

September 8th 2021

The Coming KANSAYAKU's Fightback

“KANSAYAKU” as its English term in the context of Corporate Governance in Japan

Ryujiro Miki, CFA

1. Summery
2. KANSAYAKU in the history of the Corporate Governance in Japan
3. Duties, powers, obligations and independence of KANSAYAKU
4. What does KANSAYAKU mean to foreign investors?
5. How should we call KANSAYAKU in English?
6. Afterword

Keyword: KANSAYAKU, KANSAYAKU board, Corporate Governance, Independent Director, Overseas Investor

*The opinions expressed in this paper are those of the author and not those of the institution to which I belong.

1.Summary

Statutory auditor" and "corporate auditor" are often used as an English translation of "KANSAYAKU". On the other hand, its association defined it as "Audit & Supervisory Board Member" in 2012 and Japanese FSA uses *Kansayaku* in the Corporate Governance Code.

KANSAYAKU was introduced from Europe about 130 years ago as a position with management supervision and accounting auditing functions. For a while, the management oversight function was removed, but in Japan, every time there were repeated cases of fraud, the dysfunction of management oversight by the board of directors was exposed, and the function of KANSAYAKU was strengthened. For example, in the revision of the Corporate Governance Code in 2021, KANSAYAKU was added to the list of persons subject to engagement dialogue with shareholders, and there have always been high expectations for KANSAYAKU in the history of improving corporate governance in Japan.

However, many overseas investment management organizations, which are often outsourced by Japanese pension funds, do not necessarily have a sufficient understanding of the role that KANSAYAKU play (or can play), and the myth of KANSAYAKU has been a wide-open black hole when they try to understand Japanese corporate governance.

My argument is based on the premise that corporate governance is deeply rooted in each culture, and that there is no "global best practice" that fits any country in terms of which way is best in terms of corporate governance system.

Considering the unique role that KANSAYAKU plays in the context of corporate governance in Japan, this paper uses the terms "KANSAYAKU" instead of "Statutory Auditor" or "Audit & Supervisory Board Member".

Even if the purpose of improving corporate governance is not only to “enhance corporate value over

the medium to long term”, but also to prevent fraud by management, I advocate that we should pay more attention to independent KANSAYAKU, who have legal authority to prevent management fraud, than independent directors.

I think it is also important for Japanese and foreign investors, who are the clients of pension funds, to build cooperative relationships with KANSAYAKU to avoid "negative surprises" such as a stock price crash caused by corporate scandals. Therefore, for the purpose of reference when visiting companies, I have included a trial template of what to ask when engaging companies on corporate governance. (This paper will also be published in both Japanese and English in the CFA Society ARX)

2. The history of KANSAYAKU in Japan and its changing role in corporate governance

By tracing the history of KANSAYAKU in Japan since its inception, we can see how corporate governance in Japan has become unique in the world today.

[1890]

The history of KANSAYAKU can be traced back to the enactment of the former Commercial Code¹ in 1890, which was drafted by Roesler, a scholar employed by the Meiji government². This means that KANSAYAKU has a history of more than 130 years. KANSAYAKU was given the authority to supervise management and to audit accounting. In other words, when KANSAYAKU was born, they were given two roles that lead to today's business, management oversight and accounting auditing. Although Roesler was a German, according to Takata's research, he did not intend to introduce a German style two-tiered system in which KANSAYAKU, as the representative of the shareholders of a large bank, held the power to elect and dismiss directors. The management oversight envisioned by Roesler was "first, to monitor the business execution of the board of directors, second, to inspect accounting, and third, to convene a general meeting of shareholders."³ In other words, he initially envisioned monitoring the business execution of directors from the perspective of protecting shareholders' interests.

[1950]

With the revision of the Commercial Code in 1950, the British and American style board of directors system was introduced in Japan, which had lost the war, and the authority of KANSAYAKU was

¹ Laws governing companies used to be included in the Commercial Code. They became an independent act in 2005 as a result of enactment of the Companies Act which came into effect in 2006.

² Takaaki Wakasugi, JCGR (Japan Corporate Governance Research Institute), "Japan's Corporate Auditor System and its Transition" in Japanese (2020.6) <https://jcgr.org/column/2243/>

³ Haruhito Takada, "The Origins of Japanese Commercial Law, Roesler Draft" in Japanese (2014.10) p16 <https://www.waseda.jp/folaw/icl/assets/uploads/2014/10/A79233322-00-0410175.pdf>

greatly reduced for a while, as self-oversight by the board of directors became the principle for management supervision, and the duties of KANSAYAKU were limited to accounting audits. To be more precise, it is said that the GHQ ordered to abolish the position of “kansayaku” and leave only the accounting audit position at that time when the country was occupied by the US. It is interesting to note that the word "kansayaku" in the GHQ document at that time shows a certain respect for the unique post, which they could not understand. However, when the name "accounting auditor" was applied to the Diet, only the old familiar name " KANSAYAKU " remained.

[1974]

In 1974, the Commercial Code was amended to give KANSAYAKU the authority to audit business operations again in order to make it consistent with the securities-related legal system of the time. This was due to the unprecedentedly high economic growth of Japan over a long period of time after the Japanese economy was revived by special demand from the Korean War, which took place in 1950, just as KANSAYAKU was effectively dying. In other words, it was impossible to monitor the management of the company by opposing the president in the discussions at the board of directors meeting, where those directors who had been promoted from within the company for their achievements in the sales-first policy were gathered as representatives of each department. Not only had the management supervision function disappeared, but the accounting audit by the KANSAYAKU had also practically stopped functioning. Therefore, accounting audits by external accounting auditors were made compulsory in large companies, and accounting audits by KANSAYAKU and accounting audits by external accounting auditors coexisted. In addition, the position of KANSAYAKU was strengthened by granting them the right to express their opinions at the time of dismissal and extending their term of office. In other words, since the revision of the Commercial Code, the two management supervisory bodies, the board of directors and the KANSAYAKU board, have once again come to exist side by side. Since that time, the authority of KANSAYAKU to supervise management and audit accounting in relation to the execution of business by directors has remained unchanged to this day. In the same year, the Japan Audit & Supervisory Board Members Association (JASBA)⁴ was established to promote the mission of KANSAYAKU, to improve the quality of KANSAYAKU, and to promote the exercise of the auditing function. Its philosophy is "to raise the credibility and usefulness of Japan's KANSAYAKU system both at home and abroad, to elevate the mission of KANSAYAKU, and to establish high-quality corporate governance with the aim of realizing a prosperous global society.”

[1981]

The 1981 amendment to the Commercial Code strengthened the position of KANSAYAKU, giving them the authority to appoint accounting auditors at general meetings of shareholders and to request

⁴ Brief Explanation of JASBA (in English) <https://www.kansa.or.jp/en/about-jasba/brief/>

audit fees. In addition, KANSAYAKU system was enhanced, and a multiple KANSAYAKU system and a full-time KANSAYAKU was introduced for large companies under the Special Law of the Commercial Code. This was in response to major social problems such as window dressing and corporate scandals (e.g., the Lockheed case) that occurred one after another in the late 1970s. The reason for this is that internal control has been improved by strengthening the authority and position (ensuring independence) of KANSAYAKU.

