

[Translation]

## **Code of Audit and Supervisory Committee Auditing and Supervising Standards**

Japan Audit & Supervisory Board  
Members Association (\* )

Enacted 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 and Supervisory Committee Auditing and Supervising 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 and supervisory committees may perform their audit and supervisory duties. It does not replace or supplement in any way whatsoever the current legal regime applicable to audit and supervisory committees and does not give rise to duties for audit and supervisory 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 and supervisory committee concerned. Audit and supervisory committees are expected to prepare their own auditing and supervising 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 and Supervisory Committee Audit Practice Standards for Internal Control Systems.”

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\* 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 and Supervisory Committee Auditing and Supervising 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 and supervisory committees (Article 61).

# Revision of Code of Audit and Supervisory Committee Auditing and Supervising Standards

Japan Audit & Supervisory Board  
Members Association

December 16, 2021

## I Background

The Code was enacted in September 2015 upon the introduction of the companies with audit and supervisory committees system (*kansa-to iinkai secchi gaisha seido*) as a new organizational structure under the Companies Act amendment of May 2015. Upon its enactment, the Association formulated the Code after ascertaining the characteristics of the audit and supervisory committee system and examining it while considering its similarities to and differences from the audit and supervisory board member/audit and supervisory board system and the audit committee system.

Following the enactment of the Code (in 2015), the amended Companies Act, amended Ordinance for Enforcement of the Companies Act, etc. took effect in March 2021, and the Corporate Governance Code (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 and supervisory committees. The Association has decided to revise the Code at this time in order to respond to these environmental changes and to reflect the accumulation of and development in research regarding audit and supervisory committee practices since the introduction of the audit and supervisory committee system.

Many of the provisions reflected in this revision may significantly affect audit and supervisory 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 matters such as the determination process of the board of directors regarding policies on determining the contents of remuneration, etc. of individual directors provided for in Article 361, paragraph 7 of the Companies Act (Article 47). Additionally, 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 28). Furthermore, 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 54 and 55).
  - 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
- As part of the roles and responsibilities of audit and supervisory board members and the audit and supervisory board in Principle 4.4, a reference was added regarding authority pertaining to the appointment and dismissal of audit and supervisory board members and the determination of remuneration of audit and supervisory board members, and the intent of that revision applies in the same way to companies with audit and supervisory committees. That authority itself was already provided for in the Companies Act, and the matters stated in the provisions of the Code summarizing best practices for audit and supervisory board members did not require any revision. However, in consideration of the intent behind the increased emphasis placed on that authority, statements to the effect that it is important to ensure the independence of the audit and supervisory committee in order to ensure the reliability of audits have been made in the supplementary notes (supplementary notes to Article 7 and Article 11).
  - In companies with audit and supervisory committees, while the right to state opinions regarding the appointment, etc. and remuneration, etc. of directors who are not audit and supervisory committee members is granted to the audit and supervisory committee, it is also possible to choose to establish nomination and compensation committees, etc. in the same way as in companies with audit and supervisory boards. Therefore, the Association has continued examining responses to cases in which both coexist. In the Code, provisions were added regarding the participation of audit and supervisory committee members in nomination and compensation committees, etc. in consideration of Principle 4.10 and Supplementary Principle 4.10.1 (Article 13, paragraph 3), and statements have been added regarding confirmation of the opinions, activity details, and the like of those committees, etc. when examining the exercise of the right to state opinions (Article 46, paragraph 5; Article 47, paragraph 5).
  - 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 14).

(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 and supervisory 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 44).
- 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 44, paragraph 2).

(4) Other revisions

- Previously, the Code addressed both specified audit and supervisory committee members and selected audit and supervisory committee members in the same provisions, but this was changed to be consistent with the organization used in the “Audit and Supervisory 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 10).
- Other differences regarding detailed wording were reexamined.

### **III Companies to which the Code Applies**

As with the previous version, 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 and supervisory committees refer to the Code while keeping in mind the company’s specific audit environment.

# Enactment of Code of Audit and Supervisory Committee Auditing and Supervising Standards

Japan Audit & Supervisory Board  
Members Association

September 29, 2015

## I Background

Under the amendment of the Companies Act in May 2015, the companies with audit and supervisory committees system (*kansa-to iinkai secchi gaisha seido*) was introduced as a new organizational structure. The Association ascertained the characteristics of the audit and supervisory committee system and examined it while considering its similarities to and differences from the audit and supervisory board member/audit and supervisory board system and the audit committee system, and the Association has formulated the Code of Audit and Supervisory Committee Auditing and Supervising Standards (the “Code”) using the Code of Audit Committee Auditing Standards and the Code of Audit and Supervisory Board Member Auditing Standards as references.

## II Perspectives of Enactment

The audit and supervisory committee system is similar to the audit committee system in that both are based on organizational audits, and the fundamental structure of the audit and supervisory committee system is different from that of the audit and supervisory board member system, in which each individual audit and supervisory board member is given powers as a single-person corporate organ. However, directors who are audit and supervisory committee members are appointed at shareholders’ meetings separately from other directors; this differs from the appointment of audit committee members, who are appointed from among the directors, and is similar to the appointment of audit and supervisory board members. In this way, in addition to the unique elements described below, the audit and supervisory committee system has elements that, depending on their characteristics, are similar to the audit and supervisory board member system and those that are similar to the audit committee system. Therefore, when formulating the Code, the Association has referred to the Code of Audit and Supervisory Board Member Auditing Standards and the Code of Audit Committee Auditing Standards for each individual characteristic. Additionally, the fundamental philosophies and perspectives shared by both of those codes have been included in the Code as well.

As with the audit committee system, it is not required to have full-time committee members under the audit and supervisory committee system, so in the Code, separate provisions regarding full-time committee members like those in the Code of Audit and Supervisory Board Member Auditing Standards have not been established. However, the usefulness of full-time members is clear from the fact that over 70% of companies with audit committees have full-time committee members, and it is highly desirable that companies with audit and supervisory committees also ensure systems for audits by full-time personnel, such as by having full-time committee members.

Additionally, as audit and supervisory committees have unique powers not granted under either the audit and supervisory board member system or the audit committee system, in the Code, provisions have been established in connection to those powers (Article 46; Article 47; Article 2, paragraphs 4 and 5; Article 29; etc.).

1. Audit and supervisory committee members selected by the audit and supervisory committee may state the opinions of the audit and supervisory committee regarding the

appointment, dismissal, resignation, and remuneration, etc. of directors who are not audit and supervisory committee members at shareholders' meetings (Article 342-2, paragraph 4, Article 361, paragraph 6, and Article 399-2, paragraph 3, item 3 of the Companies Act).

In the Code, provisions are included that set out matters that the audit and supervisory committee must examine when forming opinions regarding the appointment, dismissal, and resignation of directors who are not audit and supervisory committee members, such as whether or not the skills and composition of the board of directors and the personnel affairs of executive directors are handled fairly and appropriately taking into consideration evaluations of matters such as the company's performance (Article 46). Additionally, provisions are included that set out matters that the audit and supervisory committee must examine when forming opinions regarding the remuneration, etc. of directors who are not audit and supervisory committee members, such as whether or not the setting of and procedures regarding the remuneration, etc. of the representative directors and other executive directors are appropriate (Article 47).

