New frame of Securities report, advent.

- - - Improve engagement / voting? What is the next issues? - - -

有価証券報告書

金融商品取引法第24条第１項

関東財務局長

2019年６月21日

2019年３月期

（自　2018年４月１日　至　201

17th Digital Reporting Workshop for CG & other topic

Date and time：10th Jan 2020, 18:30-20:15

Did the disclosure achieve "change" ?

Not UFO, Yuho

After several years of debate, the corporate disclosure rule revised, and a part of the format of securities report was renewal. Does it enhance the quality of engagement and voting? What are the next challenges? We discussed the new disclosure.

Highlights of revision 1, Business Risk
The "business risk" requires companies to disclose "explanation of the degree and timing of the possibility of the realising business risks, details of the effects of risks on business, and preparation for dealing them". In recent years, the necessity of disclosing climate change risk has discussed, and the discussion and the disclosure requirements required by "business risks" are the same. Several companies have already mentioned climate change in this year's Securities Report. We discussed whether the new requirements contribute to better disclosure and what information investors need.

Highlights of the revision 2, Remuneration
Until last year, management remuneration has disclosed only the total amount of all managements, and each individual who takes over 100 million yen. This year, it has changed significantly, need to explain how to determine remuneration, the concept of performance-linked remuneration, targets and KPIs, etc. Did the new disclosure change the dialogue between investors and companies, and what is the next issues?

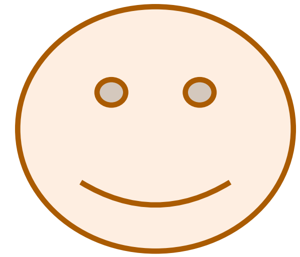
Highlights of the revision 3, Cross-holding shares
Discussed how disclosure of new cross-holding shares, expanded to 60 stocks, could help investors.

	workshop on
Guest from oversea	2 from UK, 1 from HK (investors)
Attendees	16 Investors, 7 Investor(Analysts) organization & sellside analyst, 3 pension & insurance & bank, 10 Information providers/Researchers, 4 Company side (include Independent non - executive director), 3 Auditor, 1 Academic, 8 Regulator, Accounting setter & stock exchange, 2 other

New “Business risks”

"Business risks" disclosed by companies that adopted TCFD

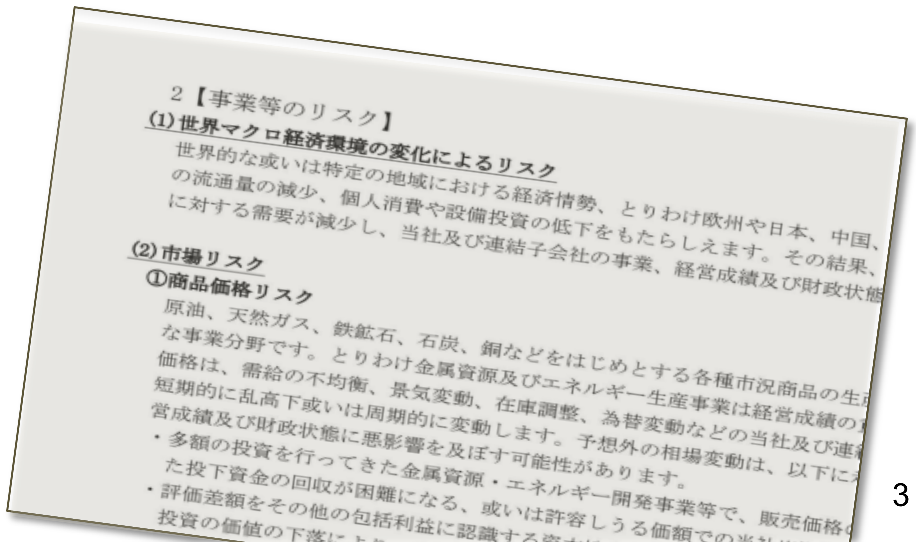
Using XBRL of the latest securities report, we extracted the relevant parts and examined whether there were "climate change" and "TCFD" as keywords. TCFD is one of the hottest topics now, but we focused on how many companies disclosed in their securities report. Of the 3729 companies, 88 mentioned about climate change that is 2.4 % of the total. Four of them also wrote the word "TCFD". Some of these businesses are material in climate change. Others are not. The distribution of those industries showed in a table. However, since it was 2.4%, not enough to explain the trend in each industry. Electric is the largest in total, but it is 5% because of a large number of companies belonged. Currently, not many companies have disclosed it in their securities report. However, there are about 160 business corporations that have joined the TCFD Consortium, so I think that such companies will mention them in the securities report in the future.



