

April 19, 2024

**Investigation and Review Report  
(Summary)**

**Third-Party Committee for Governance Review  
Custody Bank of Japan, Ltd.**

Note: This document is an English language translation of a document originally prepared in the Japanese language. If there is any discrepancy between the content of this translation and the content of the original Japanese document, the content of the original Japanese document will prevail.

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## **I. Outline of Investigation and Review**

### **1. Background of Establishment of Third-Party Committee for Governance Review**

In January 2023, Custody Bank of Japan, Ltd. (“**CBJ**”) established an investigation committee (the “**CBJ Investigation Committee**”), consisting mainly of external lawyers, to conduct fact-finding investigations, as CBJ had suspected a breach of duties or other misconducts by its former director<sup>1</sup>. As a result of the investigation, the CBJ Investigation Committee found that there had been a breach of duties by the former director in a number of outsourcing cases, etc., such as a conflict of interest (the outsourcing cases, etc., in which the CBJ Investigation Committee has found a breach of duties by the former director shall be hereinafter referred to as the “**CBJ Investigation Committee Cases**”), and CBJ consulted with the investigating authorities with regard to such cases and officially announced such finding on June 9, 2023.

Based on the findings in the CBJ Investigation Committee Cases, CBJ decided that an objective and rigorous investigation and review on the overall governance of CBJ was required for the improvement and upgrading of its governance. Accordingly, on October 12, 2023, CBJ established, and officially announced the establishment of, the Third-Party Committee for Governance Review (the “**Committee**”, and the Committee’s investigation and review shall be hereinafter referred to as the “**Review**”), consisting solely of external experts with no interests in CBJ.

### **2. Purpose and Scope of the Review**

The purpose of the Review is to conduct an objective and rigorous investigation and review on the overall governance of CBJ, including CBJ’s key decision-making processes, as well as the facts directly related to the CBJ Investigation Committee Cases, and to provide recommendations of improvement measures.

In addition, in the light of certain factors, including that many of the CBJ Investigation Committee Cases that led to the establishment of the Committee were related to the outsourcing cases, the Committee decided to examine, as a clue for reviewing CBJ’s governance structure, CBJ’s past outsourcing cases and other cases where the Committee had assessed that there may be potential governance-related issues (the cases examined in the Review shall be hereinafter collectively referred to as the

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<sup>1</sup> In this Investigation and Verification Report (this “**Report**”), the term “former director” as used without special notice shall mean such former director whose suspected breach of duties has been detected.

“Examined Cases”).

### 3. Committee Members

The members of the Committee are as follows:

Chairperson	Toshihiko Itami	Attorney-at-law (Advisor to Nagashima Ohno & Tsunematsu; former Superintending Prosecutor of Osaka High Public Prosecutors Office)
Member	Kenji Kawai	Attorney-at-law (Tokyo Liberte; former President of Sendai High Court)
Member	Daisuke Fukamizu	Attorney-at-law (Nagashima Ohno & Tsunematsu)

In the Review, the Committee appointed 11 lawyers from Nagashima Ohno & Tsunematsu to be its assistant investigators. None of the three members or the assistant investigators have any interests in CBJ.

### 4. Period of Review

The Review was conducted during the period from October 12, 2023 to April 19, 2024.

### 5. How the Review Was Conducted

#### (1) Examination of Related Materials

In the Review process, the Committee collected and examined the following materials: an organizational chart of CBJ; materials related to CBJ’s corporate history, internal rules and regulations concerning outsourcing management (including various rules, procedures and manuals, etc.); minutes of the Board of Directors’ meetings and Executive Management Committee meetings of CBJ; written requests in CBJ for approval on outsourcing; a list of CBJ’s outsourcing cases; materials related to CBJ’s personnel system; materials related to CBJ’s internal audits; materials related to CBJ’s whistleblowing system; and materials related to an employee engagement survey and employee opinion survey conducted by CBJ.

#### (2) Digital Forensic Investigation

The Committee conducted a digital forensic investigation (the “**Digital Forensic Investigation**”), the primary purpose of which was to determine whether CBJ’s

officers and employees were aware of the CBJ Investigation Committee Cases, as well as to identify any non-compliance and governance-related issues in CBJ. From a total of 15 current and former officers and employees of CBJ, the Committee collected (i) e-mails and their attachment files saved on CBJ's mail server and (ii) electronic data in connection with other communication tools for the period from January 1, 2021 to November 30, 2023<sup>2</sup>. Then, in order to extract documents that are likely to be related to the above purpose, the Committee narrowed down the population of collected electronic data by applying keyword searches and designating specific creation times for such data, and extracted and reviewed a total of 6,982 electronic data files.

### **(3) Interviews with Related Individuals**

The Committee held a total of 112 interviews in the Review process through face-to-face meetings or Web conferencing with a total of 78 individuals, consisting of a total of 63 officers and employees of CBJ, a total of 13 officers and employees of CBJ's shareholders (i.e., Sumitomo Mitsui Trust Holdings, Inc. ("**SMTH**"), Mizuho Financial Group, Inc. ("**Mizuho FG**"), Resona Bank, Limited ("**Resona Bank**") and The Dai-ichi Life Insurance Company, Limited ("**Dai-ichi Life**") (these four companies shall be hereinafter referred to as the "**Major Shareholders**")) and a total of two individuals related to the CBJ Investigation Committee Cases (including the former director).

### **(4) Survey Sheet Investigation on Examined Cases**

The Committee sent survey sheets to the individuals in charge of each outsourcing case to inquire about any governance-related issues in each case and analyzed their responses to these survey sheets for the purpose of conducting its investigation and review on the governance-related issues and other problems in CBJ's past outsourcing cases (the "**Survey Sheet Investigation**").

### **(5) Questionnaire Investigation**

The Committee conducted a questionnaire investigation on certain CBJ's

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<sup>2</sup> The Committee determined the beginning of the period covered by the Digital Forensic Investigation by taking the former director's tenure of office into account. November 30, 2023 is the date the Committee collected the electronic data for the Digital Forensic Investigation. With regard to those who had left CBJ by the beginning of the Digital Forensic Investigation, the Committee collected electronic data up to the time of their leave.

employees (including General Managers, Deputy General Managers, Senior Managers and Associate General Managers, but excluding those who were covered by the Survey Sheet Investigation) to inquire about (i) any governance-related issues in CBJ's past outsourcing cases and (ii) the issues concerning the overall governance of CBJ that are not limited to the specific outsourcing cases (the "**Questionnaire Investigation**"). The Committee received answers from a total of 195 respondents out of the 217 individuals subject to the Questionnaire Investigation (response rate: 89.9%) and held individual interviews with 11 respondents with whom the Committee assessed that it was necessary to hold interviews in light of their answers and other factors.