2. If directors receive the audit and supervisory committee's approval in advance for conflict of interest transactions by directors, the directors are released from the presumption that they neglected their duties (Article 356, paragraph 1, item 2 and item 3, and Article 423, paragraph 3 and paragraph 4 of the Companies Act).

Conflict of interest transactions are subject to audits by audit and supervisory board members and audit committees, but as there is no legal force as in the case of audit and supervisory committees, no particular provisions regarding approval of those transactions are included in the Code of Audit and Supervisory Board Member Auditing Standards or the Code of Audit Committee Auditing Standards. The Code includes provisions stating that the audit and supervisory committee must decide whether or not to grant the approval provided for in Article 423, paragraph 4 of the Companies Act in regard to conflict of interest transactions by directors who are not audit and supervisory committee members (Article 29).

Additionally, in the same way as with the Code of Audit and Supervisory Board Member Auditing Standards, 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 and supervisory committee auditing and supervising standards in consideration of the company's environment.

Furthermore, in the Code of Audit and Supervisory Board Member Auditing Standards, 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 intent of those provisions in regard to the Code is the same as in regard to the Code of Audit and Supervisory Board Member Auditing Standards, so to avoid redundancy, supplementary notes have not been added to the Code. Please refer to the supplementary notes to the Code of Audit and Supervisory Board Member Auditing Standards as necessary.

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

As with the Code of Audit and Supervisory Board Member Auditing Standards, 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 and supervisory committees conduct audits in reference to the Code while keeping in mind the company's specific audit environment.

### **IV Future Outlook**

Companies with audit and supervisory committees have either transitioned to that structure or have been incorporated in or after May 2015, so actual practices have not yet been sufficiently accumulated; accordingly, the Code was formulated based on the philosophies and intent of laws and using the intent of the Code of Audit and Supervisory Board Member Auditing Standards and the Code of Audit Committee Auditing Standards as reference. In particular, the power to state the opinion of the audit and supervisory committee regarding the appointment, dismissal, resignation, and remuneration, etc. of directors who are not audit and supervisory committee members is a power not granted to audit and supervisory board members or audit committee members, and it is necessary to further research the appropriate exercise of that power in consideration of future practical experience. Additionally, it is necessary to devise various practical measures in regard to the audit and supervisory committee's relationship with the internal control division and internal audit division. Accordingly, the Association will review the Code in the future in accordance with the accumulation of and developments in audit and supervisory committee practices.



## Code of Audit and Supervisory Committee Auditing and Supervising Standards

### Note: Regarding Levels of Provisions

<b>Lv.</b>	<b>Category</b>	<b>Phrasing</b>
<b>1</b>	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.
<b>2</b>	Matters non-compliance with which may, in reasonable probability, constitute a breach of the duty of care	In principle, “must” is used.
<b>3</b>	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.
<b>4</b>	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.
<b>5</b>	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 and Supervisory Committee Auditing and Supervising Standards (this “Code”) clarifies the responsibilities of the audit and supervisory committee and the attitudes audit and supervisory committee members should have in discharging such responsibilities and sets out audit and supervision systems for discharging such responsibilities as well as standards and behavioral guidelines for conducting audits and supervision. [Lv. 5]
2. The audit and supervisory 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 and

supervision environment, and should endeavor to ensure the effectiveness of its audits and supervision. [Lv. 4]

## **Chapter II**

### **Responsibilities of the Audit and Supervisory Committee and Attitudes of Audit and Supervisory Committee Members**

#### **Article 2 Audit and Supervisory Committee Responsibilities**

1. As a statutory independent organization entrusted by the shareholders that bears part of the company's supervisory functions in cooperation with the board of directors and audits the directors' performance of their duties, the audit and supervisory 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 and supervisory committee will monitor and verify the status of the establishment and operation of the internal control systems provided for in Article 25 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 20, paragraphs 1 and 2, the audit and supervisory 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 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 employees, and seeking injunctions against directors' acts. [Lv. 2]
4. The audit and supervisory committee will examine whether evaluations of matters such as the company's performance and the like are fairly and appropriately reflected in the personnel affairs and remuneration of the representative directors and other executive directors [Lv. 3] and must decide opinions regarding the appointment, dismissal, and remuneration of the representative directors and other executive directors. [Lv. 2]
5. The audit and supervisory committee must examine whether or not to approve conflict of interest transactions by directors (excluding audit and supervisory committee members) from an independent and objective standpoint. [Lv. 1]

#### Supplement to paragraph 1

The concept of "supervision" in this Code is not limited to "supervising the execution of the duties of directors" as stipulated in Article 399-13, paragraph 1, item 2 of the Companies Act; it includes the broader sense of overall supervisory functions in corporate governance. Supervisory functions in this broader sense are shared in cooperation between the board of directors and the audit and supervisory committee,

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 and supervisory 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 and Supervisory Committee Member Attitudes**

1. Audit and supervisory committee members should endeavor to perform highly effective supervisory functions as members of the board of directors and as members of the audit and supervisory committee with the power to state opinions regarding the personnel affairs and remuneration of the representative directors and other executive directors, the power to approve conflict of interest transactions, and other such powers. [Lv. 4]
2. Audit and supervisory committee members should actively utilize information and knowledge obtained through performing audit and supervisory 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 and supervisory 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 and supervisory duties. [Lv. 4]
4. Audit and supervisory 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 and supervisory committee members should continuously endeavor to cultivate their knowledge for such purposes as improving the quality of the content of their audit and supervisory duties 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 and supervising, audit and supervisory 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 and supervisory 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 and supervisory 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 and supervision environment. [Lv. 4]
8. In formulating audit and supervision opinions, audit and supervisory 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 and supervisory 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 and supervisory 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 and Supervisory Committee Members and Independent Directors**

1. Audit and supervisory committee members who are outside directors (“Outside Audit and Supervisory 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 and supervision system, should actively try to obtain information necessary for their audit and supervision, and should endeavor to share that information obtained with other audit and supervisory committee members. [Lv. 4] Additionally, Outside Audit and Supervisory Committee Members should endeavor to develop the audit and supervision environment in cooperation with other audit and supervisory committee members. [Lv. 4]
2. Because of their independence, the reasons for their appointment, and other related matters, Outside Audit and Supervisory Committee Members will keep in mind that they are particularly expected to express objective and neutral audit and supervision opinions and will actively, candidly, and directly pose questions and state their opinions to the audit and supervisory committee, the board of directors, and the like. [Lv. 3]
3. Outside Audit and Supervisory 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 and Supervisory Committee Members designated as independent directors/audit and supervisory 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 and supervisory committee members, strive in cooperation with other audit and supervisory 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 directors and the board of directors in consideration of the Interests of General Shareholders. [Lv. 3]