Data analyst, Bank

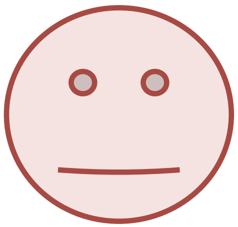
業種	①企業数	②気候変動開示	③比率（②/①）	④TCFD開示
電気機器	247	13	5%	1
食料品	127	10	8%	2
卸売業	329	9	3%	
小売業	362	8	2%	
ｻｰﾋﾞｽ業	457	6	1%	
化学	211	5	2%	1
機械	232	5	2%	
その他製品	111	4	4%	
電気･ｶﾞｽ業	24	3	13%	
非鉄金属	34	3	9%	

出所：有価証券報告書からの抽出データを集計の上、加工（松山）


2【事業等のリスク】
(1) 世界マクロ経済環境の変化によるリスク
世界的な或いは特定の地域における経済情勢、とりわけ欧州や日本、中国、
の流通量の減少、個人消費や設備投資の低下をもたらしえます。その結果、
に対する需要が減少し、当社及び連結子会社の事業、経営成績及び財政状態
(2) 市場リスク
①商品価格リスク
原油、天然ガス、鉄鉱石、石炭、銅などをはじめとする各種市況商品の生
な事業分野です。とりわけ金属資源及びエネルギー生産事業は経営成績の
価格は、需給の不均衡、景気変動、在庫調整、為替変動などの当社及び連
短期的に乱高下或いは周期的に変動します。予想外の相場変動は、以下に
営成績及び財政状態に悪影響を及ぼす可能性があります。
・多額の投資を行ってきた金属資源・エネルギー開発事業等で、販売価格
た投下資金の回収が困難になる、或いは許容しうる価額での
・評価差額をその他の包括利益に認識する
投資の価値の下落に

Describe climate change and impairment risks

Cases;
Mitsui co. (Climate risk)
Mitsubishi Chemical (impairment risk)

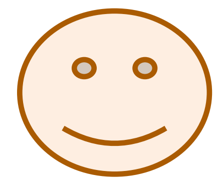


Investor

Mitsui & Co. discloses risk related to climate change and natural disasters in 16 of nearly 20 business risk items. Almost 70% of its profit based on resources, energy and mining. Climate change is material due to floods and weather fluctuations in the short term, and greenhouse gas issues will become important in a long time. In addition to this section, the sensitivity of profit to changes in crude oil prices, copper, or exchange rates is reported. Shortly before, a Brazilian iron ore company in which invested was in deficit due to flooding. My request is that in the next section of business risks ("Analysis of financial position, results of operations and cash flows by management", item 6, "Accounting policies and estimates requiring significant judgment") an explanation of consideration for calculating the discount rate and estimation of cash flows.

Mitsubishi Chemical does not make any comment on this issue in the business risks' section in the securities report, which issued with the audit report that mentioned it as KAM. However, the discount rate used to calculate the recoverable amount in the notes of the financial statements is written for each segment and CGU separately. It also notes the discount rate used for impairment judgment and "the book price could be equal to the recoverable amount" etc. I believe that it is an excellent disclosure.

Of course, the next section of "Business Risk" is long, with much analysis of the current year, and not necessarily the section to write about management estimation of future cash flow.
However, I want the company to explain how the risks mentioned in "Business Risks" affected management's estimation and provide a consistent explanation of the actual discount rates.

