

[Translation]

## **Code of *Kansayaku*<sup>1</sup> Auditing Standards**

Japan Corporate Auditors Association  
Enacted on March 25, 1975

Revised on July 20, 1982  
Revised on September 29, 1993  
Revised on October 31, 1994  
Revised on January 7, 2000  
Revised on June 13, 2002  
Revised on February 12, 2004  
Final revision on January 12, 2007

(Notes)

This translation is prepared only for reference purposes and in the case of any matters falling within the ambit of the Code of *Kansayaku* Auditing Standards (the “Code”), reference should be made to the original Japanese text of the Code. The Code is intended solely as a best practice benchmark by which *kansayaku* may perform their audit duties. It does not replace or supplement in any way whatsoever the current legal regime applicable to auditors and does not give rise to duties for auditors 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 *kansayaku* concerned. *Kansayaku* are expected to prepare their own auditing standards applicable to the company, to the best possible level, by reference to the Code. The same shall be applied to other rules or standards prepared or enacted by the Association, including the “Audit Practice Standards for Internal Control Systems”.

### **Revision of Code of *Kansayaku* Auditing Standards**

#### **I      Background**

The Code, including its structure, was revised in its entirety in February 2004 (which revision is herein referred to as the “2004 Code Revision”), in order to respond to changes in the domestic and international environments, and to clarify the roles and duties currently expected of *kansayaku*.

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<sup>1</sup> Translation note: “*kansayaku*,” which denotes a type of internal corporate auditor required by the Japanese Commercial Code, is sometimes translated as “statutory auditor” or “corporate auditor.” To avoid confusion with external accounting auditors, we retain the original Japanese word.

Thereafter, the Companies Act of Japan (*Kaishahou*) and the ministerial ordinances of the Ministry of Justice thereof which took effect in May 2006 stipulated provisions, which were already added to the Code at the time of the 2004 Code Revision, related to auditing the operating effectiveness of internal control systems and the development of an environment for *kansayaku* audits, etc., and newly stipulated provisions related to the responsibilities, etc., of *kansayaku*.

In order to respond to these changes of law after the 2004 Code Revision and environmental changes, the Japan Corporate Auditors Association has revised the Code again.

## **II Substance of the Revisions**

Taking into consideration the Companies Act of Japan and the ministerial ordinances of the Ministry of Justice, we have decided that it is not necessary to change the underlying policy of the Code. The preamble to the 2004 Code Revision has been kept intact. On the other hand, we have made revisions to maintain specific and systematic guidelines for audit practices, similar to the previous Code. They are meant not only to address the legal requirements, but also to clarify the audit practices that will be evaluated and to provide the standards by which *kansayaku* will be held accountable.

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

The companies to which the Code applies shall be large-scale companies under the Companies Act of Japan, as under the previous Code, and the revisions have been made mainly in consideration of listed companies. If the companies are not large-scale companies, it is desirable to conduct audits in reference to the Code while keeping in mind each company's audit environment and relevant differences from large companies.

1. In the case of a large-scale company that maintains a board of directors, board of directors' resolutions with respect to the basic policies of its internal control systems are required by the Companies Act of Japan. We have revised the Code, in accordance with the provisions of the Companies Act of Japan, with respect to, among other things, the contents of the board of directors' resolutions, and monitoring and verifying operating effectiveness of internal control systems developed by directors. With respect to establishing a more concrete manner of auditing internal control systems, etc., we have decided to enact "the audit practice standards for internal control systems" based on the Code.
2. "Systems to ensure the effectiveness of a *kansayaku*'s audit activities" have been identified as part of the basic policy of internal control systems for which a board of directors' resolution is required. Directors and the board of directors must be cognizant of developing systems which are necessary for the performance of *kansayaku*'s duties as required by law. Thus, we have specifically and

systematically provided for the development of a *kansayaku* audit environment by creating a separate section in the revised Code.

3. Matters concerning *kansayaku* that are required to be disclosed, such as matters pertaining to candidates for *kansayaku* and the status of the performance of duties of outside *kansayaku* (*shagai-kansayaku*), have been expanded by the Companies Act of Japan. Thus, we have made the required revisions to the Code concerning the procedures and the criteria for selecting *kansayaku* candidates, in addition to the responsibilities, etc. of outside *kansayaku*.
4. *Kansayaku* shall be granted the power to consent to the determination of accounting auditors' remuneration, etc., and the accounting auditors shall be obligated by law to provide the *kansayaku* with a notice of "matters concerning the performance of the accounting auditors' duties". Thus, necessary provisions have been added to the Code in relation to the responsibilities to be discharged by *kansayaku* in ensuring the appropriateness and reliability of accounting audits.
5. *Kansayaku*'s opinion shall be provided in the audit report if the "basic policies regarding those who rule on the company's determination of its financial and business policies" are included in a business report. Thus, a separate section addressing this issue has been added to the Code and also refers to the responsibilities to be discharged by *kansayaku* in ensuring the appropriateness of takeover defense measures.
6. The Companies Act of Japan introduced a system that requires *kansayaku* to give notice of their reasons for not filing a lawsuit pursuit to the liability of a director; when demanded to do so by shareholders or director(s), and thereby the appropriate decision-making of *kansayaku* became more important. Thus, revisions have been made to the Code to address *kansayaku*'s actions related to derivative lawsuits, etc.

## **Revision of Code of *Kansayaku* Auditing Standards**

Japan Corporate Auditors Association  
Revised on February 12, 2004

### **I Background**

The Code was adopted by our association in March 1975 and then revised several times to incorporate the revisions to the Japanese Commercial Code (together with the Law for Special Provisions for the Commercial Code concerning Audits, etc., of *Kabushiki Kaisha*<sup>2</sup>, and collectively herein referred to as the "Japanese Corporations Law"). The Code has functioned as a set of standards of conduct for *kansayaku* in

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<sup>2</sup> Translation note: "kabushiki kaisha" means joint stock corporation, the most typical type of limited liability corporation under the Japanese Corporations Law.

performing their duties. The main contents of the Code are a philosophy of auditing for *kansayaku* and provisions regarding certain basic matters required by law. However, given the dramatic changes in recent years in the environment surrounding *kansayaku* audits, it has become necessary for the Code to be revised so that it provides sufficient standards of conduct for *kansayaku* to perform their expected duties.

In the legal sphere, the *kansayaku*'s functions were reinforced by the 2001 revision of the Japanese Corporations Law in respect of corporate governance. Soon thereafter, the 2002 revision of the Japanese Corporations Law and related legislation introduced a new system of "a company with committees," which provides an alternative governance system for large-scale companies. A new era has thus been opened, where companies compete in quality of corporate governance systems, including their audit systems. In addition, rapid progress is being made in the revision of relevant laws, regulations and accounting standards to keep up with the globalization of financial and capital markets, the move to consolidated management, and the accumulation of judicial decisions concerning director liability in response to repeated corporate scandals.

In order to respond to these changes in domestic and international environments, to clarify the roles and duties currently expected of *kansayaku*, and to present specific standards for their conduct, we, Japan Corporate Auditors Association, have reviewed and revised the Code in its entirety, including its structure, by incorporating several studies and the opinions of our internal committees and study groups.