### **Chapter III**

#### **Audit and Supervisory Committee Composition and Operation, etc.**

#### **Article 5 Composition of the Audit and Supervisory Committee**

1. The audit and supervisory committee must be composed of all of the three or more directors who are audit and supervisory committee members, and half of the audit and supervisory committee members must be outside directors. [Lv. 1]
2. When finding it necessary, the audit and supervisory committee may appoint full-time audit and supervisory committee members. [Lv. 4]
3. The audit and supervisory committee should examine the necessity of full-time audit and supervisory committee members through audit and supervisory committee meetings and as necessary express opinions to the board of directors or the like. [Lv. 4]
4. Full-time audit and supervisory committee members should keep in mind their particular role as full-time personnel and should actively endeavor to develop the audit and supervision 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 and supervisory committee members should endeavor to share with other audit and supervisory committee members information obtained in the course of performing their duties. [Lv. 4]
6. The audit and supervisory committee may request the board of directors to establish an audit and supervisory 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 and supervisory committee to appoint full-time audit and supervisory committee members, but in practice, full-time members fulfill extremely important roles, and therefore, these provisions expect the audit and supervisory 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 and supervisory committee, but as a prerequisite to that, persons who are able to fulfill the duties of full-

time members must be appointed as audit and supervisory committee members. In consideration of that, it is stated here that if the audit and supervisory 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 and Supervisory Committee**

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

- (i) auditing the directors' performance of their duties and preparing audit reports;
- (ii) deciding the contents of proposals regarding the appointment, dismissal, or non-reappointment of the accounting auditor that will be submitted to the shareholders' meeting;
- (iii) deciding the opinions of the audit and supervisory committee pursuant to Article 342-2, paragraph 4 and Article 361, paragraph 6 of the Companies Act; and
- (iv) other duties provided for in laws, regulations, and the articles of incorporation.

## **Article 7 Involvement in Procedure to Appoint Directors Who Are Audit and Supervisory Committee Members, etc.; Consent Procedures**

1. With respect to any proposal for the appointment of directors who are audit and supervisory committee members to be submitted by the directors to a shareholders' meeting, the audit and supervisory committee must deliberate on whether to give its consent to the proposal. [Lv. 1] In determining whether to give consent, the audit and supervisory committee will take into consideration the selection criteria, etc. set forth in Article 8. [Lv. 3]
2. It is desirable that the audit and supervisory committee has a prior opportunity to deliberate with the directors regarding the candidates for directors who are audit and supervisory committee members, the contents of the selection policy for candidates for directors who are audit and supervisory committee members, the procedures for deciding on a proposal for the appointment of directors who are audit and supervisory committee members, the necessity for an appointment of substitutes, and other relevant matters. [Lv. 4]
3. When finding it necessary, the audit and supervisory committee will either demand that the directors include the appointment of directors who are audit and supervisory committee members in the agenda of a shareholders' meeting or will itself propose candidates for audit and supervisory committee members to be submitted by the directors to the shareholders' meeting. [Lv. 3]
4. Audit and supervisory committee members must, if they come to have an opinion regarding the appointment, dismissal, or resignation of any director who is an audit and supervisory committee member, express that opinion at a shareholders' meeting. [Lv. 2]
5. Appointment of substitute audit and supervisory committee members and other such matters will be conducted pursuant to the procedures provided for in this article. [Lv. 3]
6. The audit and supervisory committee will examine whether the matters relating to preventing and responding to improper business execution disclosed in proposals to appoint Outside Audit and Supervisory Committee Members are appropriately stated. [Lv. 3]



### Supplement to Article 7

In the June 2021 revision to the Governance Code, as part of the roles and responsibilities of audit and supervisory board members and the audit and supervisory board in Principle 4.4, a reference was added regarding authority pertaining to the appointment and dismissal of audit and supervisory board members and the determination of remuneration thereof, and the intent of that revision applies in the same way to companies with audit and supervisory committees. This revision emphasizes ensuring the independence of the audit and supervisory committee in order to ensure the reliability of audits, and it is becoming increasingly important to be actively involved in the appointment procedures, etc. set out in this Article.

### Supplement to paragraph 2

This refers to cases in which companies establish policies on nominating audit and supervisory committee candidates and the like; such policies are established with the involvement of the audit and supervisory committee, not only by the board of directors.

### Reference for paragraph 2

Governance Code, Principle 3.1(iv)-(v)

## **Article 8 Criteria of Selection, etc. of Candidates for Audit and Supervisory Committee Members**

1. The audit and supervisory committee should establish a specific policy for use in such situations as when giving consent to proposals for the appointment of directors who are audit and supervisory committee members, taking into consideration, among other relevant factors, (i) the distinctions between inside and Outside Audit and Supervisory Committee Members and between full-time and part-time audit and supervisory committee members together with the respective numbers thereof, (ii) specialized expertise, and (iii) possible vacancies in office. [Lv. 4]
2. When consenting to the selection of a candidate for director who is an audit and supervisory committee member and being involved in the selection policy for audit and supervisory committee member candidates, the audit and supervisory committee will carefully examine suitability to serve as audit and supervisory committee member in light of whether the candidate can complete the term of office, whether the candidate's independence from the executives can be sufficiently ensured, whether the candidate can maintain a fair and impartial attitude, whether the candidate can perform management evaluations, and other relevant factors. [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 and supervisory committee members and that in particular, one or more persons with sufficient knowledge of financial and accounting matters be appointed as audit and supervisory committee members. [Lv. 4]
3. When selecting candidates for outside directors who are audit and supervisory committee members, the audit and supervisory committee should confirm that there will be no difficulties as to their independence, taking into consideration factors such as their relationship with the company, its parent company, representative directors, other

directors, and key employees, and should also examine factors such as each candidate's availability to attend the board of directors' meetings, audit and supervisory committee meetings, and other relevant meetings. [Lv. 4]

4. The audit and supervisory committee will ask the board of directors to express its views on the designation of independent directors and, as necessary, deliberate with the board of directors in regard thereto. [Lv. 3]
5. When selecting candidates for directors who are audit and supervisory committee members and outside directors who are audit and supervisory committee members, in addition to the matters set forth in the preceding three paragraphs, the audit and supervisory committee will also examine statutorily required matters to be stated in the reference documents for shareholders' meetings with respect to a proposal for the appointment of directors who are audit and supervisory committee members. [Lv. 3]