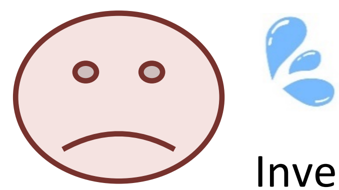


Data Analyst

Cases;
Tokyo Marine Holding (Climate risk)

Investor

"Japan often has natural disasters such as earthquakes, typhoons, and floods," is too general statement, as a non-life insurance company



Investor

Non-life Insurers are susceptible to the effects of climate change and should mention a bit more in risk section. Although explanations related to climate change display on the website and other disclosure materials, there is little quantitative information. It is not very easy to understand the impact on the business by only qualitative information...

Information linked to business risks

The financial statements Notes wrote following the requirements of IFRS. Someone commented that it is useful for his understanding that the discount rates disclosed by each segment, but I think that it just followed the standards. There is a requirement that "if the key assumptions used in the estimation have a possible change, explain the values of the key assumptions if the recoverable price and book value expects to be balanced." If the key assumptions fluctuate and the company does not expect that they will be balanced, they won't write it. So you need to read the entire securities report carefully.
Whether you mainly look at business risks or financial statements will depend on how you use them. Someone who wants to understand the direction and story of the overall management will look at the business risks section and others who want to predict the figures from the past financial performance will look at the financial statements. The same granularity information does not need to be written in both, and if it is written in the financial statements, it can be referred from the business risks section.
Users should read these sections carefully, keeping in mind that these sections complement each other.

Auditor

▼ Cabinet Office Ordinance On Disclosure Of Corporate Information Etc Form No 3 Annual Securities Report

Business results of group (Key index)
- Information about employees

Overview of business
- Business policy, business environment, issues to address
- Business risks
- Significant events related to going concern risks, etc.
- Management analysis of financial position, operating results and cash flows
- Analysis and responses to significant events related to going concern risks, etc.
- Critical contracts for operation
- Research and development activities

Information about facilities
- Overview of capital expenditures, etc.
- Major facilities
- Planned additions, retirements, etc. of facilities

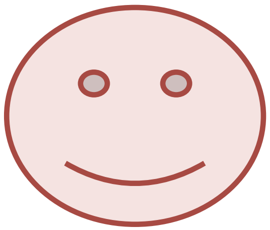
Information about reporting company
- Employee share option plans
- Rights plans
- Shareholding by shareholder category
- Dividend policy

Information about directors (and other officers)
- Information about corporate governance
- Cross-share holding
- Remuneration, etc. paid by group to each director

Details of remuneration to independent auditors
- Audit fees / Non-audit fees

Financial Statements

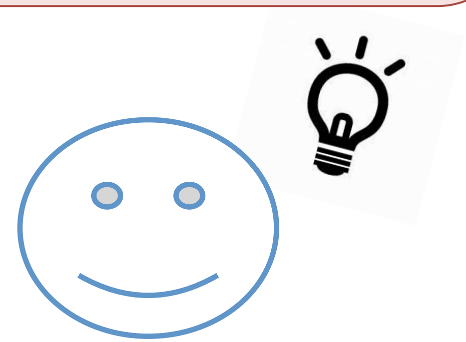
Categorization of "business risks" ?!



Analyst

My idea is, the business risk section includes some related to all listed companies, some related to the same industry, and some related to individual companies. For example, “Risk related to information leakage” applies to the whole company. Therefore, if we can divide into two, we could use the same format to the group of risks that the entire company and have. On the other hands, risks that only related to individual company write in their own format. I think that disclosure will be more detailed and the burden will be reduced.

Categorization is an interesting idea. The processing of text information with AI is progressing, and we have also experimented with the cooperation of various companies. Technology such as AI seems to be quite useful for decrypting text. I would like to hear opinions from information users, for example, "writing in this order is easier to process with AI" etc. AI is progressing fast. It's just an idea...