## **II      Essence of Revision**

In this revision of the Code, we have aimed not only to address the audit philosophy and legal requirements as with previous revisions of the Code, but also to provide specific and systematic guidelines for audit practices and thereby clarify the audit practices that will be evaluated and to provide the standards by which *kansayaku* will be held accountable. Recognizing that the *kansayaku*'s fundamental duties are to audit the directors' performance of their duties from an independent position and thus to prevent corporate scandals and to ensure and safeguard sound and continuous growth of their company, we have clarified that *kansayaku* shall perform their duties with a view to the establishment and operation of a good corporate governance system.

The essence of the revision is as follows.

1. With respect to decision-making by the board of directors and other organizations, the so-called business judgment rule is being established through judicial decisions for determining directors' fulfillment of the duty of care. In light of this, we have included in the revised Code the audit of whether management decisions are reasonably made on the basis of sufficient information and in accordance with an appropriate decision-making process.

2. With respect to individual director's performance of their duties, it is being recognized, particularly for large-scale publicly-held companies, that directors are required to establish so-called internal control systems as part of their duty of care. In light of this, we have decided to include in the revised Code provisions concerning the audit of whether internal control systems have been developed in a manner appropriate for the company's size, nature of business, and other relevant aspects of the company.
3. While the previous Code already included items like preventive audits to avoid corporate scandals, internal controls, the relationship with accounting auditors (*kaikei-kansanin*), etc., we have now identified more specific audit standards that recognize the importance of development of the audit environment for *kansayaku*, taking into consideration the points mentioned in paragraph 2, such as establishing systems to assist *kansayaku* in performing their duties and a system of cooperation with the company's Internal Audit Division, etc. (defined in Article 32).
4. While the *kansayaku* system is based on individual independence (*dokunin-sei*) among *kansayaku*, we have provided for strengthening the functions of the *kansayaku-kai*, its chairperson, outside *kansayaku*, etc., in order to improve their organizational efficiency.
5. In order to ensure the appropriateness, transparency and reliability of corporate disclosure, provisions have been included with respect to, among other things, the *kansayaku*'s monitoring of the independence of accounting auditors, and monitoring and verifying whether the company has established and is operating such financial reporting systems as are necessary and adequate for the directors to prepare accurate financial statements, accounting documents and related disclosures.
6. Provisions have been added to reflect the 2001 revision of the Japanese Corporations Law and related legislation in respect of corporate governance, under which *kansayaku* are expected to fulfill specific roles in situations involving conflict of interest between directors and the company, such as that consent of the *kansayaku* is required for exemption or reduction of a director's liability or for the company's participation in a derivative lawsuit to assist the defendant directors.
7. In order to improve the transparency and ensure the reliability of *kansayaku*'s audit activities and audit reports, provisions have also been added concerning *kansayaku*'s conduct of audit reporting and disclosure as well as *kansayaku*'s duty to provide explanations to the shareholders.

### **III Ensuring the Effectiveness of Audits by *Kansayaku***

In order for *kansayaku* to effectively discharge their responsibilities under the Code, it is extremely critical for directors, particularly representative directors, to be fully aware of the importance and usefulness of *kansayaku* audits, and to be aware that directors are strongly required, as their own obligation, to develop an environment favorable to *kansayaku* audits. *Kansayaku* are strongly required, not only by the company

but also by society, to make efforts, as an independent organization playing a key role in corporate governance, to promote such awareness.

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

The Code has been prepared for large companies (including those deemed large-scale companies) as defined under the Japanese Corporations Law, and chiefly with publicly-held companies in mind. For small or medium companies, it is desirable to conduct audits in reference to the Code while keeping in mind each company's audit environment and relevant differences from large-scale companies.

## ***Kansayaku Audit Code***

### **Chapter I Purpose of this Code**

#### **Article 1 (Purpose)**

1. This code (the “Code”) clarifies the responsibilities of *kansayaku* and the attitudes they should have towards discharging such responsibilities, and defines an audit system for discharging such responsibilities, as well as standards and behavioral guidelines for conducting audits.
2. *Kansayaku* shall act in accordance with this Code, taking into consideration the company’s size, the nature of its business, various risks surrounding the company, and other aspects related to the company’s particular audit environment, and shall endeavor to ensure the effectiveness of their audits.

### **Chapter II Responsibilities and Attitudes of Kansayaku**

#### **Article 2 (*Kansayaku’s Roles and Responsibilities*)**

1. *Kansayaku* are responsible for establishing a good corporate governance system that will ensure the sound and continuous growth of the company and accommodate society’s trust by auditing the directors’ performance of their duties as an independent organization entrusted by the shareholders.
2. In order to discharge the responsibilities mentioned in the preceding paragraph, *kansayaku* shall attend the board of directors’ meetings and other important meetings, verify the contents of reports received from directors, employees and other people in the company, conduct investigations with respect to the status of the operations and financial status of the company, and take any necessary measures in a timely manner, including without limitation expressing suggestions, recommendations or opinions to directors and employees and seeking injunctions against directors’ acts.

#### **Article 3 (*Kansayaku’s Attitudes*)**

1. *Kansayaku* shall endeavor to preserve their own independent position, maintain a fair and impartial attitude and act based on their own convictions.
2. *Kansayaku* shall endeavor to cultivate their knowledge with a view to improving the quality of their audits.
3. In order to obtain the proper perspective for auditing, *kansayaku* shall endeavor to deepen their understanding of management issues from an overall managerial perspective, and grasp transitions in management conditions and changes in the corporate environment.
4. *Kansayaku* shall continually endeavor to facilitate a mutual understanding with directors, employees and other people in the company and its subsidiaries, collect sufficient information and develop the audit environment.
5. In formulating audit opinions, *kansayaku* shall endeavor to come to appropriate opinions by diligently confirming the relevant facts, requesting outside professionals’ opinions as necessary, and having rational grounds for their opinions.

6. *Kansayaku* shall be careful to maintain the confidentiality of any information they obtain in the course of performing their duties.
7. *Kansayaku* shall endeavor to make the directors, particularly the representative directors, fully understand and recognize that it is important and indispensable for the directors to develop a favorable environment for *kansayaku* audits in order to establish and operate a good corporate governance system that enables the sound and continuous growth of the company.

### **Chapter III *Kansayaku and Kansayaku-kai***

#### **Article 4 (Full-time *Kansayaku*)**

1. The *kansayaku-kai* shall appoint one or more full-time *kansayaku* (*joukin-kansayaku*) from among the *kansayaku*.
2. Full-time *kansayaku* shall keep in mind their particular role as full-time personnel and shall actively endeavor to develop the audit environment and to collect information within the company, and shall monitor and verify, on a daily basis, the status of the establishment and operation of internal control systems.
3. Full-time *kansayaku* shall endeavor to share with other *kansayaku* information obtained in the course of performing their duties.