Reference for paragraph 2

Governance Code, Principle 4.11

## **Article 9 Operation of Audit and Supervisory Committee**

1. It is desirable that audit and supervisory 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 and supervisory committee member's availability to attend, and other relevant factors. [Lv. 4] However, an audit and supervisory committee meeting will be held whenever found necessary. [Lv. 3]
2. The chairperson of the audit and supervisory committee should be appointed by audit and supervisory committee resolution. [Lv. 4] The chairperson will convene and preside over audit and supervisory committee meetings and perform any other duties entrusted to the chairperson by the audit and supervisory committee. [Lv. 3] However, the chairperson must not preclude any audit and supervisory committee member from exercising his or her right to convene an audit and supervisory committee meeting. [Lv. 1]
3. When finding it necessary, the audit and supervisory committee will request 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 and supervisory committee must be made by a majority of the audit and supervisory committee members present at a meeting where a majority of the audit and supervisory committee members who may participate in the vote are present after deliberations based on adequate materials. [Lv. 1] However, audit and supervisory committee members with special interests may not participate in the vote. [Lv. 1]
5. Audit and supervisory 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 and supervisory committee meetings, and all attending audit and supervisory committee members must affix to the minutes their respective signatures or their respective names and seal impressions (including electronic signatures). [Lv. 1]



## **Article 10 Appointment of Selected Audit and Supervisory Committee Members, etc.**

1. The audit and supervisory committee will by its resolution appoint, determine, or designate one or multiple audit and supervisory committee members to perform each of the following duties (“Selected Audit and supervisory Committee Members”): **[Lv. 3]**
  - (i) audit and supervisory committee members who state opinions regarding the appointment, dismissal, and resignation of directors who are not audit and supervisory committee members at shareholders’ meetings pursuant to Article 342-2, paragraph 4 of the Companies Act;
  - (ii) audit and supervisory committee members who state opinions regarding the remuneration, etc. of directors who are not audit and supervisory committee members at shareholders’ meetings pursuant to Article 361, paragraph 6 of the Companies Act;
  - (iii) audit and supervisory committee members who request reports from 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 399-3, paragraph 1 of the Companies Act;
  - (iv) audit and supervisory 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 399-3, paragraph 2 of the Companies Act;
  - (v) audit and supervisory committee members who represent the company in cases where the company files a lawsuit against a director, cases where a director files a lawsuit against the company, or in relation to other lawsuits, etc. pursuant to Article 399-7, paragraph 1, item 2 of the Companies Act;
  - (vi) audit and supervisory committee members who convene board of directors’ meetings pursuant to Article 399-14 of the Companies Act;
  - (vii) audit and supervisory committee members who request reports from the accounting auditor regarding the audits performed thereby;
  - (viii) audit and supervisory 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 5 of the Companies Act; and
  - (ix) audit and supervisory committee members who perform other duties that the audit and supervisory committee determines as the duties to be shared thereby in order to appropriately perform audit and supervisory committee duties.
2. The audit and supervisory committee may by its resolution appoint, determine, or designate one or multiple audit and supervisory committee members to perform each of the following duties (“Specified Audit and Supervisory Committee Members”): **[Lv. 5]**
  - (i) Audit and supervisory committee members determined as audit and supervisory committee members provided for in Article 132, paragraph 5, item 3(a) of the Ordinance for Enforcement of the Companies Act, Article 130, paragraph 5, item 3(a) of the Ordinance on Accounting of Companies, and Article 132 of the Ordinance on Accounting of Companies;

- (ii) Audit and supervisory committee members designated by the audit and supervisory committee to receive business reports and supplementary schedules thereto from the directors who prepared them and to send them to the other audit and supervisory committee members; and
  - (iii) Audit and supervisory committee members designated by the audit and supervisory committee to receive accounting-related documents from the directors who prepared them pursuant to Article 125 of the Ordinance on Accounting of Companies and to send them to the other audit and supervisory committee members.
3. When appointing, determining, or designating audit and supervisory committee members under the preceding two paragraphs, the audit and supervisory committee should take into consideration whether the audit and supervisory committee member is an inside or Outside Audit and Supervisory Committee Member, whether the audit and supervisory committee member is a full-time or part-time audit and supervisory committee member, whether the audit and supervisory 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 and supervisory 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 15, paragraph 1 or the Internal Audit Division, Etc. provided for in Article 20, 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 and supervisory committee, but in accordance with actual practices, receiving these documents and sending them to the other audit and supervisory committee members are included in the duties of Specified Audit and Supervisory Committee Members.

**Article 11 Remuneration, etc. of Audit and Supervisory Committee Members**

1. When there is neither a provision in the articles of incorporation nor any resolution of a shareholders' meeting concerning the amount of remuneration, etc. to be received by each audit and supervisory committee member, audit and supervisory committee members must determine the amount of remuneration, etc. to be received by each audit and supervisory committee member through deliberation, taking into consideration the distinction between full-time and part-time positions, the sharing of audit affairs among audit and supervisory committee members, the contents and level of the remuneration, etc. of directors, and other relevant factors. [Lv. 1]
2. If audit and supervisory committee members come to have an opinion on the remuneration, etc. of audit and supervisory committee members, they will express such opinion as necessary at a board of directors' meeting or at a shareholders' meeting. [Lv. 3]

Supplement to Article 11

Please see the supplement to Article 7.

## Article 12 Audit and Supervision Expenses

1. Audit and supervisory 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 and supervisory committee to formulate in advance a budget for expenses arising in connection to the performance of audit and supervisory committee duties based on the policy stated in Article 17, item 6. [Lv. 4] However, audit and supervisory 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 and supervisory committee members have the right to demand payment from the company for expenses incurred when audit and supervisory committee members receive, as necessary, advice from outside professionals. [Lv. 5]
4. Audit and supervisory committee members have the right to demand payment from the company for expenses incurred when audit and supervisory 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 and supervision expenses, the audit and supervisory 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 13 Measures Based on the Corporate Governance Code

1. Audit and supervisory 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 and supervisory 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 directors and other executive directors is supported; and

- (iii) effectively supervising the representative directors and other directors and the like from an independent and objective standpoint.
3. Audit and supervisory committee members should actively consider participating in nomination and compensation committees and the like if they are requested to do so in order to ensure independence. [Lv. 4] If audit and supervisory committee members participate in such committees, audit and supervisory committee members will, keeping in mind their duty of care to the company, make appropriate judgments in order to achieve the company's sustainable growth and increased corporate value over the mid to long term. [Lv. 3]

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 13, 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 and supervisory committee bears part of the company's supervisory functions (in the broad sense) in cooperation with 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 and supervisory 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 399-2, paragraph 3 of the Companies Act), another example of a means through which the audit and supervisory 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 and supervisory 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 and supervisory committee should be carried out in consideration of the roles and responsibilities set forth in Article 2.

Supplement to paragraph 3

Governance Code, Principle 4.10, Supplementary Principle 4.10.1. If independent outside directors do not make up half of the board of directors, in order to strengthen the independence and objectivity of the functions of the board of directors, as well as its accountability, regarding the nomination of senior management and directors (including succession planning), remuneration, and other such matters, it is required to establish an independent nomination committee and compensation committee under the board of directors composed mainly of independent outside directors, and it is possible to consider including audit and supervisory committee members as constituent members based on the circumstances of the company. Taking

that into consideration, this paragraph refers to measures in response to cases in which audit and supervisory committee members are requested to participate in those committees.