Regulator

Delegated the boards remuneration to the president

The impacts of the revised remuneration disclosure on engagement are not yet seen. The critical point is two. Whether a remuneration system that supports med - long-term growth is already in place. And whether it explained to investors well? Many Japanese companies still do not have a remuneration system in the first place.

I picked up two companies cases. Both have founders over the age of 90, who are all in charge of everything from business strategy to final investment decisions and rewards. If I talk to these companies regularly about company decisions; not only remuneration but also new investee business areas or shareholders return (because operating profit is about 30% but dividend payout ratio is only 10% for a long time), just say "Our chairman does not accept". Some companies haven't been investing in growth areas, have assigned same board members for decades, and have an inflexible management structure. That situation appears in the compensation system. With this year's new disclosure, companies have to write "we delegate it to the chairman," which isn't new information, but it can compare to other companies. I want them to think about what they should do.

Governance service

Pay package and the cap for Sanrio's directors was approved back in 1984 according to the annual report, and since then, they haven't changed the pay cap. In the UK, remuneration policy is subject to shareholders' binding vote at least once every three years. In Japan, however, once approved at AGM, it doesn't need to be changed almost permanently, which is viewed as one of the reasons why the pay level in Japan remains same. Normally, institutional investors would prefer companies to enhance and ensure pay-for-performance by introducing incentive plans and to reward executives based on the mid-/long-term business achievement. However, the company states, "Introduction of stock options will continue to be considered in relation to the cost of introduction ...", and they may think tax deductibility and cost effectiveness of the executive compensation is their highest concern. This often happens in smaller companies.
How do investors think about the Japanese companies practice of "delegation of individual pay determination to top management"? A new disclosure has begun, and a number of companies have announced that they have been delegating it to the top management.

Remuneration expert

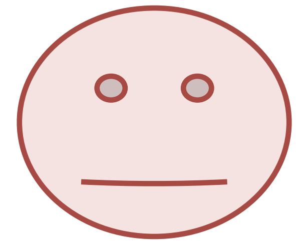
Is Performance Linking Appropriate?

Case; Toyota

Regarding remuneration, the governance code called for "incentives," but this is natural for shareholders, and I think this is a management's commitment to shareholders. For example, if you promise to achieve the medium-term plan, but the reward does not change even if you cannot make it, I can not understand that as an incentive or a commitment. They need to consistent them.

In the case of Toyota, at least as a KPI, it is "linked to stock prices". This alone is a significant improvement. From an investor perspective, Toyota is a good company, but we were concerned about how much priority on shareholders. It is crucial that management also looks at the stock prices that shareholders always see. Operating income is also an important indicator because it naturally leads to business. However, if I dare to say, I think it would be better to include a capital efficiency index. It's great to say that it's not decided a CEO's discretion, but a remuneration committee. However, since the chairman of this committee is the representative director(CEO), there is room for improvement here. After all, the executive's remuneration is for himself... (How could decide his own compensation?)

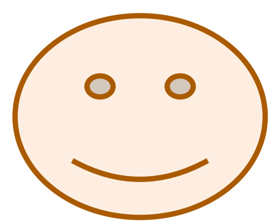
Investor



Investor

Looking at the new disclosure, I didn't feel anything new. Because, it has been shown a little in the Corporate Governance report, since before. In the case of Toyota, the KPIs of consolidated operating profit and stock price are consistent with investor perceptions. But when it comes to equity investments, I emphasize that ROE is essential. In general, the ROE level and whether or not the entire balance sheet is blistered reflected in stock prices, so I don't think we need to increase KPIs unnecessarily. Stock prices and operating profit are a reasonably right combination, even if stock prices don't represent all.

Toyota's "purpose of executive remuneration" is "to encourage efforts to increase corporate value over the medium to long term", "the levels that can invite and maintain excellent human resources", and finally "management that has the sense of responsibility and motivates the promotion of management from the same perspective as shareholders." In the result, Toyota chose "operating profit" and "stock price" as KPIs. I think it is useful first to set an issue and select a KPI based on the story.