[1993]

The 1993 amendments to the Commercial Code were prompted by reflections on the securities and financial scandals that immediately followed the collapse of the bubble economy. Specifically, financial institutions were found to have made unfair loans secured by forged certificates of deposit, which turned into non-performing loans, and companies were found to have provided profits to so-called Sokaiya (corporate racketeer). In response, the status of KANSAYAKU was strengthened (the term of office of KANSAYAKU was extended from two years to three years), and the KANSAYAKU board system was made a legal requirement, requiring the establishment of at least three KANSAYAKU and requiring large companies to have at least one outside KANSAYAKU. At that time, overseas, anti-takeover measures, such as poison-bill, that allowed managements to hold on to their positions for their own benefit were criticized, and CEOs were replaced by large US pension plans. Corporate governance has finally come to be discussed in Japan, and therefore, at that time, "compliance and legality" were the keywords of corporate governance.

[2001]

The 2001 amendments again strengthened the position of KANSAYAKU by: (i) extending the term of office of KANSAYAKU from three to four years; (ii) clarifying the obligation to attend meetings of the board of directors and to express opinions; (iii) granting the right to express opinions in the event of resignation; and (iv) granting the KANSAYAKU board the right to consent to and make proposals on appointments. In addition, large companies are required to increase the number of outside KANSAYAKU (from one KANSAYAKU to more than half of KANSAYAKU board), and the criteria to be "outside" of outside KANSAYAKU has been tightened. This (ii) amendment is particularly important because it is not enough for KANSAYAKU to simply attend the board of directors' meetings, but if they withhold their opinions though they believe that the directors are not aware of the risks discussed at the meetings, and as a result the risks become apparent, they will be held liable for negligence of their duty of oversight. Granting the KANSAYAKU board the right to consent and make proposals on the appointment of KANSAYAKU is important to ensure the independence of corporate auditors.

[2002]

The 2002 amendment to the Commercial Code introduced the "Company with Committees" system, which allows companies to choose between this system and the "Company with KANSAYAKU"

system.

In the case of a Company with Committees, the auditor's independence is important. In the case of a Company with Committees, the Board of Directors is required to establish three committees (Audit Committee, Nomination Committee, and Compensation Committee), the majority of which are composed of outside directors. In addition, when an executive officer in charge of business execution was appointed, the authority to make decisions on matters to be resolved by the Board of Directors was largely delegated to the executive officer. Although it was said that the introduction of the three-committee plus executive officer system enabled the establishment of a modern governance system for the board of directors that separated the supervision of the board of directors from the execution of business by the executive officers, the reality is that the transition to a company with three committees, which is said to be the global trend, had to be abandoned due to strong opposition from the business community. However, this was not enough to explain to the outside world, so the company decided that it could choose to become a company with committees. In particular there is a very strong sense of resistance in the business community to having a Nomination Committee and a Compensation Committee, and even today, only 2% of companies have adopted such a system. In addition, even if the authority is transferred to the executive officers, the directors can also serve as executive officers, and in most companies, the directors become executive directors, and the separation of governance and management is virtually a moot point. For example, Dai-ichi Life, which became de-mutualized to improve its corporate governance, has 8 directors out of 14 who serve as executive officers as well. Even if there are a few outside directors, there was no change in the perception that the board of directors is the meeting place for those who think that directors are the representatives of the department and that it is the ultimate goal of the competition for internal promotion in corporate life. For such a person, it was obvious that it was completely unthinkable to disagree with the management policy of the company at the board of directors meeting chaired by the president who had promoted him.

[2005]

The 2005 amendment to the Commercial Code requires (i) at least three KANSAYAKU, at least one of whom must be a person who has not been a director, manager or other employee of the company or its subsidiaries for five years prior to assuming office (the definition of an outside KANSAYAKU), in order to strengthen the system of KANSAYAKU of large companies. (ii) Although directors were basically involved in the personnel of external accounting auditors, in order to strengthen the management monitoring function, KANSAYAKU are now involved in a significant part of the personnel of external accounting auditors.

[2006]

In 2006 the Financial Instruments and Exchange Law was enacted, and it can be said that the general framework of corporate governance, including that of KANSAYAKU, has been completed in the

following order: strengthening of the direct supervisory function by shareholders, strengthening of the indirect supervisory function, such as the institutional design of directors and internal control, and enhancement of the information provision function that supports these functions.

[2009]

In 2009 the "Report of the Corporate Governance Study Group" (Ministry of Economy, Trade and Industry, Bureau of Economic and Industrial Policy) and the "Report of the Study Group on the Internationalization of Japan's Financial and Capital Markets" (Financial Services Agency, Financial System Council) published led to discussions on the introduction of outside directors.

[2014]

The 2014 amendment to the Companies Act added the obligation to explain "reasons why it is not appropriate to have outside directors" at the annual shareholders' meeting, and introduced a third institutional design, introduction of a "Company with an Audit & Supervisory Committee". It is said that one of the reasons for this is that corporate scandals have revealed that corporate governance lags behind international standards. In fact, however, it was just a compromise that was acceptable to foreign investors who are not very familiar with Japan's corporate governance.

[2014]

In 2014, Prime Minister Abe announced the "Japan Rebuilding Strategy Revision 2014: Challenges for the Future". The logic developed in the document was that the Japanese economy stagnated for nearly 20 years after the collapse of the bubble economy because of inadequate corporate governance of Japanese companies, and as a result, corporate value enhancement did not improve.

[2015]

In May 2015 the revision of the Companies Act was enacted and it introduced a third institutional design, "Company with an Audit & Supervisory Committee" in reality. Instead of the KANSAYAKU board, the Audit Committee, which consists of at least three directors including a majority of outside directors, is responsible for systematically monitoring the execution of duties by directors. In a company with an Audit & Supervisory Committee, a director who is a member of the Audit & Supervisory Committee is appointed for a term of two years, in addition to other directors (term of office: one year). With the introduction of this organizational design, the existing companies with committees were renamed as "Company with Nominating Committee", which made the corporate governance organizational design of Japanese companies with three options too complicated, especially for foreign investors. This is because it is a compromise proposal that was developed in response to increasing pressure from those involved in corporate governance to bring Japan's corporate governance institutions in line with global standards. Some companies are moving to "Company with an Audit & Supervisory Committee" for the following reasons: (i) Audit & Supervisory Committee members, unlike KANSAYAKU, have voting rights on the Board of Directors and can therefore vote against inappropriate proposals by management; (ii) they can avoid the burden of appointing outside

directors in addition to outside KANSAYAKU; and (iii) it is easier to gain the understanding of overseas institutional investors. However, as some foreign institutional investors who are familiar with Japanese corporate governance have come to oppose the transition to "Company with an Audit & Supervisory Committee"⁵, there are many points that need to be kept in mind when "strengthening governance" is cited as a reason for transitioning to an audit committee. Even if a company shifts to a company with Audit & Supervisory Committee, (i) it does not necessarily mean that the management will strive to protect the interests of minority shareholders unless a nomination and compensation committee is established. (ii) There are many cases where outside KANSAYAKU are appointed as Audit & Supervisory Committee members (as outside directors) in order to have the same number of outside directors. (iii) If a full-time KANSAYAKU becomes a part-time member of the Audit & Supervisory Committee, there is a risk that the audit function may be degraded by the transition, because Audit & Supervisory Committee members do not have the authority to conduct independent investigations. (iv) Even though directors on the Audit & Supervisory Committee have voting rights on the Board of Directors unlike KANSAYAKU, the effect is limited because it does not mean that the existing KANSAYAKU can form a majority by granting them voting rights as Audit & Supervisory Committee members. It is necessary to keep these points in mind when comparing the three corporate governance systems.

