

BLACKROCK®

Corporate governance and proxy voting guidelines for Japanese securities

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These guidelines should be read in conjunction with the [BlackRock Investment Stewardship Global Corporate Governance and Engagement Principles](#).

Objective

BlackRock will exercise voting rights on behalf of our clients based on our fiduciary responsibility arising from the management of clients' assets. Our objective is to protect and enhance our clients' economic interest. We place emphasis on corporate governance to enhance shareholder value and promote the long-term interests of our clients.

Through focusing on shareholder value, we hope to contribute positively to promote a market environment conducive for equity investments. In establishing our philosophy and approach, we expect to participate in the development of proxy voting as a practice in Japan.

To achieve these objectives, we recognize the importance of engaging issuer companies to promote corporate governance centred on shareholder value creation. We use, long-term shareholder value maximization or protection of shareholder value, as the sole criterion for our proxy voting decisions. These decisions, made by our Investment Stewardship team based in Japan, will be independent of any self-interested considerations or any third-party interest and removed from any financial or business relationships with the companies voted on.

Positioning

We conduct voting decisions on a case-by-case basis. The proxy voting guideline (henceforth the Guideline) provides the principles in accordance with which we make our voting decisions. The Investment Stewardship Committee (henceforth, the Committee) may determine that an exception to the Guideline would be in the best interests of our clients; in such cases, our voting decisions may deviate from the Guideline. For any such exception, we will document the reasons for these decisions in a written or electronic format. The Guideline will be occasionally reviewed and revised by the Committee to reflect changes in the market place as well as developments in corporate governance practices.

We use an independent advisor to make judgments on our behalf if there is concern of potential conflicts of interest between us and a company to be voted on. In such cases, the advisor will apply our Guideline, and we will vote according to the advisor's recommendations. More specifically, we will follow the advisor's recommendations in exercising our voting rights regarding (i) companies affiliated with the BlackRock Group, and (ii) companies where executives / officers and employees of the BlackRock Group companies are members of the board of directors.

Voting guideline

Basic philosophy

The exercise of voting rights is integral to our stewardship responsibility to pursue long-term shareholder value maximization. Our approach can be summarized as having the following features: 1) Voluntary nature of corporate governance, 2) Importance of incentive compensation schemes, 3) Transparency to investors. From a market efficiency standpoint, our voting decisions will generally not be based on information that has not been publicly disclosed.

We believe the form of corporate governance could vary depending on the factors specific to a company. The optimal organizational structure for a firm would reflect these factors and in general vary according to the firm's business model as well as the firm's competitive environment. A form of corporate governance that works well for one type of company may not work for others.

However, such a view does not necessarily imply accepting the status quo. For instance, if a company adopts anti-takeover measures, raising concerns over possible destruction of shareholder value, we will urge the company to pursue other corporate governance measures that would be more effective in protecting the interests of shareholders in general. Or if we consider a company's corporate governance dysfunctional, we may, through proxy voting, encourage the company to take governance measures that are more focused on the long-term shareholder value creation. In other cases where compliance issues undermine a company's share value, we will hold management and the board accountable for such issues and recommend governance measures that would foster compliance with the law.

The alignment of the corporate managers' goals with the long-term shareholder interests is an important measure to ensure corporate governance. We consider incentive-related compensation as an effective measure to align corporate managers interests with that of shareholders. We also support stock-based compensation plans that are appropriately designed to enhance shareholder value.

Financial transparency is crucial for a company to enjoy favorable valuations in the capital market. We thus expect companies to maintain a high level of accountability to their shareholders.

Our approach with regard to the relationship between securities lending and proxy voting is driven by our clients' economic interests. The evaluation of the economic desirability of recalling loans involves balancing the revenue-producing value of loans against the likely economic value of casting votes. We may at our discretion determine that the value of voting outweighs the cost of recalling shares, and thus recall shares to vote when this appears to be in the best interest of clients.

Voting process

We evaluate meeting proposals based on the Guideline. Additionally, we specify a set of screening criteria, which we may apply in selecting the companies in which we may apply our guideline more stringently. The screening criteria, which are stated below, may be reviewed and revised when required.