## Article 14 Constructive Dialogue with Shareholders

1. When the audit and supervisory committee engages in dialogue with shareholders with mid- to long-term perspectives and other stakeholders, the audit and supervisory 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 directors, other executive directors, the board of directors, and the audit and supervisory committee. [Lv. 4]

### Supplement to Article 14

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 and supervisory 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 and supervisory 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 and supervisory 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 14

Governance Code, General Principle 5

## **Chapter V**

### **Development of the Audit and Supervisory Committee Audit and Supervision Environment**

#### **Article 15 Collecting Information from the Representative Directors, etc.**

1. The audit and supervisory 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 directors and related directors regarding the status of the development of a favorable audit and supervision environment (such as the ensuring of sufficient directors and employees to support audit and supervisory committee duties (“Supporting Employees, Etc.”) and establishment of systems for reporting to the audit and supervisory committee), priority audit issues, and any other relevant matters, and should share an awareness with the representative directors and the like that the development of the audit and supervision environment is important in order for the audit and supervisory 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 and supervisory committee should make proposals, recommendations, or the like regarding the development of the audit and supervision environment provided for in this chapter to the board of directors, the representative directors, or the like. [Lv. 4]

#### **Article 16 Coordination with Other Directors**

1. The audit and supervisory committee should as necessary exchange information and develop a shared awareness with directors who are not audit and supervisory committee members regarding any issues to be addressed by the company and the risks surrounding the company as well as priority audit and supervision issues and other such matters, deepen trust with those directors, and endeavor to ensure the effectiveness of audits and supervision. [Lv. 4]
2. If an outside director who is not an audit and supervisory committee member has been selected as lead independent outside director, the audit and supervisory 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 17 Systems to Ensure the Effectiveness of Audit and Supervisory Committee Audits and Supervision**

In order to develop systems to ensure that its audits and supervision are conducted effectively, pursuant to Article 399-13, paragraph 1, item 1(b) of the Companies Act and Article 110-4, paragraph 1 of the Ordinance for Enforcement of the Companies Act, the



audit and supervisory committee will determine or resolve on a basic policy of the audit and supervisory 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 directors;
- (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 and supervisory committee:
  - (a) systems for directors (excluding directors who are audit and supervisory committee members) and employees to report to the audit and supervisory 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 and supervisory 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 and supervisory 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 and supervisory committee member duties; and
- (vii) any other systems to ensure the effectiveness of audit and supervisory committee audits and supervision.

#### **Article 18 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 and supervisory committee should endeavor to strengthen the systems of Supporting Employees, Etc. in order to ensure the effectiveness of audits and supervision, 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 and supervisory committee should endeavor to ensure the independence of Supporting Employees, Etc. from the executives. [Lv. 4]
3. The audit and supervisory 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 and supervisory committee members);
  - (ii) the organization to which Supporting Employees, Etc. belong;

- (iii) rights of the audit and supervisory committee to control and direct Supporting Employees, Etc.;
- (iv) rights of the audit and supervisory 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 and supervisory 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 19 Systems for Reporting to Audit and Supervisory Committee**

1. Bearing in mind that in relation to determinations or resolutions on basic policies regarding Article 17, item 4 and item 5, in conducting organizational audits provided for in Article 39, it is particularly important that reports from directors (excluding directors who are audit and supervisory committee members) and employees are made in a timely and appropriate manner to the audit and supervisory 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 and supervisory committee), the audit and supervisory committee must actively fulfill its roles in deliberations and the like of the board of directors regarding those items. [Lv. 2]
2. The audit and supervisory committee will request the directors to establish a system for immediately reporting to the audit and supervisory committee if a director 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 and supervisory committee should deliberate with directors and determine the matters that will be reported to the audit and supervisory committee on a regular basis and who will provide those reports. [Lv. 4] Additionally, when finding it necessary, the audit and supervisory committee will request the board of directors and related directors 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 and supervisory 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 and supervisory committee or the Selected Audit and Supervisory Committee Members and the like provided for in the items of Article 10, paragraph 1. [Lv. 2]
5. If the company has an internal reporting system for whistleblowers, the audit and supervisory 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 and supervisory 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 and supervisory committee should endeavor to utilize information provided by the internal reporting system in performing its duties. [Lv. 4]

6. To ensure that a system of coordination with the company's Internal Audit Division, Etc. (defined in Article 20) is effectively established and operated, the audit and supervisory committee must request that directors 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 and supervisory committee of the parent company.

Reference for paragraph 5

Governance Code, Supplementary Principle 2.5.1

**Article 20 System of Coordination with Internal Audit Division, Etc.**

1. In relation to the determinations and resolutions on basic policies regarding Article 17, in order to effectively and efficiently perform investigations into the status of the operations and finances of the company or other audit and supervisory duties, the audit and supervisory 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 and supervisory 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 and supervisory committee will make a request to the board of directors for a resolution equivalent to those provided for in Article 17, 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 and supervisory committee should endeavor to develop systems for effectively performing audit and supervisory committee audits and supervision, 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 and supervisory committee. [Lv. 4]
4. The audit and supervisory committee must make requests and recommendations to the board of directors or the directors 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 and supervisory committee, etc. provided for in Article 19 are effectively established and operated. [Lv. 2]

## **Article 21 Audit Systems in Corporate Group**

In relation to the determinations and resolutions on basic policies regarding Article 17, the audit and supervisory committee must endeavor to develop the audit and supervision environment in the corporate group provided for in Article 25, paragraph 1, item 5 and request the directors and the board of directors to develop any systems necessary therefor. [Lv. 2]

## **Chapter VI Operational Audits**

### **Article 22 Audit of Directors' Performance of Duties**

1. The audit and supervisory committee must audit the directors' performance of their duties. [Lv. 1]
2. When finding it necessary when performing its duties, the audit and supervisory 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 or making suggestions or recommendations to directors and the Internal Control Division. [Lv. 2]
3. If the audit and supervisory committee finds that there is, in connection with the directors' performance of their duties, any misconduct or any material fact constituting a violation of any law, regulation, or the articles of incorporation, the audit and supervisory 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 and supervisory committee will state such matters in the audit report. [Lv. 3]

### **Article 23 Audit of Executive Directors' Performance of Duties**

1. The audit and supervisory committee must monitor and verify whether or not directors 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 directors' decisions on business execution and their execution of business, the audit and supervisory 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 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 directors or third parties.
3. In order to fulfill the responsibilities under the preceding paragraph, the audit and supervisory committee must perform the following duties:
- (i) The audit and supervisory committee or audit and supervisory committee members must take any necessary measures when appropriate based on the situation, such as making suggestions or recommendations to the directors, in case the audit and supervisory committee or audit and supervisory committee members find (a) that any director 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 a director, employee, or the like to the effect that the company is likely to suffer significant damage, the audit and supervisory committee or audit and supervisory 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 directors, or convening a meeting of the audit and supervisory committee. [Lv. 2]
4. With respect to the matters provided for in the items of the preceding paragraph, when finding it necessary, audit and supervisory committee members 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 directors' 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 directors' performance of their duties, the audit and supervisory committee or audit and supervisory committee members will express opinions to the board of directors, including opinions regarding the dismissal of the representative directors. [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 and supervisory 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 and supervisory committee audits may be considered are those in which the audit and supervisory 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 representative directors; 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 and supervisory 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 and supervisory committee members' position as directors who are members of the board of directors, which resolves on the appointment and dismissal of representative directors.