#### **Article 5 (Outside *Kansayaku*)**

1. Outside *kansayaku* (*shagai-kansayaku*) shall keep in mind that their election is required by law in order to strengthen the level of independence and neutrality of the audit system, shall actively try to obtain information necessary for their audit, and shall endeavor to share that information obtained with other *kansayaku* and develop the audit environment in cooperation with other *kansayaku*.
2. Because of their independence, the reasons for their election and other related matters, outside *kansayaku* shall keep in mind that they are particularly expected to express objective and neutral audit opinions, and shall actively, candidly and directly pose questions and state their opinions to the representative directors and the board of directors.
3. Outside *kansayaku* shall keep in mind that the status of performing their duties specified by law is disclosed in the business report and thus, shall perform their duties appropriately.

#### **Article 6 (Functions of *Kansayaku-kai*)**

1. The *kansayaku-kai* shall be composed of all *kansayaku*.
2. Given that the *kansayaku-kai* is the only deliberative or decision-making organization for the purpose of formulating opinions regarding audits, each *kansayaku* shall report the status of performance of his/her duties to the *kansayaku-kai* and endeavor to ensure the effectiveness of audits through the utilization of the *kansayaku-kai*; provided, however, that the *kansayaku-kai*'s resolution may not preclude any *kansayaku* from exercising his/her own powers.
3. The *kansayaku-kai* shall express its opinions to the directors and the board of directors as necessary.
4. In addition to the matters that the directors and employees are statutorily required to report to the *kansayaku-kai*, the *kansayaku-kai* shall determine through deliberations with the relevant directors

the scope of matters which the directors and employees shall report to the *kansayaku-kai*, and shall accordingly receive from them timely reports on such matters.

#### **Article 7 (Duties of Kansayaku-kai)**

The *kansayaku-kai* shall perform the following duties; provided, however, that the decision in item (iii) of this article may not preclude any *kansayaku* from exercising his/her own powers:

- (i) preparing audit reports;
- (ii) appointment and removal of full-time *kansayaku*; and
- (iii) deciding audit policy, methods for investigating the status of the operations and financial status of a company and other matters regarding the performance of *kansayaku*'s duties.

#### **Article 8 (Operation of Kansayaku-kai)**

1. It is desirable that the *kansayaku-kai*'s 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 *kansayaku*'s availability to attend, and other relevant factors; provided, however, that the *kansayaku-kai*'s meeting shall be held whenever necessary.
2. The chairperson of the *kansayaku-kai* shall be appointed by resolution from among the *kansayaku*. The chairperson shall convene and preside over the *kansayaku-kai*'s meetings and perform any other duties entrusted to the chairperson by the *kansayaku-kai*; provided, however, that the chairperson may not preclude any *kansayaku* from exercising his/her own powers.
3. The *kansayaku-kai* shall deliberate based on each *kansayaku*'s report, and formulate an audit opinion.
4. Any matter for which a *kansayaku-kai*'s resolution is required shall be deliberated based on adequate information.
5. *Kansayaku* shall confirm that the outline and the results of the proceedings and other matters provided by any laws and regulations are appropriately described in the minutes of *kansayaku-kai* meetings. All *kansayaku* present at such meeting shall affix to the minutes their respective signatures, or their respective names and seal impressions.

#### **Article 9 (Involvement in Procedure to Elect Kansayaku)**

1. With respect to any proposal for the appointment of *kansayaku* to be submitted by the directors to a shareholders' meeting, the *kansayaku-kai* shall deliberate on whether to give its consent to the proposal.
2. It is desirable that the *kansayaku-kai* have a prior opportunity to deliberate with the directors the candidates for *kansayaku*, the procedures for deciding on a proposal for the election of a *kansayaku*, the necessity for an election of substitute *kansayaku*, and other relevant matters.
3. When necessary, the *kansayaku-kai* shall either demand that the directors include the election of *kansayaku* in the agenda of a shareholders' meeting or shall itself propose candidates for *kansayaku* to be submitted by the directors to the shareholders' meeting.
4. *Kansayaku* shall keep in mind their independence, and if they come to have an opinion regarding the election, dismissal, resignation, or disapproval of reappointment of any *kansayaku*, such opinion shall be expressed at a shareholders' meeting.

5. Election, etc. of substitute *kansayaku* are undertaken pursuant to the procedure provided in this article.

#### **Article 10 (Criteria of Selection of Candidates for *Kansayaku*)**

1. The *kansayaku-kai* shall establish a specific policy for the selection of candidates for *kansayaku*, taking into consideration, among other relevant factors, (i) the distinctions between full-time and part-time *kansayaku* and between inside and outside *kansayaku* together with respective numbers thereof, (ii) the term of office of incumbent *kansayaku*, (iii) specialized expertise, and (iv) possible vacancies in office.
2. When selecting a candidate for *kansayaku*, the *kansayaku-kai* shall carefully examine his/her suitability to serve as *kansayaku* in light of whether the candidate can complete the term of office, whether the candidate is sufficiently independent from the managing directors, and other relevant factors. It is also desirable that at least one *kansayaku* has adequate knowledge of financial and accounting matters.
3. When selecting candidates for outside *kansayaku*, the *kansayaku-kai* shall confirm that there will be no difficulties as to their independence, taking into consideration their relationship with the company, representative directors, any other directors, and key employees, and other relevant factors; and shall also examine each candidate's availability to attend the board of directors' meetings, the *kansayaku-kai* and other relevant meetings, and other relevant factors.
4. When selecting candidates for *kansayaku* and outside *kansayaku*, in addition to matters set forth in the preceding two paragraphs, the *kansayaku-kai* shall also examine statutorily required matters to be described in the reference documents for shareholders' meetings with respect to a proposal for the election of *kansayaku*.

#### **Article 11 (Remuneration, etc. of *Kansayaku*)**

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 *kansayaku*, *kansayaku* shall determine the amount of remuneration, etc. to be received by each *kansayaku* through deliberation, taking into consideration the distinction between full-time and part-time positions, the sharing of audit affairs among *kansayaku*, the content and level of the remuneration, etc. of directors, and other relevant factors.
2. If *kansayaku* come to have an opinion on the remuneration, etc. of *kansayaku*, they shall express such opinion as necessary at the board of directors' meeting or at a shareholders' meeting.

#### **Article 12 (Audit Expenses)**

1. It is desirable for the *kansayaku-kai* to formulate in advance a budget for the expenses it determines necessary for the performance of its functions; provided, however, that the *kansayaku-kai* has the right to demand reimbursement from the company for any expenses disbursed in an emergency or on an extraordinary basis.
2. In disbursing audit expenses, *kansayaku* shall keep in mind the efficiency and legitimacy of each expenditure.

## **Chapter IV** **Development of the *Kansayaku* Audit Environment**

### **Article 13 (Regular Meetings with the Representative Directors)**

*Kansayaku* shall hold meetings with the representative directors on a regular basis to keep up-to-date with management policies and to exchange opinions with the representative directors on any issues to be addressed by the company, the risks surrounding the company, the status of the development of a favorable environment for *kansayaku* audits, priority audit issues, and any other relevant matters, and shall endeavor to deepen their mutual understanding and trust with the representative directors.

