Strategic Capital
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Strategic Capital submitted opinion to ICGN

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Strategic Capital, Inc. ("SC") is pleased to announce the submission its opinion to International Corporate Governance Network ("ICGN") as additions to ICGN's commentary:

Capital allocation - The vast majority of companies list the purpose for holding cross-shareholdings are for "smoothing business relations" or "maintaining / expansion of business transactions". SC cannot understand why cross-shareholdings would accomplish such a purpose. Instead, we find that companies holding cross-shareholdings tend to unconditionally support the management of the issuer of the cross-shareholdings by favour voting at the AGM. So, in reality companies should be writing in the purpose for the cross-shareholding as for "smoothing business relations as a reward for supporting the issuer of the cross-shareholding unconditionally". SC therefore recommends that companies should disclose a target to exit all (not just reduce) cross shareholdings over a specified period.

Definition of independence of Board of Directors - The conditions which might impair a director's independence include, whether a director is a cross-shareholdings of the company or an officer of, or otherwise associated with, a significant shareholder or is a cross-shareholdings of the company. In addition, each director considered to be independent should declare within the annual report whether they understand their duties as an independent director and are willing to and can meet with shareholders as an independent director.

CEO appointment and succession - A retiring CEO should never become a BoD or chairman as it is in the opinion of SC that a retiring CEO becomes a chairman of the Board due to the failure of the succession plan. SC also believes that a CEO must complete its succession plan before retirement.

Governance of Group Subsidiaries - It is the widely understood that historically the purpose of establishing a listed 'child' subsidiary company was to create a new position for employees who had performed well for the parent company but could not be promoted further. So, as an extension of the parent companies human resource planning, were rewarded by the parent company by being transferred to and promoted within the child company. The mechanism further incentivized management of the child company to be listed on the first section of the TSE so as to be considered elite. SC believes that management of Japanese companies should consider whether publicly listing a child company is actually for shareholders and not for rewarding former employees of the parent company. SC further recommends that management of parent companies should consider the minority shareholders of its "existing" listed child companies and either purchase the remaining shares of child company up or solve the relation with the child company by disposing of said company.

Shareholder questions and proposals - When collecting votes, the current practice is for companies to treat any "blank" on proposals by the company as a "favour vote" and any "blank" on proposals by shareholders as an "against votes" and making a small note of this practice in the voting forms. SC stresses that for fair treatment the current practice should abolished and any "blank" in a voting form should be treated as an invalid vote.

Vote disclosure - SC recommends to add "vice versa." to the Corporate governance code, meaning that a considerable number of votes for a proposal by the shareholder, should also be analysed and the reasons behind the favour votes and why many shareholders agreed with be noted.

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President & CEO
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