

Interim Report of Corporate Governance Survey 2017

Japan Corporate Governance Research Institute

Takaaki Wakasugi (Professor Emeritus, University of Tokyo; Co-Director, Mitsui Life Financial Research Center, University of Michigan)

Christina L. Ahmadjian (Professor, Graduate School of Commerce and Management, Hitotsubashi University)

Shusai Nagai (Professor, Faculty of Business Administration, Toyo Gakuen University)

Mamoru Obayashi (Professor, School of Commerce, Senshu University)

This report overviews the interim results of the 16th annual Corporate Governance Survey 2017 (JCGIndex Survey 2017) of the Japan Corporate Governance Research Institute (JCGR).

1. Outline of the survey—Contents and categorization of questions—

The current best practice in corporate governance can be characterized by (1) board of directors where outsiders play a vital role as independent directors, (2) separation of directors and executive officers, (3) nomination, compensation, and audit functions exercised by the board of directors to supervise executive officers, and (4) transparency in management.

Based on such a model, JCGIndex Survey's questions are comprised of the following 7 parts:

Part I	Performance targets, leadership of CEO	7 questions
Part II	Efforts on corporate governance	4 questions
Part III	Board of directors	34 questions
Part IV	Management system	10 questions
Part V	Evaluation of management, compensation system	3 questions
Part VI	Management of consolidated subsidiaries	2 questions
Part VII	Communication with shareholders	8 questions

These 68 questions in total are recategorized into 4 categories to calculate sub-scores (Cg1, Cg2, Cg3, Cg4) for each category. Each category represents the following perspective:

Category I Corporate objectives and CEO responsibility

Based on Part I and Part II

Category II Structure and function of board of directors

Based on Part III

Category III Management system

Based on Part IV, Part V and Part VI

Category IV Transparency and communication to shareholders

Based on Part VII

2. Meaning of the Categories

Categories I and II are related to corporate governance system, and III and IV are about corporate management system. Although it is possible to value the corporate governance through Categories I and II alone, Categories III and IV are incorporated into JCGIndex, based on the belief that good management system is established under the good governance system.

3. Number of companies that responded to the survey

In December 2017, we surveyed all companies listed on the First Section of the Tokyo Stock Exchange (2,053, as of December 18, 2017), of which 149 have responded to the survey as of today. We are grateful to all companies that responded to this survey.

4. Interim results of JCGIndex and Category scores

We calculated the JCGIndex and its category scores for the 82 companies that had responded to the Survey by the deadline.

Below is the comparison of this year's category scores and the JCGIndex to those in the previous year.