#### **(6) Establishment of Hotline**

To provide an opportunity to report to the Committee any issues on the decision-making process and the governance-related issues related to CBJ's material matters, including the past outsourcing cases, the Committee established a hotline for all of CBJ's officers and employees (including seconded personnel and contracted workers as well as the persons covered by the Survey Sheet Investigation and Questionnaire Investigation) to report to the Committee by phone or e-mail during the period from January 29 to February 18, 2024 (the "**Hotline**"). The Committee received several reports through the Hotline and utilized each report in the Review and its recommendations.

### **6. Positioning of the Review and Reserved Matters**

The Committee conducted its investigation and review that it thought was necessary to achieve the purpose of the Review. However, the Review was only an investigation and review without compulsory measures and relied on the related materials provided by CBJ and the statements obtained through the interviews with the officers and employees. Therefore, amendments to this Report may be required if any relevant materials are discovered that could not be collected by the Committee during the period of the Review process or if any errors are discovered in the statements obtained through the interviews with the officers and employees. In addition, the descriptions of this Report do not guarantee any judgment outcomes concerning future fact-findings, etc. made by courts, investigating authorities and supervisory authorities.

## II. Organizational Structure and Business Outline of CBJ

### 1. History and Shareholder Composition of CBJ

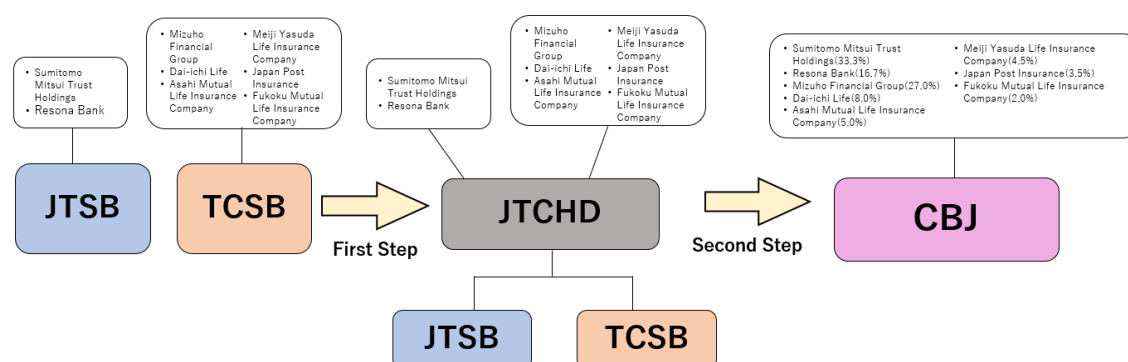
On March 29, 2017, SMTH and Resona Bank, which were the shareholders of Japan Trustee Services Bank, Ltd. (“**JTSB**”), and Mizuho FG and Dai-ichi Life, which were shareholders of Trust & Custody Services Bank, Ltd. (“**TCSB**”), entered into a memorandum of understanding to commence detailed examination and discussions on the business integration of JTSB and TCSB.

On March 28, 2018, JTSB and TCSB entered into a business integration agreement to (i) establish JTC Holdings, Ltd. (“**JTCHD**”), an intermediate holding company, through the joint share transfer, and (ii) integrate the businesses of JTSB and TCSB by conducting an absorption-type merger in the future to which JTCHD, JTSB and TCSB will be the parties. On October 1 of the same year, JTSB and TCSB established JTCHD (Diagram 1).

On January 31, 2020, JTCHD, JTSB and TCSB entered into an absorption-type merger agreement with JTSB being the surviving company, and the company name of JTSB was changed to CBJ as a result of the absorption-type merger on July 27 of the same year.

Since the establishment of JTCHD in October 2018, there has been no change in the shareholder composition of JTCHD or CBJ, and the shareholder composition of CBJ as of the date of this Report is shown in Diagram 1.

**Diagram 1: Background to Establishment and Shareholder Composition of JTCHD and CBJ**

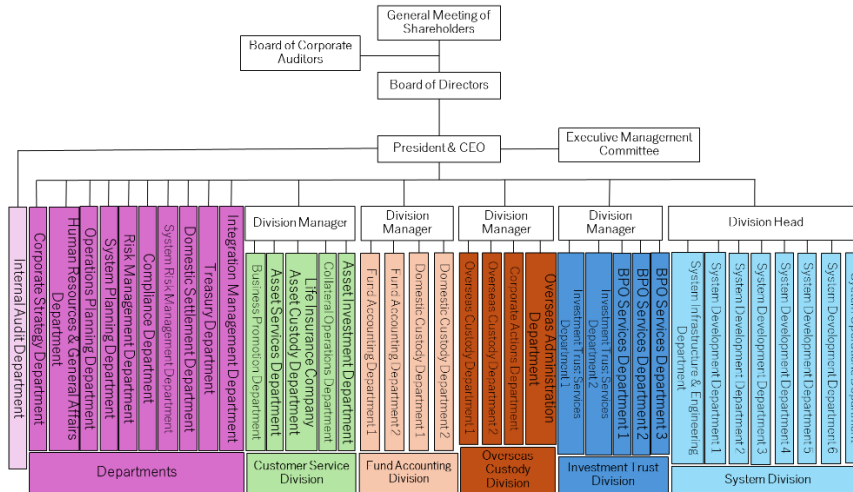


### 2. Organization of CBJ

Diagram 2 shows the organizational structure of CBJ as of October 1, 2023 (immediately before the commencement of the Review) set forth in the organization

regulations of CBJ.<sup>3</sup>

**Diagram 2: Organizational Structure of CBJ (as of October 1, 2023)**



The Executive Management Committee and the Board of Directors of CBJ deliberate on the formulation and changes of management policies, matters related to important system investment projects, and important matters related to personnel. At CBJ, Coordination Meetings of the Board of Directors (which were attended only by Managing Directors, excluding the Chairman of the Board of Directors) had been held once a week for the purpose of discussing among such Directors various items for consideration prior to submitting such items to official meeting bodies such as the Executive Management Committee and the Board of Directors. However, the Coordination Meetings of the Board of Directors were abolished on October 27, 2023, and the forum for information-sharing among officers was consolidated into Morning Meetings of officers (which are attended by the Chairman of the Board of Directors, Managing Directors, and the Managing Executive Officers), which have been held once a week since January of the same year.

