status of the performance of duties of outside directors, have been expanded by the Companies Act of Japan and the ministerial ordinances of the Ministry of Justice thereof. Thus, we have expanded the content of provisions of the Code concerning the criteria for selecting audit committee member candidates, in addition to the attitudes, etc. of audit committee members who are outside directors.
4. In regard to audits of financial report internal controls, the system of evaluating and auditing internal controls regarding financial reports under the Financial Instruments and Exchange Act was introduced, and as many companies with committees are listed companies, there are many companies that are very interested in that system. In consideration thereof, certain provisions were added in regard thereto in the Code. However, we believe that many aspects of audits of financial report internal controls will depend on the deepening of future discussions, so details have been left to be examined in the future.
5. The audit committee shall be granted the power to consent to the determination of accounting auditors’ remuneration, etc., and the accounting auditors shall be obligated by law to provide the audit committee with a notice of “matters concerning the performance of the accounting auditors’ duties”. Thus, necessary provisions have been added to the Code in relation to the responsibilities to be discharged by the audit committee in ensuring the appropriateness and reliability of accounting audits.
6. The audit committee’s opinion shall be provided in the audit report if the “basic policies regarding those who rule on the company’s determination of its financial and business policies” are included in a business report. Thus, a separate section addressing this issue has been added to the Code and also refers to the responsibilities to be discharged by the audit committee in ensuring the appropriateness of takeover defense measures.

7. The Companies Act of Japan introduced a system that requires the audit committee to give notice of its reasons for not filing a lawsuit pursuing the liability of an executive officer or director when demanded to do so by shareholders or director(s), and thereby the appropriate decision-making of the audit committee became more important. Thus, revisions have been made to the Code to address the audit committee's actions related to derivative lawsuits, etc.

Code of Audit Committee Auditing Standards

Note: Regarding Levels of Provisions

Lv.	Category	Phrasing
1	Legally mandated matters	In principle, “must” and “must not” are used. However, the phrasing of laws and regulations is taken into consideration in some cases.
2	Matters non-compliance with which may, in reasonable probability, constitute a breach of the duty of care	In principle, “must” is used.
3	Matters non-compliance with which does not automatically constitute a breach of the duty of care but for which, depending on the manner of non-compliance, a breach may be recognized	In principle, “will” is used.
4	Matters for which there is a moral obligation to endeavor, matters that are preferred or desirable, and matters that are standards of conduct but do not fall under levels 1 to 3 above (such as matters that should be considered or examined but for which no specific behavioral guidelines are provided)	Appropriate phrasing is chosen in accordance with the circumstances. “Should endeavor” is used for matters for which there is a moral obligation to endeavor, and in principle, “should” is used for matters that are standards of conduct but do not fall under levels 1 to 3 above.
5	Matters that do not fall under levels 1 to 4 above, such as confirmation of rights	Appropriate phrasing is chosen in accordance with the circumstances.

Chapter I Purpose of this Code

Article 1 Purpose

1. This Code of Audit Committee Auditing Standards (this “Code”) clarifies the responsibilities of the audit committee and the attitudes audit committee members should have in discharging such responsibilities and sets out audit systems for discharging such responsibilities as well as standards and behavioral guidelines for conducting audits. [Lv. 5]
2. The audit committee should act in accordance with this Code, taking into consideration the company’s size, the nature of its business, various management risks surrounding the company, and other aspects related to the company’s particular audit environment, and should endeavor to ensure the effectiveness of its audits. [Lv. 4]

Chapter II Responsibilities of the Audit Committee and Attitudes of Audit Committee Members

Article 2 Audit Committee Responsibilities

1. As a statutory organization that bears part of the supervisory functions fulfilled by the board of directors and audits the executive officers' and directors' performance of their duties, the audit committee is responsible for establishing a good corporate governance system by appropriately performing its duties. A good corporate governance system is one in which the company and its corporate group are able to consider the interests of and endeavor to cooperate with various stakeholders, achieve sound and sustainable growth and the creation of mid- to long-term corporate value, and accommodate society's trust. [Lv. 3]
2. The audit committee will monitor and verify the status of the establishment and operation of the internal control systems provided for in Article 24 and will actively fulfill its roles by means such as utilizing information based on its audit activities in deliberations and the like of the board of directors regarding the establishment and operation of internal control systems. [Lv. 3]
3. Based on the establishment and operation of internal control systems and the monitoring and verification thereof provided for in the preceding paragraph, through effective coordination and the like with the Internal Audit Division, Etc. provided for in Article 19, paragraphs 1 and 2, the audit committee must conduct investigations with respect to the status of the operations and financial status of the company, verify the contents of reports received from executive officers, directors, employees, the accounting auditor, and other people in the company, and take any necessary measures when appropriate, including making reports or proposals to the board of directors, making suggestions or recommendations to executive officers and employees, and seeking injunctions against executive officers' or directors' acts. [Lv. 2]

Supplement to paragraph 1

The concept of "supervision" in this Code is not limited to "supervising the execution of the duties of executive officers, etc." as stipulated in Article 416, paragraph 1, item 2 of the Companies Act; it includes the broader sense of overall supervisory functions in corporate governance, and "auditing" is also considered part of the broad sense of supervisory functions. (The concept of the broad sense of supervisory functions was discussed in the Association's news release titled "New Recommended English Translation for 'Kansayaku' and 'Kansayaku-kai'" (October 23, 2012); statements in this Code are based on the same concept.)

Additionally, the cooperation with various stakeholders that is sought under the Corporate Governance Code (in these supplements and references, the "Governance Code") is to be carried out mainly by the board of directors and management; however, the audit committee is required to support the board of directors and management in terms of establishing corporate governance systems.

Reference for paragraph 1

Governance Code, General Principles 2 and 4

Article 3 Audit Committee Member Attitudes

1. Audit committee members should endeavor to perform highly effective supervisory functions as members of the board of directors. [Lv. 4]
2. Audit committee members should actively utilize information and knowledge obtained through performing audit duties in board of directors' deliberations and the like and thereby endeavor to ensure the effectiveness of the board of directors' supervisory functions. [Lv. 4]
3. Audit committee members should keep in mind that as members of the board of directors, they are in a position to participate in the board of directors' supervision of business execution and in the determination of matters such as basic management policies and basic internal control policies and should endeavor to make appropriate decisions regarding business by effectively utilizing the information and knowledge obtained through performing audit duties. [Lv. 4]
4. Audit committee members must endeavor to preserve their own independent position and must maintain a fair and impartial attitude and act based on their own convictions. [Lv. 2]
5. Audit committee members should continuously endeavor to cultivate their knowledge for such purposes as improving the quality of their audits in order to appropriately fulfill the roles and responsibilities expected of them as bearers of part of the company's supervisory functions, in addition to which they should endeavor to find opportunities to continually update that knowledge after assuming office. [Lv. 4]
6. In order to obtain the proper perspective for auditing, audit committee members should endeavor to acquire necessary knowledge related to the company's business, finances, organization, and the like and to find opportunities to sufficiently understand the roles and responsibilities that are required of audit committee members, in addition to which they should endeavor to deepen their understanding of management issues from an overall managerial perspective, grasp changes in management conditions and the corporate environment, and positively and proactively express their opinions. [Lv. 4]
7. Audit committee members should continually strive to communicate with directors, executive officers, employees, and other people in the company and its subsidiaries and should endeavor to collect sufficient information and to develop the audit environment. [Lv. 4]
8. In formulating audit opinions, audit committee members should endeavor to come to appropriate opinions by diligently confirming the relevant facts, requesting attorneys' and other outside professionals' opinions when finding it necessary, and seeking rational grounds for their judgments. [Lv. 4]
9. Audit committee members must be careful to maintain the confidentiality of any information they obtain in the course of performing their duties. [Lv. 2]

Reference for paragraph 5

Governance Code, General Principle 4, Principle 4.4, and Supplementary Principle 4.14.1

Supplement to paragraph 6

“Positively and proactively express their opinions” means that audit committee members are expected to express their opinions in consideration of risk management, the rationality of business judgments, and the like without hesitation whenever they determine it would be beneficial for the company, instead of limiting their remarks or waiting for their opinions to be asked for the reason that the matter should be left solely to management.

Article 4 Outside Audit Committee Members and Independent Directors

1. Audit committee members who are outside directors (“Outside Audit Committee Members”) should keep in mind that their appointment is required by law in order to strengthen the level of independence and neutrality of the audit system, should actively try to obtain information necessary for their audit, and should endeavor to share that information obtained with other audit committee members. [Lv. 4] Additionally, Outside Audit Committee Members should endeavor to develop the audit environment in cooperation with other audit committee members. [Lv. 4]
2. Because of their independence, the reasons for their appointment, and other related matters, Outside Audit Committee Members will keep in mind that they are particularly expected to express objective and neutral audit opinions and will actively, candidly, and directly pose questions and state their opinions to the audit committee, the board of directors, and the like. [Lv. 3]
3. Outside Audit Committee Members, keeping in mind that the status of the performance of certain of their duties specified by law and regulation is disclosed in the business report, must perform their duties appropriately. [Lv. 2]
4. Outside Audit Committee Members designated as independent directors/audit committee members will keep in mind that they are particularly expected to act to ensure that managerial decision-making is fair and impartial in consideration of the interests of general shareholders and, by extension, the interests of the company (in this article, “Interests of General Shareholders”) and will exchange opinions with other audit committee members, strive in cooperation with other audit committee members to exchange information with the departments in charge of exchanging opinions with general shareholders and other such matters, and, when finding it necessary, express their opinions to the representative executive officers and the board of directors in consideration of the Interests of General Shareholders. [Lv. 3]

Chapter III Audit Committee Composition and Operation, etc.