### **Article 14 (System to Ensure the Effectiveness of *Kansayaku* Audits)**

1. *Kansayaku* shall endeavor to ensure the establishment of a system which will improve audit effectiveness and facilitate the performance of audit duties.
2. In order to ensure the establishment of the system supporting *kansayaku*'s audits mentioned in the preceding paragraph, *kansayaku* shall determine the contents of the following audit systems and shall request that directors and/or the board of directors develop such systems:
  - (i) matters relating to employees who support the *kansayaku*'s duties, hereinafter referred to as "supporting employees";
  - (ii) matters relating to the independence of supporting employees from directors;
  - (iii) systems for directors and employees to report to *kansayaku* and any other systems relating to reports to be provided to *kansayaku*; and
  - (iv) any other systems to ensure the effectiveness of *kansayaku*'s audit activities.

### **Article 15 (Supporting Employees)**

1. *Kansayaku* shall examine the systems of supporting employees, taking into consideration the company's size, the nature of its business, various risks surrounding the company, and other aspects related to the company's particular condition.
2. It is desirable that the duties of the secretariat of *kansayaku* and the *kansayaku-kai* be performed by supporting employees who are devoted exclusively to such functions.

### **Article 16 (Ensuring Supporting Employees' Independence)**

1. *Kansayaku* shall endeavor to ensure the independence of their supporting employees from the managing directors.
2. *Kansayaku* shall examine any matters necessary for ensuring their supporting employees' independence, such as clarifying the following matters:
  - (i) supporting employees' power;
  - (ii) the organization to which the supporting employees belong;
  - (iii) *kansayaku*'s rights to control and direct supporting employees; and
  - (iv) *kansayaku*'s rights to consent to personnel changes, to evaluate personnel affairs and to undertake disciplinary action against supporting employees.

**Article 17 (Reporting System to *Kansayaku*, etc.)**

1. *Kansayaku* shall examine the systems for directors and employees to report to *kansayaku* and other relevant systems relating to reports to be provided to *kansayaku*.
2. *Kansayaku* shall request that each director be thoroughly aware that if a director discovers any fact that is likely to cause the company significant damage, he/she will be obligated to immediately report such fact to the *kansayaku-kai*.
3. In addition to the requirement set forth in the preceding paragraph, *kansayaku* shall deliberate with directors and decide on matters that will be reported to *kansayaku* or the *kansayaku-kai* on a regular basis and who will be the reporter. The same shall apply to matters reported on a temporary basis.
4. *Kansayaku* shall request that the representative director establish internal company rules and otherwise develop internal systems that enable matters determined in prior deliberation with the directors to be reported to *kansayaku* or the *kansayaku-kai* in an effective and timely manner.
5. When a company has an internal reporting system for whistleblowers, *kansayaku* shall monitor and verify whether such system effectively functions by, for instance, having *kansayaku* designated as recipients of information in this system; and shall endeavor to utilize such information in performing *kansayaku*'s audit duties.
6. To ensure that a system of cooperation with the company's Internal Audit Division, etc. (defined in Article 32) is effectively established and operated, *kansayaku* shall request that directors and/or the board of directors support and develop such a system.

**Chapter V**

**Audit of Director's Performance (*Gyoumu Kansa*)**

**Article 18 (Audit of Directors' Performance of Duties)**

1. *Kansayaku* shall audit the directors' performance of their duties.
2. In order to discharge the responsibility mentioned in the preceding paragraph, *kansayaku* shall, among other things, perform the following duties:
  - (i) *Kansayaku* shall monitor and verify the decision-making of the directors in passing board of directors' resolutions and in other situations, and the performance of the board of directors' duty of supervision.
  - (ii) *Kansayaku* shall monitor and verify whether the directors have established and are operating internal control systems appropriately.
  - (iii) *Kansayaku* shall take necessary measures, such as making suggestions or recommendations to the directors, in case *kansayaku* become aware: (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 or regulation or the articles of incorporation; (b) of any circumstance that is likely to cause the company significant damage, a serious incident, or an equivalent thereof; or (c) of any circumstance that is markedly inappropriate for the corporate affairs of the company.
  - (iv) Upon receipt of a report from a director to the effect that the company is likely to suffer significant damage, *kansayaku* or the *kansayaku-kai* shall conduct necessary investigations and take measures appropriate to the situation, such as providing suggestions or recommendations to the directors.

3. When necessary, with respect to the matters set forth in the preceding paragraph, *kansayaku* shall demand the convocation of the board of directors' meeting or seek an injunction against an act of the director(s) in question.

#### **Article 19 (Auditing the Decision-Making of the Board of Directors, etc.)**

1. With respect to the directors' decision-making by way of either the board of directors' resolution or otherwise, *kansayaku* shall monitor and verify the directors' performance of their duties, including without limitation their duty of care and their duty of loyalty, by applying the following considerations:
  - (i) No material or careless error shall be made in understanding the relevant facts that constituted the basis of the decision;
  - (ii) The decision-making process shall be reasonable;
  - (iii) The contents of a decision shall not violate any law or regulation or the articles of incorporation;
  - (iv) The contents of a decision shall not be obviously unreasonable as a decision of ordinary corporate management; and
  - (v) A decision shall be made primarily in the best interests not of the directors or others but of the company.
2. When necessary, in relation to the matters mentioned in the preceding paragraph, *kansayaku* shall make suggestions or recommendations to the directors or seek an injunction against an act of the director.

#### **Article 20 (Performance Audit of the Board of Directors' Duty of Supervision)**

*Kansayaku* shall confirm whether the representative directors and the managing directors are reporting to the board of directors on the status of the management of corporate affairs in a timely and appropriate manner, and monitor and verify whether the board of directors is appropriately performing its duty of supervision.

#### **Article 21 (Audit of Internal Control Systems)**

1. With respect to the following systems hereinafter referred to as "internal control systems" developed based on a board of directors' resolution, *kansayaku* shall monitor and verify the contents of such resolution and the operating effectiveness of the internal control systems by the directors including:
  - (i) a system to ensure that the performance of the duties of directors or employees comply with all laws, regulations and the articles of incorporation;
  - (ii) a system to retain and manage information related to the director's performance of their duties;
  - (iii) company rules and other systems relating to the risk management of the company;
  - (iv) a system to ensure the efficiency of the directors' performance of their duties;
  - (v) a system to ensure the appropriateness of corporate affairs in the corporate group consisting of the company, its parent companies, and its subsidiaries; and
  - (vi) a system to ensure the effectiveness of *kansayaku* audits set forth in Article 14, paragraph 2.

2. *Kansayaku* shall request that the directors report on the status of the establishment and operation of the internal control systems on a regular basis and shall monitor and verify the status of the internal control systems through, among other means, cooperation with the company's Internal Audit Division, etc., and through reports from the accounting auditor.
3. *Kansayaku* shall from time to time report the results of their audit of the internal control systems to the directors and/or the board of directors, and when necessary, *kansayaku* shall provide suggestions or recommendations to the directors and/or the board of directors relating to the improvement of the internal control systems.
4. *Kansayaku* shall monitor and verify the status of board of directors' resolutions related to the system to ensure the effectiveness of *kansayaku* audits and the status of the establishment and operation of this system by each relevant director, and when necessary, *kansayaku* shall have an opportunity to deliberate with the representative directors and other directors.
5. When *kansayaku* finds that the directors and/or the board of directors are neglecting the appropriate establishment and operation of a system to ensure the effectiveness of *kansayaku* audits, *kansayaku* shall immediately provide suggestions or recommendations to the directors and/or the board of directors relating to its improvement.
6. *Kansayaku* shall report the results of their audit regarding internal control systems to the *kansayaku-kai*.
7. Audits regarding internal control systems shall be governed by "the audit practice standards for internal control systems" enacted separately, in addition to this Code.