[2015]

In June 2015, the Japanese version of the Corporate Governance Code, which had been discussed with reference to the OECD Corporate Governance Code at the "Expert Committee on the Formulation of a Corporate Governance Code" held jointly by the Financial Services Agency and the Tokyo Stock Exchange as secretariat since the previous year, began to be applied. The key to the introduction of the Corporate Governance Code was the emphasis on an "aggressive management stance". According to the Code, "It is important to change the mindset of management by strengthening corporate governance and to strengthen the system to encourage aggressive management decisions that will enable companies to compete globally, using the achievement of a global level of ROE as a guide. "The Corporate Governance Code will be revised every three years. The Corporate Governance Code is expected to build autonomous governance for the purpose of sustainable enhancement of corporate value, and each principle is based on the principle of "Comply or Explain" the reason if not implemented. Although based on the principle of "Comply or Explain," the Corporate Governance Code is important because Japan's "homogeneous culture" tends to emphasize the appearance of having done something, even if only on the surface, rather than explaining why it cannot be done.

⁵ Nikkei Business, "Points to keep in mind regarding a company with an Audit Committee", "In March 2016, Chicago-based U.S. asset manager RMB Capital (founded in 2005 and with about 500 billion yen in assets under management) opposed the transition of Opt Holding (in which RMB Capital holds a stake of more than 5%) to "Company with an Audit & Supervisory Committee". (in Japanese) July 22, 2016.

Here is the relevant principle relating to KANSAYAKU in the Corporate Governance Code;

[Corporate Governance Code in 2015]

"Section 4: Responsibilities of the Board"

General Principle 4: Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including: (1) Setting the broad direction of corporate strategy; (2) Establishing an environment where appropriate risk-taking by the senior management is supported; and (3) Carrying out effective oversight of directors and the management (including shikkoyaku and so-called shikkoyakuin) from an independent and objective standpoint. Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with Kansayaku Board (where a part of these roles and responsibilities are performed by kansayaku and the kansayaku board), Company with Three Committees (Nomination, Audit and Remuneration) or Company with Supervisory Committee.

Note

A Company with Kansayaku Board is a system unique to Japan in which certain governance functions are assumed by the board, kansayaku and the kansayaku board. Under this system, kansayaku audit the performance of duties by Shikkoyaku. Also, to secure both independence and high-level information gathering power, not less than half of kansayaku, as appointed at the general shareholder meeting, must be outside kansayaku, and at least one full-time kansayaku must also be appointed. (Underline was added by the author)

Principle 4.4 Roles and Responsibilities of Kansayaku and the Kansayaku Board

Kansayaku and the kansayaku board should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of directors' duties, appointment and dismissal of kansayaku and external auditors, and the determination of auditor remuneration. Although so-called "defensive functions," such as business and accounting audits, are part of the roles and responsibilities expected of kansayaku and the kansayaku board, in order to fully perform their duties, it would not be appropriate for kansayaku and the kansayaku board to interpret the scope of their function too narrowly, and they should positively and proactively exercise their rights and express their views at board meetings and to the management. (Underline was added by the author)

Although the first Corporate Governance Code in 2015 is based on an "aggressive management stance", it places high expectations on KANSAYAKU to balance the offensive and defensive, as can be seen in the underlined part of Principle 4-4.

Principle 4.5 Fiduciary Responsibilities of Directors and Kansayaku

With due attention to their fiduciary responsibilities to shareholders, the directors, kansayaku and the management of companies should secure the appropriate cooperation with stakeholders and act in the interest of the company and the common interests of its shareholders.

Principle 4.11 Preconditions for Board and Kansayaku Board Effectiveness

In particular, at least one person who has sufficient expertise on finance and accounting should be appointed as kansayaku.

Principle 4.13 Information Gathering and Support Structure

In order to fulfill their roles and responsibilities, directors and kansayaku should proactively collect information, and as necessary, request the company to provide them with additional information. Also, companies should establish a support structure for directors and kansayaku, including providing sufficient staff. The board and the kansayaku board should verify whether information requested by directors and kansayaku is provided smoothly.

Principle 4.14 Director and Kansayaku Training

New and incumbent directors and kansayaku should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills. Accordingly, companies should provide and arrange training opportunities suitable to each director and kansayaku along with financial support for associated expenses. The board should verify whether such opportunities and support are appropriately provided.

[Corporate Governance Code in 2018]

The first revision of the Corporate Governance Code in 2018 focused on items related to management personnel, such as CEO succession planning, and there were few revisions directly related to KANSAYAKU. In order for pension funds to fulfill their expected functions as asset owners (including stewardship activities), Principle 2-6 was newly established, which states that efforts should be made in terms of human resources and management, such as systematically appointing and allocating

personnel with appropriate qualifications for investment management, and the details of such efforts should be disclosed.

[Corporate Governance Code in 2021]

The second revision of the Corporate Governance Code in June 2021 is interpreted to have paid more attention to management strategy and risk management as "defense" to support "offense" in the midst of the drastic changes in the business environment surrounding companies due to the Corona disaster, which makes it difficult to predict the future. In general, "independent outside directors" and "sustainability" have attracted a great deal of attention, and KANSAYAKU doesn't stand out, but in fact "the importance of KANSAYAKU" has become an meaningful revision point.

Principle 4.2 (Excerpt) Roles and Responsibilities of the Board (2)

The board should view the establishment of an environment that supports appropriate risk-taking by the senior management as a major aspect of its roles and responsibilities. It should welcome proposals from the management based on healthy entrepreneurship, fully examine such proposals from an independent and objective standpoint with the aim of securing accountability, and support timely and decisive decision-making by the senior management when approved plans are implemented.

4.3.4 The establishment of effective internal control and proactive enterprise risk management systems has the potential to support sound risk-taking. The board should appropriately establish such systems on an enterprise basis and oversee the operational status, besides utilizing internal audit department. (Underline was added by the author)

It is noteworthy that the definition of "risk" includes not only downside risk, which is the reduction of negative factors such as loss avoidance, but also upside risk (e.g., loss of growth opportunities) from the perspective of improving corporate value. This means that the board of directors is now required to make appropriate judgments on "risk" appetite, which is the degree and scope of risk that should be accepted in management decisions. This is an epoch-making change in the definition of risk, shifting from the conventional, everyday usage of risk to the definition in modern investment theory, but I wonder if this Copernican-style transformation of the definition of the concept is shared throughout the company, and if the "Business and Other Risks" section of the Annual Securities Report only describes risk reduction and avoidance methods as negative factors, such as loss aversion. In addition, it is important for foreign investors to evaluate the risk management system to see what the auditors say about risk management at the board of directors meeting, which oversees the

company-wide risk management.

Principle 4.4 Roles and Responsibilities of Kansayaku and the Kansayaku Board

Kansayaku and the kansayaku board should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of directors' duties, appointment and dismissal of kansayaku and external auditors, and the determination of auditor remuneration. (Underline was added by the author)

The addition of the word "kansayaku" in this principle is significant. As a result, the roles and responsibilities of KANSAYAKU and the KANSAYAKU board are now explicitly referred to as the exercise of authority over the selection, dismissal, and compensation of KANSAYAKU. In order to ensure the reliability of its oversight, it is important to ensure the independence of KANSAYAKU, and this revision is regarded as an inevitable change. In order to make the authority of KANSAYAKU more effective, Principle 4-4 should be expanded to "the consent of KANSAYAKU is required for the election and dismissal of KANSAYAKU, if possible.

Supplementary Principles 4.10.1

In particular, companies listed on the Prime Market should basically have the majority of the members of each committee be independent directors, and should disclose the mandates and roles of the committees, as well as the policy regarding the independence of the composition.

The members should include outside KANSAYAKU who do not have voting rights.