Article 5 Composition of the Audit Committee

1. The audit committee must be composed of three or more directors who do not execute the business of the company or its subsidiaries, and a majority of the audit committee members must be outside directors. [Lv. 1]

2. When finding it necessary, the audit committee may appoint full-time audit committee members. [Lv. 4]
3. The audit committee should examine the necessity of full-time audit committee members through audit committee meetings and as necessary express opinions to the board of directors or the like. [Lv. 4]
4. Full-time audit committee members should keep in mind their particular role as full-time personnel and should actively endeavor to develop the audit environment and to collect information within the company [Lv. 4], and they will monitor and verify, on a daily basis, the status of the establishment and operation of internal control systems. [Lv. 3]
5. Full-time audit committee members should endeavor to share with other audit committee members information obtained in the course of performing their duties. [Lv. 4]
6. The audit committee may request the board of directors to establish an audit committee secretariat. If that secretariat is established, it is desirable for the employees assigned thereto to be dedicated exclusively to performing secretariat duties. [Lv. 4]

Supplement to paragraphs 2 to 5

Under the Companies Act, it is not required for the audit committee to appoint full-time audit committee members, but in practice, full-time members fulfill extremely important roles, and therefore, these provisions expect the audit committee to examine the necessity of full-time members, and they refer to the duties of full-time members. The actual appointment of full-time members will be made by the audit committee, but as a prerequisite to that, persons who are able to fulfill the duties of full-time members must be appointed as directors and then appointed as audit committee members. In consideration of that, it is stated here that if the audit committee considers the appointment or addition of full-time members necessary, it is possible to express opinions on that necessity to the board of directors or the like.

Article 6 Duties of Audit Committee

The audit committee must perform the following duties: [Lv. 1]

- (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 that will be submitted to the shareholders' meeting; and
- (iii) other duties provided for in laws, regulations, and the articles of incorporation.

Article 7 Involvement in Selection of Candidates for Audit Committee Members

1. It is desirable for the audit committee to have a specific policy in relation to the selection of candidates for audit committee members, taking into consideration, among other relevant factors, (i) the distinctions between inside and Outside Audit Committee Members and between full-time and part-time audit committee members together with the respective numbers thereof, (ii) specialized expertise, and (iii) possible vacancies in office. [Lv. 4]

2. In regard to the determination and operation of the policy under the preceding paragraph, the audit committee will carefully examine suitability to serve as an audit committee member in light of the candidate's relationship to the company and relationship to other directors, executive officers, and key employees and other relevant factors after confirming matters such as that there is no doubt as to the candidate's independence as an audit committee member and whether the candidate can maintain a fair and impartial attitude. [Lv. 3] It is also desirable that persons with appropriate experience and abilities and with necessary knowledge of financial, accounting, and legal matters be appointed as audit committee members and that in particular, one or more persons with sufficient knowledge of financial and accounting matters be appointed as audit committee members. [Lv. 4]
3. In order to develop the audit environment and ensure independence in audits, in relation to the selection of candidates for audit committee members, the audit committee will endeavor to achieve coordination with the board of directors and the nominating committee and, when finding it necessary, will express an opinion to the board of directors or the nominating committee. [Lv. 3]

Reference for paragraph 2

Governance Code, Principle 4.11

Article 8 Operation of Audit Committee

1. It is desirable that audit committee meetings be held on a regular basis and that the dates and times for the meetings for the year be fixed in advance, taking into consideration the scheduled dates and times of the board of directors' meetings, each audit committee member's availability to attend, and other relevant factors. [Lv. 4] However, an audit committee meeting will be held whenever found necessary. [Lv. 3]
2. The chairperson of the audit committee should be appointed by audit committee resolution. [Lv. 4] The chairperson will convene and preside over audit committee meetings and perform any other duties entrusted to the chairperson by the audit committee. [Lv. 3] However, the chairperson must not preclude any audit committee member from exercising his or her right to convene an audit committee meeting. [Lv. 1]
3. When finding it necessary, the audit committee will request executive officers, other directors, employees of the department in charge of compliance, department in charge of risk management, accounting department, financial department, and other departments that have responsibility for internal control functions (the "Internal Control Division"), the accounting auditor, and other persons to attend committee meetings and provide explanations. [Lv. 3]
4. Resolutions of the audit committee must be made by 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 after deliberations based on adequate materials. [Lv. 1] However, audit committee members with special interests may not participate in the vote. [Lv. 1]
5. Audit committee members must confirm that the outline and the results of the proceedings and other matters provided by any laws and regulations are appropriately stated in the minutes of audit committee meetings, and all attending audit committee members must affix to the minutes their respective signatures or their respective names and seal impressions (including electronic signatures). [Lv. 1]

6. The audit committee must report without delay to the board of directors on the status of the performance of its duties. [Lv. 1] In this case, the audit committee may cause an audit committee member that it selects to make such reports. [Lv. 5]

Article 9 Appointment of Selected Audit Committee Members, etc.

1. The audit committee will by its resolution appoint, determine, or designate one or multiple audit committee members to perform each of the following duties (“Selected Audit Committee Members”): [Lv. 3]
 - (i) audit committee members who request reports from executive officers, other directors, the Internal Control Division, and other employees on matters concerning the performance of their duties and who investigate the status of the operations and finances of the company pursuant to Article 405, paragraph 1 of the Companies Act;
 - (ii) audit committee members who request reports from subsidiaries on the businesses thereof and who investigate the status of the operations and finances of those subsidiaries pursuant to Article 405, paragraph 2 of the Companies Act;
 - (iii) audit committee members who represent the company in cases where the company files a lawsuit against an executive officer or director, cases where an executive officer or director files a lawsuit against the company, or in relation to other lawsuits, etc. pursuant to Article 408, paragraph 1, item 2 of the Companies Act;
 - (iv) audit committee members who convene board of directors’ meetings pursuant to Article 417, paragraph 1 of the Companies Act;
 - (v) audit committee members who report the status of the audit committee’s performance of its duties to the board of directors pursuant to Article 417, paragraph 3 of the Companies Act;
 - (vi) audit committee members who request reports from the accounting auditor regarding the audits performed thereby;
 - (vii) audit committee members who, if the accounting auditor has been dismissed, report on the dismissal and the reasons therefor at the first shareholders’ meeting held after the dismissal pursuant to Article 340, paragraph 3 and paragraph 6 of the Companies Act; and
 - (viii) audit committee members who perform other duties that the audit committee determines as the duties to be shared thereby in order to appropriately perform audit committee duties.
2. The audit committee may by its resolution appoint, determine, or designate one or multiple audit committee members to perform each of the following duties (“Specified Audit Committee Members”): [Lv. 5]
 - (i) Audit committee members determined as audit committee members provided for in Article 132, paragraph 5, item 4(a) of the Ordinance for Enforcement of the Companies Act, Article 130, paragraph 5, item 4(a) of the Ordinance on Accounting of Companies, and Article 132 of the Ordinance on Accounting of Companies;
 - (ii) Audit committee members designated by the audit committee to receive business reports and supplementary schedules thereto from the executive officers who prepared them and to send them to the other audit committee members; and

- (iii) Audit committee members designated by the audit committee to receive accounting-related documents from the executive officers who prepared them pursuant to Article 125 of the Ordinance on Accounting of Companies and to send them to the other audit committee members.
3. When appointing, determining, or designating audit committee members under the preceding two paragraphs, the audit committee should take into consideration whether the audit committee member is an inside or Outside Audit Committee Member, whether the audit committee member is a full-time or part-time audit committee member, whether the audit committee member has specialized expertise, and other such matters based on the details of the duties specified in the relevant item above. [Lv. 4]
4. When finding it necessary, audit committee members provided for in the items of paragraphs 1 and 2 will perform their duties through the Supporting Employees, Etc. provided for in Article 14, paragraph 1 or the Internal Audit Division, Etc. provided for in Article 19, paragraph 1. [Lv. 3]

Supplement to paragraph 2, items 2 and 3

Under laws and regulations, business reports, supplementary schedules thereto, and accounting-related documents are to be received from the directors who prepared them by the audit committee, but in accordance with actual practices, receiving these documents and sending them to the other audit committee members are included in the duties of Specified Audit Committee Members.

Article 10 Remuneration, etc. of Audit Committee Members

When the audit committee finds it necessary in order to ensure the independence and effectiveness of audit activities, it is desirable for the audit committee to have the opportunity to deliberate with the compensation committee regarding policies relating to the determination of the contents of remuneration, etc. of audit committee members. [Lv. 4]

Article 11 Audit Expenses

1. Audit committee members may receive advance payment or reimbursement from the company for expenses arising in connection to the performance of their duties. [Lv. 5]
2. It is desirable for the audit committee to formulate in advance a budget for expenses arising in connection to the performance of audit committee duties based on the policy stated in Article 16, item 6. [Lv. 4] However, audit committee members have the right to demand reimbursement from the company for any expenses incurred in an emergency or on an extraordinary basis, as well. [Lv. 5]
3. Audit committee members have the right to demand payment from the company for expenses incurred when audit committee members receive, as necessary, advice from outside professionals. [Lv. 5]
4. Audit committee members have the right to demand payment from the company for expenses incurred when audit committee members obtain training and the like suitable for acquiring, appropriately updating, or otherwise cultivating the knowledge necessary in order to deepen their understanding of their roles and responsibilities. [Lv. 5]

5. In incurring audit expenses, the audit committee should keep in mind the efficiency and appropriateness of each expenditure. [Lv. 4]

Supplement to paragraphs 3 and 4

The burden of expenses has been clarified, as well.

Reference for paragraphs 3 and 4

Governance Code, Supplementary Principle 4.13.2, Principle 4.14

Chapter IV

Measures Based on the Corporate Governance Code

Article 12 Measures Based on the Corporate Governance Code

1. Audit committee members in companies to which the Corporate Governance Code applies should perform their duties with sufficient understanding of the purpose and intent thereof. [Lv. 4]
2. The audit committee should monitor whether the following supervisory functions of the board of directors are being appropriately exercised in order to promote the company's sustainable growth and the increase of its corporate value over the mid to long term and to improve profitability, capital efficiency, and the like and should fulfill part of these supervisory functions within the scope of its own duties: [Lv. 4]
 - (i) setting the broad direction of corporate strategy and the like;
 - (ii) developing an environment where appropriate risk-taking by the representative executive officers and other executive officers is supported; and
 - (iii) effectively supervising the representative executive officers, other executive officers, and directors from an independent and objective standpoint.

Supplement to paragraph 1

Because the content of the Governance Code aims to contribute to companies' sustainable growth and increased corporate value over the mid to long term, Article 12, paragraph 1 does not mean that companies to which the Governance Code does not directly apply should not take in its main points.