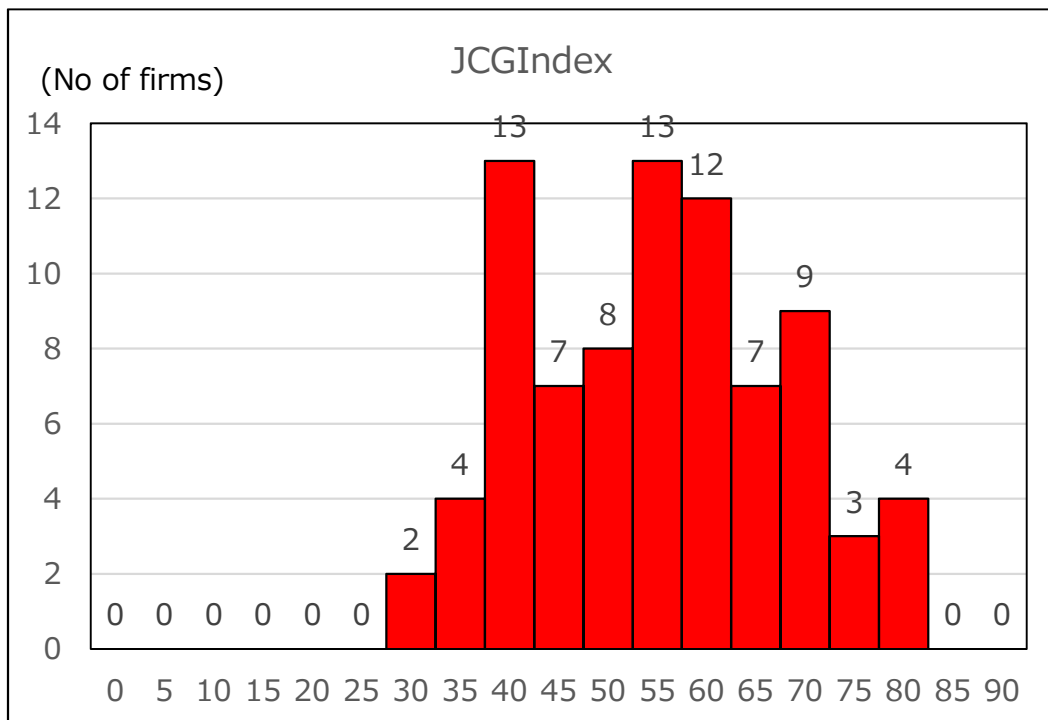
Category scores and achievement rates

Category	Weight (A)	Mean (B)	Achievement rate (B) / (A)
I Corporate objectives and CEO responsibility	22 (22)	9.9 (9.6)	44.9% (43.6%)
II Structure and function of board of directors	42 (42)	18.8 (18.6)	44.8% (44.3%)
III Management system	28 (28)	18.4 (18.0)	65.6% (64.3%)
IV Transparency and communication to shareholders	8 (8)	5.6 (5.2)	70.0% (65.0%)
JCGIndex	100 (100)	52.6 (51.4)	52.6% (51.4%)

*Results in 2016 are in parentheses.

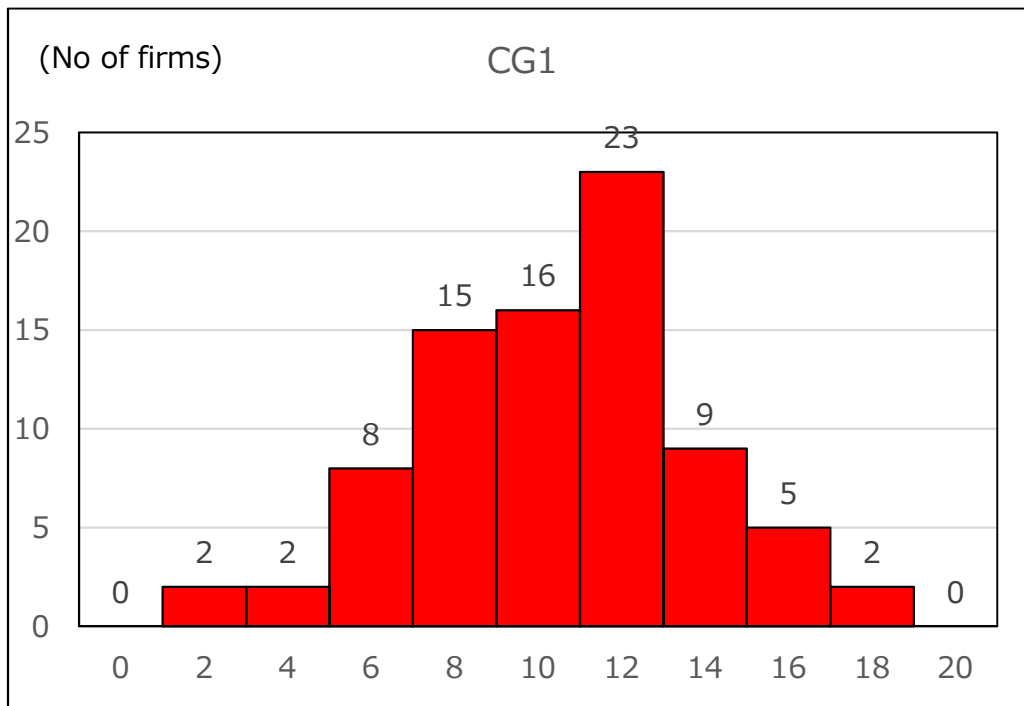
5. The Distribution of JCGIndex and category scores