- Three consecutive years of losses in net profit (consolidated basis) and three consecutive years of no dividend payouts
- Incidences of regulatory sanctions against the company or criminal charges against the company or its executives / officers and / or employees

- Indicators of corporate governance
- Trend and level of capital productivity indicators (such as Return on Equity, Return on Asset, etc.)

Engagement policy

Engagement with an investee company is an effective strategy to develop mutual understanding between investors and investee companies. With respect to the voluntary nature of corporate governance, we view engagement as an important activity to ensure enhancement and protection of long-term shareholder value, and supporting good governance at the company.

Voting standard

We will exercise our assigned voting rights based on the provisions of the Guideline as set forth below:

Agenda related to the executive and supervisory board

- Composition of the board of directors
 - In principle, we support the installation of the Audit Committee structure or a company with a Three Committee (nomination, remuneration, and audit) structure.
 - We oppose moving back to a Statutory Auditor structure from the Audit Committee or the Three Committee structure, if the change degrades the monitoring function of the board, for instance by reducing the number of independent outside directors.
- Appointment of directors
 - In cases of serious social misconduct, such as violation of a law, criminal prosecution, fraudulent accounting, disturbances to public order and proper customs, where the event has materially undermined social trust and had an adverse effect on the company, we may vote against the reappointment of directors who should be held responsible. However, this may not apply in cases in which the company has taken prompt and proper steps or sanctions internally, and announced such decisions publicly to win back trust.
 - For companies with three straight years of fiscal losses and no dividend payouts, we may consider voting against the reappointment of directors responsible for the poor performance.
 - For companies with several consecutive years of declining capital returns, and the level of such indicators remaining at a low level, we may determine, after evaluating the company's past and future business plans, current capital policy (including cross-shareholdings) and past management performance, that shareholder value is being impaired and thus may vote against the reappointment of directors responsible.
 - In addition to the cases above, if the decisions of the incumbent directors are considered to have clearly impaired interests of shareholders, including cases such as poor performance over an extensive period of time, massive increases in capital without shareholder approval, or failure to implement a shareholder proposal with considerable level of support, we may vote against the reappointment of such directors. In any case, we will assess whether the reappointing directors are capable and can be reasonably expected to protect and enhance the interests of shareholders.

- In cases where shareholder approval over allocation of income is waived by the company's articles of incorporation, we would consider voting against the reappointment of directors if the payout amount determined by the board does not appear sustainable.
- In cases where the board has adopted a takeover defense measure without shareholder approval, we may consider voting against the appointment of all or some of the incumbent directors.
- We may vote against an increase in the number of directors is not deemed appropriate.
- Appointment of outside directors
 - For a company adopting the Three Committee Structure with dispersed shareholders, it is desirable that more than half of the board members be composed of outside directors who are deemed independent. We vote against the reappointment of non-independent outside directors if less than half of the board members are independent.
 - For a company with the Statutory Auditor board, where ownership is concentrated among large shareholders, we allow a part of outside directors to be nominated to represent the large shareholders. Hence in cases where large shareholders exert control over a company with the Committee Structure through direct and indirect ownership and director appointments, we would vote against the appointment of non-independent outside directors if less than one third of the board members are independent.
 - Whether or not the company is adopting the Committee Structure, the appointment of independent outside directors serves to protect the interests of shareholders in general. Therefore, in cases (1) to (4) below where we believe there are concerns of the interests of shareholders being materially impaired, we apply the same standards as set forth above for companies with the Three Committee Structure for companies without the Committee Structure as well, and vote against the appointment of non-independent outside directors. Thus, where the company has a diversified ownership structure, we would vote against the reappointment of non-independent outside directors if less than half of the board members are independent; where a large shareholder exerts control over the company, we would vote against the appointment of non-independent outside directors if less than one third of the board members are independent.
 1. If the company has installed or proposes to install anti-takeover defense measures.
 2. If a provision in the articles of incorporation stipulates that the board is authorized to determine surplus payout.
 3. If large shareholders exert control over the company through direct and indirect ownership and director appointments.
 4. If serious social misconduct has had a material adverse effect on the company.
 - Moreover, in cases (1) to (4) above, we would consider voting against the reappointment of incumbent directors if the board lacks any outside directors.
 - For companies with an audit committee, we would vote against the appointment of directors on the audit committee if they are not deemed independent.