In addition, CBJ has established the shareholders management council as a meeting body where important management matters are reported and deliberated although it is not a meeting body positioned within the organization of CBJ. The shareholders management council is composed of one officer or employee of the respective Major Shareholders, and meetings thereof are generally held once every three months. The

<sup>3</sup> CBJ has decided that it has the authority to establish a project team as an *ad hoc* business execution body that is to be structured across the organization with the purpose of resolving particular issues or executing plans.

President & Representative Director and the Deputy President & Representative Director of CBJ attend meetings of the shareholders management council as non-voting observers.

### **3. Corporate Philosophy and Business Outline of CBJ**

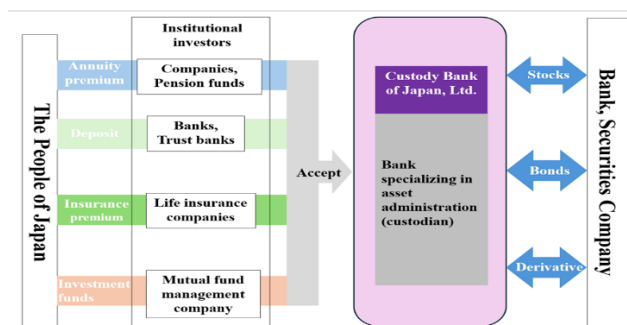
CBJ upholds the corporate philosophy that “As Japan’s No. 1 bank specializing in asset administration, we shall contribute to the sound development of the economy and society by playing a role in the development of asset management businesses and the asset formation of the people of Japan.”<sup>4</sup> CBJ is a bank specializing in asset administration, the business of which includes securities administration, and CBJ is entrusted with the administration of financial assets, including stocks and bonds that are subject to investment, by institutional investors (companies, pension funds, banks, trust banks, life insurance companies, etc.) that manage investment funds held by the people of Japan. That is, while institutional investors make decisions on the management of these financial assets, CBJ, a bank specializing in asset administration, is in charge of asset administration business related to the settlement of transactions, balance management, and various reporting pertaining to these financial assets based on instructions concerning management of such financial assets from the institutional investors, as shown in Diagram 3.

CBJ only conducts asset administration business that is separate from the entire asset management operations of its respective shareholders. CBJ does not operate under a business model where it generates revenue by independently creating new customers. Rather, the shareholders bear the expenses spent by CBJ for processing work and system development, etc.

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<sup>4</sup> <https://www.custody.jp/corporate/philosophy/index.html>

**Diagram 3: Overview of Asset Administration Business Conducted by CBJ<sup>5</sup>**



In addition, the asset administration business of CBJ is supported by its core IT system that performs a series of information processing functions from execution and settlement processing of transactions as well as balance management related to individual securities to preparation of reporting materials on the investment status for the institutional investors. In order to smoothly carry out the abovementioned asset administration business at CBJ, the development, maintenance, and management of this core IT system is essential.

#### **4. Personnel System in Respect of Officers and Employees**

##### **(1) Personnel System in Respect of Officers**

###### **A. Appointment of Officers**

Pursuant to a shareholders agreement entered into on March 28, 2018 among the eight shareholders<sup>6</sup>, the shareholders listed in Table 1 have the right to nominate Managing Directors and Corporate Auditors of CBJ<sup>7</sup>. With respect to the nomination

<sup>5</sup> CBJ webpage for recruiting (<https://www.custody.jp/recruit/business/>)

<sup>6</sup> The eight shareholders are: (1) SMTH, (2) Mizuho FG, (3) Resona Bank, (4) Dai-ichi Life, (5) Asahi Mutual Life Insurance Company, (6) Meiji Yasuda Life Insurance Company, (7) Japan Post Insurance Co., Ltd. and (8) Fukoku Mutual Life Insurance Company.

<sup>7</sup> CBJ may have candidates for Directors nominated by the Major Shareholders engage in the business of CBJ as a Senior Advisor for several months prior to the submission to the Board of Directors of a proposal for the appointment of Directors at a General Meeting of Shareholders. Results of examination by the Performance Evaluation Committee (see B. below) on competence of candidates for Directors are first reported to the Board of Directors. Subsequently, the Directors are appointed by a resolution of a General Meeting of Shareholders after a resolution of the Board of Directors on the proposal for the appointment of the relevant candidates at the General Meeting of Shareholders.

of the President & Representative Director and Deputy President & Representative Director, based on the provisions of the shareholders agreement, in the past, SMTH and Mizuho FG alternately had the right to nominate the President & Representative Director every two years, and the one which did not nominate the President & Representative Director nominated the Deputy President & Representative Director. Currently, although the period of application of that provision has expired, one President & Representative Director and one Deputy President & Representative Director are elected from among the Directors nominated by SMTH and Mizuho FG based on resolutions of the Board of Directors.

**Table 1: Ratio of Nomination Rights pertaining to Managing Directors and Corporate Auditors based on Shareholders Agreement**

Officers	Number	SMTH	Mizuho FG	Resona Bank	Dai-ichi Life	Asahi Life	Japan Post Insurance
Directors <sup>8</sup>	6	2	2	1	1	-	-
Corporate Auditors	6	2	1	1	-	1	1

With respect to the External Directors of CBJ, there are no provisions in the shareholders agreement for nominating candidates therefor. Customarily, SMTH and Mizuho FG primarily have held discussions and requested, among others, the Bank of Japan and Japan Securities Depository Center, Incorporated, which have relevancy and affinity with the CBJ's asset administration business, to nominate candidates for External Directors.

In addition, with respect to the Executive Officers (including Managing Executive Officers) of CBJ, there are no provisions in the shareholders agreement for nominating candidates therefor. There are two ways to assume the office of Executive Officer of CBJ: (i) promotion from the position of General Manager of CBJ and (ii) secondment of an officer or employee of a shareholder to CBJ. In both cases, the propriety of the appointment is first examined by the Performance Evaluation Committee and the appointment is then finally resolved by the Board of Directors.

## **B. Performance Evaluation Committee**

The Performance Evaluation Committee is established to, among others, examine

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<sup>8</sup> "Directors" includes one President & Representative Director and one Deputy President & Representative Director.