Data Analyst

ESG-like KPIs

I hope that companies that represent Japan, such as Toyota, will introduce ESG indicators in their KPIs. In overseas cases, for example, the Royal Dutch Shell's bonus decisions include accident rates and ESG indicators. Those KPI disclosures are helpful for investors. And I want to engage in more appropriate KPIs.

Investor

Remuneration expert

some Japanese companies have added ESG indicators to their incentive rewards, it is the early stage. Some indicators are not quantitative even when set as indicators. Depending on the materiality for the company, the quantitative measurement may not be possible. For some companies, scenarios have not been drawn upon how ESG-like initiatives can contribute to the growth of the company or increase corporate value.
But in the near future, ESG indicators for the remuneration will be a bigger theme.

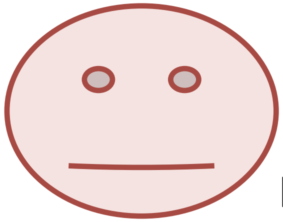
The number of inquiries regarding the application of ESG indicators as incentive rewards are increasing. I think more will come out next year. However, there are companies that are worried about whether it is appropriate to receive more bonuses by simply enhancing ESG measures. They consider that they should receive higher returns when corporate value improvement is ultimately realized (through ESG-related initiatives), and in this sense, this kind of companies tend to reach a conclusion that at this stage, having equity compensation in their pay package is sufficient to encourage management to focus on material ESG measures (linked to their business strategy).

Remuneration expert

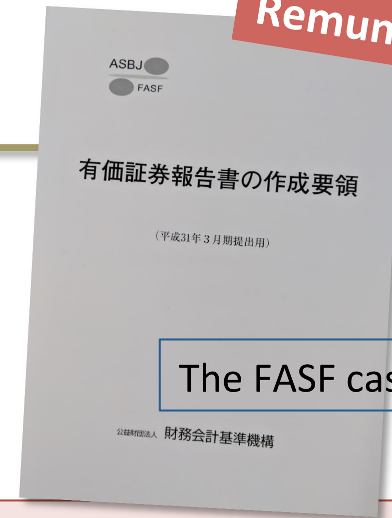
Remuneration

Complicated formula

Case;
Mitsubishi Corporation.



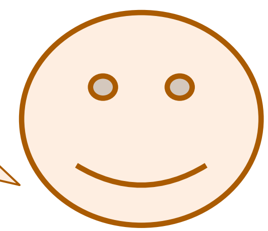
Investor



The FASF casebook

Mitsubishi's explanation is good to use a diagram. It wrote in four parts and explained the relation between profit and payment of the reward. When consolidated net income does not reach the cost of shareholders' equity, what the compensation should be...It is easy to imagine what the reward would be when it achieved. However, they set the cost of shareholders' equity as 440 billion yen. It seems that the cost of shareholders' equity is recognized as 7.7% when calculating it as the equity is 5,696.0 billion yen. I think it should be a little higher. But I'm glad it disclosed.
On the other hand, the formula was complicated, and I tried to calculate it myself, but I could not get the same answer. So I think there is room for improvement in transparency.
And ideally, as an analyst looking at the industry, I would like to make a side-by-side comparison, but it isn't very easy to disclose each company separately. The company-wide basic remuneration portion is disclosed, but others are described in the form as the performance-linked. Bt others use the word "the special compensation", etc. It is not clear whether it links performance or stock price.

The FASF casebook said that KPIs and targets should be determined, and how much achieved should be disclosed... But I think many companies haven't written that much. Only said "KPI is the operating profit", and do not disclose how much operating income will be, and how much would pay to the management.
On the other hand, Kagome's target and achievement this year are easy to understand because they put charts. Even if it's performance-linked, I'd like to know what calculation will be used and what led to this amount.