- We would consider voting against outside directors if their attendance at board meetings is deemed insufficient and if a convincing explanation has not been provided.
- We would consider opposing outside directors if their extremely long term tenure as an outside director raises doubts over their independence and a convincing explanation why their reappointment is in the interest of shareholders has not been provided.
- Independent outside directors are those that have no connections or relationships with the company or its executives / officers and hence not conflicted in representing the interests of general shareholders. Those with interests that might compromise their function of monitoring the company's management would not qualify. We generally deem as not independent those who have worked for some period of time as executives / officers or employees of its parent company or subsidiaries; executives / officers and employees of the company's major business partners (including brokerage firms); current and ex- executives / officers of companies with interlocking directorships; representatives of large corporate shareholders; executives / officers from the accounting firm currently doing the audit of the company and other individuals who have provided professional services to the company (including attorneys, accountants and consultants). However, we would evaluate former executives / officers and employees of the company's major business partners, other large corporate shareholders, and executives from the accounting firms carrying out the audit of the company, as potential independent outside directors upon reviewing their work history as well as that of the entities they have represented.
- Appointment of statutory auditors
 - If serious social misconduct such as a violation of law, criminal prosecution, disturbances to public order and proper customs have occurred, and if it has materially undermined social trust as well as having caused adverse effects on the company, we would oppose the reappointment of such auditors that are deemed to be responsible. However, this shall not apply if the auditors had a major role in uncovering the misconduct.
 - Additionally, in such cases of social misconduct, we may oppose new appointees who are deemed unsuitable as statutory auditors under these circumstances, on a case-by-case basis.
 - We may oppose a decrease in the number of statutory auditors if no clear reasons are provided.
- Appointment of outside statutory auditors
 - We would vote against the appointment of candidates who are not deemed independent.
 - We would consider voting against outside statutory auditors if their attendance at board meetings or meetings of the statutory auditors is deemed insufficient and if a convincing explanation is not provided.
 - We would consider voting against outside statutory auditors if their long-term tenure raises doubts over their independence and if a convincing explanation why their reappointment is in the interest of shareholders is not provided.
 - Independent outside statutory auditors are those that have no connections or relationships with the company or its executives / officers and are hence capable of representing the interests of general shareholders. Those with interests that might

compromise their function of monitoring the management of the company would not qualify. We would generally deem as not independent those who have worked as executives / officers and employees of the parent company or subsidiaries; executives / officers and employees of the company's major business partners (including brokerage firms), current and ex- executives / officers of the company with cross directorships, representatives of other large corporate shareholders; individuals from accounting firms that have are taking on the audit of the company, as well as individuals who have provided professional services to the company (including attorneys, accountants, and consultants). We would evaluate the eligibility of independent outside directors, former executives / officers and employees of the company's major business partners, other large corporate shareholders, and individuals from accounting firms that have carried out the audit of the company, in light of their work history as well as that of the entities they have represented.

- Appointment of an accounting auditor
 - We would oppose the appointment if there is concern about the auditor's independence.
 - If the appointment of a new auditor was caused by the resignation of its predecessor who had disagreements with the company regarding its audit, we would carefully assess whether the objectivity of audit can be secured under the new auditor.

Agenda related to compensation

- Executive compensation
 - Ideally, compensation of an executive director should be linked to their business performance. We would approve a proposal for a large increase in compensation of directors only if clear reasons or evidence of the linkage to business performance is provided. Similarly, we would approve a proposal for a large increase in compensations of statutory auditors, if evidence of the linkage to business performance is provided.
 - We would oppose a proposal for an increase in compensations of directors and statutory auditors if such a proposal is made in spite of the company's financially difficult situation such as three straight years of fiscal losses and no dividends.
 - We would oppose a proposal for an increase in compensations of directors and statutory auditors if the level of their compensation is already deemed excessive.
 - Disclosure of individual compensation of the directors and / or statutory auditors is an important source of information to verify the linkage to business performance of the compensation practices. Thus, we would vote for a proposal requesting public disclosure of directors' individual compensation where the scope of disclosure is appropriate.
- Payment of executive bonus
 - We would oppose the payment of executive bonuses if the dividends to shareholders are not paid out due to sluggish corporate performance, or an occurrence of a serious misconduct being extremely detrimental to shareholder value.