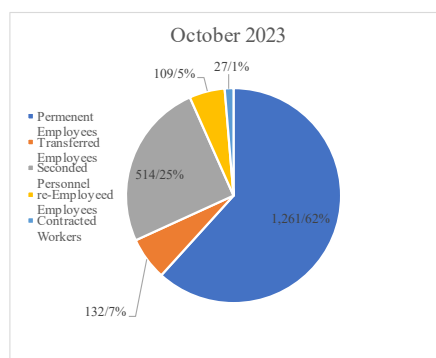
the appointment of officers<sup>9</sup>, evaluate officers' performance, and discuss the details of punishments against officers for improper conduct. The Committee consists of five members in total: three External Directors, including the Chairman of the Board of Directors, President & Representative Director, and Deputy President & Representative Director. The Chairman of the Board of Directors chairs the Committee.

## (2) Personnel System in respect of Employees

### A. Personnel Composition

Diagram 4 shows the personnel composition of CBJ as of October 2023.

#### **Diagram 4: Personnel Composition of All CBJ Employees (Excluding Officers)**<sup>10</sup>



<sup>9</sup> Operating Executive Officer candidates, Operating Executive Officers, and Senior Advisors are subject to evaluation. Operating Executive Officers consist of Executive Officers and officers ranking higher than Executive Officers, including Managing Directors, but excluding External Directors.

<sup>10</sup> CBJ's employees (excluding Directors, Corporate Auditors, Senior Advisors and Executive Officers of CBJ) fall into either of the following five categories.

- (1) "Permanent employees" refers to employees hired by CBJ, including employees hired by former JTSB or former TCSB who became CBJ employees as a result of the business integration of the two companies.
- (2) "Seconded personnel" refers to those who are seconded from the shareholders, etc. to CBJ, including those who were seconded from respective shareholders, etc. of former JTSB or former TCSB to former JTSB or former TCSB prior to the establishment of CBJ and maintain their status as seconded personnel even after the business integration of the two companies.
- (3) "Transferred employees" refers to former seconded personnel who were transferred to CBJ, former JTSB or former TCSB and have the status as CBJ employees.

The personnel system of CBJ is basically applicable to all permanent employees, transferred employees, re-employed employees, and contracted workers. On the other hand, with respect to seconded personnel, the personnel system (such as salaries and grades) of the seconding company is generally applied, and the shareholders and/or other companies which second the personnel to CBJ determine the treatment of the seconded personnel, including salary increases and promotion.

While the number of permanent employees of CBJ has been increasing, the number of seconded personnel has been decreasing. CBJ has a structure, however, that the higher the positions are, the higher the proportion of seconded personnel and transferred employees (collectively, the “**Seconded Personnel, etc.**”) become.

#### **B. Personnel Affairs in Respect of Personnel Seconded from Shareholders**

Personnel affairs in respect of personnel seconded from the shareholders are determined through consultation between the Human Resources & General Affairs Department of CBJ and the personnel managers of the respective shareholders. Specifically, the Human Resources & General Affairs Department of CBJ considers the necessary number of personnel to be seconded, the departments to which they will be assigned, and their positions, and, based on such considerations, makes a request to each shareholder for seconding their personnel. After receiving such request, each shareholder considers which of its personnel can be seconded to CBJ and presents the candidates to CBJ. CBJ then prepares a personnel change proposal based on the candidates presented by each shareholder.

### **5. Outline of CBJ’s Internal Audit System**

Under the Basic Policy on Internal Audit of CBJ, CBJ has developed various regulations, procedures, and manuals for internal audits. In addition, CBJ has established the Internal Audit Committee which deliberates on important matters concerning CBJ’s audit activities and is chaired by the President & Representative Director.

The Internal Audit Department, which is responsible for internal auditing activities in CBJ, consists of a total of 23 employees (as of December 31, 2023). The age range

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(4) “Re-employed employees” refers to employees who have concluded an individual employment agreement after their mandatory retirement and are subject to a fixed-term of employment.

(5) “Contracted workers” refers to employees who have concluded an individual employment agreement.

of the employees belonging to the Internal Audit Department is from late 40s to late 60s (average age: 58.4). In addition, the employees belonging to the Internal Audit Department have experience in internal audit operations at CBJ's shareholder companies, as well as asset administration at CBJ, IT and system, and legal and compliance matters, including seven employees who possess qualifications for internal audits (Certified Internal Auditors and Certified Information Systems Auditors).

The Internal Audit Department holds Monitoring Meetings and Risk Assessment Evaluation Meetings within the department. In addition, the Internal Audit Department works together and exchanges information with company's management and the respective company departments, etc. on the status of audits by holding various meetings and individual interviews<sup>11</sup>. For specific internal audits and monitoring activities at CBJ, the Internal Audit Department conducts risk assessments, audits and monitoring activities based on various audit plans<sup>12</sup>. For auditing and monitoring activities for highly specialized areas and highly important projects, the Internal Audit Department conducts auditing and monitoring activities by utilizing external experts by way of, among others, outsourcing audits for specific topics to external auditing firms and/or requesting such external auditing firms to assist in audit operations. With respect to the auditing and monitoring activities pertaining to the management of outsourced contractors, an audit by specific topics was conducted once, and individual monitoring was conducted six times in the past, and the status of development of the rules concerning management of outsourced contractors (e.g., by examining such rules in comparison to the rules and regulations of the shareholders) as well as the status of compliance and operation of the rules have been reviewed.

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<sup>11</sup> The Internal Audit Committee (four times a year), the Internal Audit Coordination Meeting (once a month, attended by Managing Directors since April 2023), the Internal Audit Briefing Session (once a month, held since April 2023), the Corporate Auditors Meetings (once a month), the Advance Briefing to the External Directors (four times a year, held twice a year until January 2023), questionnaires and individual interviews (twice a year, individual interviews have been held since January 2023), etc. are held for the Internal Audit Department and company's management to work together and exchange information. In addition, in order for the Internal Audit Department and related departments, etc. to work together and exchange information, information exchange meetings of second and third-line checking functions (held four times a year since December 2022), interviews with the General Managers (once a year), and information exchange meetings with internal audit departments of respective shareholders (four times a year) are held.

<sup>12</sup> The audit plans include the Internal Audit Mid-term Plan (every three years in principle), the Internal Audit Basic Plan (every single year), the Annual Audit Implementation Plan (every year) and Individual Audit Plan (on a case-by-case basis).

## 6. History and Current Status of System Integration

The integration project of the “first-tier” of the entire core IT system for CBJ’s asset administration business, which sends and receives data related to executions and settlements of transactions by connecting to external systems (the “**Banking System Integration**”), was proceeded with based on the integration plan for the bank integration formulated in March 2019. The Banking System Integration was completed at the end of September 2020 after completion of the business integration into CBJ.