Data Analyst

Remuneration

When some suspected matters occurred

Case; Nissan

Nissan did not provide any details about SAR on the Securities report 2013 and 2014, which has become a hot topic last year. Even if it is not a complex method such as SAR, there are few cases that explain why the mechanism contributes to future incentives. In the case of Kagome, this company has introduced the 1 yen option, but I thought it was good to write when it can be redeemed and explain that it has incentives. How many companies are explaining properly?

Data Analyst

Stock options, whether the companies well explain in their disclosures or not, anyway requires certain legal actions including registrations, and therefore backdating the exercise date or any similar actions are technically not possible. But cash plan (phantom plan) is different.
In the case of Nissan, the AGM resolution provided some overview of the SAR. Then institutional investors reviewed and supported it at that time.
After the Nissan incident, we observe that many companies started to feel phantom cash plan for foreign executives are risky for both company and executives. Foreign executives, of course, do not want to be arrested when getting off an air plane due to their pay package. Some companies decided to apply the same equity compensation plan (settled in shares) to both Japanese and non-Japanese executives to avoid this unnecessary compliance/reputational risks.
In addition, as the new disclosure rule strictly requires the company to disclose their pay philosophy and pay package, companies do not want to explicitly explain the difference in pay philosophy and pay package between Japanese and non-Japanese executives, and therefore some companies decided to apply single equity compensation plan to both executives.
Not only pay scandals and new disclosure rules, but also there are business rationales to apply equity compensation to foreign executives. Recently Japanese multinationals tend to have more diversified leadership team, and applying same long-term incentive plan to top layers play an important role in terms of alignment & commitment.

Remuneration expert

Discussion!!!

Can we apply a clawback? After all, if the company chose net income as KPI, naturally they might have a strong awareness of protecting net income and might try to postpone the impairment. On the other hand, they might invest without any consideration how much goodwill higher. If you were the management, won't you have such a feeling?

Clawback was originally introduced for the cases that the accounting fraud happened, right?
I guess it is not assumed to be used for unexpected impairment...

As mentioned earlier, the Compensation Committee has to check whether the profit was manipulated or not; avoiding impairment is one of them. We have to rely on the Remuneration Committee and the Audit Committee. I wonder whether we can request to return the compensation to someone who had already quit. Also, there are many risks to the company. It is difficult to pick up only investment risk and impairment risk as evidence.

If the profit indicator is KPI, the profit itself can be manipulated, so I think TSR is more objective. In the case of Toyota, for example, operating profit is 1 trillion yen and the actual result is 170%, but it is questionable why a company earning 2 trillion yen uses "1 trillion yen" for definition. Six or seven years ago, another company had decided to reap 0.3% as executive compensation for more than 300 billion consolidated net income. But now their profit became 500 billion. But they haven't changed it yet. Profit KPI is really appropriate?

I see, so, contrary the company management might avoid M & A ?!

Discussion!!! Cont.

While not applicable to all industries, there may be a timing gap between the management that made the investment and the management that led to the impairment as a result of the investment, which could have a negative effect on personnel evaluations. Hmm.

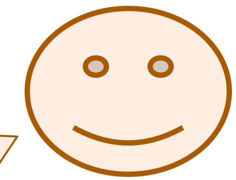
The craw-back mechanism is important, but the way of thinking is also important. I think it is a role of the remuneration committee. It is important that the committee discuss not only formula and result but also various considerations with the independent executive perspective. We need to have flexibility.

Usually, Crawback is often used in case that the financial statements of the previous years have been restated. The bonuses of the restated financial years are recalculated and the difference is recovered. But if the calculation includes "Top's evaluation/ discretion“ in the process, it would be more difficult to re-calculate.

I don't think that calculating rewards 100% mechanically is correct. Rather than that, a personal assessment like Toyota, is necessary, at least in Japan's current remuneration level that is not high. If the president says "You've done your best, so I'll add one million yen more than the calculation result ...", it will become an incentive for executives officers and lead to increase long-term corporate value. Of course, you'll be criticized if you add up to billions. However, this extra amount may motivate people to work harder. Generally said that it would be better to have 100% transparency, but since it is about human beings, mechanical calculations alone will not work well.