Supplementary Principles 4.13.3

Companies should ensure coordination between the internal audit department, directors and kansayaku. by establishing a system in which the internal audit department appropriately reports directly to the board and the kansayaku board in order for them to fulfill their functions. (Underline was added by the author)

The addition of the KANSAYAKU board is also a big step forward. In order to ensure the reliability of management oversight to ensure the effectiveness of "defensive governance," it is commendable that the internal audit department is required to establish a system for reporting directly to the Board of Directors as well as the KANSAYAKU board, and to ensure coordination between the two.

Supplementary Principles 5.1.1

Taking the requests and interests of shareholders into consideration, to the extent reasonable,

the senior management and, directors, including outside directors, and kansayaku, should have a basic position to engage in dialogue (management meetings) with shareholders.

This is the most noteworthy aspect of the revision. In other words, this addition has opened a breakthrough for foreign investors to see at a glance whether the corporate governance of the company they are investing in is functioning properly. What foreign investors hate the most is when the top management of a company like Toshiba or Nissan goes out of control and commits fraud, causing the stock price to plummet. No matter how many interviews with outside directors are conducted to detect such corporate frauds, their role is to accelerate growth by leveraging their experience in the management of other companies, and they are not necessarily professionals in risk management. In the case of KANSAYAKU, they are legally bound to avoid dereliction of duty, so depending on how you ask them, there is a high possibility that you can get a hint as to whether the company in question is strong in risk management on the defensive.

3. Duties, powers, obligations and independence of KANSAYAKU

After having traced the history of KANSAYAKU since their introduction in the Meiji era (1868-1912), let me explain what the duties of KANSAYAKU are now, what legal provisions guarantee their authority and independence, which is a prerequisite for their duties. Let's take a look at the outline of the Japan Audit & Supervisory Members Association (JASBA), which has great significance as a training ground for KANSAYAKU.

(1) Main duties of KANSAYAKU

The relationship between a company and its KANSAYAKU is subject to the rules of delegation, so KANSAYAKU has a duty of care in the performance of their duties.

(i) Oversight of the execution of duties by directors (duty to prepare management oversight reports, duty to attend meetings of the board of directors)

KANSAYAKU has the authority to check and report on the execution of duties by directors and the board of directors to see if there are any problems, and to point out any problems and stop them. They must attend board meetings and express their opinions when necessary. If a problem is overlooked at a board meeting and becomes apparent at a later date, the KANSAYAKU will be charged with negligence of duty. The scope of the oversight should be interpreted as not only an oversight of the conformity of the directors' execution of their duties to laws and regulations and the Articles of Incorporation, but also an oversight of the appropriateness of the directors' performance of their duties, since the scope of the oversight includes whether or not the directors have breached their duty of care.

(ii) Investigation and reporting (obligation to report to the board of directors)

KANSAYAKU has the authority to request business reports from directors and employees. They can

investigate the company's business and financial situation at any time. The subject of the investigation is the company's overall operations, including accounting books.

If necessary, KANSAYAKU also has the authority to request business reports from overseas subsidiaries and to investigate the status of their assets by visiting to do an actual inspection in the field. Particularly if KANSAYAKU's business card writes "statutory auditor", there is a risk that KANSAYAKU will not be able to maintain the pride as a director and will be disregarded not only by the overseas subsidiary but also by external parties, as will be explained later.

In the event that a director commits or threatens to commit a wrongful act, KANSAYAKU must report the matter to the Board of Directors without delay. A meeting of the Board of Directors may be convened for the purpose of making such a report.

(iii) KANSAYAKU shall examine whether the financial statements, etc. to be submitted to the General Meeting of Shareholders have been prepared correctly, confirm that the accounting auditors are performing their duties properly, and receive an audit report from the external accounting auditors.

(iv) Demand for injunction and representation of the company

If a director commits or is likely to commit an act in violation of laws, regulations, or the Articles of Incorporation, and if such act is likely to cause significant damage to the company, the KANSAYAKU may demand an injunction against such director. KANSAYAKU shall represent the Company in any litigation between the Directors and the Company, or in the event that the Company receives a request for the filing of an action to pursue the liability of the Directors, or in the event that the Company receives a notice of litigation, etc. for a shareholder representative action.

(v) Duties as a Member of the KANSAYAKU boards (Duty to Explain at the General Meeting of Shareholders)

The KANSAYAKU board is established as a forum for deciding the division of roles among the KANSAYAKU, sharing information, and adjusting opinions while maintaining the system of autonomy. The majority of the KANSAYAKU boards selects and dismisses full-time KANSAYAKU, and the KANSAYAKU board has the right to consent to proposals submitted by directors to the General Meeting of Shareholders for the appointment of KANSAYAKU. The KANSAYAKU board also decides the contents of proposals concerning the selection, dismissal, and non-reappointment of the accounting auditor. The KANSAYAKU board shall have the right to consent to the determination of the remuneration of the Accounting Auditor by the Directors. The KANSAYAKU board shall provide necessary explanations when shareholders request explanations on specific matters at the General Meeting of Shareholders.

(2) Responsibilities of KANSAYAKU

KANSAYAKU is a board member and is subject to heavier responsibilities than employees because of the delegated relationship.

(i) Liability for damages to the company

KANSAYAKU is liable for damages in the event of a breach of the duty of care. Therefore, in the event of an incident, accident, or scandal, it is essential that KANSAYAKU fulfills their responsibilities on a regular basis to avoid being accused of breaching their duty of care as KANSAYAKU.

(ii) Liability for damages to third parties

If there is malicious intent or gross negligence in the execution of duties by KANSAYAKU, and as a result damage is caused to a third party, KANSAYAKU is liable for damages to the third party.

(iii) Liability of KANSAYAKU under the Financial Instruments and Exchange Act

Listed companies submit securities reports, internal control reports, quarterly reports, etc. in accordance with the provisions of the Financial Instruments and Exchange Act. If there is a material misstatement in the documents submitted by the company, KANSAYAKU may be subject to claims for damages from investors who have been damaged by the misstatement.

(3) Assurance of independence

Independence of KANSAYAKU from oversight targets is a major prerequisite for the oversight, and independence must be legally guaranteed in order to solidify the position of KANSAYAKU and increase the effectiveness of their oversight.

The term of office as a KANSAYAKU: 4 years (cannot be shortened), which is stronger than the term of office as a director (2 years which can be shortened to one year).

Resolution on election and dismissal: A special resolution (requiring the two-thirds majority of the voting rights) is required to dismiss a KANSAYAKU.

The right to express opinions on the election and dismissal of KANSAYAKU: Those who resign as KANSAYAKU can state their resignation and the reasons for it at the general meeting of shareholders to check directors.

Consent of KANSAYAKU for appointment of KANSAYAKU: Consent is required for selection of KANSAYAKU to prevent unilateral selection. In addition, KANSAYAKU can nominate suitable candidates and submit them to the Board of Directors.