#### **Article 24 Audit of Directors' Reports to the Board of Directors, etc. and Decision-Making of the Board of Directors**

1. The audit and supervisory 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 and supervisory 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 23, paragraph 2. [Lv. 2]
3. The audit and supervisory committee must confirm whether the representative directors and related directors 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 and supervisory 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 25 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 and supervisory 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 directors 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 directors' 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 directors' 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 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 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 and supervisory committee audits set forth in Article 17.
2. The audit and supervisory committee must request on a regular basis that the representative directors and other related directors 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 directors 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 and supervisory committee should endeavor to achieve close coordination with those directors, 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 and supervisory committee audits, when finding it necessary, the audit and supervisory committee will deliberate with the representative directors and other related directors. [Lv. 3]
  4. If the audit and supervisory committee finds that the board of directors, the representative directors, or related directors and the like are neglecting the appropriate establishment and operation of Internal Control Systems, the audit and supervisory committee must promptly provide suggestions or recommendations for improvement to the board of directors, the representative directors, or related directors and the like. [Lv. 2]
  5. The audit and supervisory 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 and supervisory 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 and supervisory 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 directors' duty of care, the audit and supervisory 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 and supervisory committee will state such matters in the audit report. [Lv. 3]
  7. Audits regarding Internal Control Systems will be governed by the "Audit and Supervisory Committee Audit Practice Standards for Internal Control Systems" enacted separately in addition to this Code. [Lv. 5]

## **Article 26 Audits in Corporate Group**

1. Audit and supervisory committees of companies with subsidiaries must monitor and verify the directors' performance of their duties relating to the administration of subsidiaries in consideration of consolidated group management. [Lv. 2]
2. The audit and supervisory 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 and supervisory committees of companies with a parent company, etc. must audit the directors' performance of their duties in consideration of protecting the interests of minority shareholders. [Lv. 2]

## **Article 27 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 and supervisory committee will, in accordance with Article 25, monitor and verify the preparation of Statutory Disclosure Information, Etc. and the establishment and operation of disclosure systems. [Lv. 3]
2. The audit and supervisory committee will monitor and verify whether the directors 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 28 Audit of Competitive Transactions, Conflict-of-Interest Transactions, etc.**

1. With respect to the following transactions or matters, the audit and supervisory committee must monitor and verify whether there exists any fact constituting a breach of 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 and supervisory committee must take all necessary measures when appropriate based on the situation, such as making suggestions or recommendations to the directors, convening a board of directors' meeting, or seeking an injunction against directors' acts, if the audit and supervisory committee finds any fact that constitutes or is likely to constitute a breach of any duty of a director. [Lv. 2]
  3. In regard to transactions with parent companies, etc. that are required to be stated in financial statement notes, the audit and supervisory 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 and supervisory 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 directors 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 and supervisory committee will likely in the same manner audit the status of the board of directors' performance of those duties.

## **Article 29 Approval of Conflict of Interest Transactions**

1. If there is a request for approval provided for in Article 423, paragraph 4 of the Companies Act regarding a conflict of interest transaction by a director (excluding audit and supervisory committee members), the audit and supervisory committee must decide whether or not to approve that transaction. [Lv. 1]

2. When the audit and supervisory committee makes the decision provided for in the preceding paragraph, it must notify the board of directors, the representative directors, or the like of the details of that decision. [Lv. 2]
3. When finding it necessary, the audit and supervisory committee will request the directors or the like related to the relevant transaction to provide explanations or state opinions at meetings of the audit and supervisory committee or the like. [Lv. 3]

### **Article 30 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 and supervisory committee should immediately request reports from the directors 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 and supervisory committee must monitor and verify the status of the response of directors 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 and supervisory committee finds that the response of the directors stated in the preceding paragraph is not appropriate in consideration of factors such as independence, neutrality, or transparency, the audit and supervisory committee will, after deliberations thereby, take appropriate measures, such as recommending to the directors 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 and supervisory 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 and supervisory 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 and supervisory committee meetings. [Lv. 3] If audit and supervisory 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 31 Audit of Business Reports, etc.**

1. The audit and supervisory 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 directors’ performance of their duties throughout the business year. [Lv. 1]



2. The audit and supervisory committee must receive a Business Report, Etc. from the directors 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 and supervisory committee will coordinate with the accounting auditor as necessary. [Lv. 3]

### **Article 32 Status of Performance of Duties of Outside Audit and Supervisory Committee Members in the Business Report**

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

## **Chapter VII Accounting Audits**

### **Article 33 Accounting Audits**

1. The audit and supervisory 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 directors through the business year. [Lv. 1]
2. In order to ensure the appropriateness and reliability of accounting audits, the audit and supervisory 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 34 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 and supervisory 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 35 Audit of Accounting Policies, etc.**

1. The audit and supervisory 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 and supervisory committee will provide suggestions or recommendations to related directors. [Lv. 3]
2. If the company intends to modify any of its accounting policies, the audit and supervisory committee must, prior to such modification, request that related directors 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 36 Audit of Accounting-Related Documents**

1. The audit and supervisory committee must receive accounting-related documents for each business year from the directors who performed duties relating to the preparation of accounting-related documents. [Lv. 1] The audit and supervisory committee will request explanations from those directors and from employees and other people in the company on important matters and confirm those matters. [Lv. 3]
2. The audit and supervisory 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 and supervisory 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 and supervisory 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 and supervisory committee determines that the methods or results of the audit by the accounting auditor are inappropriate, the audit and supervisory committee must state such determination of inappropriateness and the reasons therefor in the audit report. [Lv. 1]

### **Article 37 Procedures for Appointment of Accounting Auditor, etc.**

1. The audit and supervisory committee must establish policies for deciding to dismiss or to not reappoint an accounting auditor. [Lv. 2]

2. The audit and supervisory committee will examine, for each accounting period, the appropriateness of reappointing the accounting auditor after obtaining necessary materials and receiving reports from the directors, relevant internal departments, and the accounting auditor. [Lv. 3]
3. In determining the appropriateness of reappointing the account auditor, the audit and supervisory 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 and supervisory 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 and supervisory committee will obtain necessary materials and receive reports from the directors and relevant internal departments, confirm the matters set forth in Article 34, and carefully examine the candidate's independence, past performance record, and other such matters; additionally, the audit and supervisory 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 and supervisory 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 and supervisory 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 and supervisory committee to establish such policies because the audit and supervisory committee has the authority and responsibility for determining the contents of proposals regarding the appointment, dismissal, or non-reappointment of accounting auditors.