## **Article 22 (Audit of Directors' Competitive Transactions)**

1. With respect to the following transactions or matters, *kansayaku* shall monitor and verify whether there exists any circumstance constituting a breach of director's duties:
  - (i) any competitive transaction of the company;
  - (ii) any transaction involving a conflict of interest;
  - (iii) the company's transfer, without compensation, of any property interest (including the transfer of any property interest in exchange for particularly low consideration);
  - (iv) an irregular transaction with a parent company, a subsidiary or shareholder, etc.; and
  - (v) the procedures for the company's acquisition or disposal of its own shares as well as the cancellation of shares.
2. With respect to any transaction or matter set forth in the items of the preceding paragraph, *kansayaku* shall take all necessary measures when *kansayaku* find, as a result of reports from the company's internal departments, etc. or as a result of the audit by *kansayaku*, any circumstance that constitutes or is likely to constitute a breach of any duty of a director.
3. With respect to any important or abnormal transactions or matters other than those set forth in the items of paragraph 1 of this article, *kansayaku* shall keep in mind whether there exists any circumstance constituting a violation of any law or regulation or the articles of incorporation, and shall make suggestions or recommendations to the directors in order to prevent the occurrence of any material damage.

## **Article 23 (Audit of Business Report, etc.)**

1. *Kansayaku* shall formulate their own audit opinions on whether business reports and annexed specifications thereof hereinafter referred to as "the business report, etc." for a given business year

provide appropriate descriptions, by monitoring and verifying the directors' performance of their duties throughout the business year.

2. *Kansayaku* shall receive a business report, etc. for each business year from the specified director (*tokutei-torishimariyaku*) and audit whether such business report, etc. properly follows all laws, regulations and the articles of incorporation and accurately presents the status of the company.
3. Based on the preceding two paragraphs, *kansayaku* shall describe their opinion in a *kansayaku* audit report on whether the business report, etc. properly follows all laws, regulations and the articles of incorporation and accurately presents the status of the company.
4. Based on the audit report by each *kansayaku*, the *kansayaku-kai* shall describe its opinion in a *kansayaku-kai* audit report on whether the business report, etc. properly follows all laws, regulations and the articles of incorporation and accurately presents the status of the company.
5. The *kansayaku-kai* may by resolution appoint the specified *kansayaku* (*tokutei-kansayaku*) who will perform the duty of receiving the notice of the business report, etc. from the specified director.
6. In auditing the business report, etc., *kansayaku* and the *kansayaku-kai* shall cooperate with accounting auditors as necessary.

#### **Article 24 (The Status of Performing the Duties of Outside Kansayaku in the Business Report)**

*Kansayaku* and the *kansayaku-kai* shall verify whether the status of the performance of duties of outside *kansayaku* and other matters concerning *kansayaku* which are disclosed in the business report are described appropriately.

### **Chapter VI Audit of Accounting Matters (*Kaikei Kansa*)**

#### **Article 25 (Audit of Accounting Matters)**

1. *Kansayaku* and the *kansayaku-kai* shall formulate their own audit opinions on the appropriateness of the methods and the results of the accounting auditor's audit regarding whether the accounting documents and annexed specifications thereof, and consolidated accounting documents for a given business year appropriately indicate the status of the assets and the profit/loss of the company, by monitoring and verifying the performance of duties of directors through the business year.
2. In order to ensure the appropriateness and reliability of accounting audits, *kansayaku* shall monitor and verify whether the accounting auditor maintains independence and conducts appropriate audits as a professional.

#### **Article 26 (System to Ensure the Appropriate Performance of the Duties of Accounting Auditors)**

In order to ensure the appropriate performance of the accounting auditors' duties, *kansayaku* shall receive a notice on the following matters from the accounting auditors and request an explanation from time to time to confirm whether the accounting auditors are following the standard for quality control necessary to appropriately perform their duties:

- (i) matters relating to their independence and other matters relating to their compliance with laws, regulations, and company rules for audits;
- (ii) matters relating to audit services and services similar to audits, and the policies of acceptance and continuation of the contracts for services thereof; and

- (iii) other matters relating to the system to ensure the appropriate performance of the accounting auditors' duties.

### **Article 27 (Remuneration, etc. of the Accounting Auditor)**

1. In each case where the company enters into an audit agreement with an accounting auditor, *kansayaku* shall verify, taking into consideration the contents of the accounting auditor's audit plan, the status of the entrustment for non-audit services and other relevant matters, whether the contents of such audit agreement are appropriate, including without limitation the appropriateness of the amount of remuneration, etc. for audit services and the individual(s) conducting the audits.
2. Based on a verification under the preceding paragraph, the *kansayaku-kai* shall determine whether to consent to the amount of remuneration, etc. of the accounting auditor.

### **Article 28 (Audit of Accounting Policies, etc.)**

1. *Kansayaku* shall, by requesting the opinion of the accounting auditor, verify whether the accounting policies (the principles and procedures of accounting and method of displaying accounting information, and other matters which form the basis of the accounting-related documents' preparation) and other relevant matters 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. When necessary, *kansayaku* shall provide suggestions or recommendations to the directors.
2. If the company intends to modify any of its accounting policies or other relevant matters, *kansayaku* and the *kansayaku-kai* shall, prior to such modification, request that the 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.

### **Article 29 (Audit of Accounting-Related Documents)**

1. *Kansayaku* shall receive accounting documents, annexed specifications thereof and consolidated accounting documents for each business year from the specified director. *Kansayaku* shall request explanations from the specified director, employees and other people in the company on important matters and confirm them.
2. *Kansayaku* shall receive an accounting audit report and audit-related materials for the accounting documents, annexed specifications thereof, and consolidated accounting documents for each business year from the accounting auditor. *Kansayaku* shall request explanations from the accounting auditor for important matters related to the accounting audit and examine the accounting audit report. If, after such an examination, *kansayaku* determine that the methods or results of the accounting auditor's audit are inappropriate, *kansayaku* shall conduct an audit on their own and describe their determination and the reasons therefor in the *kansayaku* audit report.
3. Based on the audit report of each *kansayaku*, the *kansayaku-kai* shall deliberate on the appropriateness of the methods used in the accounting auditor's audit and the results thereof and formulate its own audit opinion. If, after such a deliberation, *kansayaku-kai* determines that the methods or results of the audit by the accounting auditor are inappropriate, *kansayaku-kai* shall describe such determination and the reasons therefor in the *kansayaku-kai* audit report.
4. The *kansayaku-kai* may by resolution appoint the specified *kansayaku* who will perform the duty of receiving the notice of the accounting-related documents from the specified director and the notice of accounting audit report from the accounting auditor.