Does AI Use Cross-holding shares Data?

[Status of the Cross-holding Shares] is easier to see and understand than before the revision. Compared to the previous year, it became clear at a glance which shares were sold or newly acquired.
Reasons of holding is still boilerplate. However, problem is that there are some cases not disclosed even under the new disclosure rule; "Omit to disclose, if the balance sheet amount of the shares is not more than 1/100 of the Company's capital amount and does not in top 60 in descending order of the balance sheet amount". But this revision is well improved for users.



Journalist

・Stock Split

Double number

ヱスビー食品(株) (注)３	80,000	40,000	事業上の関係を勘案し、同社との良好な関係の維持・強化を図るため、継続して保有しています。	無
	333	462		

３．ヱスビー食品(株)は、2018年11月30日付で、普通株式１株につき２株の割合で株式分割を行っています。

・Share-Exchange

㈱ヤマダ電機 （注）３	336,147	－	営業政策目的で保有。定量的な保有効果は先方との秘密保持の観点から記載不能である… ェア・… 売却に… 保有は…	
	184	－		
㈱ヤマダ・エスバイエルホーム （注）３	－	2,546,572	－	
	－	249		

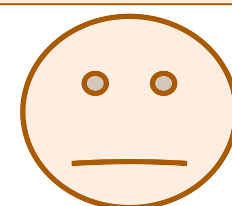
３．㈱ヤマダ電機及び㈱ヤマダ・エスバイエルホームは、㈱ヤマダ電機を株式交換完全親会社とし、㈱ヤマダ・エスバイエルホームを株式交換完全子会社とする株式交換を行っております。

It looks as if you sold Company B and bought Company A

▲From Security Report

In the case of a stock split, a two-for-one stock split appears to have doubled. Conversely, in the reverse stock split, it looks like decreased. If you read carefully, you may notice, but just looking at the numbers will make a mistake.
Share-exchange is difficult. In the case where Company A makes Company B a wholly-owned subsidiary through a share exchange, there is no figure for B in the previous fiscal year. Conversely, A appears in only the current term. At first glance, it looks as if you sold B and bought A.

I introduce the points when acquiring and using data. From this year, information "whether they holding shares each other", "number of issues that have changed from the number of shares since the previous term," " Total acquisition (sale) price ", " reason for increase ", and " status of the cross-holding shares "are tagged. Each line items are tagged in detail and can obtain as data. But there is a notation variability of the name of shares. Even the same company, if it is written in Katakana and the alphabet becomes different companies in the digital world. So name identification is needed. Mechanical identification is possible to some extent but not perfect. Since it has been digitised, if we could contain a corporate number or security code, it would be solved. There are about four-set (eight) listed companies in Japan with the exact same name. **These cannot distinguish** without looking at each detail information. Besides, many misstated company names were seen. Users are most interested in increasing or decreasing the number of shares held. But the numbers are not adjusted by **corporate actions.** Most of them noted under the table, but there were quite a few companies that did not explain properly.



XBRL expert

Instead of our conclusion

New disclosure of the securities report under new rules….

- Risk information should discuss along with overall balance and materiality
- Do we need to consider how does the explanation of impairment risk is monitored (checked) ?
- I want the company to write consistently with climate change or impairment risks and managements' future cash flow estimates.
- Before, only analysts who visited the company might have heard about the top person's "discretion" reward. Now it discloses clearly, anyone who read it gets to know. The effect of disclosure is excellent.
- Based on the disclosure of remuneration decisions and policies, it would be productive to discuss how investors can make a dialogue with the company and how to respond, including exercising voting rights.
- As increasing company disclosure, it is important that investor use them and provide feedback.
- Certainly, disclosure of the cross-shareholdings are improved, but there is a risk that they may be mistaken for not considering corporate action when we compare them to last year. I can not find a suitable solution yet...
- The securities report are read well from domestic investors and other users more carefully than I expected; this is what I found today.