JAPAN

Proxy Voting Guidelines
Benchmark Policy Recommendations

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1. Routine/Miscellaneous

Approval of Financial Statements

General Recommendation: Generally vote for the approval of financial statements, unless:

- External auditor expressed no opinion, or raised concerns; or
- Statutory auditors/audit committee raised concerns; or
- There are concerns about the financial statements presented or audit procedures used.

Income Allocation

General Recommendation: Generally vote for approval of income allocation, unless:

- Payout ratio is consistently low without adequate justification; or
- Payout ratio is too high, potentially damaging financial health.

Election of Statutory Auditors

General Recommendation: Generally vote for the election of statutory auditors, unless:

- The outside statutory auditor nominee is regarded as non-independent based on ISS independence criteria for Japan; or
- The outside statutory nominee attended less than 75 percent of meetings of the board of directors or board of statutory auditors during the year under review; or
- The statutory auditor is judged to be responsible for clear mismanagement or shareholder-unfriendly behavior.
- Egregious actions related to a statutory auditor's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

Audit Firm Appointments

General Recommendation: Generally vote for the appointment of audit firms, unless there are serious concerns related to changing auditors.

2. Election of Directors

Voting on Director Nominees in Uncontested Elections

General Recommendation: ISS has three policies for director elections in Japan: one for companies with a statutory auditor board structure, one for companies with a U.S.-type three committee structure, and one for companies with a board with audit committee structure[1].

1. **At companies with a statutory auditor structure**: vote for the election of directors, except:

- Top executive(s)[2] at a company that has underperformed in terms of capital efficiency (i.e., when the company has posted average return on equity (ROE) of less than five percent over the last five fiscal years)[3], unless an improvement[4] is observed;
- Top executive(s) at a company that allocates a significant portion (20 percent or more) of its net assets to cross-shareholdings[5];
- Top executive(s) if the board, after the shareholder meeting, will not include at least two outside directors, and at least one-third of the board members will not be outside directors;
- Top executive(s) if the board, after the shareholder meeting, will not include at least one female director;
- Top executive(s) at a company that has a controlling shareholder, unless the board, after the shareholder meeting, will include at least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan;
- An outside director nominee who attended less than 75 percent of board meetings during the year under review[6]; or
- Top executive(s) who are responsible for not implementing a shareholder proposal which has received a majority[7] of votes cast, or not putting a similar proposal on the ballot as a management proposal the following year (with a management recommendation of for), when that proposal is deemed to be in the interest of independent shareholders.

2. **At companies with a U.S.-type three committee structure:** (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except:

- Where an outside director nominee is regarded as non-independent based on ISS independence criteria for Japan, and the board, after the shareholder meeting, will not be majority independent; or
- Where the company has a controlling shareholder, a director nominee sits on the nomination committee and is an insider, or non-independent outsider, unless the board, after the shareholder meeting, will include at

[1] The director election policy for companies with a board with audit committee structure will be applied to the election of executive directors (applying the policy for inside directors who are not audit committee members) and supervisory directors (applying the policy for outside directors who are audit committee members) at real estate investment trusts (REITs), to the extent that the information necessary to apply the policy is disclosed.

[2] In most cases, the top executive will be the “shacho” (president). However, there are companies where the decision-making authority also rests with the “kaicho” (chairman of the company) or “daihyo torishimariyaku” (representative director).

[3] Exceptions may be considered for cases such as where the top executive has newly joined the company in connection with a bailout or restructuring. This policy will not be applied to companies which have been public for less than five years.

[4] Improvement is defined as ROE of five percent or greater for the most recent fiscal year.

[5] Exceptions may be considered for cases such as where the top executive has newly joined the company in connection with a bailout or restructuring.

[6] The attendance of inside directors is not disclosed in Japan. For companies with a three-committee structure and companies with an audit committee structure, ISS will require attendance of 75 percent or more of audit committee meetings as well as 75 percent or more of board meetings.