Supplement to paragraph 2

As set forth in Article 2, paragraph 1, the audit committee bears part of the company's supervisory functions (in the broad sense) fulfilled by the board of directors; General Principle 4 of the Governance Code provides three roles and responsibilities as examples of those supervisory functions, and the audit committee bears part of those roles and responsibilities. (Please refer to General Principle 4 of the Governance Code.) In addition to auditing whether the board of directors is appropriately fulfilling those supervisory duties (refer to Article 404, paragraph 2 of the Companies Act), another example of a means through which the audit committee can be involved in

these supervisory functions (in the broad sense) is by proactively expressing opinions regarding internal control systems, which serve as a foundation for appropriate risk-taking, from the initial establishment stages of those systems. Additionally, depending on the circumstances of the company, it may also be possible for the audit committee to proactively state its views in consideration of risk management, the rationality of business judgments, and the like not only in regard to individual matters, but also when formulating mid-term business plans. However, paragraph 2 is set at level 4 because the degree of these types of involvement should vary depending on the circumstances of each company. Any measures to be taken by the audit committee should be carried out in consideration of the roles and responsibilities set forth in Article 2.

Article 13 Constructive Dialogue with Shareholders

1. When the audit committee engages in dialogue with shareholders with mid- to long-term perspectives and other stakeholders, the audit committee should coordinate with related departments and appropriately engage in such dialogue to a reasonable extent so that it contributes to the company's sustainable growth and increase of corporate value over the mid to long term. [Lv. 4]
2. The views and concerns of shareholders learned through the dialogue in the preceding paragraph should be appropriately and effectively relayed to the representative executive officers, other executive officers, the board of directors, and the audit committee. [Lv. 4]

Supplement to Article 13

Footnote 17 of Guidance 4-1 of the Stewardship Code and Supplementary Principle 5.1.1 of the Governance Code have been revised to add audit and supervisory board members as parties to engage in dialogue with shareholders and other stakeholders, and the intent of that revision also applies in the same way to the audit committee. This article sets out provisions regarding responses to cases in which institutional investors are interested in matters relating to audits and expect to have dialogue with the audit committee. "Shareholders with mid- to long-term perspectives and other stakeholders" means those who are not focused only on short-term interests and who are able to "wait until the improvements of corporate governance are achieved" (Basic Views Concerning the Corporate Governance Code (Draft), "Background," section 8); a typical example of this type of shareholder is an institutional investor or the like that has adopted the Stewardship Code and has a deep understanding of and interest in the mid- to long-term increase of the corporate value of the companies in which it invests so as to secure long-term returns for its customers and beneficiaries. "Coordinate with related departments" is included because it is necessary for the audit committee, when engaging in shareholder dialogue, to coordinate sufficiently with IR and other related departments and ensure that explanations are as consistent as possible across the company as a whole so that those explanations are easy to understand for shareholders and other stakeholders.

Reference for Article 13

Governance Code, General Principle 5

Chapter V

Development of the Audit Committee Audit Environment

Article 14 Collecting Information from the Representative Executive Officers, etc.

1. The audit committee should confirm the basic management policies of the company, any issues to be addressed by the company, the risks surrounding the company, and other such matters, should regularly exchange information and opinions with the representative executive officers and related executive officers regarding the status of the development of a favorable audit environment (such as the ensuring of sufficient directors and employees to support audit committee duties (“Supporting Employees, Etc.”) and establishment of systems for reporting to the audit committee), priority audit issues, and any other relevant matters, and should share an awareness with the representative executive officers and the like that the development of the audit environment is important in order for the audit committee to perform its duties. [Lv. 4]
2. When finding it necessary due to exchanges of information and opinions provided for in the preceding paragraph, the audit committee should make proposals, recommendations, or the like regarding the development of the audit environment provided for in this chapter to the board of directors, the representative executive officers, or the like. [Lv. 4]

Article 15 Coordination with Other Directors

1. The audit committee should as necessary exchange information and develop a shared awareness with directors who are not audit committee members regarding any issues to be addressed by the company and the risks surrounding the company as well as priority audit issues and other such matters, deepen trust with those directors, and endeavor to ensure the effectiveness of audits. [Lv. 4]
2. If an outside director who is not an audit committee member has been selected as lead independent outside director, the audit committee should endeavor to ensure coordination with that director. [Lv. 4]

Reference for paragraph 1

Governance Code, Supplementary Principle 4.4.1

Reference for paragraph 2

Governance Code, Supplementary Principle 4.8.2

Article 16 Systems to Ensure the Effectiveness of Audit Committee Audits

In order to develop systems to ensure that its audits are conducted effectively, pursuant to Article 416, paragraph 1, item 1(b) of the Companies Act and Article 112, paragraph 1 of the Ordinance for Enforcement of the Companies Act, the audit committee will determine or resolve on a basic policy of the audit committee in regard to the following matters required to be resolved upon by the board of directors and, when finding it necessary, will make reports or proposals or express opinions to the board of directors: [Lv. 3]

- (i) matters relating to Supporting Employees, Etc.;

- (ii) matters relating to the independence of Supporting Employees, Etc. from executive officers;
- (iii) matters relating to ensuring the effectiveness of instructions to Supporting Employees, Etc.;
- (iv) the following systems and any other systems relating to reports to be provided to the audit committee:
 - (a) systems for directors (excluding directors who are audit committee members), executive officers and employees to report to the audit committee; and
 - (b) systems for directors, audit and supervisory board members, executive officers, and employees of the company's subsidiaries, or anyone who receives a report from any of these, to report to the audit committee;
- (v) systems to ensure that any person who made a report in the preceding item does not receive disadvantageous treatment due to having made that report;
- (vi) procedures for the advance payment or reimbursement of expenses arising in connection to the performance of audit committee member duties and any other matters relating to policies on the handling of expenses or debts arising in connection to the performance of audit committee member duties; and
- (vii) any other systems to ensure the effectiveness of audit committee audits.

Article 17 Supporting Employees, Etc.

1. In relation to the determinations and resolutions on basic policies regarding item 1, item 2, and item 3 in the preceding article, the audit committee should endeavor to strengthen the systems of Supporting Employees, Etc. in order to ensure the effectiveness of audits, taking into consideration the company's size, the nature of its business, various management risks surrounding the company, and other aspects related to the company's particular circumstances. [Lv. 4]
2. The audit committee should endeavor to ensure the independence of Supporting Employees, Etc. from the executive officers and other executives. [Lv. 4]
3. The audit committee will examine any matters necessary for ensuring the independence of Supporting Employees, Etc. and the effectiveness of instructions to Supporting Employees, Etc., such as clarifying the following matters: [Lv. 3]
 - (i) The powers of Supporting Employees, Etc. (such as investigative and information-collecting powers, as well as authority to attend meetings as necessary as instructed by audit committee members);
 - (ii) the organization to which Supporting Employees, Etc. belong;
 - (iii) rights of the audit committee to control and direct Supporting Employees, Etc.;
 - (iv) rights of the audit committee to consent to personnel changes, personnel evaluations, and disciplinary actions in regard to Supporting Employees, Etc.;
 - (v) ensuring an appropriate number of dedicated Supporting Employees, Etc. or Supporting Employees, Etc. with other duties, each having the necessary knowledge and abilities, and systems for Supporting Employees, Etc. with other duties to engage in supporting the audit committee;

- (vi) securing funds for the activities of Supporting Employees, Etc.; and
- (vii) systems for the Internal Audit Division, Etc. to cooperate with Supporting Employees, Etc.

Article 18 Systems for Reporting to Audit Committee

1. Bearing in mind that in relation to determinations or resolutions on basic policies regarding Article 16, item 4 and item 5, in conducting organizational audits provided for in Article 37, it is particularly important that reports from directors (excluding directors who are audit committee members), executive officers, and employees are made in a timely and appropriate manner to the audit committee (including reports from directors, executive officers, audit and supervisory board members, and employees of the company's subsidiaries being made directly or indirectly to the audit committee), the audit committee must actively fulfill its roles in deliberations and the like of the board of directors regarding those items. [Lv. 2]
2. The audit committee will request the executive officers to establish a system for immediately reporting to the audit committee if an executive officer discovers any fact that is likely to cause the company significant damage. [Lv. 3]
3. In addition to the matters set forth in the preceding paragraph, the audit committee should deliberate with executive officers and determine the matters that will be reported to the audit committee on a regular basis and who will provide those reports. [Lv. 4] Additionally, when finding it necessary, the audit committee will request the board of directors and related executive officers to implement measures such as establishing or amending internal company rules or otherwise developing internal systems. [Lv. 3] The same applies to matters to be reported irregularly on an as-needed basis. [Lv. 3]
4. If Supporting Employees, Etc. or the Internal Audit Division, Etc. are designated as recipients of reports under the preceding paragraph, the audit committee must develop systems through which reports from those Supporting Employees, Etc. or the Internal Audit Division, Etc. are made in a timely and appropriate manner to the audit committee or the Selected Audit Committee Members and the like provided for in the items of Article 9, paragraph 1. [Lv. 2]
5. If the company has an internal reporting system for whistleblowers, the audit committee must monitor and verify whether that system effectively functions (both in the company and throughout the corporate group) by confirming that material information is provided to the audit committee and that it is ensured that any person who makes a whistleblowing report does not receive disadvantageous treatment due to having made that report. [Lv. 2] Additionally, the audit committee should endeavor to utilize information provided by the internal reporting system in performing its audit duties. [Lv. 4]
6. To ensure that a system of coordination with the company's Internal Audit Division, Etc. (defined in Article 19) is effectively established and operated, the audit committee must request that executive officers or the board of directors support and develop such a system. [Lv. 2]

Supplement to paragraph 1

“Indirectly” has been added here in consideration of the fact that reports from subsidiaries are not always made to the audit committee of the parent company.

Reference for paragraph 5

Governance Code, Supplementary Principle 2.5.1

Article 19 System of Coordination with Internal Audit Division, Etc.