**Article 30 (Election of Accounting Auditor, etc.)**

1. *Kansayaku* shall examine, for each accounting period, the appropriateness of reappointing the accounting auditor, taking into consideration the status of the performance of the accounting auditor's duties and other relevant factors.
2. With respect to submitting to a shareholders' meeting a proposal for the election of the accounting auditor or including the proposals for the dismissal or disapproval of the reappointment of an accounting auditor in the agenda of a shareholders' meeting, the *kansayaku-kai* shall deliberate on whether to give its consent to the proposal, taking into consideration the examination mentioned in the preceding paragraph.
3. The *kansayaku-kai* may demand that the directors submit to a shareholders' meeting a proposal concerning the election of an accounting auditor, and/or include the dismissal or disapproval of the reappointment of an accounting auditor in the agenda of such a shareholders' meeting.

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

**Article 31 (Audit Plan and Sharing of Audit Affairs among *Kansayaku*)**

1. The *kansayaku-kai* shall formulate its audit policies while taking into consideration the operating effectiveness of internal control systems and the importance, timeliness, and other essential factors. In addition, it shall prepare an audit plan by determining the appropriate objectives, methods, and timing of the audit. In addressing important audit matters, the *kansayaku-kai* shall designate priority audit items in the plan.
2. In preparing an audit plan, the *kansayaku-kai* shall, from time to time, deliberate and/or exchange opinions with the accounting auditor and the company's Internal Audit Division, etc., in order to ensure the efficient conduct of the *kansayaku* audit.
3. The *kansayaku-kai* shall determine sharing of audit affairs among *kansayaku* in order to conduct a systematic and efficient audit.
4. The *kansayaku-kai* shall explain its audit policies and audit plan to the representative directors and the board of directors.
5. The audit policies and the audit plan shall be modified from time to time as necessary.

**Article 32 (Cooperation with Internal Audit Division, etc.)**

1. In performing investigations into the status of the operations and financial status of the company or other audit duties, *kansayaku* shall endeavor to conduct efficient audits by maintaining close cooperation with the company's internal audit division and other departments which hold jurisdiction over the monitoring functions in the internal control systems (collectively herein referred to as "Internal Audit Division, etc.").
2. *Kansayaku* shall receive reports on a regular basis from the company's Internal Audit Division, etc. related to its audit plan and the results of its audits, and request, as necessary, that the company's Internal Audit Division, etc. conduct investigations. *Kansayaku* shall effectively utilize the results of the audits of the Internal Audit Division, etc. for *kansayaku* audits of the internal control systems.
3. *Kansayaku* shall receive reports on a regular basis and an as needed basis, and request explanations as necessary, concerning the operating effectiveness of internal control systems from the compliance management department, risk management department, accounting department, financial department and other departments that have responsibility for internal control functions (collectively herein

referred to as “the Internal Control Division”) in addition to receiving similar reports from the directors.

4. After receiving the reports from each *kansayaku*, the *kansayaku-kai* shall examine the matters to be suggested or recommended to the directors and/or the board of directors; provided, however, a determination of the *kansayaku-kai* may not preclude any *kansayaku* from exercising his/her own powers.

### **Article 33 (Attendance and Statement of Opinions at Meetings of the Board of Directors)**

1. *Kansayaku* shall attend the board of directors’ meeting and, when necessary, state their opinions at the meeting.
2. If *kansayaku* find that directors have engaged in misconduct, or are likely to engage in such conduct or that there are facts in violation of any law or regulation or the articles of incorporation, or grossly improper facts, *kansayaku* shall report the same to the board of directors without delay.
3. When necessary, in order to make a report to the board of directors mentioned in the preceding paragraph, *kansayaku* shall demand the convocation of the board of directors’ meeting. If a convocation notice is not dispatched within a certain period from such demand, *kansayaku* may convene the board of directors’ meeting.
4. *Kansayaku* shall confirm that the outline and the results of the proceedings and other matters provided by any laws and regulations are appropriately described in the minutes of a board of directors’ meeting. All *kansayaku* present at such meeting shall affix to the minutes their respective signatures, or their respective names and seal impressions.

### **Article 34 (Resolution in Writing at Meetings of the Board of Directors)**

When directors are to omit a resolution, under the stipulation of laws and regulations, on matters that are the agenda of a board of directors’ resolution, *kansayaku* shall examine the content, including the omission of a board of directors’ resolution, and, when necessary, make an objection.

### **Article 35 (Attendance and Statement of Opinions at Meetings of the Board of Directors by Special Directors)**

1. When the board of directors stipulates that its resolution can be made by special directors (*tokubetsutorishimariyaku*), the *kansayaku-kai* may by resolution appoint a *kansayaku* to attend such board of directors’ meeting by special directors in advance; provided, however, that it may not preclude any other *kansayaku* from attending such board of directors’ meeting by special directors.
2. All *kansayaku* present at the board of directors’ meeting by special directors shall, when necessary, state their opinion at the meeting.
3. All *kansayaku* present at the board of directors’ meeting by special directors shall confirm that the outline and the results of the proceedings and other matters provided by any laws and regulations are appropriately described in the minutes of such meeting, and shall affix to the minutes their respective signatures, or their respective names and seal impressions.
4. *Kansayaku* present at the board of directors’ meeting by special directors shall report on the agenda items of the meeting and other relevant matters to the other *kansayaku*.

#### **Article 36 (Attendance at Important Meetings, etc.)**

1. In order to understand the important decision-making processes and the status of the performance of director's duties, *kansayaku* shall attend meetings not only of the board of the directors but also of the management committee, executive committee, risk management committee, compliance committee and other important meetings or committees and, when necessary, state their opinion at such meetings.
2. With respect to meetings to be attended by *kansayaku* set forth in the preceding paragraph, *kansayaku* shall make necessary requests to directors and other relevant officers, in order to ensure *kansayaku* have the opportunity to attend.
3. *Kansayaku* who did not attend a meeting or committee mentioned in paragraph 1 shall receive a report and an explanation of the agenda items of the meeting from other *kansayaku*, directors or employees who attended such meeting or committee and review the relevant materials.

#### **Article 37 (Audit of Document/Information Management System)**

1. *Kansayaku* shall inspect material internal documents circulated for approval and other important documents relating to the management of corporate affairs and, when necessary, shall request explanations from directors or employees or state their opinions to such individuals.
2. *Kansayaku* shall examine whether documents, company rules, important records, and other important information are appropriately maintained, retained and managed and, when necessary, shall request explanations from directors or employees or state their opinions to such individuals.

#### **Article 38 (Audit of Corporate Disclosure System)**

1. In order to ensure the transparency and reliability of corporate information to be disclosed, *kansayaku* shall monitor and verify whether the directors have developed a system for the appropriate formulation and disclosure of such information and have established and are operating in accordance with clear disclosure standards.
2. *Kansayaku* shall request explanations of the important matters related to information that the company discloses from the accounting auditor and the directors or employees in charge of the disclosure, and shall verify whether the disclosed information contains any material errors or misleading descriptions.
3. *Kansayaku* shall 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 going-concern value, material accidents or disasters, material litigation, and any other matters that may materially affect the soundness of the company.

#### **Article 39 (Investigation, etc. of Directors and Employees)**

1. *Kansayaku* shall request reports on the business from directors and employees and shall investigate the status of the operations and financial status of the company.
2. *Kansayaku* shall, as necessary, conduct investigations by undertaking hearings and on-site audits or in any other manner, fully confirm the facts and pursue reasonable grounds for formulating each audit opinion.