Subsequently, full-scale consideration commenced in August 2020 with respect to the integration project of the systems relating to investment trusts (the “**Investment Trust System Integration**”), which integrated (i) the “second-tier” system which manages transactions, such as matching data related to executions and settlements of transactions received from the external transactions settlement systems through the “first-tier” system with the execution instructions from customers, (ii) the “third-tier” system which manages accounting and ledgers for each customer, and (iii) the “fourth-tier” system which is used for processing accounting data of the “third-tier” system into disclosure materials for customers. In the Investment Trust System Integration, the approach to transfer the investment trust data managed under the NICE Infrastructure, a system of former TCSB, to the FM System, a system of former JTSB was adopted. The data transfer was proceeded by way of aligning the data specifications of former TCSB, the “provider,” to the data specifications of former JTSB, the “receiver,” through the Company A, a vendor. Accordingly, the Investment Trust System Integration was completed in May 2022.

In addition, the integration project (the “**Non-Investment Trust System Integration**”) of the second-, third-, and fourth-tier systems other than those relating to investment trusts (the “**Non-Investment Trust System**”) was originally intended to complete by transferring the non-investment trust data managed under the NICE Infrastructure to the FM System in May 2024, considering the deadline for renewal of the NICE Infrastructure and the deadline for withdrawals from the system center in which the NICE Infrastructure is installed. Nevertheless, since various issues were discovered with respect to the Non-Investment Trust System Integration, around July 2022, the approach was adopted to continuously examine the Non-Investment Trust System Integration and prioritize the renewal of the NICE Infrastructure (the “**NICE Infrastructure Renewal Matter**”), on the assumption that the FM System and the NICE Infrastructure will coexist. Currently, an approach is under consideration to complete the Non-Investment Trust System Integration by the subsequent deadline for

renewal of the NICE Infrastructure by way of abolishing the NICE Infrastructure and continuously utilizing the FM System.

### III. Review of Outsourcing Cases

#### 1. Outline and Method of Review of Outsourcing Cases

The CBJ Investigation Committee Cases, which triggered the Review, are outsourcing cases from CBJ to other companies. The outsourcing of system development and maintenance, etc. supporting the asset administration business and the outsourcing of asset administration work account for a considerable percentage of the expenditure of CBJ. Accordingly, the Committee identified the Examined Cases extracted by the methods set forth in (1) and (2) below as a clue to reviewing the governance of CBJ.

##### (1) Survey Sheet Investigation

The Committee received from CBJ a list of 2,283 outsourcing cases, in total, since the business integration (breakdown: 1,451 system-related outsourcing cases, 832 outsourcing cases related to administrative work). The Committee then applied the perspectives and extraction criteria set forth in Table 2 to extract, from these cases, the cases which might involve inherent governance-related issues, and made them subject to the Review.

**Table 2: Review Perspectives and Extraction Criteria for Outsourcing Cases**

<b>(i) Possibility of Cozy Relationship with Outsourced Contractors through Business Entertainment and Gifts</b>
Since there is a typical possibility that inappropriate outsourcing as a result of a cozy relationship may be carried out with an outsourced contractor through many offers of business entertainment and gifts, the Committee identified the top five outsourced contractors in terms of the amount of business entertainment and the top five outsourced contractors in terms of the total amount of business entertainment and gifts (2021 to 2023), and extracted cases that were outsourced to such contractors.
<b>(ii) Possibility of Circumvention of Approval Criteria (Amount of Money per Case)</b>
When a contract amount for an outsourcing case was less than JPY 30 million, such case could have been approved by the General Manager of the outsourcing department rather than by the officer in charge. Therefore, in order to confirm whether there was any case that circumvented the approval criteria by arbitrarily restricting the amount of money, the Committee extracted outsourcing cases for which the respective contract amounts were slightly less than JPY 30 million.
<b>(iii) Possibility of Circumvention of Approval Criteria (Arbitrary Division of Cases)</b>
In order to confirm whether there was any case that circumvented the approval criteria in relation to the amount of money by the arbitrary subdivision thereof, the

Committee extracted cases with respect to which each of the amounts corresponding to several cases under the same name was less than JPY 30 million (subject to approval by the General Manager) but the total amount corresponding to such cases amounted to JPY 30 million or more (subject to approval by the officer in charge).
<b>(iv) Commencement of Agreement Prior to Approval</b>
In relation to any contract that was commenced prior to internal approval, the corresponding case would fall outside the scope of prior control possessed by the person with the right of approval, therefore, the Committee identified the top five outsourced contractors with the highest percentage of cases for which contracts were commenced prior to the internal approvals from each category of the outsourcing cases related to administrative work and the system-related outsourcing cases, and then extracted the cases that were outsourced to such contractors .
<b>(v) Large-Scale Outsourcing Cases</b>
Outsourcing cases involving large amounts of money have a large impact on CBJ's business, and it is important to confirm the propriety of the decision-making process. Therefore, the Committee extracted the top five outsourcing cases involving the highest amount of money from each category of the system-related outsourcing cases and the outsourcing cases related to administrative work.

Based on the above perspectives and extraction criteria, 331 cases (approximately 23%) of all the system-related outsourcing cases (1,451 cases) and 322 cases (approximately 39%) of all the outsourcing cases related to administrative work (832 cases), respectively, were extracted as Examined Cases. The Committee then sent survey sheets to the persons in charge of the Examined Cases (76 for the system-related outsourcing cases and 64 for the outsourcing cases related to administrative work), and, with respect to each Examined Cases, asked about the necessity of the work outsourced, the necessity of outsourcing itself, the propriety of the selection of outsourced contractors, whether or not there was any circumvention of the approval criteria, the status of subcontractors' work, and whether or not there was any concern about the decision-making process, etc. within CBJ.<sup>13</sup>

After receiving the responses to the survey sheets from all the persons in charge (response rate: 100%), the Committee conducted interviews with the persons in charge of the cases for which it had been determined, based on the responses, that further fact confirmation would be necessary, and reviewed the relevant materials, etc.

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<sup>13</sup> In addition, in the event that a contract with an outsourced contractor had been commenced before internal approval, the Committee asked for a response in relation to the reason. The Committee also asked for broad responses on governance-related concerns and comments related to CBJ's outsourcing cases, which were not limited to the Examined Cases.