1. In relation to the determinations and resolutions on basic policies regarding Article 16, in order to effectively and efficiently perform investigations into the status of the operations and finances of the company or other audit duties, the audit committee will develop systems to maintain close coordination with the company's internal audit division and other departments that hold jurisdiction over the monitoring functions in the internal control systems (collectively, the "Internal Audit Division, Etc."). [Lv. 3]
2. In regard to the development of the systems under the preceding paragraph, the audit committee will develop systems in order to achieve flexible coordination on a daily basis with the Internal Audit Division, Etc., such as by receiving reports from the Internal Audit Division, Etc. on matters such as the results of its audits, requesting investigations as necessary, and issuing specific instructions. [Lv. 3] When finding it necessary in order to ensure the effectiveness and independence of the performance of duties by the Internal Audit Division, Etc., the audit committee will make a request to the board of directors for a resolution provided for in Article 16, item 1, item 2, or item 3 in regard to matters relating to the powers and independence of the key employees of the Internal Audit Division, Etc. [Lv. 3]
3. In addition to the matters provided for in the preceding paragraph, the audit committee should endeavor to develop systems for effectively performing audit committee audits, such as by making it possible to receive reports and request investigations as necessary regarding matters relating to internal control systems from the Internal Control Division and other departments found necessary by the audit committee. [Lv. 4]
4. The audit committee must make requests and recommendations to the board of directors or the executive officers regarding the development of systems as necessary so that the system of coordination with the Internal Audit Division, Etc. provided for in this article and the systems for reporting to the audit committee, etc. provided for in Article 18 are effectively established and operated. [Lv. 2]

Article 20 Audit Systems in Corporate Group

In relation to the determinations and resolutions on basic policies regarding Article 16, the audit committee must endeavor to develop the audit environment in the corporate group provided for in Article 24, paragraph 1, item 5 and request the executive officers and the board of directors to develop any systems necessary therefor. [Lv. 2]

Chapter VI Operational Audits

Article 21 Audit of Executive Officers' and Directors' Performance of Duties

1. The audit committee must audit the executive officers' and directors' performance of their duties. [Lv. 1]
2. When finding it necessary when performing its duties, the audit committee must take any necessary measures when appropriate based on the situation, such as reporting, making proposals, or expressing opinions to the board of directors and other committees or making suggestions or recommendations to executive officers and the Internal Control Division. [Lv. 2]
3. If the audit committee finds that there is, 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, the audit committee must state that misconduct or fact in the audit report. [Lv. 1] In addition, if there are any matters considered appropriate in order to fulfill the duty of accountability to shareholders, the audit committee will state such matters in the audit report. [Lv. 3]

Article 22 Audit of Executive Officers' Performance of Duties

1. The audit committee must monitor and verify whether or not executive officers are deciding on business execution soundly, fairly, appropriately, and efficiently and are executing business in accordance with the basic business policies, mid- to long-term business plans, and the like determined by the board of directors. [Lv. 2]
2. With respect to the executive officers' decisions on business execution and their execution of business, the audit committee must monitor and verify the executive officers' performance of their legal duties, including their duty of care and their duty of loyalty, by applying the following considerations: [Lv. 2]
 - (i) There must be no material or careless error in understanding the relevant facts that constituted the basis of the decision;
 - (ii) The decision-making process must be reasonable;
 - (iii) The contents of a decision must not violate any law, regulation, or the articles of incorporation;
 - (iv) The contents of a decision must not be obviously unreasonable as a decision of ordinary corporate management; and
 - (v) A decision must be made in foremost consideration of the interests of the company, not of the executive officers or third parties.
3. In order to fulfill the responsibilities under the preceding paragraph, the audit committee must perform the following duties:
 - (i) The audit committee or audit committee members must take any necessary measures when appropriate based on the situation, such as making suggestions or recommendations to the executive officers, in case the audit committee or audit committee members find (a) that any executive officer has committed or is likely to commit an act outside the purposes of the company or otherwise in violation of

any law, regulation, or the articles of incorporation, (b) any fact that is likely to cause the company significant damage, a serious incident, or the like, or (c) any fact that is significantly inappropriate for the corporate affairs of the company. [Lv. 2]

- (ii) Upon receipt of a report from an executive officer, director, employee, or the like to the effect that the company is likely to suffer significant damage, the audit committee or audit committee members must conduct necessary investigations and take any necessary measures when appropriate based on the situation, such as reporting to the board of directors, providing suggestions to the executive officers, or convening a meeting of the audit committee. [Lv. 2]
- 4. With respect to the matters provided for in the items of the preceding paragraph, when finding it necessary, the audit committee must take any necessary measures when appropriate based on the situation, such as convening a meeting of the board of directors or seeking an injunction against executive officers' acts. [Lv. 2]
- 5. With respect to the matters provided for in the preceding two paragraphs, when finding it particularly necessary due to an audit of the executive officers' performance of their duties, the audit committee or audit committee members will express opinions to the board of directors, including opinions regarding the dismissal of the executive officers. [Lv. 3]

Supplement to paragraph 1

This paragraph is set at level 2 (matters non-compliance with which may, in reasonable probability, constitute a breach of the duty of care), but the cases in which non-compliance would be an issue are anticipated to be those in which the audit committee has failed to perform the monitoring and verification provided for in this paragraph. However, the cases in which a breach of the duty of care regarding the content of audit committee audits may be considered are those in which the audit committee failed to perform monitoring and verification by applying the considerations stated in paragraph 2.

Supplement to paragraph 5

This paragraph states that when finding it particularly necessary, it may be necessary to consider expressing opinions, including opinions regarding the dismissal of the executive officers; it does not necessarily require that such measures be taken in advance even when there are other means available. In regard to actual measures, it is important that first, measures for correction are taken not only by the audit committee but also in coordination with other outside directors, and if it is still found necessary even then, the measures under this paragraph will likely be examined while bearing in mind the audit committee members' position as directors who are members of the board of directors, which resolves on the appointment and dismissal of executive officers.

Article 23 Audit of Directors' Reports to the Board of Directors, etc. and Decision-Making of the Board of Directors

- 1. The audit committee must monitor and verify the status of the directors' performance of their duties at meetings of the board of directors and the like. [Lv. 2]
- 2. With respect to the decision-making performed at meetings of the board of directors and the like, the audit committee must monitor and verify the directors' performance of their

legal duties, including their duty of care and their duty of loyalty, by applying the considerations provided for in Article 22, paragraph 2. [Lv. 2]

3. The audit committee must confirm whether the representative executive officers and related executive officers are reporting to the board of directors on the status of the performance of their duties in a timely and appropriate manner and must monitor and verify whether the board of directors is appropriately performing its duty of supervision. [Lv. 2]
4. When finding it necessary in regard to the matters provided for in the preceding three paragraphs, the audit committee must take any necessary measures when appropriate based on the situation, such as reporting, making proposals, or expressing opinions to the board of directors, making suggestions or recommendations to directors, or seeking an injunction against directors' acts. [Lv. 2]

Article 24 Audit of Internal Control Systems

1. With respect to the following systems ("Internal Control Systems") of the company developed based on board of directors' resolutions, the audit committee must monitor and verify the contents of such resolutions and the status of the Internal Control Systems established and operated pursuant to such resolutions: [Lv. 1]
 - (i) systems to ensure that the performance of the duties of executive officers and employees complies with all laws, regulations, and the articles of incorporation (in this article, "Legal Compliance Systems");
 - (ii) systems to retain and manage information related to the executive officers' performance of their duties;
 - (iii) company rules and other systems relating to the management of the risk of loss (in this article, "Risk of Loss Management Systems");
 - (iv) systems to ensure the efficiency of the executive officers' performance of their duties;
 - (v) the following systems and other systems to ensure the appropriateness of corporate affairs in the corporate group consisting of the company, its parent companies, and its subsidiaries:
 - (a) systems relating to reports to the company regarding the performance of the duties of directors and executive officers of subsidiaries;
 - (b) company rules and other systems relating to the management of the risk of loss of subsidiaries;
 - (c) systems to ensure the efficiency of the performance of the duties of directors and executive officers of subsidiaries; and
 - (d) systems to ensure that the performance of the duties of directors, executive officers, and employees of subsidiaries conforms to laws, regulations, and the articles of incorporation; and
 - (vi) systems to ensure the effectiveness of audit committee audits set forth in Article 16.
2. The audit committee must request on a regular basis that the representative executive officers and other related executive officers report on the status of the establishment and operation of the Internal Control Systems and must monitor and verify the status of the

establishment and operation of the Internal Control Systems through, among other means, coordination with the company's Internal Audit Division, Etc., and through reports from the accounting auditor. [Lv. 2] Additionally, if executive officers responsible for Legal Compliance Systems, Risk of Loss Management Systems, and the like have been appointed, or if committees or the like responsible for those systems have been established, the audit committee should endeavor to achieve close coordination with those executive officers, committees, or the like by means such as regularly receiving reports therefrom. [Lv. 4]

3. With respect to the establishment and operation of the Internal Control Systems, including systems to ensure the effectiveness of audit committee audits, when finding it necessary, the audit committee will deliberate with the representative executive officers and other related executive officers. [Lv. 3]
4. If the audit committee finds that the board of directors, the representative executive officers, or related executive officers and the like are neglecting the appropriate establishment and operation of Internal Control Systems, the audit committee must promptly provide suggestions or recommendations for improvement to the board of directors, the representative executive officers, or related executive officers and the like. [Lv. 2]
5. The audit committee must report the results of its audit regarding Internal Control Systems obtained through the audit activities provided for in this article to the board of directors without delay. [Lv. 2] Additionally, in deliberations and the like of the board of directors regarding the establishment and operation of Internal Control Systems, the audit committee should endeavor to actively fulfill its roles by means such as utilizing information based on its audit activities. [Lv. 4]
6. If the audit committee finds that the contents of board of directors' resolutions regarding Internal Control Systems are not appropriate, finds that statements in business reports regarding Internal Control Systems are significantly inappropriate, or finds that there is any material fact regarding the establishment and operation of the Internal Control Systems constituting a breach of the executive officers' or directors' duty of care, the audit committee must state so in the audit report. [Lv. 1] In addition, if there are any matters considered appropriate in order to fulfill the duty of accountability to shareholders, the audit committee will state such matters in the audit report. [Lv. 3]
7. Audits regarding Internal Control Systems will be governed by the "Audit Committee Audit Practice Standards for Internal Control Systems" enacted separately in addition to this Code. [Lv. 5]

Article 25 Audits in Corporate Group

1. Audit committees of companies with subsidiaries must monitor and verify the executive officers' performance of their duties relating to the administration of subsidiaries in consideration of consolidated group management. [Lv. 2]
2. The audit committee should endeavor to perform its duties and to develop the audit environment of the entire corporate group while taking into consideration the significance of the damage that would be caused to the company by an incident of misconduct or a similar event within a subsidiary and being mindful of whether Internal Control Systems are appropriately established and operated in the company and its subsidiaries. [Lv. 4]

3. If the company has a significant affiliated company, audits will be performed in accordance with the preceding two paragraphs in consideration of the significance of that affiliated company. [Lv. 3]
4. Audit committees of companies with a parent company, etc. must audit the executive officers' and directors' performance of their duties in consideration of protecting the interests of minority shareholders. [Lv. 2]

Article 26 Audit of Statutory Disclosure Information, etc.