#### **Article 38 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 and supervisory committee will obtain necessary materials and receive reports from directors, 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 and supervisory 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 and supervisory 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 39 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 20 and other Internal Control Systems, the audit and supervisory 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 and supervisory 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 and supervisory 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 and supervisory 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 and supervisory 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 and supervisory committee may perform investigations or other audits through the audit and supervisory committee members provided for in the items of Article 10, paragraph 1. [Lv. 5]
5. When finding it necessary, in addition to the Internal Audit Division, Etc., the audit and supervisory 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 and supervisory 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 40 Preparation of Audit Plan**

1. The audit and supervisory 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 20 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 and supervisory 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 and supervisory 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 and supervisory committee will by its resolution determine the sharing of audits. [Lv. 3] This includes the selection and the like of Selected Audit and Supervisory Committee Members, etc. provided for in Article 10, paragraph 1. [Lv. 3]
4. When performing duties based on the sharing of audits provided for in the preceding paragraph, if there are audit and supervisory committee resolutions, audit and supervisory committee members must act in accordance therewith. [Lv. 1]
5. The audit and supervisory committee should explain its audit policies and audit plan to the representative directors and the board of directors. [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 and supervisory 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 41 Ascertainment of Processes of Decision-Making and Status of Business Execution of the Company**

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

#### **Article 42 Investigation, etc. of Directors and Employees**

1. The audit and supervisory committee must, when finding it necessary, request reports from 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 and supervisory committee members provided for in Article 10, paragraph 1, item 3. [Lv. 2]
2. In relation to collecting reports and performing investigations under the preceding paragraph, when finding it necessary, the audit and supervisory committee will perform investigations by collecting direct reports from directors or employees or by other methods. [Lv. 3]

#### **Article 43 Ascertainment of the Current Status, etc. of the Company**

The audit and supervisory 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 44 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 and supervisory committee meetings as necessary, the audit and supervisory 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 and supervisory 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 and supervisory 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 and supervisory 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 and supervisory 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 and supervisory committee receives an accounting auditor's report or the like to the effect that there exists, in connection with the directors' performance of their duties, any misconduct or any material fact constituting a violation of any law, regulation, or the articles of incorporation (including facts that may affect the ensuring of the appropriateness of financial and accounting documents), the audit and supervisory



committee must, upon deliberations of the audit and supervisory 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 directors. [Lv. 2]

#### Supplement to Article 44

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 45 Method of Audits in Corporate Group**

1. In regard to the status of the administration of subsidiaries, the audit and supervisory committee will receive reports and explanations from directors, employees, and other such persons and inspect the relevant materials. [Lv. 3]
2. In performing its duties, the audit and supervisory committee should endeavor to actively communicate and exchange information with the audit and supervisory 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 directors' performance of their duties, audit and supervisory committee members provided for in Article 10, paragraph 1, item 4 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**

### **Opinions Regarding Personnel Affairs and Remuneration of Directors**

#### **Article 46 Forming Opinions Regarding Personnel Affairs of Directors**

1. In regard to the selection of directors (including outside directors), taking into consideration matters such as the corporate philosophy and specific management strategies of the company and the environment surrounding it, the audit and supervisory committee will examine whether the board of directors as a whole is well-balanced in knowledge, experience, and skills in order to effectively fulfill its roles and responsibilities and whether the board is composed in a manner that achieves both diversity and appropriate size. [Lv. 3] If the audit and supervisory committee comes to have an opinion in regard thereto, it must state that opinion as necessary at board of directors' meetings or shareholders' meetings. [Lv. 2]
2. The audit and supervisory committee will examine whether the personnel affairs of the representative directors and other executive directors are conducted fairly and appropriately in consideration of evaluations of matters such as the company's performance. [Lv. 3]
3. In regard to outside director candidates, the audit and supervisory committee will examine matters such as whether those candidates can commit the time and labor necessary to appropriately fulfill their roles and responsibilities and whether the knowledge and know-how of those candidates is relevant to the management of the company. [Lv. 3]
4. In addition to this article, the selection of directors who are audit and supervisory committee members will be handled in accordance with Article 7 and Article 8. [Lv. 3]
5. If the company has established a nominating committee or the like mainly composed of independent outside directors, the audit and supervisory committee will form the opinions provided for in this article after confirming matters such as the opinions and activity details of that committee or the like. [Lv. 3]

#### **Article 47 Forming Opinions Regarding Remuneration, etc. of Directors**

1. The audit and supervisory committee must monitor and verify whether the board of directors' determination process, procedures, and the like in regard to policies regarding the determination of the contents of remuneration, etc. for individual directors provided



for in Article 361, paragraph 7 of the Companies Act are appropriately conducted in accordance with laws and regulations. [Lv. 2]

2. In regard to policies concerning determinations and the contents of remuneration, etc. for individual directors provided for in the preceding paragraph, the audit and supervisory committee will examine matters such as whether appropriate incentives that reflect the company's mid- to long-term performance and potential risks and contribute to demonstrating a sound entrepreneurial spirit have been included, whether the ratio of remuneration tied to mid- to long-term performance has been appropriately set, whether cash remuneration and stock remuneration have been set at an appropriate ratio, and whether remuneration has been determined through fair and appropriate procedures. [Lv. 3] If the audit and supervisory committee comes to have an opinion in regard thereto, it must state that opinion as necessary at board of directors' meetings or shareholders' meetings. [Lv. 2]
3. In regard to the remuneration, etc. of non-executive directors (excluding audit and supervisory committee members), the audit and supervisory committee will examine matters such as whether remuneration is set at an appropriate level in light of factors such as the time and labor necessary for those non-executive directors to perform their duties, whether cash remuneration and stock remuneration have been set at an appropriate ratio, and whether remuneration has been determined through appropriate procedures. [Lv. 3] If the audit and supervisory committee comes to have an opinion in regard thereto, it must state that opinion as necessary at board of directors' meetings or shareholders' meetings. [Lv. 2]
4. In regard to the remuneration, etc. of audit and supervisory committee members, the audit and supervisory committee will examine matters such as whether remuneration is set at an appropriate level in light of factors such as the time and labor necessary for audit and supervisory committee members to perform their duties, whether cash remuneration and stock remuneration have been set at an appropriate ratio, and whether remuneration has been determined through fair and appropriate procedures. [Lv. 3] If audit and supervisory committee members come to have opinions in regard thereto, they will state their opinions as necessary at board of directors' meetings or shareholders' meetings. [Lv. 3]
5. If the company has established a compensation committee or the like mainly composed of independent outside directors, the audit and supervisory committee will form the opinions provided for in this article after confirming matters such as the opinions and activity details of that committee or the like. [Lv. 3]

Reference for paragraph 1

This revision was made in consideration of Article 361, paragraph 7 of the Companies Act.