- Retirement benefits
 - We oppose grants of retirement benefits to all retiring outside directors and retiring statutory auditors. However in applying this criterion, factors specific to the industry or business sector may be taken into account where appropriate.
 - We would not support grants of retirement benefits to grantees if they have held their positions for less than two years.
 - If serious social misconduct such as a violation of law, criminal prosecution, disturbances to public order and proper customs occurred, and if the grantees are deemed responsible, we would oppose grants of retirement benefits.
 - When there has been three straight years of fiscal losses including the current year and no dividends distributed, thus resulting in erosion of shareholder value, we would oppose grants of retirement benefits to all retiring directors. In applying this criterion, factors specific to the industry or business sector may also be taken into account if deemed appropriate.
- Equity-based compensation
 - In principle, we would approve these proposals if the following conditions are satisfied:
 1. The potential dilution limit taking account of all grants outstanding is 5% or less generally, and 10% or less for high growth companies for instance in the tech sector. We would not support these proposals if the company fails to provide information necessary to evaluate the dilution impact of the proposed stock option plans.
 2. The exercise price should exceed the reasonable market price.
 - We would oppose the repricing of the exercise price.
 - We would oppose the proposal if plan features such as the period of vesting is not appropriate from the point of view of creating long-term shareholder value.
 - We would oppose the proposal if the proposed stock option grants are deemed to be an anti-takeover measure.
 - We would approve the proposal if granted to executives / officers (excluding statutory auditors) and employees of the company or its subsidiaries. However, we would oppose the proposal if granted to statutory auditors of the company and similarly would oppose if granted to executives / officers or employees of business partners. We would similarly oppose if it is granted to outside service providers such as legal counsels, accounting auditors or consultants.

Agenda related to capital policies

- Dividend payout
 - We would approve the dividend payout proposal if it is deemed appropriate after considering relevant factors such as the recent corporate performance, the current balance sheet, the company's growth prospects, and the size of share repurchases, as well as the dividend payout levels of relevant peer companies.

- We would oppose the proposal if the company accumulates retained earnings in excess of required levels. If the dividend payout is higher than 100% of net profit, we would evaluate the proposal by taking account of the company's financial conditions.
- We may oppose a proposed increase in dividend payout, or a proposed retention at the previous level of, if the company incurred losses (excluding one-time special losses) and concerns arise regarding the long-term financial position that would result from excessive outflows of funds from the company.
- Stock repurchase
 - We would vote in favor of a proposal for a stock repurchase plan if the propose amount is not excessive and where there are clear reasons to support.
 - However, we would oppose a stock repurchase proposal if such a transaction is deemed inappropriate. For instance, we would oppose if the company's cash flows are deemed insufficient, and if stock repurchases would negatively affect the interest of existing shareholders because of expected deterioration in the trading liquidity given the size of the planned repurchase relative to the size of the stock float, if repurchases are deemed to cause a creeping takeover by large shareholders, or if the equity ratio is exceptionally low.
 - In addition, if the company accumulates retained earnings without an appropriate business plan, we may vote for a shareholder proposal urging the company for more active stock repurchases.
- Reduction of capital reserve and earned reserve
 - In principle, we would approve these proposals if there is a specific purpose provided.
- Reduction of capital
 - We would approve if the proposal is made in relation to a corporate resurrection plan, or if there is an imminent risk of bankruptcy.
- Allotment of new stock shares to a third party
 - Provided the allotment is not made as part of an anti-takeover measure but part of a restructuring of the business, we would determine our vote on a case-by-case basis by taking account factors such as whether the issue price or exercise price is not set at a level excessively advantageous to the allotted party, whether the allotment will cause a massive dilution of existing shareholders, and whether the allotment is not made to inappropriate parties.
 - If the allotment is made with intent of forming a cross-shareholding relationship, we would vote on a case-by-case basis after assessing the likelihood of such relations impacting shareholder value.
- Approval of merger, asset sale / purchase, corporate split/transfer
 - If the transaction contributes to the strengthening of the company's competitive position or furthers the company's focus on its core business, we would approve the proposal provided the decision process is deemed to be fair to all shareholders. However, we would not support the proposal if:

1. There are concerns of conflict of interests on the part of lead banks providing finance that will undermine maximization of shareholder interest.
2. The transaction is apparently against the interests of existing shareholders and appears to be the result of pressure from the parent company, main banks and / or regulatory bodies pushing for a rescue operation of the target company.
3. Terms such as the merger ratio, sale / purchase price and share exchange ratio are not determined according to a fair value calculation by a third party advisor; however this condition may not apply if the transaction does not affect the economic interests and the legal rights of shareholders if for instance it involves a merger of a 100% subsidiary.

Agenda related to takeover defenses

- In principle, we do not support takeover defense measures since we believe they work against transactions for company control which is supportive of value creation of businesses and generally positive for the economy.
- We would oppose in principle any measures that would undermine shareholder rights. Thus, we would oppose class shares to be granted to a subset of shareholders with special voting rights, e.g. veto rights at shareholders meetings, or class shares that are equipped with multiple voting rights.
- Companies often suggest they need takeover defense measures because the regulation regarding public takeover bids gives insufficient protection. Hence, we will evaluate defense measures considering the points below.
- We would not support any defense measures whose trigger conditions leave significant room for interpretation and, given the lack of independence of the board and / or the undesirable composition of the special committee, would raise concern regarding arbitrary implementation.
- We would not support the introduction of defense measures unless the board's function of monitoring the management is enhanced by the election of multiple outside directors who are deemed independent and the term of directors for re-election is shortened to one year.
- If the board establishes a special committee to evaluate the advisability of triggering defense measures, it is desirable that the committee be comprised of independent outside directors and / or independent outside statutory auditors.
- Adoption of a takeover defense measure without shareholder approval will be evaluated negatively.
- The situation surrounding the control market changes over time. We believe it necessary that takeover defense measures be equipped with a sunset provision. Additionally, within three years, they should be subject to a review regarding the desirability of their retention.
- We would take account of other defense measures (such as setting the upper limit that would eliminate room for additional director appointments) that the company has taken as well as the company's ownership structure (e.g. the existence of large shareholders and deemed stable shareholders); we would oppose if the measures seem excessive.
- We would evaluate on a case-by-case basis any proposal for third-party allotment of shares or installation of rights plan that are undertaken for the purposes of a takeover defense, provided

they meet the guideline conditions as specified above. We will not support renewal or introduction of such defense measures for a company whose market value has slumped, for instance, due to serious social misconduct or a prolonged state of sluggish financial performance, unless the company provides an acceptable explanation why such measures would not result in further detrimental impact on shareholder value.

Changes to the articles of incorporation

Changes to the articles of incorporation involve various matters including, but not limited to, the items below. For items which are not stated in the provisions below, we will make decisions on a case-by-case basis. We will examine the changes based on whether the proposal is not excessively restrictive of shareholder rights, or is not causing concerns regarding shareholder value or protection of shareholder interests.

- Number of directors
 - In principle, we would approve a reasonable increase in the upper limit on the number of directors that is proposed in relation to the company's business expansion or planned appointment of new outside directors. Conversely, we would generally approve a reduction in the upper limit that is proposed in relation to the down-sizing of the board resulting from a review of its role in the management of the company.
- Number of statutory auditors
 - We would oppose in principle a reduction in the upper limit on the number of statutory auditors if the rationale is not clearly explained and the reduction is not deemed to be in the interests of shareholders.
- Terms of appointment of a director
 - We would oppose in principle prolonging the number of years a director is appointed for.
- Removal of directors at a shareholder meeting
 - We would oppose in principle a proposal raising the voting requirement for the removal of directors to higher than a simple majority.
- Adoption of the classified board
 - We may oppose adoption of the classified structure if we determine that such adoption can erode shareholder value.
- Indemnification of directors and statutory auditors
 - We approve in principle the indemnification of directors and statutory auditors if there are no issues relating to shareholder value.
- Indemnification of accounting auditors
 - We oppose in principle the indemnification of the auditor unless the company explains clearly why this is in the interest of shareholders.
- Lowering of the quorum requirement for special resolutions