1. In regard to systems to ensure that securities reports and other information the company is required to disclose under laws, regulations, and the like that significantly affects the company (in this article, "Statutory Disclosure Information, Etc.") do not contain any material errors or significantly misleading statements, the audit committee will, in accordance with Article 24, monitor and verify the preparation of Statutory Disclosure Information, Etc. and the establishment and operation of disclosure systems. [Lv. 3]
2. The audit committee will monitor and verify whether the executive officers adequately disclose information in a timely and appropriate manner with respect to occurrences or circumstances affecting the company's status as a going concern, material accidents or disasters, material litigation, and any other matters that may materially affect the soundness of the company. [Lv. 3]

Article 27 Audit of Competitive Transactions, Conflict-of-Interest Transactions, etc.

1. With respect to the following transactions or matters, the audit committee must monitor and verify whether there exists any fact constituting a breach of executive officers' or directors' duties: [Lv. 2]
 - (i) any competitive transaction;
 - (ii) any transaction involving a conflict of interest;
 - (iii) the company's provision, without compensation, of any economic benefit (including the provision of any economic benefit in exchange for extremely low compensation);
 - (iv) any irregular transactions with a parent company, etc., a subsidiary, or a shareholder, etc.;
 - (v) the procedures for the company's acquisition or disposal of its own shares as well as the cancellation of shares;
 - (vi) agreements for limiting liability provided for in Article 427 of the Companies Act;
 - (vii) indemnity agreements provided for in Article 430-2 of the Companies Act; and
 - (viii) insurance agreements executed for the benefit of directors, etc. provided for in Article 430-3 of the Companies Act.
2. With respect to any matter set forth in the items of the preceding paragraph, the audit committee must take all necessary measures when appropriate based on the situation, such as making suggestions or recommendations to the executive officers or directors, convening a board of directors' meeting, or seeking an injunction against executive officers' or directors' acts, if the audit committee finds any fact that constitutes or is likely to constitute a breach of any duty of an executive officer or director. [Lv. 2]

3. In regard to transactions with parent companies, etc. that are required to be stated in financial statement notes, the audit committee must state its opinion in the audit report regarding the appropriateness of the board of directors' judgment of whether those transactions harm the interests of the company and regarding the appropriateness of the reasons for that judgment stated in the business report. [Lv. 1]
4. With respect to any material or abnormal transactions or matters other than those set forth in the items of paragraph 1, the audit committee will keep in mind whether there exists any fact constituting a violation of any law, regulation, or the articles of incorporation [Lv. 3] and must make suggestions or recommendations to the board of directors or related executive officers in order to prevent the occurrence of any material damage. [Lv. 2]

Supplement to paragraph 1, reference for items 6 to 8

This revision was made in consideration of the fact that provisions were added to the Companies Act regarding indemnity agreements and agreements relating to directors and officers liability insurance (D&O insurance). Additionally, together with the provisions for those agreements, a similar provision was added regarding agreements for limiting liability.

Supplement to paragraph 3

If, in response to Principle 1.7 of the Governance Code, the board of directors establishes procedures for appropriate examination of transactions between related parties according to the importance and characteristics of the transactions to ensure that the transactions do not harm the interests of the company or the common interests of the shareholders, and the board conducts supervision in consideration of those procedures, then the audit committee will likely in the same manner audit the status of the board of directors' performance of those duties.

Article 28 Responses to Corporate Wrongdoing; Third-Party Committee

1. If corporate wrongdoing (meaning an act in violation of laws, regulations, or the articles of incorporation or another improper or inappropriate act that leads to public criticism; the same applies below in this article) occurs, the audit committee should immediately request reports from the executive officers and other relevant parties, should request as necessary that an investigation committee be established and receive explanations from that committee, and should endeavor to understand the facts of the corporate wrongdoing. [Lv. 4] Additionally, the audit committee must monitor and verify the status of the response of executive officers and the investigation committee in regard to matters such as identifying causes, preventing the spread of damage, promptly resolving the issue, preventing reoccurrence, and publicly disclosing information. [Lv. 2]
2. If the audit committee finds that the response of the executive officers stated in the preceding paragraph is not appropriate in consideration of factors such as independence, neutrality, or transparency, the audit committee will, after deliberations thereby, take appropriate measures, such as recommending to the executive officers that they establish a third-party committee by requesting external, independent attorneys and other such persons to examine matters such as the identification of causes and measures to prevent reoccurrence of the corporate wrongdoing (in this article, a "Third-Party Committee") or,

as necessary, establishing a Third-Party Committee by itself requesting external, independent attorneys and other such persons to examine such matters. [Lv. 3]

3. It is desirable that audit committee members, excluding those found to have a clear interest in the corporate wrongdoing, serve as members of the Third-Party Committee [Lv. 4]; even if they do not, audit committee members will, unless doing so is found inappropriate in consideration of matters such as requests to promptly identify causes and relationships with relevant authorities, request explanations from the Third-Party Committee regarding the process of the establishment of the Third-Party Committee, the status of its response measures, and other such matters and, as necessary, request the Third-Party Committee to attend audit committee meetings. [Lv. 3] If audit committee members serve as members of the Third-Party Committee, they will, keeping in mind their duty of care to the company, appropriately perform their duties as members in cooperation with the attorneys and other such persons also serving as members. [Lv. 3]

Article 29 Audit of Business Reports, etc.

1. The audit committee must formulate its own audit opinion on whether business reports and supplementary schedules thereto (“Business Reports, Etc.”) for a given business year provide appropriate statements by monitoring and verifying the executive officers’ and directors’ performance of their duties throughout the business year. [Lv. 1]
2. The audit committee must receive a Business Report, Etc. from the executive officers who performed duties relating to the preparation of the Business Report, Etc. and state its opinion in the audit report on whether the Business Report, Etc. accurately presents the status of the company in accordance with laws, regulations, and the articles of incorporation. [Lv. 1]
3. In auditing Business Reports, Etc., the audit committee will coordinate with the accounting auditor as necessary. [Lv. 3]

Article 30 Status of Performance of Duties of Outside Audit Committee Members in the Business Report

Of the matters concerning company directors/audit committee members and matters concerning outside directors/audit committee members, etc. that are disclosed in the business report, the audit committee must verify whether the status of the performance of duties of Outside Audit Committee Members and other matters concerning audit committee members are stated appropriately. [Lv. 2]

Chapter VII Accounting Audits

Article 31 Accounting Audits

1. The audit committee must formulate its own audit opinion on the appropriateness of the methods and the results of the accounting auditor’s audits regarding whether the accounting-related documents (meaning accounting documents, supplementary schedules thereto, consolidated accounting documents, and other documents set forth in Article 2,

paragraph 3, item 3 of the Ordinance on Accounting of Companies; the same applies below) for a given business year appropriately indicate the status of the assets and the profits and losses of the company by monitoring and verifying the performance of duties of executive officers and directors through the business year. [Lv. 1]

2. In order to ensure the appropriateness and reliability of accounting audits, the audit committee must monitor and verify whether the accounting auditor maintains an independent position and a fair and impartial attitude and conducts appropriate audits as a professional. [Lv. 2]

Article 32 Confirmation of Systems to Ensure the Appropriate Performance of the Duties of the Accounting Auditor

In order to ensure the appropriate performance of the accounting auditor's duties, the audit committee must receive notices on the following matters from the accounting auditor and request an explanation from time to time to confirm whether the accounting auditor is following the standards for quality control necessary to appropriately perform their duties: [Lv. 2]

- (i) matters relating to the accounting auditor's independence and other matters relating to its compliance with laws, regulations, and the accounting auditor's audit rules;
- (ii) matters relating to policies on the acceptance and continuation of contracts for audits, services similar to audits, and other services related to either; and
- (iii) other matters relating to systems to ensure the appropriate performance of the accounting auditor's duties.

Article 33 Audit of Accounting Policies, etc.

1. The audit committee must, by requesting the opinion of the accounting auditor, verify whether the accounting policies (meaning the principles and procedures of accounting, methods of displaying accounting information, and other matters that form the basis of the accounting-related documents' preparation; the same applies below in this article) are appropriate in light of the status of the company's assets, possible impact upon accounting-related documents, applicable accounting standards, fair accounting practices, and other relevant factors. [Lv. 2] When finding it necessary, the audit committee will provide suggestions or recommendations to related executive officers. [Lv. 3]
2. If the company intends to modify any of its accounting policies, the audit committee must, prior to such modification, request that related executive officers report the reason for and impact of such modification, request the opinion of the accounting auditor with respect to the appropriateness of such modification, and decide on the appropriateness of such modification. [Lv. 2]

Article 34 Audit of Accounting-Related Documents

1. The audit committee must receive accounting-related documents for each business year from the executive officers who performed duties relating to the preparation of accounting-related documents. [Lv. 1] The audit committee will request explanations

from those executive officers and from employees and other people in the company on important matters and confirm those matters. [Lv. 3]

2. The audit committee must receive an accounting audit report and audit-related materials for the accounting-related documents for each business year from the accounting auditor. [Lv. 1] The audit committee will request explanations from the accounting auditor for important matters related to the accounting audit and examine the accounting audit report. [Lv. 3]
3. Taking into consideration matters such as the results of the examination of the accounting audit report and materials related to the audit, the audit committee must deliberate on the appropriateness of the methods used in the accounting auditor's audits and the results thereof and formulate an audit opinion. [Lv. 1] If, after such deliberation, the audit committee determines that the methods or results of the audit by the accounting auditor are inappropriate, the audit committee must state such determination of inappropriateness and the reasons therefor in the audit report. [Lv. 1]

Article 35 Procedures for Appointment of Accounting Auditor, etc.