(1) JCGIndex



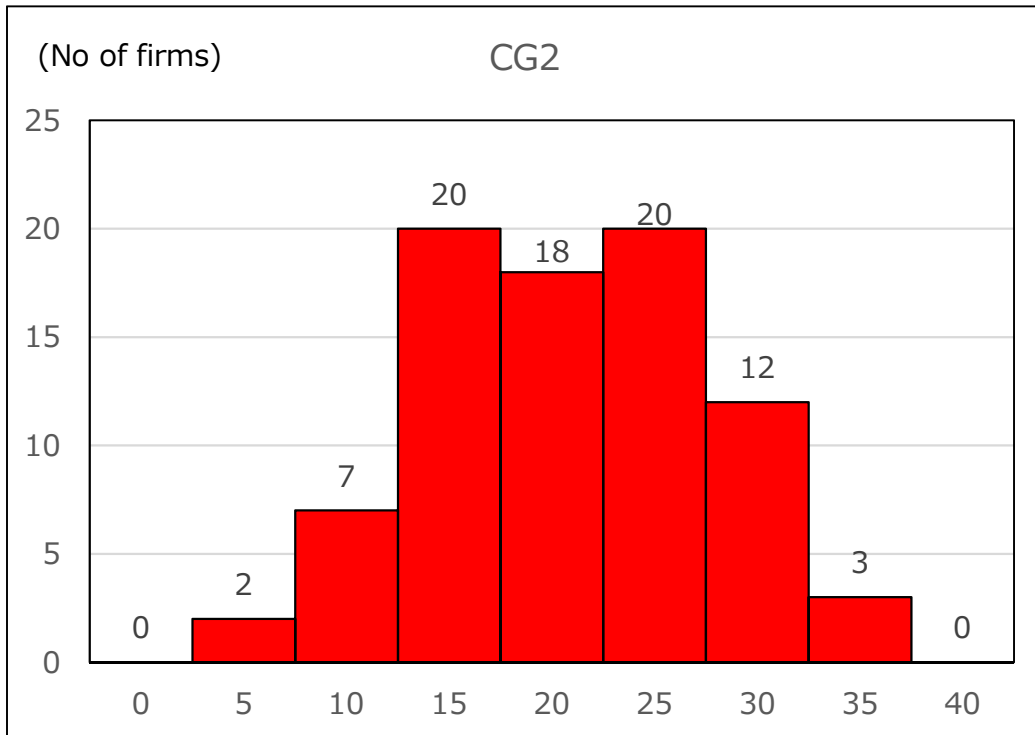
(2) Category I (CG1)

Corporate objectives and CEO responsibility



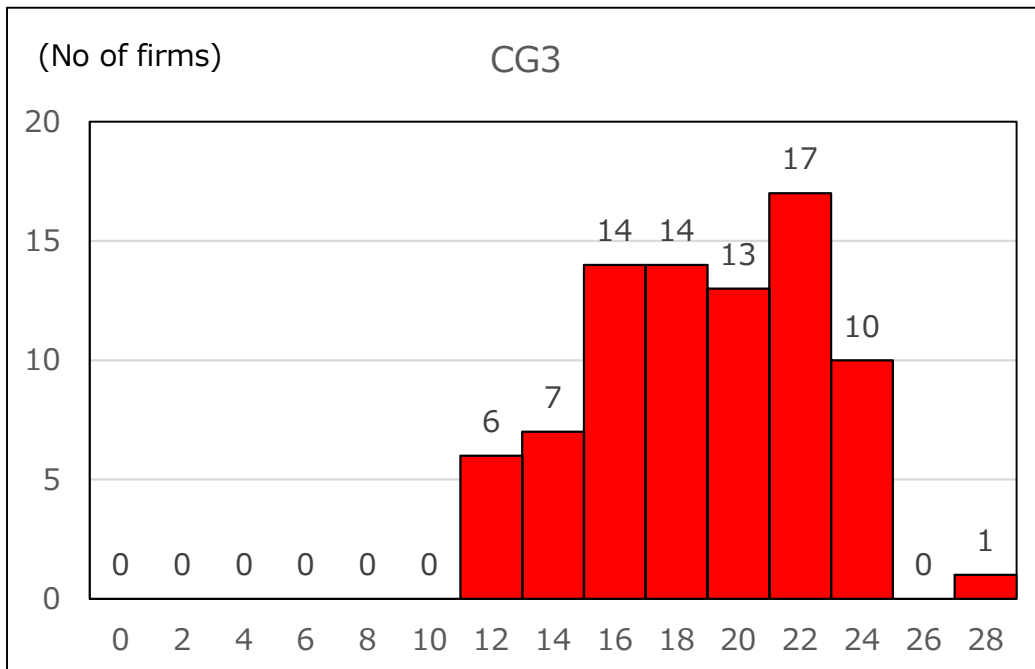
(3) Category II (CG2)

