

Ministry of Economy, Trade and Industry

A Proposal for
Commercial Code Reform
for Business Management
in the 21st Century

A Changing Business Environment

Pressures of Internationalization

Call for more flexible and rapid corporate activity in the face of intensified international competition

Increase of borderless corporate activity

Changes in the Capital Market

Shift from indirect to direct financing

Increased importance of assessment by the stock and bond market

Need for improved access to venture capital finance

Development of Information Technology (IT)

Need to maximize use of Information Technology means

Need for Reform

Five Aspects of Fundamental Commercial Code Reform

1. Facilitation of Speedy and Flexible Decision-Making

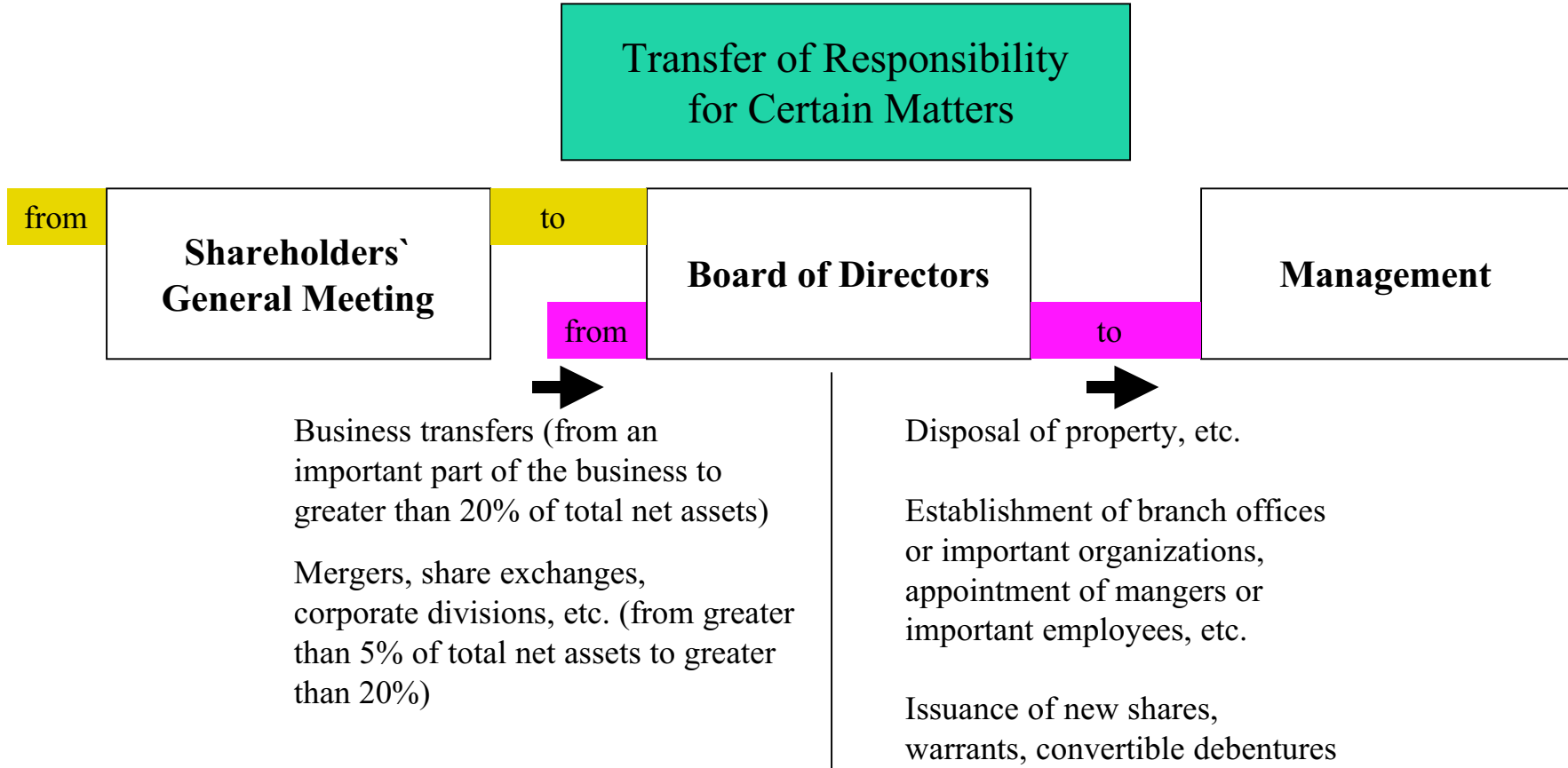
2. Expansion of Choice of Management System

3. Strengthening Market Monitoring of Public Companies

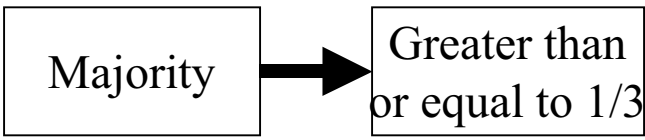
4. Diversification of Capital Focussed Primarily on Non-Public Companies