1. The audit committee must establish policies for deciding to dismiss or to not reappoint an accounting auditor. [Lv. 2]
2. The audit committee will examine, for each accounting period, the appropriateness of reappointing the accounting auditor after obtaining necessary materials and receiving reports from the directors, executive officers, relevant internal departments, and the accounting auditor. [Lv. 3]
3. In determining the appropriateness of reappointing the account auditor, the audit committee will, taking into consideration the examination in the preceding paragraph, confirm the appropriateness of matters such as the status of the accounting auditor's performance of its duties (including the status of the performance of duties in previous business years), the accounting auditor's audit systems, its independence, and its expertise. [Lv. 3]
4. If the audit committee determines that it is inappropriate to reappoint the accounting auditor, it must promptly examine a new accounting auditor candidate. [Lv. 2] When doing so, the audit committee will obtain necessary materials and receive reports from the directors, executive officers, and relevant internal departments, confirm the matters set forth in Article 32, and carefully examine the candidate's independence, past performance record, and other such matters; additionally, the audit committee will hold meetings with the candidate regarding matters such as audit plans, auditing systems, and level of audit remuneration. [Lv. 3]
5. In accordance with the confirmation and policies set forth in the preceding four paragraphs, the audit committee must determine the contents of proposals regarding the appointment, dismissal, or non-reappointment of the accounting auditor that will be submitted to the shareholders' meeting. [Lv. 1]
6. In regard to proposals to appoint an accounting auditor, the audit committee must confirm whether the reasons that the candidate was selected as an accounting auditor candidate are appropriately stated in the reference documents for the shareholders' meeting. [Lv. 2]

Supplement to paragraph 1

Article 126, item 4 of the Ordinance for Enforcement of the Companies Act provides that policies for deciding to dismiss or to not reappoint an accounting auditor are to be stated in the business report; however, even if statements in the business report fall under the responsibility of directors, it is necessary for the audit committee to establish such policies because the audit committee has the authority and responsibility for determining the contents of proposals regarding the appointment, dismissal, or non-reappointment of accounting auditors.

Article 36 Consent Procedures for Remuneration, etc. of the Accounting Auditor

1. In each case where the company enters into an audit agreement with an accounting auditor, the audit committee will obtain necessary materials and receive reports from executive officers, relevant internal departments, and the accounting auditor, confirm the status of delegation of non-audit services and the appropriateness of the amount of remuneration for those services, and verify whether the contents of the audit agreement, such as the amount of remuneration, etc. for the accounting auditor and the person in charge of conducting the audit, are appropriate. [Lv. 3]
2. When determining whether to consent to the amount of remuneration, etc. for the accounting auditor, the audit committee will, taking into consideration the verification in the preceding paragraph, confirm the appropriateness of matters such as the contents of audit plans of the accounting auditor, the status of the accounting auditor's performance of its duties (including the status of the performance of duties in previous business years), and the basis for calculating the remuneration estimates. [Lv. 3]
3. The audit committee must confirm whether the reasons for its consent to the amount of remuneration, etc. for the accounting auditor are appropriately stated in the business report. [Lv. 2]

**Chapter VIII
Method of Audit, etc.**

Article 37 Organizational Audits

1. Taking into consideration matters such as the status of the establishment and operation of the system of coordination with the Internal Audit Division, Etc. provided for in Article 19 and other Internal Control Systems, the audit committee should endeavor to perform its duties systematically and efficiently by utilizing the company's Internal Control Systems and the like. [Lv. 4]
2. The audit committee must regularly receive reports from the Internal Audit Division, Etc. regarding its audit plans and audit results. [Lv. 2] Additionally, when finding it necessary, the audit committee will request the Internal Audit Division, Etc. to perform an investigation or will issue specific instructions regarding the performance of the duties of the Internal Audit Division, Etc. [Lv. 3]
3. If the audit committee has requested the Internal Audit Division, Etc. to perform an investigation or has issued specific instructions regarding the performance of the duties

of the Internal Audit Division, Etc. as provided for in the preceding paragraph, the audit committee must receive reports from the Internal Audit Division, Etc. in a timely manner, verify the contents thereof, and when finding it necessary, issue additional instructions or the like. [Lv. 2]

4. When performing the audits under the preceding three paragraphs, when finding it necessary, the audit committee may perform investigations or other audits through the audit committee members provided for in the items of Article 9, paragraph 1. [Lv. 5]
5. When finding it necessary, in addition to the Internal Audit Division, Etc., the audit committee will also receive reports and request investigations from the Internal Control Division regularly and whenever needed regarding matters relating to Internal Control Systems. [Lv. 3]
6. The audit committee will effectively utilize the status of performance of duties and audit results of the Internal Audit Division, Etc. and reports and the like from the Internal Control Division in audits regarding Internal Control Systems. [Lv. 3]

Article 38 Preparation of Audit Plan

1. The audit committee will formulate its audit policies while taking into consideration matters such as the status of the establishment and operation of the system of coordination with the Internal Audit Division, Etc. provided for in Article 19 and other Internal Control Systems and necessary factors such as importance and timeliness; in addition, it will appropriately choose the matters to be audited, the audit methods, and the timing of the audit and will prepare an audit plan. [Lv. 3] The audit plan will be prepared in consideration of the results of an analysis and evaluation of the effectiveness of the audit committee as a whole, and important audit matters will be designated as priority audit items in the plan. [Lv. 3]
2. In preparing an audit plan, the audit committee will, from time to time, deliberate or exchange opinions with the accounting auditor and the company's Internal Audit Division, Etc. in order to ensure the efficient conduct of audits. [Lv. 3]
3. The audit committee will by its resolution determine the sharing of audits. [Lv. 3] This includes the selection and the like of Selected Audit Committee Members, etc. provided for in the items of Article 9, paragraph 1. [Lv. 3]
4. When performing duties based on the sharing of audits provided for in the preceding paragraph, if there are audit committee resolutions, audit committee members must act in accordance therewith. [Lv. 1]
5. The audit committee should report its audit policies and audit plan to the board of directors and notify related executive officers thereof. [Lv. 4]
6. The audit policies and the audit plan will be modified from time to time as necessary. [Lv. 3]

Supplement to paragraph 1

In practice, when formulating the audit plan for each year, there are many examples of companies identifying points for improvement, setting priority tasks for the next term, and selecting on-site audit locations based on the previous year's audit plan and an analysis and evaluation of performance and including such matters in the audit plan. It is also desirable to conduct performance evaluations for each audit committee member, but including that in this Code would diverge greatly from actual

practice, so it is not mentioned in this article. Additionally, whether or not to disclose the evaluation results is left to the discretion of the company and is therefore not mentioned in this Code.

Reference for paragraph 1

Governance Code, Supplementary Principle 4.11.3

Article 39 Ascertainment of Processes of Decision-Making and Status of Business Execution of the Company

1. The audit committee will ascertain the processes of material decision-making and the status of the business execution of the company by, when necessary, causing audit committee members or Supporting Employees, Etc. to attend board of executive officers' meetings, management committee meetings, and other important meetings or inspecting relevant materials. [Lv. 3]
2. When finding it necessary, the audit committee will express its opinions at the meetings and the like in the preceding paragraph. [Lv. 3]

Article 40 Investigation, etc. of Executive Officers, Directors, and Employees

1. The audit committee must, when finding it necessary, request reports from executive officers, directors, and employees regarding matters relating to the performance of their duties or investigate the status of the operations and finances of the company through the audit committee members provided for in Article 9, paragraph 1, item 1. [Lv. 2]
2. In relation to collecting reports and performing investigations under the preceding paragraph, when finding it necessary, the audit committee will perform investigations by collecting direct reports from executive officers, directors, or employees or by other methods. [Lv. 3]

Article 41 Ascertainment of the Current Status, etc. of the Company

The audit committee should endeavor to ascertain the current status and actual value of the company's assets, including matters such as the status of the acquisition, holding, and disposal of material company assets and the management status of the assets and liabilities of the company. [Lv. 4]

Article 42 Coordination with the Accounting Auditor

1. In addition to holding meetings with the accounting auditor on a regular basis and requesting the accounting auditor to attend audit committee meetings as necessary, the audit committee should endeavor to develop systems to maintain close coordination with the accounting auditor and enable effective and efficient audits through such methods as receiving reports from the accounting auditor on its audit whenever needed and in a timely manner and actively exchanging opinions and information. [Lv. 4]
2. The audit committee will receive an outline of the audit plan and an explanation of the priority audit items and other such matters from the accounting auditor and will exchange

opinions on such matters with the accounting auditor [Lv. 3], in addition to which the audit committee should endeavor to confirm and coordinate schedules relating to matters such as the confirmation of the contents of business reports and supplementary schedules thereto. [Lv. 4]

3. The audit committee should endeavor to share with the accounting auditor information that it acquires in the course of operational audits through such methods as providing the accounting auditor with information useful to the accounting auditor's audits or information on matters that may affect the accounting auditor's audits. [Lv. 4]
4. The audit committee may cause Supporting Employees, Etc. or employees of the Internal Audit Division, Etc. to attend the accounting auditor's on-site audits and its audit presentations as necessary and may, from time to time, request a report from the accounting auditor on the process of its audits. [Lv. 5]
5. If the audit committee receives an accounting auditor's report or the like to the effect that there exists, 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 (including facts that may affect the ensuring of the appropriateness of financial and accounting documents), the audit committee must, upon deliberations of the audit committee, conduct any necessary investigation and take any necessary measure in a timely manner, including making reports to the board of directors or providing suggestions or recommendations to the executive officers. [Lv. 2]

Supplement to Article 42

The revision of the auditing standards for auditors has made it necessary to state key auditing matters (KAM) in audit reports of auditors under the Financial Instruments and Exchange Act, but stating KAM in audit reports of accounting auditors under the Companies Act is optional. The accounting auditor under the Companies Act and the auditor under the Financial Instruments and Exchange Act are usually the same, and in practice, audits under the Companies Act and audits under the Financial Instruments and Exchange Act, as well as coordination with audit and supervisory board members, etc. in both, are conducted as one audit. Additionally, KAM do not drastically change the existing communication between audit and supervisory board members, etc. and the (accounting) auditor, and communication regarding KAM can be considered to be included in the coordination stated in this article. For these reasons, this Code does not refer to KAM.