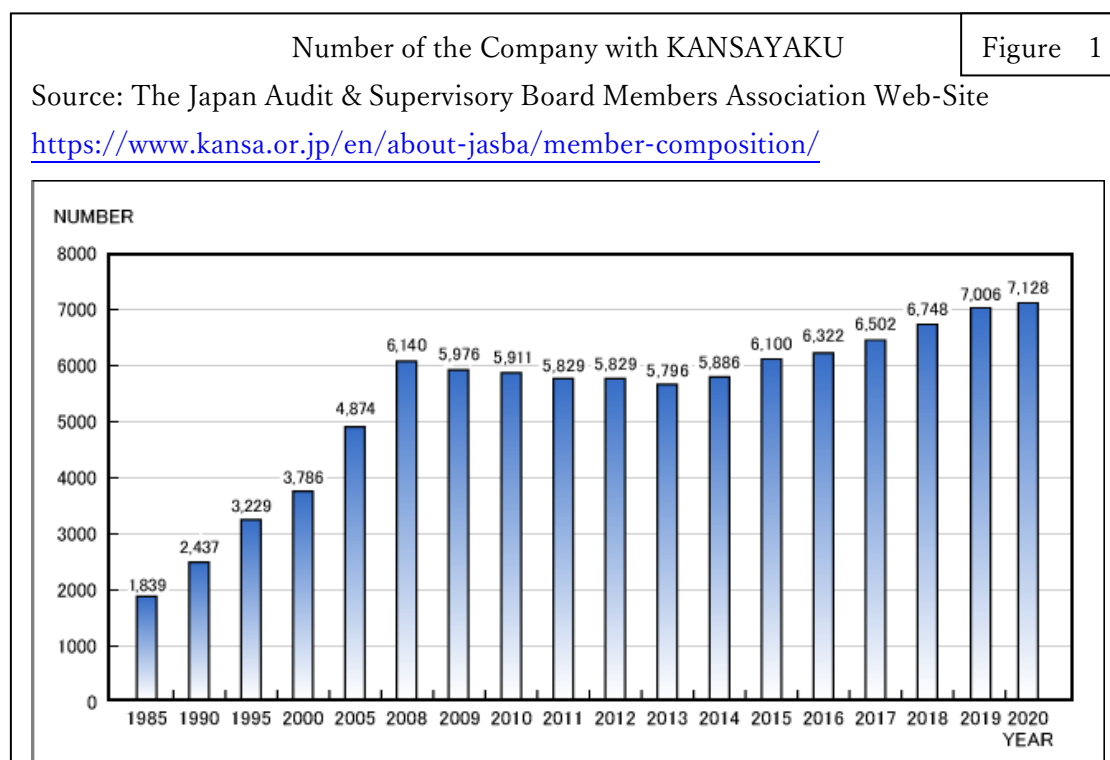
Remuneration of KANSAYAKU: It should be set in the articles of incorporation or at the general meeting of shareholders, and KANSAYAKU should be able to express their opinions at the general meeting of shareholders.

(4) Japan Audit & Supervisory Board Members Association (JASBA)

JASBA's philosophy is "to raise the credibility and usefulness of the Japanese Audit & Supervisory Board Members system both at home and abroad, to elevate the mission of KANSAYAKU, and to establish high-quality corporate governance with the aim of realizing a prosperous global society"

Currently the Association has about 7,100 members, either corporations or individuals.

The activities of the association consist of "learning," "interacting," "researching," and "consulting," and from my personal experience, I can say that the activities of the JASBA are extremely fulfilling in terms of providing learning. In Japan, being a director is traditionally a goal to be achieved in one's professional life, and there is little motivation to study further after reaching that position. Instead of KANSAYAKU, there is a strong desire to learn. This is in sharp contrast to traditional companies with KANSAYAKU, which account for 68% of all companies, even though their number has been decreasing recently, and companies with nominating committees, which are more in line with Anglo-American law, which account for only 2%.



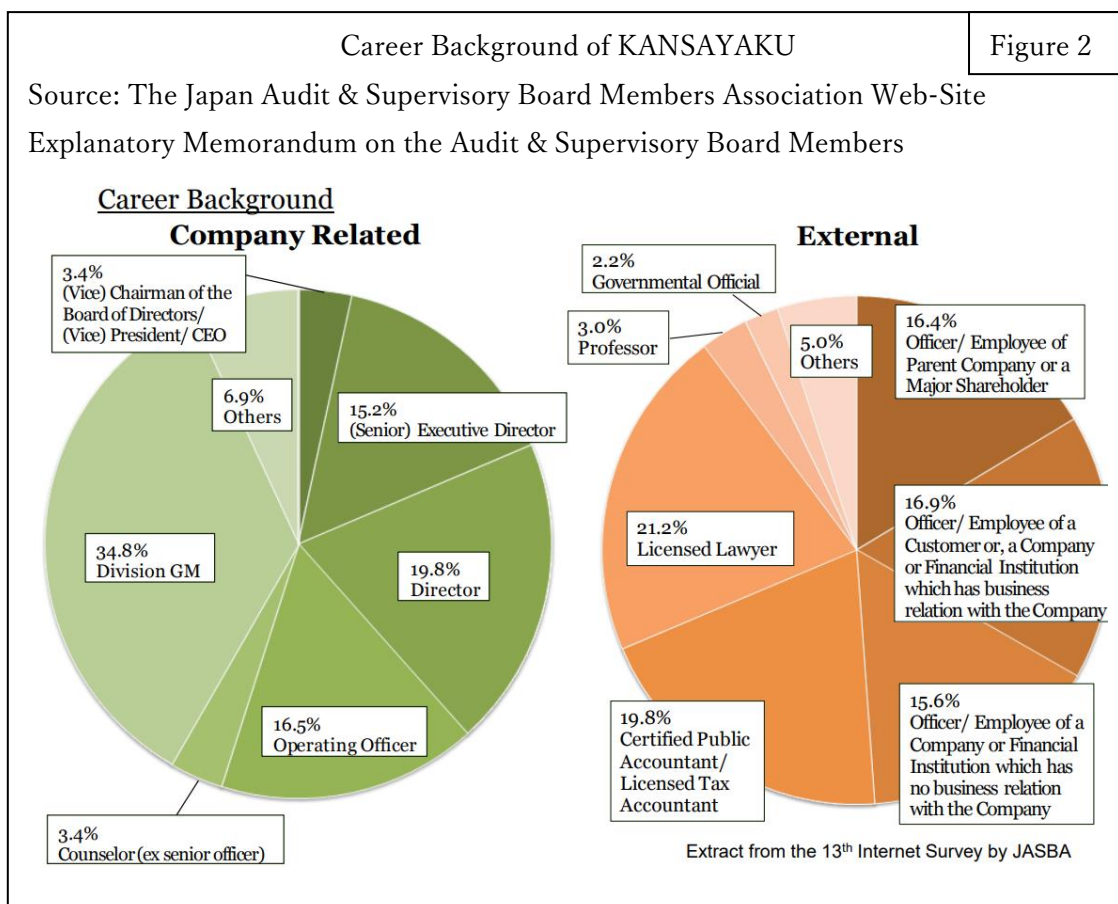
4. What does KANSAYAKU mean to foreign investors?

Many institutional investors in Japan are familiar with the historical background of KANSAYAKU and the weight of their responsibilities and authority, and the independence rules that ensure the effectiveness of their audits. Then what does KANSAYAKU mean to foreign investors?

As an example, let's take a look at a discussion by the CFA Institute, which was just published in 2021.