#### **Article 40 (Investigation of Company Assets)**

1. *Kansayaku* shall investigate the circumstances of the acquisition, holding and disposal of important company assets.
2. *Kansayaku* shall investigate whether the directors are appropriately managing the assets and liabilities of the company.
3. *Kansayaku* shall try to ascertain the actual value of the company's assets.

#### **Article 41 (Audits of the Corporate Group)**

1. *Kansayaku* of a company having any subsidiary or important affiliated company (referred to below in this article as "subsidiaries, etc.") shall perform their duties keeping in mind a consolidated group management perspective.
2. *Kansayaku* shall perform their duties while keeping in mind whether internal control systems have been appropriately developed within a corporate group consisting of parent companies and subsidiaries, etc. and shall endeavor to develop an audit environment for the entire corporate group.
3. In performing their duties, *kansayaku* shall endeavor to actively communicate and exchange information with, among others, other *kansayaku*, the company's Internal Audit Division, etc. and the accounting auditor of the parent companies and subsidiaries, etc.
4. *Kansayaku* shall, when necessary for the purpose of auditing the directors' performance of their duties, request that the subsidiaries, etc. report on their business or investigate the status of their operations and financial status.

#### **Article 42 (Cooperation with the Accounting Auditor)**

1. *Kansayaku* and the *kansayaku-kai* shall endeavor to conduct efficient audits by maintaining close cooperation with the accounting auditor and actively exchanging opinions and information by, among other means, holding meetings on a regular basis.
2. *Kansayaku* and the *kansayaku-kai* shall receive an outline of the audit plan from the accounting auditor, a report on the risk assessment, etc., of the internal control over financial reporting and an explanation of the priority audit items, etc., and shall exchange opinions on such matters with the accounting auditor.
3. *Kansayaku* may attend the accounting auditor's on-site audits and its audit presentations as necessary, and may, from time to time, request a report on the progress of its audit from the accounting auditor.
4. If the *kansayaku-kai* receives an accounting auditor's report 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 or regulation or the articles of incorporation, *kansayaku* upon deliberations of the *kansayaku-kai* shall conduct any necessary investigation and take any necessary measure, including without limitation providing suggestions or recommendations to the directors.
5. *Kansayaku* shall endeavor to share with the accounting auditor information that *kansayaku* acquire in the course of a business audit, such as useful information for the accounting auditor's audit or matters that may affect the accounting auditor's audit.

**Chapter VIII**  
**Basic Policies Regarding the Company's Control, etc.**

**Article 43 (Basic Policies Regarding the Company's Control, etc.)**

1. When the company determines its basic policies regarding those who rule on the company's determination of its financial and business policies; hereinafter referred to as "basic policies," *kansayaku* shall examine the following matters and state their opinions in the audit reports, keeping in mind the status of deliberations of the board of directors and other organizations:
  - (i) the contents of basic policies; and
  - (ii) the specific contents of the following undertakings:
    - (a) the effective utilization of the company's assets, the formulation of an appropriate corporate group and other special undertakings contributing to the implementation of the basic policies; and
    - (b) undertakings for preventing control of the company's process for determining its financial and business policies by those who are inappropriate in light of the basic policies; hereinafter referred to as "takeover defense measures."
2. *Kansayaku* shall examine the determinations of the board of directors as to whether they fall under the following requirements of each undertaking 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 organizations, and shall state their opinions in the audit reports as to whether:
  - (i) such undertakings are in line with the basic policies;
  - (ii) such undertakings do not impair the common interests of the company's shareholders; and
  - (iii) such undertakings are not directed to the purpose of maintaining the status of the company's officers.
3. When *kansayaku* assume membership in a committee to determine whether to implement takeover defense measures, *kansayaku* shall appropriately make such a determination to promote the interests of the company, keeping in mind the duty of care to the company.

**Chapter IX**  
**Actions at Derivative Lawsuits, etc.**

**Article 44 (Representation in Lawsuits between Directors and the Company)**

If a lawsuit is filed by the company against any director(s) or by any director(s) against the company, *kansayaku* shall represent the company.

**Article 45 (Consent to Partial Exemption of Directors from Liability)**

1. The following consents of all *kansayaku* may be given through deliberations of the *kansayaku-kai*:
  - (i) consent to submit to the shareholders' meeting a proposal concerning the partial exemption of a director from liability;

- (ii) consent to submit to the shareholders' meeting a proposal concerning the modification of the articles of incorporation to provide that directors may be partially exempted from liability by the board of directors' resolution;
  - (iii) consent to submit to the board of directors' meeting 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 modification of the articles of incorporation to provide that the company may enter into an agreement with an outside director for his/her partial exemption from liability.
2. *Kansayaku* shall decide whether to give consent mentioned in any item of the preceding paragraph by thoroughly examining, and by requesting outside professionals' opinions as necessary, (i) with respect to a proposal for a modification of the articles of incorporation, the appropriateness of such modification, the appropriateness of the reason therefor, and other relevant factors; and (ii) with respect to a proposal for the partial exemption of liability, the reason for the exemption, the results of the *kansayaku*'s investigation, the contents of any court judgment given in the present case, and other relevant factors.
  3. *Kansayaku* shall prepare and keep records concerning the progress and results of the investigations and deliberations made by *kansayaku* to determine whether to give consent under any item of paragraph 1 of this article.
  4. When a proposal for the partial exemption from liability of accounting auditors including the proposal for an agreement for limiting liability is submitted to a shareholders' meeting or a board of directors' meeting based on applicable laws and regulations, *kansayaku* and the *kansayaku-kai* shall conform to the provisions of this article.

#### **Article 46 (Receipt of Demand to File a Derivative Lawsuit; Notice of Reasons for not Filing of Lawsuit)**

1. If any *kansayaku* receives a demand to file a lawsuit to pursue the liability of director(s) from shareholders, such *kansayaku* shall promptly provide the other *kansayaku* with notice of such demand, and the *kansayaku-kai*'s meeting shall be convened to thoroughly deliberate on the response to such demand and to determine whether to file a lawsuit.
2. In determining whether to file a lawsuit mentioned in the preceding paragraph, *kansayaku* shall in a timely manner make any necessary investigation, including, without limitation, requesting status reports or the opinions of the director(s) to be sued and of any relevant departments of the company, collecting relevant information, and requesting the opinions of outside professionals.
3. *Kansayaku* shall provide notice of the results of any determination made under paragraph 1 of this article to the board of directors and to the director(s) to be sued.
4. In cases where a lawsuit to pursue the liability of director(s) is not filed as a result of the determination under paragraph 1 of this article and if the shareholders who demanded the filing of the lawsuit or the director(s) who were to be subject to the pursuit of liability demand, *kansayaku* shall submit the documents which describe the following matters to such petitioner without delay and shall provide notice of the reasons for not filing the lawsuit: in this case, *kansayaku* shall make a determination through deliberations of the *kansayaku-kai* after requesting the opinions of outside professionals:
  - (i) the contents of an investigation conducted by *kansayaku* (including materials which were made to be the basis for the determination of the following item);
  - (ii) determination as to whether the director(s) to be sued had a responsibility or duty; and
  - (iii) if determining that the director(s) to be sued had a responsibility or duty, the reason for not filing a lawsuit pursuing their liability.