## (2) Investigating Outsourcing Cases for Which CBJ Provided Information

The Committee received from CBJ a document that listed the CBJ Investigation Committee Cases and other cases that have been substantially revised or suspended following the retirement of the former director. The Committee also referred to the material to see if there were any governance-related issues in these cases by means of interviews with the related individuals and a review of materials.

### 2. Results of Review

As a result of the Survey Sheet Investigation set forth in 1(1) above and the investigation regarding the outsourcing cases for which CBJ provided the information set forth in 1(2) above, there were a certain number of outsourcing cases where, as pointed out individually in IV below, inadequacies of or deviations from the outsourcing management rules, as well as issues related to CBJ's governance and corporate culture<sup>14</sup> such as discussions at the Board of Directors or other meeting bodies and internal communications, had been discovered. Among these cases, Table 3 shows the cases in which certain issues were deemed to be clearly demonstrated by the Committee.

**Table 3: Outsourcing Cases in Which Issues Related to Governance and Corporate Culture Were Deemed to be Exceptional by the Committee**

Case Name	Case Overview and Issues
NICE Infrastructure Second-level Subcontracting Case	<p>&lt;Case Overview&gt; It was assumed that the former director would earn a monthly fee of JPY 3 million (JPY 9 million in total) for at least the period from January to March 2023 in the entrusted business related to the NICE Infrastructure Renewal Matter by getting the company established by the former director involved as a second-level subcontractor. Ultimately, the second-level subcontracting contract between the former director's company and the Company C, the subcontractor, was not concluded.</p> <p>&lt;Issues&gt; As of December 2022, when the second-level subcontracting was</p>

<sup>14</sup> CBJ is a company in which former JTSB and former TCSB were just integrated in July 2020. Although a unique corporate culture has not yet been fully developed, CBJ's corporate culture is seen to have been formed to a certain extent based on the corporate cultures of both banks prior to the business integration. Therefore, the term "corporate culture" used in this Report shall mean the corporate culture of CBJ that is still developing while being influenced by the corporate cultures of both banks prior to the business integration.

Case Name	Case Overview and Issues
	<p>being considered, the former director was still a Director of CBJ, but the propriety of the form of such contract, which involved potential conflicts of interest, was not reported to and discussed by the Board of Directors or other meeting bodies.</p>
<p>External Training Case</p>	<p><b>&lt;Case Overview&gt;</b>  It was contemplated that the former director would continue the training related to the systems he had provided during his tenure at CBJ even after his retirement, and that he would be compensated by CBJ through the Company D which was in charge of the secretariat operations pertaining to such training. No consideration was paid to the former director because the business entrustment agreement between CBJ and the Company D related to the case was terminated prior to the performance of the agreement.</p> <p><b>&lt;Issues&gt;</b>  It was contemplated that CBJ would pay the former director for the training through the Company D during the tenure of the former director. However, the propriety of this agreement, including the potential conflicts of interest, was not reported to and discussed by the Board of Directors.</p>
<p>Printing Operation Case</p>	<p><b>&lt;Case Overview&gt;</b>  In February 2021, CBJ outsourced the administrative work, such as the printing operation of trust reports in paper form, to Company E. One of the characteristics of the case is that system development was required for Company E.</p> <p><b>&lt;Issues&gt;</b>  Since a large number of personnel in the system departments were allocated to the Investment Trust System Integration, the operational departments, which lacked the ability to manage projects related to system developments, were forced to proceed mainly with this case, and the management of the entire case in cooperation with the system departments was not sufficiently carried out. In addition, the capacity of Company E was not necessarily sufficient compared to the volume of the entrusted work.  As a result, there occurred issues such as an operational delay over nine months and an additional cost of about JPY 50 million.</p>
<p>Voting System Case</p>	<p><b>&lt;Case Overview&gt;</b>  Since the second half of 2021, CBJ had been considering employing Company F as the outsourced contractor to restructure the voting system. The plan to employ Company F as the outsourced contractor was determined by the former director and the General Manager of the department in charge of the case at that time. The former director tried to proceed with the case with only a limited number of members until the time immediately before his retirement, but it did not take shape and was eventually suspended.</p>

Case Name	Case Overview and Issues
	<p><b>&lt;Issues&gt;</b>  The person in charge of this case was concerned that Company F was not necessarily experienced, but the employment of Company F was a plan decided based on the proposal of the former director, and therefore, the person in charge did not comparatively review the other candidates for the outsourcing.  In addition, the person in charge did not convey any concerns about such outsourced contractor to the General Manager of the department in charge at that time, and such General Manager did not explain to the person in charge the reasons for employing such outsourced contractor either.</p>
Host System Operation Outsourcing Case	<p><b>&lt;Case Overview&gt;</b>  In April 2022, in accordance with the intention of the former director, CBJ outsourced the work related to the host system to Company B, and a part of the work was subcontracted to Company G through Company B.</p> <p><b>&lt;Issues&gt;</b>  In December 2023, it was discovered that Company J, for which CBJ had not pre-approved the subcontract, intervened between Company B and Company G which was the contractual subcontractor of Company B.</p>
Foreign Securities Transaction Management System Case	<p><b>&lt;Case Overview&gt;</b>  In October 2022, in accordance with the intention of the former director, CBJ approved a subcontract between Company K and Company D relating to the work introducing packaged software into the foreign securities transaction management system.</p> <p><b>&lt;Issues&gt;</b>  CBJ did not directly check the details of the status of Company D’s work, but only confirmed it by monthly reports only with general descriptions submitted by Company K. Company K did not understand the status of Company D’s work either, and only confirmed it by the weekly reports submitted by Company D. Consequently, CBJ was unable to grasp the status of Company D’s work in a timely and appropriate manner.</p>
Life Insurance Company Asset Custody Case	<p><b>&lt;Case Overview&gt;</b>  In July 2021, CBJ formed a project team and began examining the structure of the asset custody system of a life insurance company. At first, it was considered that CBJ would (i) relocate the life insurance-specific system of former TCSB, (ii) then upgrade the relational database management system (“DBMS”), and (iii) partly use the FM System which was a system of former JTSB. However, in August of the same year, the method of constructing the market value ledger system among the life insurance-specific systems was suddenly changed, so the entire relocation of the life insurance-specific systems was suspended in September 2022 and then, the changed constructing of the market value ledger system</p>