[7] Many Japanese shareholder proposals are submitted as article amendments, which require supermajority support in order to pass.

least two independent directors and at least one-third of the board members will be independent directors based on ISS independence criteria for Japan.

3. **At companies with a board with audit committee structure:** (In addition to the guidelines for companies with a statutory auditor structure) vote for the election of directors, except:

- Where an outside director nominee who is also nominated as an audit committee member[8] is regarded as non-independent based on ISS independence criteria for Japan.

Regardless of governance structure, under extraordinary circumstances, vote against individual directors, members of a committee, or the entire board, due to:

- Material failures of governance, stewardship, risk oversight (including, but not limited to, environmental, social, and climate change issues), or fiduciary responsibilities at the company;
- Failure to replace management as appropriate;
- Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company; or
- Failure to take the minimum steps[9] needed to understand, assess, and mitigate risks related to climate change to the company and the larger economy, for companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain[10].

ISS Independence criteria for Japan

Those outside director candidates falling into any of the following categories should be regarded as non-independent:

- Individuals who work or worked at major shareholders of the company in question;
- Individuals who work or worked at main lenders/banks to the company in question;
- Individuals who work or worked at the lead underwriter(s) of the company in question;
- Individuals who work or worked at business partners of the company in question and the transaction value is material from the recipient’s perspective or is not disclosed;
- Individuals who worked at the company's audit firm;
- Individuals who offer or offered professional services such as legal advice, financial advice, tax advice or consulting services to the company in question;
- Individuals who have a relative(s) working at the company in question;
- Individuals who worked at the company in question;

[8] Outside director nominees who are not nominated as audit committee members are not subject to this policy.

[9] The following two criteria will be both required to be in alignment with the policy:

- Detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including:
  - Board governance measures;
  - Corporate strategy;
  - Risk management analyses; and
  - Metrics and targets.
- Appropriate GHG emissions reduction targets.

At this time, “appropriate GHG emissions reductions targets” will be medium-term GHG reduction targets or Net Zero-by-2050 GHG reduction targets for a company's operations (Scope 1) and electricity use (Scope 2). Targets should cover the vast majority of the company’s direct emissions.

[10] Companies defined as “significant GHG emitters” will be those on the current Climate Action 100+ Focus Group list.

- Individuals who work or worked at companies whose shares are held by the company in question as "cross-shareholdings[11]"; or
- Individuals who have served on the board for 12 years or more[12, 13].

Voting on Director Nominees in Contested Elections

General Recommendation: Vote case-by-case on the election of management and shareholder nominees in contested elections, considering the following factors:

- Long-term financial performance of the target company relative to its industry;
- Management's track record;
- Background to the contentious situation;
- Nominee qualifications and any compensatory arrangements;
- Strategic plan of dissident(s) and quality of critique against management;
- Likelihood that the proposed goals and objectives can be achieved (both slates); and
- Stock ownership positions.

These factors will be considered whether the combined number of management and shareholder nominees exceeds the number of available board seats, or whether there are sufficient open seats that all management and shareholder nominees could be elected. In the latter case, the election will still be treated as "contested" if management opposes the election of the shareholder nominees.

[11] Traditionally, Japanese companies have often held shares of other companies for reasons other than pure investment purposes, for instance, in order to strengthen a business relationship. Cross-shareholdings here refer not only to mutual shareholdings but also unilateral holdings.

[12] For individuals who had served as statutory auditors until immediately before director appointment, their tenure as statutory auditors will be added in applying this criterion.

[13] One-year grace period will be applied, and this criterion will be effective as of Feb. 1st, 2026.

3. Article Amendments

Amendments are nearly always bundled together as a single voting resolution, and ISS' general approach is to oppose article amendments as a whole when they include changes ISS opposes. The following are some of the most common or significant types of changes to articles.