5. *Kansayaku* shall prepare and keep records concerning the progress and results of the investigations and deliberations made to determine whether to file a lawsuit.

#### **Article 47 (Consent to Participation in a Derivative Lawsuit)**

1. The consent of all *kansayaku* to the company's participation in a derivative lawsuit to assist the defendant director(s) may be made through deliberations of the *kansayaku-kai*.
2. In determining whether to consent to participation mentioned in the preceding paragraph, the *kansayaku* shall request status reports or opinions of the representative directors, of the defendant director(s), and of any relevant departments of the company, and shall request opinions of outside professionals, as necessary. *Kansayaku* shall prepare and keep records concerning the progress and results of the determination as to whether to consent to the participation.

#### **Article 48 (Judicial Settlement)**

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 director(s) are to settle the case in court, *kansayaku* shall, at the *kansayaku-kai*'s meeting, etc., promptly and thoroughly deliberate on the response to such notice and demand and determine whether to object to the settlement.
2. In determining the appropriateness of the judicial settlement mentioned in the preceding paragraph, *kansayaku* shall request status reports or opinions of the representative directors, of the defendant director(s) and of any relevant departments of the company, and shall request opinions of outside professionals as necessary. *Kansayaku* shall prepare and keep records concerning the progress and results of the determination as to the appropriateness of the judicial settlement.

### **Chapter X Reports on Audits**

#### **Article 49 (Report and Explanation of the Contents of Audits, etc.)**

In order to ensure the transparency and reliability of audit activities and audit results, *kansayaku* shall be aware of their important responsibility to explain, as necessary, the status of the performance of their duties and the contents of their audits.

#### **Article 50 (Preparation of Audit Minutes)**

*Kansayaku* shall prepare audit minutes that record the methods and results of *kansayaku* audits as well as the processes, reasons, and other relevant matters leading to the formulation of the *kansayaku*'s audit opinions.

#### **Article 51 (Reporting to the Representative Directors and the Board of Directors)**

1. *Kansayaku* and the *kansayaku-kai* shall regularly report the status of implementation of their audits and the results thereof to the representative directors and the board of directors.
2. *Kansayaku* and the *kansayaku-kai* shall report to the representative directors and the board of directors the progress and results of audits regarding the priority audit items for the current accounting period and investigations, etc. specially made for that period, and shall provide suggestions or recommendations and take measures appropriate to the situation when necessary.

### **Article 52 (Preparation and Notice of Audit Reports)**

1. *Kansayaku* shall prepare *kansayaku* audit report and submit them to the *kansayaku-kai*.
2. The *kansayaku-kai* shall prepare an accurate and clear *kansayaku-kai* audit report through deliberations based on the audit report prepared by each *kansayaku*.
3. The *kansayaku-kai* shall confirm, with respect to business reports, accounting-related documents or other documents received from the specified director, whether all matters required by law and other matters to be disclosed have been appropriately described in such documents, and the *kansayaku-kai* shall request explanations from the directors, state their opinions or request modifications as necessary.
4. In preparing the *kansayaku-kai* audit report, the *kansayaku-kai* shall confirm whether there has been any act by a director that is in violation of any law or regulation or the articles of incorporation, any subsequent events, or any other relevant matters. The *kansayaku-kai* shall, keeping in mind the matters listed in Article 38, paragraph 3, examine whether there is any matter that should be described in its *kansayaku-kai* audit report.
5. In cases where the contents of his/her own *kansayaku* audit report are different from the contents of the *kansayaku-kai* audit report, *kansayaku* may append a note with the contents of his/her own *kansayaku* audit report to the *kansayaku-kai* audit report.
6. Each *kansayaku* shall affix his/her respective signature, or his/her respective name and seal impression, and describe his/her position as full-time *kansayaku* or outside *kansayaku* on his/her own *kansayaku* audit report and the *kansayaku-kai* audit report. *Kansayaku* shall state the date of preparation on the *kansayaku-kai* audit report.
7. The specified *kansayaku* appointed pursuant to Article 23, paragraph 5 and Article 29, paragraph 4 shall provide notice of (i) the contents of the *kansayaku-kai* audit report concerning the business report, etc. and accounting-related documents to the specified director and (ii) the contents of the *kansayaku-kai* audit report concerning accounting-related documents to the accounting auditor; provided, however, that in cases where audit report concerning the business report, etc. and accounting-related documents are both prepared in the same audit report, *kansayaku* shall provide notice of the contents of such audit report to the accounting auditor.
8. In the preceding paragraph, the specified *kansayaku* appointed pursuant to Article 23, paragraph 5 and Article 29, paragraph 4 shall (i) agree with the specified director on and determine the date to provide notice of the contents of a *kansayaku-kai* audit report concerning a business report, etc. to the specified director, and (ii) agree with the specified director and the accounting auditor on and determine (a) the date to provide notice of the contents of an accounting audit report concerning accounting-related documents to the specified *kansayaku* and (b) the date to provide notice of the contents of a *kansayaku-kai* audit report concerning accounting-related documents to the specified director and the accounting auditor, as necessary.

### **Article 53 (Disclosure by Electromagnetic Means)**

1. With respect to all or some of the matters to be described or displayed in the reference documents for shareholders' meetings, a business report, explanatory note tables or consolidated accounting documents (including the accounting audit report and the *kansayaku-kai* audit report related to such consolidated accounting documents), in cases where a company has provisions in its articles of incorporation which deem that it discloses such documents to shareholders via the Internet, when directors intend to take such measures, *kansayaku* shall examine whether such measures should be taken and make an objection, as necessary.
2. In cases where directors take such measures based on the provisions in the articles of incorporation mentioned in the preceding paragraph, *kansayaku* may demand that directors give notice to

shareholders that a business report, accounting documents or consolidated accounting documents, which are actually provided to shareholders, are a part of such documents which were audited in preparation of the audit report.

**Article 54 (Reporting and Explanation at Shareholders' Meeting, etc.)**

1. With respect to proposals and documents to be submitted to a shareholders' meeting, *kansayaku* shall investigate whether there exists any matter constituting a violation of any law or regulation or the articles of incorporation or is otherwise significantly inappropriate; should the existence of such a fact be recognized by *kansayaku*, *kansayaku* shall report their opinion at a shareholders' meeting. At the shareholders' meeting, *kansayaku* shall state their own opinion, as necessary, for the purpose of discharging their responsibility of accountability.
2. *Kansayaku* shall provide explanations on matters questioned by shareholders at a shareholders' meeting in accordance with the management of the proceedings by the chairperson of the shareholders' meeting.
3. *Kansayaku* shall confirm that the outline and results of the proceedings and other matters provided by laws and regulations are appropriately described in the minutes of a shareholders' meeting.

**(Supplementary Provisions)**

In this Code, the term "describe" shall, unless contrary to the context, include "record" in electromagnetic files. Documents of various types mentioned in this Code shall include those prepared in the form of electromagnetic files.