Case Name	Case Overview and Issues
	<p>was also suspended in March 2023.</p> <p><b>&lt;Issues&gt;</b>  The system used in the life insurance domain was the system used in former TCSB, but former JTSB related persons and former TCSB related persons were unable to fully communicate about the system construction due to the fact that the members of the project team constituted in accordance with the intention of the former director were mainly from former JTSB and there was a physical distance between the locations of both.  Regarding the upgrading of DBMS required for the system construction, System Investment Advisory Council, which is made up of external experts, also called into question the feasibility of such upgrading. However, the former director explained that the difficulty of upgrading the system was not considerable, so it was initially decided that CBJ would upgrade the market value ledger system. However, the technical challenges in the upgrading were not adequately described in the report material for the Board of Directors. Therefore, it is possible that there was a lack of information for discussion at the Board of Directors by those in attendance, including External Directors. After that, it was once decided to discontinue the above upgrading as it could not be achieved, and a different renewal method for the market value ledger system was considered, but ultimately, the renewal was also discontinued as the upgrading was judged as possible.  The Board of Directors changed their minds again and again in relation to the decision on whether the above upgrading could be achieved, and as a result, the renewal of the market value ledger system, which costed about JPY 93 million, was suspended.</p>
Administrative Work Outsourcing Case	<p><b>&lt;Case Overview&gt;</b>  In July 2022, CBJ began considering the outsourcing of administrative work related to investment trusts to Company M. However, due to a considerable volume of work caused by the Investment Trust System Integration, which had just been completed in May of the same year, the outsourcing of this administrative work was suspended in January 2023.  CBJ also outsourced the administrative work of the Oversees Administration Department to Company N, the contract period of which was from August 19, 2022 to October 31, 2022.</p> <p><b>&lt;Issues&gt;</b>  CBJ entered into two contracts with Company M for the outsourcing of administrative work related to investment trusts, but the internal approval for one of such contracts was given after the commencement of the contract period.  In addition, the internal approval for entering into the contract for the outsourcing of the administrative work to Company N was actually obtained within CBJ after the termination of the contract</p>

Case Name	Case Overview and Issues
	<p>period. Furthermore, another contract was executed by the internal approval of the General Manager of the Operations Planning Department at that time, but the approval for this contract was also given after the commencement of the contract.</p> <p>At that time, the Investment Trust System Integration had just been completed, and despite the fact that there had been much work toward the integration of the operations, outsourcing that did not take into account the actual conditions of the frontline had been proceeded with, resulting in an excessive burden on the frontline operations.</p> <p>In addition, several internal opinions received in the officer opinion box expressed doubt about the necessity of outsourcing to other companies the administrative work conducted by CBJ as its main business.</p>
Investment Trust System Integration	<p><b>&lt;Case Overview&gt;</b></p> <p>The outline of the Investment Trust System Integration is as set forth in II, 6 above. An approach was adopted to transfer the investment trust data managed under the system of former TCSB, to the FM System, a system of former JTSB. It was decided that data would be converted by way of aligning the data specifications of former TCSB, the “provider,” to the data specifications of former JTSB, the “receiver,” through the vendor, Company A.</p> <p><b>&lt;Issues&gt;</b></p> <p>The schedule of the systemization plan for the transfer of the investment trust data was being proceeded with individually by both the “provider” and “receiver” of the data.</p> <p>In addition, although Company A was intervening between the “provider” of former TCSB and the “receiver” of former JTSB, direct communications involving four parties - the operational departments and the system departments of both the “receiver” and the “provider” - were inefficient and limited. Therefore, a large number of incidents occurred in the various tests in the process of integrating the systems.</p> <p>Regarding the operation quality after the transfer of assets, there occurred a situation in which the detection of the difference in the operations was after the transfer due to some circumstances such as a lack of mutual communication between the “provider” and the “receiver” regarding the detailed confirmation of the difference in relation to the operations.</p>

## **IV. Issues Identified in the Review**

### **1. Overview**

In December 2023, the government developed the “Policy Plan for Promoting Japan as a Leading Asset Management Center,” requesting major financial groups to develop plans to describe their asset management business strategies, enhance their investment management capabilities and improve governance. In light of such government policies, external environmental factors affecting CBJ are that (i) CBJ is part of the investment chain and the role it plays in improving the function of financial markets and the formation of household financial assets is extremely important, and (ii) CBJ is required to have a high level of governance as it is subject to the Banking Act, the Act on Engagement in Trust Business by Financial Institutions, and the Financial Instruments and Exchange Act, etc., and subject to the supervision of the Financial Services Agency under the Comprehensive Guidelines for Supervision of Trust Companies, etc. On the other hand, internal factors affecting CBJ are that (iii) while a large amount of money is required to develop, maintain and manage IT system, CBJ is required to, with the cooperation of the shareholders, proceed with cost reduction and administrative efficiency which are the purposes of the business integration, (iv) six shareholders appoint Managing Directors and Corporate Auditors based on the shareholders agreement, and many employees are seconded from each shareholder company, (v) for this reason, the officers and employees of CBJ including permanent employees are composed of persons who have different backgrounds, (vi) It is still early days after the business integration between former JTSC and former TCSB, and the integration of both banks, in the true sense, is still in progress, (vii) CBJ is engaged in a specialized and professional business which handles only the administrative work of asset management business conducted by each shareholder company, such as management of investment trust, securities, and life insurance, and (viii) accordingly, the officers and employees are required to have specialized knowledge of asset administration and development of IT system that supports the operation of such asset administration.

In some of CBJ’s outsourcing cases, the weaknesses of CBJ’s outsourcing management system was identified, such as there being (i) the appropriateness of the contractual form which concerns potential conflicts of interest involving the former director was never reported to and discussed by the Board of Directors or other meeting bodies, (ii) inadequate comparative reviews in relation to the selection of outsourced contractors, (iii) inadequate monitoring of subcontractors, and (iv) post-facto approval of contracts. There were also cases where discussions among officers in relation to proceeding with outsourcing cases were insufficient and opinions of the frontline were

not adequately reflected in the decision-making at the management level. It was identified that the background factors of these issues were to be found in the governance system and corporate culture of CBJ, such as mutual checks and balances and supervision among CBJ's officers, human resources strategies related to officers and employees at CBJ, internal communications, and employee engagement. These issues are considered to have arisen from a combination of various external and internal factors mentioned above that CBJ is currently facing. If these issues are left unaddressed, they could threaten the growth of financial markets and the stable development of individuals' financial assets.

Accordingly, we summarize in 2 and 3 below, the issues and the factors behind them identified in the individual Examined Cases set forth in III, 2.