1.3.1 Directors and statutory auditors (kansayaku)

The role of kansayaku is to audit the accounts of the company and to ensure the accuracy of its financial statements and the legality of its activities, with a focus on accounting and



reporting practices.” (This part is said to be based on Aronson, Kozuka, and Nottage, “Corporate Legislation in Japan” in Routledge Handbook of Japanese Business and Management“, 2016)

Kansayaku typically are accountants or lawyers. Their duties are compared by some to those of compliance officers, as their oversight does not just focus on the CEO and top management, but extends to all employees.” (p103)

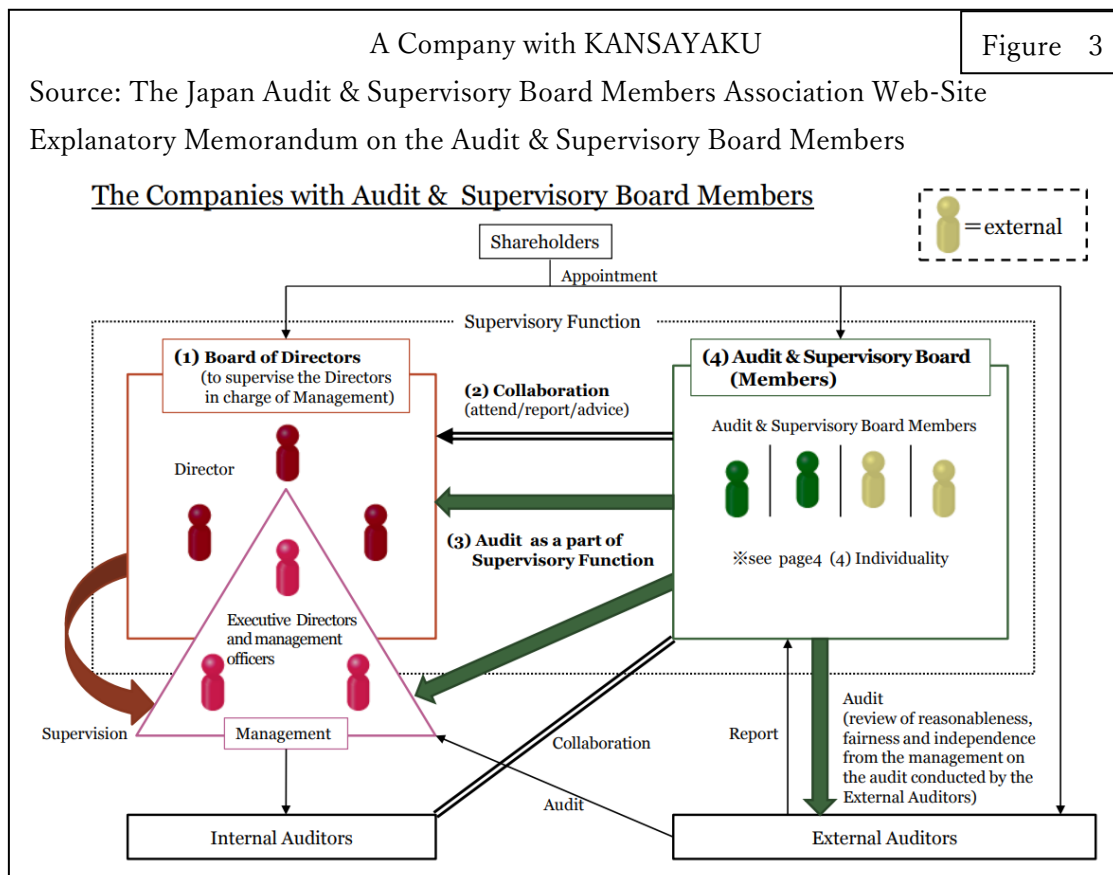
The errors in the description of KANSAYAKU in this article are, first, that KANSAYAKU is only responsible for auditing accounting, second, that they are usually accountants or lawyers, and third, that "auditors are compared to compliance officers". It must be said that there is a lack of understanding here. You can see from Figure 2 that close to 60% of the Company Related KANSAYAKU are ex Senior Officers. As for External KANSAYAKU, close to 50% are from Officer/Employee of “parent company, major shareholder, customer, financial institution”, and accountant as well as lawyer are 20% respectively only. The statement that "auditors are compared to compliance officers" is out of dated because KANSAYAKU is one of the directors and the position cannot be compare to just a compliance officer.

Figure 2

6.4.1.1. Two-tier Board with Statutory Auditors (Kansayaku)

"The two-tier model is the oldest and most common structure of corporate boards of Japanese publicly listed companies. Its origins can be traced to the 1899 Commercial Code, based on German corporate law. Members of both boards are appointed by shareholders at the annual general meeting. The Companies Act specifies that there must be at least three kansayaku, appointed for a term of four years, and at least one kansayaku must be appointed on a full-time basis. Kansayaku must attend board meetings and express their opinions when needed, but they have no voting rights on the board, and no power to appoint or dismiss directors or senior officers.²⁶⁸ Foreign investors have criticised the opaque character of the two-tier board structure, saying that it tends to be difficult to judge the independence of the auditors and the degree to which they can efficiently oversee the business. A 2013 paper published by the Asian Corporate Governance Association compared kansayaku boards with audit committees on a one-tier board and noted that "the powers of kansayaku boards are weaker than those of audit committees, which are an integral part of the board and their members full participants in board decisions."²⁶⁹ The most prominent example of a company with a two-tier board is Japan's largest and enormously successful company, Toyota Motor Corporation. Long professing its commitment to the traditional board structure, in which all members were insiders, the company made some changes in the early 2010s, adding outside directors for the first time. The changes were prompted by the fallout of a problem with unintended sudden acceleration of its vehicles in the United States, which led to a wide recall and a criminal lawsuit. In 2020, Toyota's board of directors consisted of nine individuals. Three of them were outside directors and also were considered independent. The company's kansayaku board now consists of six individuals, of whom three are outsiders. Although the two-tier board structure is still the most common among Japanese companies, its prevalence has been decreasing. As of November 2020, 68% of TSE-listed companies had two-tier boards,²⁷² a decrease of 12 percentage points from 79.8% in 2016.(p111)

The first error in this section is that it refers to a "two-tiered model of a company with Kansayaku (Statutory Auditors)," but the KANSAYAKU board is not above the Board of Directors as in Germany, but in parallel with it, and a company with Kansayaku is called a "parallel model". In the following figure from the JASBA, it can be confirmed that the board of directors and the KANSAYAKU board are juxtaposed. The second error is the statement "the Commercial Code of 1899, which is based on the German company law". The origin of the auditor is not in the Commercial Code of 1899 (the so-called Meiji Commercial Code), but in the old Commercial Code of 1890 formulated by Roesler, as already mentioned.



Even in the latest official research paper of the CFA Institute, which is highly trusted by foreign investors, there are many errors in the description of KANSAYAKU, and it cannot be said that they are well understood in general. KANSAYAKUs are supposed to monitor the directors and the board of directors at the behest of shareholders who cannot directly check the actions of the directors, but they have been disregarded as powerless to vote on the selection and dismissal of president because they do not have the voting right at board meetings to dismiss the president. ACGA's rationale is almost exclusively focused on the voting power of "KANSAYAKU who do not have a vote in the selection and removal of representative directors are powerless⁶" and attempts to compare the powers of the Anglo-American audit committee with those of the KANSAYAKU board to prove that the latter is weaker. Under Anglo-American law, the board of directors monitors the company's operations, and the accounting auditor, who is a professional expert, usually audits the company's accounts as an auditor, so it is probably incomprehensible that the KANSAYAKU board is placed in parallel with the board of directors as in Japan. Also, it does not take into account the cultural background that it is extremely difficult for an internally promoted person to challenge the president as a result of his or her

⁶ Charles Lee, Jamie Allen, "The Roles and Functions of Kansayaku Boards Compared to Audit Committee", ACGA, Hong Kong, October 2013,

being elected and promoted by the president who chairs the board of directors.

However, if you take a closer look at the provisions of the Companies Act, as I mentioned earlier, when there is a "misconduct or a serious fact that violates laws, regulations, or the Articles of Incorporation" regarding the execution of duties by the directors, the KANSAYAKU is obligated to state this fact in the KANSAYAKU report, and this fact corresponds to a legitimate reason for the dismissal of the directors at the shareholders meeting. It is natural to think that the facts in brackets include the breach of duty of care by indifference or inaction to the existing corporate value. At the same time, there is a duty to investigate the proposal for election of directors if there is one in the general shareholders' meeting agenda to be submitted to the board of directors. Therefore, if they find that the reappointment of a problematic president is a "grossly unfair proposal," they are obligated to report this to the shareholders meeting. In other words, KANSAYAKU does not have much role in deciding which person is suitable to be the next president as "offensive management," but it is their legal duty to be involved in the election and dismissal of a problematic president who may lead to a sudden plunge in the stock price through "defensive governance."