Expansion of business activities

General Recommendation: Generally vote for an expansion of business activities, unless a company has performed poorly for several years and seeks business expansion into a risky enterprise unrelated to its core business.

Adoption of a U.S.-style three committee board structure

General Recommendation: Generally vote for the adoption of a U.S. style, three-committee board structure.

Adoption of a board with audit committee structure

General Recommendation: Generally vote for an article amendment to adopt a board with audit committee structure. Vote case-by-case if the board currently has a three-committee structure.

Allow Company to Conduct Virtual Only Shareholder Meetings

General Recommendation: Generally vote against proposals allowing companies to conduct virtual only shareholder meetings. However, if the company specifies in the articles that it intends to hold virtual only meetings only in unusual situations such as the spread of an infectious disease or the occurrence of a natural disaster, vote for the article amendments.

Increase in authorized capital

General Recommendation: Generally vote case-by-case on this request if the company explicitly provides reasons for the increase.

If the company does not provide reasons for the increase, generally vote for proposals to increase authorized capital, unless:

- The increase in authorized capital exceeds 100 percent of the currently authorized capital; or
- The increase leaves the company with less than 30 percent of the proposed authorized capital outstanding; or

- The increase is intended for a poison pill, which ISS opposes.

Creation/modification of preferred shares/class shares

General Recommendation: Generally vote case-by-case on this request.

Repurchase of shares at board's discretion

General Recommendation: Vote case-by-case on article amendments to give the board discretionary authority over share repurchases, taking into account the company's:

- Balance sheet conditions;
- Capital efficiency and return on equity;
- Past share buybacks and dividend payouts;
- Board composition;
- Shareholding structure; and
- Other relevant factors.

Generally vote against these amendments if shareholders will lose the ability to submit shareholder proposals on share repurchases.

Allow company to make rules governing the exercise of shareholders' rights

General Recommendation: Generally vote against this change.

Limit rights of odd shareholders

General Recommendation: Generally vote for this change.

Lower quorum requirement

General Recommendation: Generally vote against this proposal.

Amendments related to takeover defenses

General Recommendation: Generally vote for this proposal, unless ISS opposes or has opposed the poison pill proposal by itself.

Decrease in maximum board size

General Recommendation: Generally vote for this proposal, unless the decrease eliminates all vacant seats, leaving no flexibility to add shareholder nominees or other outsiders to the board without removing an incumbent director.

Supermajority vote requirement to remove a director

General Recommendation: Generally vote against proposals seeking a supermajority requirement to remove a director.

Reduce directors' term in office from two years to one year

General Recommendation: Generally vote for proposals to reduce a director's term to one year.

Remove language preventing classification of board

General Recommendation: Generally vote against proposals seeking to remove language preventing classified boards.

Creation of Advisory Positions (Sodanyaku or Komon)

General Recommendation: Generally vote against amendments to articles of incorporation to create new advisory positions such as "sodanyaku" or "komon," unless the advisors will serve on the board of directors and thus be accountable to shareholders.

Limitations of liability for directors/statutory auditors

General Recommendation: Generally vote for this proposal.

Limitations of liability for external auditors

General Recommendation: Generally vote against proposals limiting liability for external auditors.

Payment of dividends at the board's discretion

General Recommendation: Generally vote against proposals allowing the board to pay dividends at its discretion. However, if the company employs board with committee structure and the proposal would not eliminate shareholders' ability to submit shareholder proposals on income allocation, vote for the article amendments.

Management buyout related amendments

General Recommendation: Generally vote case-by-case on management related buyout amendments.

4. Compensation

Annual Bonuses for Directors/Statutory Auditors

General Recommendation: Vote for approval of annual bonuses, unless recipients include those who are judged to be responsible for clear mismanagement or shareholder-unfriendly behavior.

Retirement Bonuses

General Recommendation: Generally vote for approval of retirement bonuses, unless:

- Recipients include outsiders[12]; or
- Neither the individual payments nor the aggregate amount of the payments is disclosed; or
- Recipients include those who are judged to be responsible for clear mismanagement or shareholder-unfriendly behavior.