## Chapter X

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

#### Article 48 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 and supervisory committee must examine the following matters and state its opinion in the audit report, 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 and supervisory 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 report 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 and supervisory committee member assumes membership in a committee to make certain determinations regarding whether to trigger Takeover Defense Measures, that audit and supervisory 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 49 Audit of Third-Party Allotments, etc.**

In addition to the audits set out in Article 23 and in Article 27, 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 and supervisory 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 and supervisory 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 and supervisory 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 directors. [Lv. 3] If audit and supervisory 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 XI**

### **Responses to Derivative Lawsuits, etc.**

#### **Article 50 Representation in Lawsuits between Directors and the Company**

1. If a lawsuit is filed by the company against a director or by a director against the company, audit and supervisory committee members provided for in Article 10, paragraph 1, item 5 must represent the company. [Lv. 1]
2. The audit and supervisory committee members under the preceding paragraph must be persons who do not have any interests in the relevant case. [Lv. 2]
3. If audit and supervisory 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 51 Consent to Partial Exemption of Directors from Liability**

1. The audit and supervisory committee will give the following consents after deliberation at audit and supervisory committee meetings: [Lv. 3]
  - (i) consent to submit to the shareholders' meeting a proposal concerning the partial exemption of a director (excluding directors who are audit and supervisory 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 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 a 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 and supervisory 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 and supervisory committee members, the contents of any relevant court judgments, and other relevant factors. [Lv. 3]

3. The audit and supervisory 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 and supervisory committee should follow the provisions of this article. [Lv. 4]
5. If the audit and supervisory committee comes to have an opinion regarding the partial exemption from liability of audit and supervisory committee members or other such matters, it will, as necessary, express its opinion at board of directors' meetings and the like. [Lv. 3]

#### **Article 52 Receipt of Demand to File a Derivative Lawsuit; Notice of Reasons for Not Filing Lawsuit**

1. If any audit and supervisory committee member receives a demand from shareholders to file a lawsuit to pursue the liability of directors, the audit and supervisory 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 and supervisory committee will in a timely manner make any necessary investigation, including requesting status reports or opinions from the 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 and supervisory committee will provide notice of the results of any determination made under paragraph 1 to the board of directors and to the directors to be sued. [Lv. 3]
4. In cases where a lawsuit to pursue the liability of 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 directors whose liability was to be pursued request, audit and supervisory 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 and supervisory committee members will consider the contents of that notice through deliberations of the audit and supervisory committee after requesting the opinions of outside professionals: [Lv. 3]
  - (i) the contents of investigations conducted by audit and supervisory committee members (including materials that were used as the basis for the determination of the following item);
  - (ii) determination as to whether the directors to be sued had a responsibility or duty and the reasons for that determination; and

- (iii) if determining that the directors to be sued had a responsibility or duty, the reason for not filing a lawsuit pursuing their liability.
- 5. The audit and supervisory 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 53 Consent to Participation in a Derivative Lawsuit**

- 1. When consenting to the company’s participation in a derivative lawsuit to assist the defendant directors, audit and supervisory committee members will conduct deliberations at an audit and supervisory committee meeting. [Lv. 3]
- 2. In determining whether to consent to the participation mentioned in the preceding paragraph, the audit and supervisory committee will request status reports or opinions from the representative directors, from the defendant directors, from related directors, and from any relevant departments of the company and will request opinions of outside professionals, as necessary. [Lv. 3] The audit and supervisory 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 54 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 and supervisory committee members will conduct deliberations at an audit and supervisory committee meeting. [Lv. 3]
- 2. In determining whether to consent to the settlement mentioned in the preceding paragraph, the audit and supervisory committee will request status reports or opinions from the representative directors , from the defendant directors, from related directors, and from any relevant departments of the company and will request opinions of outside professionals, as necessary. [Lv. 3] The audit and supervisory 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 54

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

### **Article 55 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 directors are to settle the case in court, audit and supervisory committee members must, at an audit and supervisory 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 and supervisory committee will request status reports or opinions from the representative directors, from the defendant directors, from related directors, and

from any relevant departments of the company and will request opinions of outside professionals, as necessary. [Lv. 3] The audit and supervisory 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 56 Handling of Multiple Derivative Lawsuits, etc.**

1. Audit and supervisory 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 and supervisory committee members selected by the audit and supervisory 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 and supervisory committee members selected by the audit and supervisory 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 and supervisory 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 and supervisory committee members of the Wholly-Owned Subsidiary provided for in Article 10, paragraph 1, item 5 must represent the Wholly-Owned Subsidiary. [Lv. 1]

#### Supplement to Article 56

In the case of a filing against subsidiary directors/audit and supervisory 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 and supervisory committee members should respond to the lawsuit while keeping in mind that they themselves may be subject to certain liabilities, as well.



## **Chapter XII**

### **Reports on Audits and Supervision**

#### **Article 57 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 and supervisory 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 and shareholders and other stakeholders. [Lv. 2]

#### **Article 58 Preparation of Audit Records**

The audit and supervisory committee must prepare and keep audit records. [Lv. 2] Audit records will record the methods, contents, and results of audit and supervisory committee audits as well as the processes, reasons, and other relevant matters leading to the formulation of audit and supervisory committee audit opinions. [Lv. 3]

#### **Article 59 Reporting to the Board of Directors and the Representative Directors, etc.**

1. The audit and supervisory committee will regularly report matters such as the status of its activities to the board of directors. [Lv. 3]
2. The audit and supervisory committee will report to the board of directors, the representative directors, and other related directors 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 directors or other related directors. [Lv. 3]

#### **Article 60 Preparation and Notice of Audit Reports**

1. The audit and supervisory committee must by its resolution prepare accurate and clear audit reports. [Lv. 1]
2. The audit and supervisory committee will confirm, with respect to Business Reports, Etc., accounting-related documents, or other documents received from the directors 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 and supervisory committee will, as necessary, request explanations from the directors who performed duties relating to the preparation thereof, state its opinion, or request modifications. [Lv. 3]
3. The audit and supervisory 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 25, 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 and supervisory 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 and supervisory committee will confirm whether there has been any act by a 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 27, paragraph 2, examine whether there is any matter that should be stated in the audit report. [Lv. 3]
5. In cases where an audit and supervisory committee member has an opinion that differs from the matters stated in the audit report, that audit and supervisory committee member will append a note with his or her opinion to the audit report. [Lv. 3]
6. Each audit and supervisory 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 and Supervisory 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 and Supervisory 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 directors 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 and Supervisory Committee Members should, as necessary, (i) agree with the directors 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 directors and (ii) agree with the directors 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 and Supervisory Committee Members and (b) the date to provide notice of the contents of the audit report concerning accounting-related documents to the directors provided for in paragraph 2 and the accounting auditor. [Lv. 4]

#### **Article 61 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 and supervisory 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 and supervisory 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 61

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

## **Article 62 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 and supervisory 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 and supervisory 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 63 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, audit and supervisory committee members 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, and if finding that there are such matters, audit and supervisory committee members must make a report to that effect to the shareholders' meeting. [Lv. 1] Additionally, in order to fulfill their duty of accountability, audit and supervisory committee members should as necessary state their own opinions at shareholders' meetings. [Lv. 4]
2. The audit and supervisory 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]
3. The audit and supervisory 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