Supplement to paragraphs 1 and 3

Receiving reports and exchanging opinions has been separated from the provision of information to the accounting auditor, which has been set out in paragraph 3.

Supplement to paragraph 2

In regard to measures by auditors regarding statements in the parts of disclosed documents, including audited financial statements, other than those financial statements and audit reports ("Other Statements"), in addition to reading the Other Statements and identifying material differences with the financial statements as previously required, the revision of the auditing standards for auditors also requires

comparing the Other Statements to the knowledge gained through audits, paying attention to signs of material errors in the Other Statements, and constantly making reports regarding the Other Statements under independent sections given headings in audit reports. In audits under the Companies Act, as business reports and supplemental schedules thereto constitute Other Statements, in addition to coordinating the timing of obtaining those documents and confirming their contents at an early state by receiving drafts, it will be even more important to maintain communication at all times, such as communication regarding the coordination of schedules, including the audit report dates of audit and supervisory board members, etc. and the accounting auditor.

Article 43 Method of Audits in Corporate Group

1. In regard to the status of the administration of subsidiaries, the audit committee will receive reports and explanations from executive officers, employees, and other such persons and inspect the relevant materials. [Lv. 3]
2. In performing its duties, the audit committee should endeavor to actively communicate and exchange information with the audit committees, audit and supervisory board members, Internal Audit Division, Etc., and accounting auditors of the company's parent companies and subsidiaries and to conduct effective and efficient audits. [Lv. 4]
3. When finding it necessary for the purpose of auditing the executive officers' performance of their duties, audit committee members provided for in Article 9, paragraph 1, item 2 will request that subsidiaries report on their business or will investigate the status of their operations and finances. [Lv. 3]
4. If the company has a significant affiliated company, audits should be performed in accordance with paragraph 1 and 2 in consideration of the significance of that affiliated company. [Lv. 4]

Chapter IX

Basic Policies Regarding the Company's Control, etc.; Third-Party Allotments, etc.

Article 44 Basic Policies Regarding the Company's Control, etc.

1. If the company establishes a basic policy regarding those who control the company's determination of its financial and business policies (in this article, a "Basic Policy"), the audit committee must examine the following matters and state its opinion in the audit reports, keeping in mind the status of deliberations of the board of directors and other committees and meetings: [Lv. 1]
 - (i) a summary of the contents of the Basic Policy; and
 - (ii) a summary of the specific contents of the following measures:
 - (a) the effective utilization of the company's assets, the formation of an appropriate corporate group, and other special measures contributing to the achievement of the Basic Policy; and

- (b) measures for preventing control of the company's determination of its financial and business policies by those who are inappropriate in light of the Basic Policy (in this article, "Takeover Defense Measures").
- 2. The audit committee must examine the determinations of the board of directors as to whether they fall under the following requirements of each measure set forth in item (ii) of the preceding paragraph and the reason for such determinations, keeping in mind the status of deliberations of the board of directors and other committees and meetings, and must state its opinion in the audit reports as to whether: [Lv. 1]
 - (i) such measures are in line with the Basic Policy;
 - (ii) such measures do not impair the common interests of the company's shareholders; and
 - (iii) such measures are not for the purpose of maintaining the status of the company's directors.
- 3. If an audit committee member assumes membership in a committee to make certain determinations regarding whether to trigger Takeover Defense Measures, that audit committee member will appropriately make such determination to promote the maximum interests of the company, keeping in mind his or her duty of care to the company. [Lv. 3]

Article 45 Audit of Third-Party Allotments, etc.

In addition to the audits set out in Article 22 and in Article 26, paragraph 1, when the company issues shares for subscription or share options for subscription (in this article, "Shares for Subscription, Etc."):

- (i) If the company conducts an issuance of shares for subscription in which there is a change in the controlling shareholder and through which the subscriber of the Shares for Subscription, Etc. (or its subsidiaries) will come to hold a majority of the voting rights of all shareholders, the audit committee must express its opinion regarding that issuance of Shares for Subscription, Etc. [Lv. 1]
- (ii) If the company conducts a third-party allotment of shares or share options (including bonds with share options), the audit committee will examine matters related to whether the allotment constitutes an issue at discount and express its opinion as required by laws, regulations, the listing rules of financial instruments exchanges, and the like. [Lv. 3]
- (iii) Regarding large-scale third-party allotments (meaning situations in which the ratio of voting right dilution in the most recent six months caused by third-party allotments is 25% or more or situations in which third-party allotments create a controlling shareholder; the same applies below in this article) conducted without a resolution of the shareholders' meeting, the audit committee will examine matters such as whether the purpose of the allotment is to maintain the status of the company's directors and will, as necessary, provide suggestions or recommendations to the executive officers. [Lv. 3] If audit committee members express third-party opinions as people independent from the large-scale third-party allotment, they will appropriately perform their duties, keeping in mind their duty of care to the company. [Lv. 3]

Chapter X

Responses to Derivative Lawsuits, etc.

Article 46 Representation in Lawsuits between Executive Officers or Directors and the Company

1. If a lawsuit is filed by the company against an executive officer or director or by an executive officer or director against the company, audit committee members provided for in Article 9, paragraph 1, item 3 must represent the company. [Lv. 1]
2. The audit committee members under the preceding paragraph must be persons who do not have any interests in the relevant case. [Lv. 2]
3. If audit committee members are parties to the lawsuit, the person determined by the board of directors, or the person determined by the shareholders' meeting to represent the company in relation to that lawsuit if the shareholders' meeting has determined such person, must represent the company. [Lv. 1]

Article 47 Consent to Partial Exemption of Executive Officers and Directors from Liability

1. The audit committee will give the following consents after deliberation at audit committee meetings: [Lv. 3]
 - (i) consent to submit to the shareholders' meeting a proposal concerning the partial exemption of an executive officer or director (excluding directors who are audit committee members; the same applies below in this paragraph) from liability;
 - (ii) consent to submit to the shareholders' meeting a proposal concerning the amendment of the articles of incorporation to provide that executive officers or directors may be partially exempted from liability by a board of directors' resolution;
 - (iii) consent to submit to the board of directors a proposal concerning the partial exemption of an executive officer or director from liability based on the provisions of the articles of incorporation; and
 - (iv) consent to submit 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 an outside director or other non-executive director for his or her partial exemption from liability.
2. Audit committee members will decide whether to give consent mentioned in any item of the preceding paragraph by thoroughly examining and, as necessary, requesting outside professionals' opinions regarding, (i) for proposals for an amendment of the articles of incorporation, the appropriateness of such amendment, the appropriateness of the reason for the proposal, and other relevant factors, and (ii) for proposals for the partial exemption of liability, the reason for the exemption, the results of investigations by audit committee members, the contents of any relevant court judgments, and other relevant factors. [Lv. 3]
3. The audit committee will prepare and keep records concerning the process and results of the investigations and deliberations made to determine whether to give consent under any item of paragraph 1. [Lv. 3]

4. When a proposal for the partial exemption from liability of an accounting auditor under laws and regulations (including proposals for an agreement for limiting liability) is submitted to the shareholders' meeting or the board of directors, the audit committee should follow the provisions of this article. [Lv. 4]
5. If the audit committee comes to have an opinion regarding the partial exemption from liability of audit committee members or other such matters, it will, as necessary, express its opinion at board of directors' meetings and the like. [Lv. 3]

Article 48 Receipt of Demand to File a Derivative Lawsuit; Notice of Reasons for Not Filing Lawsuit

1. If any audit committee member receives a demand from shareholders to file a lawsuit to pursue the liability of executive officers or directors, the audit committee must thoroughly deliberate on the response to such demand and determine whether to file a lawsuit. [Lv. 1]
2. In determining whether to file a lawsuit mentioned in the preceding paragraph, the audit committee will in a timely manner make any necessary investigation, including requesting status reports or opinions from the executive officers or directors to be sued and from any relevant departments of the company, collecting relevant materials, and requesting the opinions of outside professionals. [Lv. 3]
3. The audit committee will provide notice of the results of any determination made under paragraph 1 to the board of directors and to the executive officers or directors to be sued. [Lv. 3]
4. In cases where a lawsuit to pursue the liability of executive officers or directors is not filed as a result of the determination under paragraph 1, if the shareholders who demanded the filing of the lawsuit or the executive officers or directors whose liability was to be pursued request, audit committee members must submit to them without delay documents stating the following matters and must provide notice of the reasons for not filing the lawsuit; [Lv. 1] in this case, audit committee members will consider the contents of that notice through deliberations of the audit committee after requesting the opinions of outside professionals: [Lv. 3]
 - (i) the contents of investigations conducted by audit committee members (including materials that were used as the basis for the determination of the following item);
 - (ii) determination as to whether the executive officers or directors to be sued had a responsibility or duty and the reasons for that determination; and
 - (iii) if determining that the executive officers or directors to be sued had a responsibility or duty, the reason for not filing a lawsuit pursuing their liability.
5. The audit committee will prepare and keep records concerning the process and results of the investigations and deliberations made to determine whether to file a lawsuit. [Lv. 3]

Article 49 Consent to Participation in a Derivative Lawsuit

1. When consenting to the company's participation in a derivative lawsuit to assist the defendant executive officers or directors, audit committee members will conduct deliberations at an audit committee meeting. [Lv. 3]

2. In determining whether to consent to the participation mentioned in the preceding paragraph, the audit committee will request status reports or opinions from the representative executive officers, from the defendant executive officers or directors, from related executive officers or directors, and from any relevant departments of the company and will request opinions of outside professionals, as necessary. [Lv. 3] The audit committee will prepare and keep records concerning the process and results of the investigations and deliberations conducted for the determination as to whether to consent to the participation. [Lv. 3]

Article 50 Settlements in Lawsuits Pursuing Liability in Which the Company is the Plaintiff

1. When consenting to a settlement in a lawsuit by the company pursuing the liability of directors or the like, audit committee members will conduct deliberations at an audit committee meeting. [Lv. 3]
2. In determining whether to consent to the settlement mentioned in the preceding paragraph, the audit committee will request status reports or opinions from the representative executive officers, from the defendant executive officers or directors, from related executive officers or directors, and from any relevant departments of the company and will request opinions of outside professionals, as necessary. [Lv. 3] The audit committee will prepare and keep records concerning the process and results of the investigations and deliberations conducted for the determination as to whether to consent to the settlement. [Lv. 3]

Reference for Article 50

This revision was made in consideration of Article 849-2 of the Companies Act.