Special Payments in Connection with Abolition of Retirement Bonus System

General Recommendation: Generally vote for approval of special payments in connection with abolition of retirement bonus system, unless:

- Recipients include outsiders[9]; or
- Neither the individual payments nor the aggregate amount of the payments is disclosed; or
- Recipients include those who are judged to be responsible for clear mismanagement or shareholder-unfriendly behavior.

Stock Option Plans/Deep-Discounted Stock Option Plans

Stock Option Plans

General Recommendation: Generally vote for approval of stock option plans, unless:

- Total dilution from proposed plan(s) and previous option plans exceeds 5 percent for mature companies, or 10 percent for growth companies; or;
- Recipients include individuals who are not in a position to affect the company's stock price, including employees of business partners or unspecified "collaborators;" or
- The maximum number of options that can be issued per year is not disclosed.

[12] However, in rare occasions, ISS may support payment to outsiders on a case-by-case basis, if the individual amount is disclosed and not excessive.

Deep-Discounted Stock Option Plans

General Recommendation: Generally vote for approval of deep-discounted stock option plans[13], unless:

- Total dilution from proposed plan(s) and previous option plans exceeds 5 percent for mature companies, or 10 percent for growth companies; or
- Recipients include individuals who are not in a position to affect the company's stock price, including employees of business partners or unspecified "collaborators;" or
- The maximum number of options that can be issued per year is not disclosed; or
- No specific performance hurdles are specified (However, if the vesting period before exercise lasts for at least three years, this policy may not apply).

Director Compensation Ceiling

General Recommendation: Generally vote for proposals seeking to increase director fees, if:

- The specific reason(s) for the increase are explained; or
- The company is introducing or increasing a ceiling for performance-based compensation.

Vote case-by-case on proposals seeking to increase director fees, taking into account the company's stock price performance and capital efficiency if:

- The proposals are intended to increase fixed cash compensation or do not specify whether it is fixed or performance-based compensation which will be increased.

Generally vote against proposals seeking to increase director fees if there are serious concerns about corporate malfeasance.

Statutory Auditor Compensation Ceiling

General Recommendation: Generally vote for proposals seeking to increase statutory auditor compensation ceiling, unless statutory auditors are judged to be responsible for clear mismanagement or shareholder-unfriendly behavior.

[13] The same policy will be applied for "trust type" equity compensation plans, restricted stock plans, performance share plans, and other types of equity compensation plans which have similar economic effect as deep-discounted stock option plans.

5. Share Repurchase Plans

General Recommendation: Vote for the share repurchase plans, unless:

- The proposed repurchase plan exceeds 10 percent of issued share capital without explanation; or
- There are serious concerns about a possible adverse impact on shareholder value.

6. Takeover Defense Plans (Poison Pills)

General Recommendation: Generally vote against the approval of takeover defense plans (poison pills), unless:

(Necessary conditions)

- Independent directors who meet ISS guidelines on attendance comprise a majority of the board after the shareholder meeting;
- The number of independent directors who meet ISS guidelines on attendance is at least two after the shareholder meeting;
- The directors are subject to annual elections;
- The bid evaluation committee is composed entirely of independent directors, or independent statutory auditors, who meet ISS guidelines on attendance;
- The trigger threshold is set at no less than 20 percent of shares outstanding;
- The duration of the poison pill does not exceed three years;
- There are no other protective or entrenchment tools that can serve as takeover defenses, including blocking stakes held by management-friendly shareholders, or setting the maximum board size to the actual board size to eliminate vacant seats, or tightening of procedures for removing a director from office;
- The company posts its proxy circular on the stock exchange website at least four weeks prior to the meeting, to give shareholders sufficient time to study the details of the proposal and question management about them; and
- The pill's total duration[14] does not exceed three years.