In the case of the Seacrest case (Osaka High Court, May 21, 2015), the KANSAYAKU was obligated to recommend that the president, who had repeatedly acted improperly, be "removed as representative director" and "convene an extraordinary shareholders' meeting for the purpose of passing a resolution to remove the director. "The fact that the court found that the KANSAYAKU should have been involved in the dismissal and removal of the president, but were not, is significant. If the KANSAYAKU was not able to act on his own, the only people who could have been involved would have been the company's outside directors or foreign investors. This is why the fact that the revision of the Corporate Governance Code this year has given shareholders the support to directly request engagement with the KANSAYAKU is very significant. On the contrary, this is exactly the opposite of criticizing and downplaying KANSAYAKU who cannot be involved in the selection and dismissal of the president, as ACGA has done. If only foreign investors who have a deep understanding of the duties of KANSAYAKU recognize them as "collaborators in improving the governance of the investee companies," then KANSAYAKU should be regarded as important partners who can sniff out signs of fraud in investee companies.

5. How should we call KANSAYAKU in English?

It is at least commendable that the CFAI paper cited in the previous chapter also uses the original Japanese name in parentheses in this text, but "statutory auditor (*kansayaku*)" does not explain in detail what it is, so it is not a recommended usage. In addition, in related English papers, "KANSAYAKU"

is translated variously as "corporate auditor," "inspector," "internal auditor," "auditing officer," etc., in addition to "statutory auditor."

Japanese companies are run in a way that is deeply rooted in its business culture. Sushi and Judo are examples of globally recognized Japanese foods and sports that have taken root in Japan, but these cannot be translated and called in English, so their notation is SUSHI and JUDO. This is also the case with corporate governance. In particular, the most prevalent corporate governance system, represented by KANSAYAKU, is one of the most difficult and complex for foreign investors to understand.

The reason why the term statutory auditor, the most common translation of auditor, has an adjective in front of statutory and auditor is probably due to the influence of the traditional theory that the KANSAYAKU's scope of protection is limited to "legality". In other words, it is the board of directors' job to monitor the validity of the company, and the KANSAYAKU's authority is only to monitor whether it is illegal or not.

However, if you read Article 381, Paragraph 1 of the Companies Act, "KANSAYAKU shall monitor the execution of duties by the directors," it says that they shall monitor all aspects of whether the directors are executing their duties in accordance with the duty of care owed to them by the company. It does not say "limited to legality. In the case of the Duskin case, its KANSAYAKUs were held responsible for failing to prevent the directors from making decisions that were significantly inappropriate. The Corporate Governance Code [Principle 4-4: Roles and Responsibilities of KANSAYAKU and the KANSAYAKU board], which I have already cited, states that "they should positively and proactively exercise their rights and express their views at board meetings and to the management" In other words, it can be seen that the authorities want KANSAYAKU to exercise their authority actively and proactively and, of course, check the appropriateness of their actions. From a practical standpoint, KANSAYAKU is required to express the opinions on matters discussed at meetings of the board of directors and other important meetings when they deem it necessary to do so. This means that most of the judgments are based on validity, such as whether the directors are not aware of the potential risks. As I have already mentioned, when a problem comes to light at a later date, not only the director's breach of the duty of care will be questioned, but also the KANSAYAKU's responsibility for neglect of duty. Foreign investors, who have a critical eye on the future of corporate performance, should welcome KANSAYAKU who can sharply criticize a company's laxity in considering its strategy at the time when it is formulating and reviewing its management strategy.

The fact that foreign investors seeking to improve corporate governance do not appreciate the efforts

of KANSAYAKU and use the term "statutory auditor" to describe them, saying, "It is enough for auditors to audit legality."

Mr. Wakasugi, President of the Japan Corporate Governance Research Institute, says, "Management oversight by KANSAYAKU should not be translated as "audit". The background of his argument is the historical background that KANSAYAKU in Japan has been a position with management supervision and accounting audit functions from the time of its introduction in the Meiji era to the present day, and that the management supervision function in particular has been consistently strengthened while the board of directors has been unable to fulfill its function. As can be seen from the above, the authority of account audit is only one aspect of their role, which is associated with the word "auditor" in English, and the problem is that the aspect of management supervision is completely ignored. This may lead to an underestimation of KANSAYAKU by those who are familiar with Anglo-American law. This is because the English word "auditor" is not an appropriate translation for the Japanese word "Kansayaku," because it implies that the auditor reports to the CEO, which is a subordinate position to the management. There is an audit committee in the board of directors, but the role of the audit committee is to review the independence of external auditors after the fact, not to conduct accounting inspections themselves.

As the preamble to Chapter 4, Responsibilities of the Board of Directors, etc., of the Corporate Governance Code states, "A company with Kansayaku is a unique system in Japan that allows the board of directors, Kansayaku and the KANSAYAKU board to perform governance functions." Here the English translation used in the code is Kansayaku. Why does JASBA use the term "Audit & Supervisory Board Member" to translate KANSAYAKU, who play a crucial role in this system, when the term "kansayaku" is used in Corporate Governance Code? Since it is unique to Japan, there is no other way but to use the term KANSAYAKU.

6. Afterword

The history of corporate auditors, their duties, responsibilities, and obligations described in this paper are updates of what I was taught in various training courses held by JASBA and other organizations when I was working as a corporate auditor more than 10 years ago. And the opinions are based on discussions I had with lawyers and university professors who were keen to study corporate governance issues with practitioners several years ago. As I recall those days, I can say that KANSAYAKU is lonely. In other words, being a KANSAYAKU at a company or affiliate where you have worked for many years means that your personal relationships with your former colleagues, superiors and subordinates will change drastically from the day you become an auditor. Working as KANSAYAKU

means that anyone you meet in the company are aware that you are checking whether they are doing their job properly, so naturally they will be wary. It was only the occasional visit to KANSAYAKU office by the head of the internal audit department or an external accountant, and the same was true when talking to KANSAYAKU from other companies that I met during training sessions in those days. Since that time, there has been an awareness of the problem that foreign investors do not understand KANSAYAKU and that we should come up with a proper English name for KANSAYAKU, and JASBA was about to set up an advisory council to find suitable English translation. (See: "English Names for KANSAYAKU") It was unfortunate that their conclusion is "Audit & Supervisory Board Member". There is a limit to how much KANSAYAKU can do to improve internal corporate governance on their own. The addition of the section on foreign investors meeting KANSAYAKU in the revised Corporate Governance Code could be an important turning point for aspiring KANSAYAKU.

There have been two chances for KANSAYAKU to have their true value recognized by the world. The first was in 1974, when the Commercial Code was amended to restore the right of KANSAYAKU to monitor business operations against the backdrop of a number of scandals, including window dressing by large corporations. If we had foreseen that the board of directors, a group of internally promoted people, would not be able to monitor the validity of the company, we might have been able to appeal to the world more about the Japanese model of corporate governance, which is unique in Japan and has the board of directors and the KANSAYAKU board in parallel. The next time was just before the collapse of the bubble economy. At the time, Japanese companies were being touted as "Japan as Number One" and factories of Japanese companies were expanding all over the world, and KANSAYAKU were flying to monitor subsidiaries. This may have been an opportunity to spread the Japanese model of corporate governance.