- We would oppose such a proposal if major shareholders such as the owner's family, the parent company, the business group companies, the main banks and major lender institutions, or other relevant parties jointly already hold one third of the voting rights.
- Even where large shareholders have less than one third ownership, we would oppose such a proposal if they have substantive control over the company's management e.g. in appointing directors.
- Authorize the board of a company to determine surplus payout
 - We oppose in principle the article revision to exclude from agenda of a shareholder meeting any resolutions relating to surplus payout. However, this shall not apply to cases in which the firm has no issue on financial policies including dividend policy, effectiveness of corporate board, and other corporate governance issues.
 - In addition, we would oppose revisions of articles that authorize the board to determine surplus payouts without shareholder approval if the company fails to make a convincing argument why this would benefit shareholders.
- Stock repurchase by the board of directors' decision
 - We would oppose any article revision enabling the board to decide stock repurchases without shareholder approval if the stock repurchase itself is deemed inappropriate. For instance, we would vote against this if the company's cash flows is deemed insufficient; or if stock repurchases are deemed to negatively affect the interests of existing shareholders because of expected fall in trading liquidity given the size of the planned repurchase relative to the size of the floating stocks; if repurchases are deemed to cause a creeping takeover by large shareholders; or if the equity ratio is exceptionally low.
- Increase in authorized shares
 - The basic condition for our support for such a proposal is that the number of issued shares already exceeds two thirds of the current authorization and the proposed increase in the authorization is up to 100%. We would vote in favour if this condition is met and if the company provides adequate explanation as to why such an increase in the authorized shares promotes the shareholders' long-term interests, and if there are no concerns on erosion of shareholder value from such a proposal.
 - We would evaluate on a case-by-case basis if the company has a history of third-party allotments that diluted the interests of existing shareholders or if concerns exist regarding the intent of the proposed increase being in conflict with shareholders' interest.
 - If a company is in financial distress and proposes an increase in share authorization as part of a plan for a third-party allotment of shares, we would evaluate the proposal by comparing the size of the potential dilution of shareholder value by the allotment and the likely consequences if such allotment is not granted.
- Creation and issuance of class shares
 - We will evaluate proposals to create and issue class shares including preferred stocks, by taking account the objectives, the rights of holders, tenure, and the convertibility to common stock. We will also take account of the qualifications of purchasers, effects on the rights of existing shareholders, and any past history of abusive issuance.

- With regard to creation and issuance of preferred stocks convertible to common shares, the term of conversion should necessarily be explicitly stated at the time of issuance.
- Voting requirements for proposals regarding organizational restructurings
 - Unless the company provides a clear explanation why doing so benefits shareholders, we would oppose in principle any article revision to make more difficult the requirement to have a special resolution at a shareholder meeting—for instance, if the purpose is to make shareholder approval of corporate restructurings such as mergers more challenging.
- Objectives of business
 - We would approve these proposals unless the proposed expansion of business objectives results in a substantial deviation off the company's area of specialization.
- Change of fiscal year
 - We would oppose a proposal to change the fiscal year to close in March if no proper reason is given.

Shareholder proposals

- We will evaluate shareholder proposals from the point of view of long-term shareholder value. We would oppose if the proposal is deemed to undermine the interests of shareholders generally and / or serves solely the interests of the proponent.
- We would oppose a proposal made to promote a specific social or political purpose, or a proposal where the benefits are uncertain for shareholders.
- We will not in general support proposals that cover an issue that we believe the board or management has addressed adequately, or is in the midst of doing so.

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