(Second stage of analysis, to be applied only when all necessary conditions are met)

- The company has disclosed in its proxy circular specific, credible steps it is taking to address the vulnerability to a takeover by enhancing shareholder value, and explained how the temporary protection afforded by the pill will help accomplish this goal.

[14] The pill's total duration is defined as the sum of the number of years the company has had a pill in place and the number of years the proposed pill will be effective.

7. Mergers & Acquisitions, Third-Party Share Issuances (Private Placements)

For every M&A and Third-Party Placement analysis, ISS reviews publicly available information as of the date of the report and evaluates the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors including:

General Recommendation: Generally vote case-by-case on mergers, acquisitions, and third-party placements, taking into account the following:

- Valuation – Is the value to be received by the target shareholders (or paid by the acquirer) reasonable?
- Market reaction – How has the market responded to the proposed deal? A negative market reaction will cause ISS to scrutinize a deal more closely.
- Strategic rationale – Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.
- Conflicts of interest – Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? ISS will consider whether any special interests may have influenced these directors and officers to support or recommend the merger.
- Governance – Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.

8. Shareholder Proposals

General Recommendation: Vote all shareholder proposals on a case-by-case basis.

Generally vote for proposals that would improve the company's corporate governance or business profile at a reasonable cost.

Generally vote against proposals that limit the company's business activities or capabilities or result in significant costs being incurred with little or no benefit.

9. Social and Environmental Issues

General Approach

ISS applies a common approach globally to evaluating social and environmental proposals which cover a wide range of topics, including consumer and product safety, environment and energy, labor covered standards and human rights, workplace and board diversity, and corporate political issues. While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short term or long term.

General Recommendation: Generally vote case-by-case, examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value. The following factors will be considered:

- If the issues presented in the proposal are being appropriately or effectively dealt with through legislation or government regulation;
- If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;
- Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive;
- The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal;
- Whether there are significant controversies, fines, penalties, or litigation associated with the company's practices related to the issue(s) raised in the proposal;
- If the proposal requests increased disclosure or greater transparency, whether reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and
- If the proposal requests increased disclosure or greater transparency, whether implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.

Say on Climate (SoC) Management Proposals

General Recommendation: Vote case-by-case on management proposals that request shareholders to approve the company’s climate transition action plan[15], taking into account the completeness and rigor of the plan. Information that will be considered where available includes the following:

- The extent to which the company’s climate related disclosures are in line with TCFD recommendations and meet other market standards;
- Disclosure of its operational and supply chain GHG emissions (Scopes 1, 2, and 3);
- The completeness and rigor of company’s short-, medium-, and long-term targets for reducing operational and supply chain GHG emissions (Scopes 1, 2, and 3 if relevant);
- Whether the company has sought and approved third-party approval that its targets are science-based;
- Whether the company has made a commitment to be “net zero” for operational and supply chain emissions (Scopes 1, 2, and 3) by 2050;
- Whether the company discloses a commitment to report on the implementation of its plan in subsequent years;
- Whether the company’s climate data has received third-party assurance;
- Disclosure of how the company’s lobbying activities and its capital expenditures align with company strategy;
- Whether there are specific industry decarbonization challenges; and

[15] Variations of this request also include climate transition related ambitions, or commitment to reporting on the implementation of a climate plan.

- The company's related commitment, disclosure, and performance compared to its industry peers.

Say on Climate (SoC) Shareholder Proposals

General Recommendation: Vote case-by-case on shareholder proposals that request the company to disclose a report providing its GHG emissions levels and reduction targets and/or its upcoming/approved climate transition action plan and provide shareholders the opportunity to express approval or disapproval of its GHG emissions reduction plan, taking into account information such as the following:

- The completeness and rigor of the company's climate-related disclosure;
- The company's actual GHG emissions performance;
- Whether the company has been the subject of recent, significant violations, fines, litigation, or controversy related to its GHG emissions; and
- Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive.

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