5. IT Measures

1. Measures to Facilitate Speedy and Flexible Decision-Making



Quorum Revision for Special Resolutions of Shareholders' General Meetings



2.(a) Expanding the Choice of Management System

Establishment of an Executive Officer System

Those responsible for management and operations (currently 'Representative Directors') may now be chosen from outside of the Directors

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Clarification and Limitation of Directors' Responsibility

Directors' responsibility may now be limited to supervision, by way of prior exemption in the articles of association

Officers' responsibility may be limited *ex post facto*

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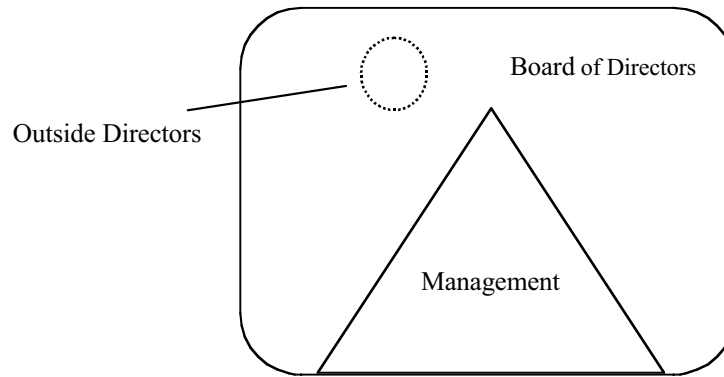
Auditor System Exemption

Where Audit Committee with a majority of outside directors is established within the Board of Directors, possible not to have an auditor (currently auditors are separate from Board of Directors)

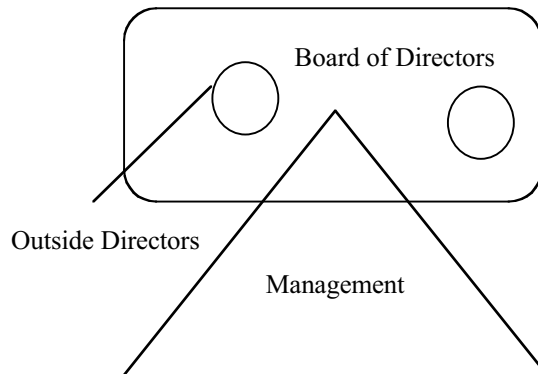
Strengthens auditing function of directors

Facilitates the Introduction of Outside Directors

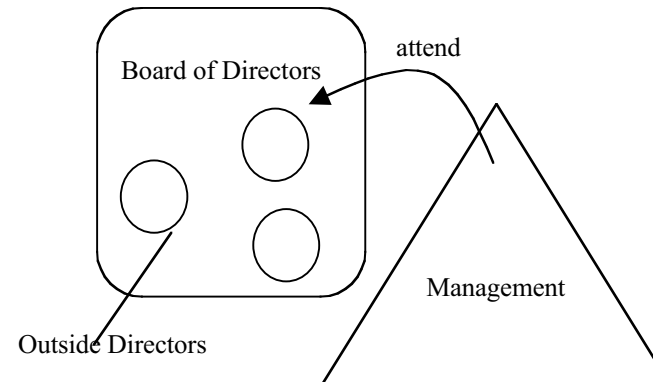
Examples of Possible Management Systems



A) All officers are members of the Board of Directors
 Å@Current Typical SystemÅ



B) Only a portion of the officers are members of the Board of Directors - many of the directors are outside directors



C) A portion of the officers attend Board of Directors Meetings and create management reports etc., but do not possess voting rights

2.(b) Expanding the Choice of Management System

Improvement of Stock Options

Elimination of regulations prescribing maximum amount of stock options permissible and limiting those eligible for stock options

3. Strengthening Market Monitoring of Public Companies

Recognition of the importance of appropriate market evaluation and of feedback to management



Measures to Ensure
Adequate Disclosure of:

Management
System

Extent of the introduction
of outside directors

Status of internal compliance

Incentive
System

Disclosure of Directors' actual
total remuneration (including
stock options)

Consider appropriateness of individual
disclosure of those whose actual total
remuneration exceeds a certain amount
and/or of those with the highest
remuneration among directors and
officers

Company
Audit Info
etc.

Ensure coordination of disclosure
provisions in Company Law and
Securities Exchange Law

Information with respect to
corporate grouping

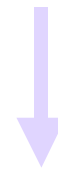
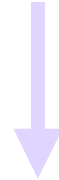
4. Diversification of Capital Focussed Primarily on Non-Public Companies

Elimination of the net asset regulations with respect to share splitting (greater than \50,000/share)

Creation of voting-type share classes

Elimination of limits on capitalization (currently 400% of issued capital) for companies with limits on share transfer

Reduction of the notice period for Notice of Shareholders' General Meeting for companies with limits on share transfer



Facilitates business management which employs the appropriate source of capital

5. Information Technology Measures

IT and Public Notices

Recognize use of electronic means for public notices

IT and the Management of Shareholders' General Meetings, etc.

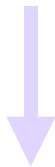
Recognize the sending of Notice of Shareholders' General Meetings by electronic means

Recognize use of electronic voting means

IT and Board of Directors' Meetings

Recognize Board of Directors' Meetings held electronically

Ease Directors' attendance requirements



Facilitates speedy and efficient decision-making, market monitoring and generally more efficient management