Structure and function of board of directors



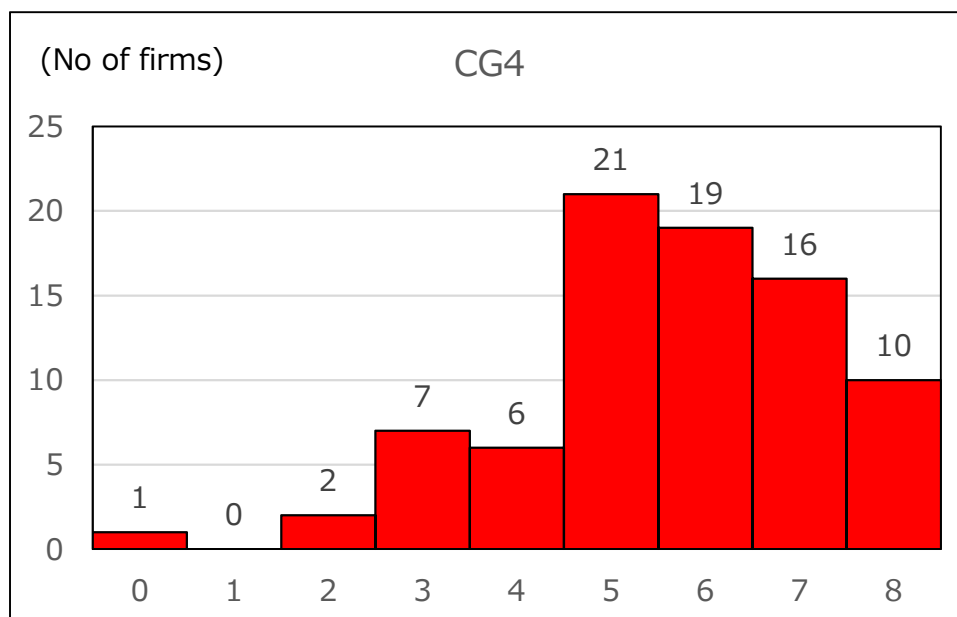
(4) Category III (CG3)

Management system



(5) Category IV (CG4)

Transparency and communication to shareholders



6. Final report

This report covers only 82 companies that had responded to the survey before the deadline. The final report is scheduled to be published in February 26 (Mon.) together with the list of companies that responded to the survey and the list of companies with high JCGIndex.

This time, we started surveying on officers' compensation. The results for officers' compensation are going to be released online along with the final report. (<http://www.cg-net.jp/jcgr/survey.html>)

7. Next survey

In 2017, we had to postpone the Corporate Governance Survey to December, so the results are to be disclosed in 2018. The Survey for 2018 is planned in July, as before. We thank you for your cooperation and look forward to your continuous support for the Corporate Governance Survey.

The Corporate Governance Survey has been funded by the University of Michigan Ross School of Business Mitsui Life Financial Research Center since 2008.