Article 51 Determining Objections to Settlements in Derivative Lawsuits

1. In cases of derivative lawsuits where the court has given notice and issued demand to the effect that the plaintiff shareholders and the defendant executive officers or directors are to settle the case in court, audit committee members must, at an audit committee meeting, promptly deliberate on the response to such notice and demand and determine whether to object to the settlement. [Lv. 2]
2. In determining the appropriateness of the judicial settlement mentioned in the preceding paragraph, the audit committee will request status reports or opinions from the representative executive officers, from the defendant executive officers or directors, from related executive officers or directors, and from any relevant departments of the company and will request opinions of outside professionals, as necessary. [Lv. 3] The audit committee will prepare and keep records concerning the process and results of the investigations and deliberations conducted for the determination as to the appropriateness of the judicial settlement. [Lv. 3]

Article 52 Handling of Multiple Derivative Lawsuits, etc.

1. Audit committee members of ultimate, wholly-owning parent companies (meaning companies that have subsidiaries that are subject to the system of lawsuits to pursue specific liability (commonly called the multiple derivative lawsuit system) (such subsidiaries, “Wholly-Owned Subsidiaries” in this article); the same applies below in this

article) will respond to lawsuits to pursue specific liability against directors or liquidators of a Wholly-Owned Subsidiary (in this article, “Wholly-Owned Subsidiary Directors, Etc.”) in accordance with the provisions of this chapter, keeping in mind the following:

- (i) If the ultimate, wholly-owning parent company receives a notice from a Wholly-Owned Subsidiary to the effect that the Wholly-Owned Subsidiary has received notice of action from the shareholders of the ultimate, wholly-owning parent company regarding the filing of a lawsuit to pursue specific liability against Wholly-Owned Subsidiary Directors, Etc., then audit committee members selected by the audit committee of the ultimate, wholly-owning parent company must represent the ultimate, wholly-owning parent company. [Lv. 1]
 - (ii) If the ultimate, wholly-owning parent company conducts a lawsuit to pursue specific liability against Wholly-Owned Subsidiary Directors, Etc., then audit committee members selected by the audit committee of the ultimate, wholly-owning parent company must represent the ultimate, wholly-owning parent company. [Lv. 1]
 - (iii) If the ultimate, wholly-owning parent company participates in a lawsuit to pursue specific liability to assist the defending Wholly-Owned Subsidiary Directors, Etc., then audit committee members of the ultimate, wholly-owning parent company must determine whether or not to consent to that participation. [Lv. 1]
2. If a Wholly-Owned Subsidiary receives a demand to file a lawsuit to pursue specific liability against Wholly-Owned Subsidiary Directors, Etc. from the shareholders of the ultimate, wholly-owning parent company, then audit committee members of the Wholly-Owned Subsidiary provided for in Article 9, paragraph 1, item 3 must represent the Wholly-Owned Subsidiary. [Lv. 1]

Supplement to Article 52

In the case of a filing against subsidiary directors/audit committee members of actions such as (i) multiple derivative lawsuits or (ii) derivative lawsuits by parent company shareholders when there has been a share exchange, etc., parent company audit committee members should respond to the lawsuit while keeping in mind that they themselves may be subject to certain liabilities, as well.

Chapter XI Reports on Audits

Article 53 Report and Explanation of the Contents of Audits, etc.

In order to ensure the transparency and reliability of audit activities and audit results, when finding it necessary, the audit committee must provide explanations on the status of the performance of its duties and the contents and results of its audits to the board of directors, executive officers, and shareholders and other stakeholders. [Lv. 2]

Article 54 Preparation of Audit Records

The audit committee must prepare and keep audit records. [Lv. 2] Audit records will record the methods, contents, and results of audit committee audits as well as the

processes, reasons, and other relevant matters leading to the formulation of audit committee audit opinions. [Lv. 3]

Article 55 Reporting to the Board of Directors and the Representative Executive Officers, etc.

1. The audit committee will regularly report matters such as the status of its activities to the board of directors. [Lv. 3]
2. The audit committee will report to the board of directors, the representative executive officers, and other related executive officers the process and results of audits regarding the priority audit items and of investigations, etc. specially made for that period and, when finding it necessary, will take appropriate measures based on the situation such as making proposals to the board of directors or providing suggestions or recommendations to the representative executive officers or other related executive officers. [Lv. 3]

Article 56 Preparation and Notice of Audit Reports

1. The audit committee must by its resolution prepare accurate and clear audit reports. [Lv. 1]
2. The audit committee will confirm, with respect to Business Reports, Etc., accounting-related documents, or other documents received from the executive officers who performed duties relating to the preparation of Business Reports, Etc. and accounting-related documents, whether all matters required by law and other matters to be disclosed have been appropriately stated in such documents, and the audit committee will, as necessary, request explanations from the executive officers who performed duties relating to the preparation thereof, state its opinion, or request modifications. [Lv. 3]
3. The audit committee will state in audit reports whether or not the contents of board of directors' resolutions regarding the Internal Control Systems provided for in Article 24, paragraph 1 are appropriate. [Lv. 3] Additionally, if there are any matters to be commented on regarding the Internal Control Systems established and operated pursuant to those resolutions, the audit committee will state the details of those matters in audit reports. [Lv. 3]
4. In addition to the matters in the preceding paragraph, the audit committee will confirm whether there has been any act by an executive officer or director that is in violation of any law, regulation, or the articles of incorporation, any subsequent events, or any other relevant matters and will, keeping in mind the matters listed in Article 26, paragraph 2, examine whether there is any matter that should be stated in the audit report. [Lv. 3]
5. In cases where an audit committee member has an opinion that differs from the matters stated in the audit report, that audit committee member will append a note with his or her opinion to the audit report. [Lv. 3]
6. Each audit committee member will affix his or her signature or his or her name and seal impression (including his or her electronic signature) on the audit report, and Outside Audit Committee Members will state their positions as such. [Lv. 3] Additionally, the date of preparation must be stated on the audit report. [Lv. 1]
7. The Specified Audit Committee Members must provide notice of (i) the contents of the audit report concerning the Business Report, Etc. and of the audit report concerning

accounting-related documents to the executive officers and (ii) the contents of the audit report concerning accounting-related documents to the accounting auditor. [Lv. 1]

8. In the preceding paragraph, in order to ensure sufficient auditing periods, the Specified Audit Committee Members should, as necessary, (i) agree with the executive officers provided for in paragraph 2 on and determine the date to provide notice of the contents of the audit report concerning the Business Report, Etc. to those executive officers and (ii) agree with the executive officers provided for in paragraph 2 and the accounting auditor on and determine (a) the date to provide notice of the contents of the accounting audit report concerning accounting-related documents to the Specified Audit Committee Members and (b) the date to provide notice of the contents of the audit report concerning accounting-related documents to the executive officers provided for in paragraph 2 and the accounting auditor. [Lv. 4]

Article 57 Disclosure by Electronic Provision of Shareholders' Meeting Materials

1. In cases where a company has provisions in its articles of incorporation to the effect that pursuant to Article 325-5, paragraph 3 of the Companies Act, all or some of the matters for electronic provision provided for in ministerial ordinances of the Ministry of Justice are not required to be stated in documents stating the matters for electronic provision, then when directors intend to take such measures, namely to omit all or some of such matters from the documents, under the articles of incorporation, the audit committee will examine whether such measures should be taken and, when finding it necessary, make an objection. [Lv. 3]
2. In cases where the measures mentioned in the preceding paragraph under the provisions in the articles of incorporation are taken, the audit committee may demand that directors give notice to shareholders who receive documents stating the matters for electronic provision that the matters stated in the documents stating the matters for electronic provision are part of the matters stated or recorded in the business report, accounting documents, or consolidated accounting documents that were audited when preparing the audit report. [Lv. 5]

Reference for Article 57

This revision was made in consideration of the introduction of rules for electronic provision of shareholders' meeting materials in the Companies Act.

Article 58 Disclosure by Deemed Provision

1. In cases where a company has provisions in its articles of incorporation to the effect that it will take measures under the deemed provision rules provided for in Article 94, paragraph 1 of the Ordinance for Enforcement of the Companies Act, Article 133, paragraph 3 of the Ordinance for Enforcement of the Companies Act, Article 133, paragraph 4 of the Ordinance on Accounting of Companies, and Article 134, paragraph 5 of the Ordinance on Accounting of Companies, then when such measures are actually intended to be taken, the audit committee will examine whether such measures should be taken and, when finding it necessary, make an objection. [Lv. 3]
2. In cases where the measures mentioned in the preceding paragraph under the provisions in the articles of incorporation are taken, the audit committee may demand that notice be given to shareholders that the business report, accounting documents, or consolidated

accounting documents actually provided to shareholders are a part of such documents that were audited when preparing the audit report. [Lv. 5]

Article 59 Reporting and Explanation at Shareholders' Meeting, etc.

1. With respect to proposals, documents, electronic or magnetic records, and other materials to be submitted to a shareholders' meeting, the audit committee must investigate whether there are any matters that are in violation of any law, regulation, or the articles of incorporation or that are otherwise significantly inappropriate. [Lv. 2]
2. At the annual shareholders' meeting, the audit committee should provide explanations regarding the contents of the audit report concerning the Business Reports, Etc., the contents of the audit report concerning accounting-related documents, and matters relating to the duties of the audit committee. [Lv. 4]
3. The audit committee will provide explanations on questions by shareholders at shareholders' meetings in accordance with the management of the proceedings by the chairperson of the shareholders' meeting. [Lv. 3]
4. The audit committee will confirm that the outline and results of the proceedings and other matters provided by laws and regulations are appropriately stated in the minutes of shareholders' meetings. [Lv. 3]

Supplementary Provisions

In this Code, the term "state" includes "recording" in electronic or magnetic records unless contrary to the context. The various documents mentioned in this Code include those prepared in the form of electronic or magnetic records.

End