In the end, when the bubble economy burst and the Japanese economy began to stagnate for a long period of time, foreign investors who had low returns on their investments in Japanese stocks began to spread the argument that the low returns were due to poor corporate governance and that the reason was "KANSAYAKU" who did not have the right to vote on the selection and dismissal of the president. In the end, we have not yet had a chance to make people understand the unique Japanese model of corporate governance called a company with KANSAYAKU.

The reason why it has been so difficult to get people to understand is, again, that in British and American law, the board of directors performs the management oversight function and the accounting auditor, an accounting specialist, performs the accounting audit as an auditor, whereas in Japan, the KANSAYAKU attend the board meetings and perform the management oversight function.

I would even like to see JASBA go overseas to promote the true value of KANSAYAKU as the symbol of the Japanese model of corporate governance, sticking to the Japanese name. I also think that if KANSAYAKU put the name "KANSAYAKU" on their business cards and proactively accept engagement appointments from overseas investors with a new attitude and tag them as "Let's work together to improve the corporate governance of Japanese companies," it will give the impression of a model change that is different from the past. The idea is that foreign investors can also improve the return risk of their portfolios by using KANSAYAKU as a target for their own engagement and reviewing them as an important source of information to prevent the risk of a sharp decline in stock prices. This paper will also be submitted to ARX of the CFA Institution (APAC), which has 180,000 members worldwide, so that it can be seen by overseas investors. It is my hope that KANSAYAKU will spread as a name to help foreign investors understand Japanese KANSAYAKU and thereby improve corporate governance in Japan.

[Reference]

Corporate Law Reform II: Corporate Governance (Kazuhiro Takei, Chuokeizai-sha)

Roles and Practices of Outside Directors and Outside KANSAYAKU in Corporate Governance (supervised by Osamu Sudo)

The Role and Practice of Outside Directors and Outside KANSAYAKU in Corporate Governance (supervised by Osamu Sudo)

Practice of Outside Directors and KANSAYAKU, 2nd Edition (by Junya Hakoda and Masatoshi Yasuda)

A book to understand the basics of auditing by KANSAYAKU (4th edition) (edited by EY Ernst & Young ShinNihon LLC)

[Reference Document #1]

The Japan Audit & Supervisory Board Members Association

New Recommended English Translation of "Kansayaku" and "Kansayaku-kai"

Source: <https://www.kansa.or.jp/wp-content/uploads/en/announcement.pdf>

New Recommended English Translation of "Kansayaku" and "Kansayaku-kai"

The system of "Kansayaku" was developed uniquely in Japan and no similar system is found in other countries (other than in a few Asian countries). This uniqueness means that it can be difficult for people outside Japan to correctly understand the structure of the corporate governance system in Japan and the function and role of "Kansayaku" and "Kansayaku-kai". As a result, "Kansayaku" often find it difficult to carry out their activities outside Japan, such as auditing overseas subsidiaries of Japanese companies. In addition, overseas investors are not able to understand how "Kansayaku" contribute to corporate governance in Japan and, as a result, often have a negative impression of corporate governance in Japan.

Many Japanese companies currently adopt the term "Corporate Auditor" as the English translation of "Kansayaku" and "Board of Corporate Auditors" for "Kansayaku-kai". However, there is a concern that the word "Auditor" makes it more difficult for overseas people to correctly understand the function and role of "Kansayaku" and "Kansayaku-kai" because the word "Auditor" brings to mind external auditors and internal auditors, which have a totally different role and function from "Kansayaku".

To deal with this situation, this Association conducted a review of its recommended English translation of the terms "Kansayaku" and "Kansayaku-kai" to find terms which more appropriately reflect the function and role actually fulfilled by "Kansayaku" and "Kansayaku-kai". Following the review process, the Association has finally decided to recommend the following translation:

Kansayaku	Audit & Supervisory Board Member
Kansayaku-kai	Audit & Supervisory Board

When conducting our review, we kept in mind the following points:

(1) The "Kansayaku" system was developed uniquely in Japan and no similar system is found in other countries (other than a few Asian countries). We should not therefore seek a perfect translation which explains all aspects of the function and role of "Kansayaku" and "Kansayaku-kai". In this sense, it is more important to have supplementary materials which explain these terms in English.

(2) The most important point to bear in mind when considering the English translation is to show how "Kansayaku" and "Kansayaku-kai" work within the overall scheme of corporate governance in Japan. In addition to the audit function, the importance of a "Kansayaku"'s function in supervising the activities of management, which is performed in collaboration with the Board of Directors, has been recently emphasised.

Based upon the stance set out above, we have chosen the above new recommended translation for the following reasons:

(1) "Kansayaku" and "Kansayaku-kai", together with the Board of Directors, hold a significant position in the overall scheme of corporate governance in Japan in terms of exercising a supervisory function over management. Although there is no official term explaining the supervisory function of "Kansayaku", "Kansayaku-kai" and the Board of Directors as a package, the term "Supervisory Board" seems appropriate to show their function as a package (please refer to the part surrounded by the broken lines in the attachment).

(2) We decided to add the word "Audit" for the translation of "Kansayaku" and "Kansayaku-kai" because the audit function is still one of the important functions of "Kansayaku", and one which clearly distinguishes "Kansayaku-kai" from "Supervisory Board". However, we believe that use of the word "Audit" will not cause any confusion with external auditors or internal auditors because "Audit" does not mean any body or natural person.

Note: A "Company with Committees" as shown in the attachment is another structure available for a company in Japan. As this memo focuses on Kansayaku and Kansayaku-kai, we have not included an explanation regarding the "Company with Committees".

[Reference Document #2]

Sample letter to request an appointment with KANSAYAKU:

I would like to take this opportunity to express my sincere gratitude for your continued support.

I am contacting you to request an appointment as a shareholder in order to engage with your company on the topic of corporate governance.

The Corporate Governance Code was revised this year:

Supplementary Principles 5.1.1

Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management and, directors, including outside directors, and kansayaku, should have a basic position to engage in dialogue (management meetings) with shareholders.

Based on the above, I would like to apply for an interview with your company's KANSAYAKU for the first time. At that time, we would like to ask you to prepare answers to the following questions separately for the full-time internal and external KANSAYAKU, and to continue the interview separately. Please let us know in advance if you could supply (1) a resume, (2)

a description of the skill set, and (3) if you need an interpreter.

Questions

(1) Company with KANSAYAKU

What are the reasons for choosing a company with KANSAYAKU in your company when comparing the three systems?

What are you doing to correct the disadvantages of a company with KANSAYAKU?

What are you doing to improve the advantages of a company with KANSAYAKU?

What are you doing to improve the advantages of a company with corporate KANSAYAKU? •

What do you think about legality and appropriateness audits as KANSAYAKU?

(2) Oversight of the execution of duties by directors

When were the internal directors promoted (by the current president or before?)

The process of selecting and dismissing outside directors

What is the status of discussions at board meetings (e.g., different people have active opinions, the same people speak a lot, etc.)?

What did you say at this year's board meeting, and what was your intention?

Frequency and content of meetings with the president and other directors, and whether or not anyone is present.

Is the definition of risk as a precondition for company-wide risk management (e.g., risks related to the reported business, etc.) limited to the downside or does it include both positive and negative factors?

Does KANSAYAKU exchange information with outside directors?

Are you involved in the selection and dismissal of the president as KANSAYAKU?

(3) Accounting audit

Decision-making process regarding the selection and dismissal of accounting auditors and their compensation

Details of information exchange with the accounting auditor

Is a three-way audit conducted with the Internal Audit Department and with Accountant?

4) Others

What are your daily concerns as a corporate auditor?