## **2. Outsourcing Management System Issues**

In a certain number of cases among the outsourcing cases set forth in III, 2 above, deficiencies in the rules concerning the management of outsourcing and deviation from such rules at CBJ were found. There are two types of issues regarding outsourcing management at CBJ: (i) issues that existed when the CBJ Investigation Committee Cases were identified, but to which certain improvements were made during the process of subsequent consideration and implementation of improvement measures by CBJ; and (ii) issues to which improvement measures were not sufficiently implemented at the time of preparation of this Report.

The following provides an overview of each of the issues (i) and (ii).

### **(1) Outsourcing Management Issues That Existed at CBJ When CBJ Investigative Committee Cases Were Identified**

#### **A. No Thorough Comparative Review of Potential Contractors, Including Obtaining of Competitive Bids, Was Conducted**

In order to ensure the rationality and appropriateness of decision-making in the selection of outsourced contractors, it is useful to conduct a comparative review of the costs and the ability to perform duties of multiple potential contractors after obtaining estimates therefrom. However, at CBJ, prior to July 2023, comparative review of potential contractors, including the obtaining of comparable bids, was not a requirement under the internal rules, and was implemented only on a "as needed" basis.

Accordingly, in cases such as the Printing Operation Case and the Voting System Case set forth in III, 2 above, the failure to adequately consider the rationality and

appropriateness of the selection of outsourced contractors due to the absence of comparative review of multiple potential contractors resulted in instances where the selection of outsourced contractors was questionable in terms of rationality.

## **B. Lack of Risk Management Measures Associated with Granting Sole Approval Authority to General Managers in Certain Outsourcing Transactions**

Under the CBJ Rules for System Operational Control as of December 2022, with respect to approving the commencement of each step in the IT systemization plan, the defining of requirements and the external design in relation to IT system-related outsourcing, only the approval of the General Manager of the department in charge of the case<sup>15</sup> was required if the investment amount was less than JPY 30 million. Furthermore, if the total contract amount was less than JPY 30 million, contracts with IT system-related contractors could be concluded with the sole approval of the General Manager of the department in charge of the case.

Regarding the outsourcing of administrative work, under the Outsourcing Management Rules, it was sufficient to obtain the approval of the head of the outsourcing department at the time of selecting the outsourced contractor and entering into the related contract. There were no divisions on the authorization for approval based on any contract amount.

As such, IT system-related outsourcing cases which were less than a certain contract amount and all outsourcing cases related to administrative work were structured to be executable based on the sole decision-making of the General Manager of the department in charge of the case or the outsourcing department. Moreover, the involvement of the Risk Management Department and the Compliance Department in such decision-making was limited, and there were no third-party checks or balances on any potential inappropriate decision-making by the General Managers regarding outsourcing.

## **C. Post-Facto Approval of Contracts Was Conducted**

Although under the Outsourcing Management Rules, the outsourcing department is required to obtain the internal approval of the head of the relevant department when entering into outsourcing-related contracts, it was discovered that in multiple instances related to the Administrative Work Outsourcing Case as described in III, 2 above, the

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<sup>15</sup> Refers to a department in charge of the development of the IT system.

General Manager of the department in charge of the case approved the contract after the contract period had terminated or after the contract period had commenced.

Subsequent to the business integration in July 2020, the Compliance Department and the Risk Management Department have conducted a survey on all outsourcing cases implemented up to July 2023 to confirm whether there were any similar issues (the “**All-out Survey**”). The results revealed that there were in total 158 outsourcing cases (49 cases related to administrative work and 109 cases related to IT systems) in which internal approval had not been obtained before the contracts were entered into.

The fact that so many cases have been identified where contracts were initiated without the appropriate approval procedures being performed as described above indicates a likelihood that the purpose of the approval procedures, which aim to ensure the rationality and the consistency of company decision-making regarding outsourcing contracts by subjecting such cases to a preliminary review for appropriateness and rationality by a person with the authority to approve the contract, is not understood or that an attitude of disregarding such procedures has spread within CBJ.

#### **D. Consulting Services Were Not Included within the Scope of Outsourcing Management**

Consulting services should be subject to strict management since the content of the services can be abstract on its face and it is difficult to determine the necessity and appropriateness of outsourcing.

Although, there were a certain number of consulting services included in the outsourcing cases at CBJ, such as the NICE Infrastructure Second-level Subcontracting Case and External Training Case as set forth in III, 2 above, until July 2023, when the Outsourcing Management Rules were revised, consulting services that do not include the handling of information-related assets were not covered by the Outsourcing Management Rules.

### **(2) Issues That Have Not yet Been Fully Resolved as of the Time of Preparation of This Investigative Report**

#### **A. System to Check Conflicts of Interest in Advance Has Not Been Specified**

In order to ensure the appropriateness of any outsourcing, it is important to establish and adhere to rules to review in advance, the existence of conflicts of interest, such as whether any CBJ officers or employees are involved with the outsourced contractors and subcontractors (including second-level subcontractors). Currently, however, with

respect to selection of outsourced contractors and approval of subcontracts, there is no check item that focuses on conflicts of interest.

#### **B. System to Monitor Subcontractors Was Not Functioning**

Under the CBJ's Outsourcing Management Rules, outsourced contractors are generally prohibited from engaging in subcontracting (including second-level subcontracting), but are permitted to engage in subcontracting if prior approval is obtained.

However, there was a lack of understanding throughout the company regarding the prohibition of subcontracting and some interviewees even claimed that there was a discrepancy between the actual practice of outsourcing, which is based on the assumption of subcontracting and second-level subcontracting, and the provisions of the Outsourcing Management Rules. Therefore, it can be said that the rules to obtain prior approval for subcontracting have not been thoroughly enforced.

As such, even though rules to restrict subcontracting have been established, in practice, the actual circumstances of the contracts between the direct contractors and any of their potential subcontractors were not sufficiently confirmed and a specific system to effectively monitor the progress of the tasks of the subcontractors was not adequately established. These facts are considered to be the reasons why the understanding of the actual state of subcontractors was insufficient in the Host System Operation Outsourcing Case and the Foreign Securities Transaction Management System Case set forth in III, 2 above.

#### **C. Monitoring of Outsourcing by Secondary Checking Departments, Including Ensuring the Rationality of Outsourced Contractor Selection, Was Not Functioning**

Although previously the System Risk Management Department, which corresponds to the second-line department, was responsible for monitoring the system development projects, including the rationality of the selection of outsourced contractors of CBJ, such responsibility was transferred to the System Planning Department during the tenure of the former director.

The System Planning Department is in charge of system development planning, including outsourcing, and plays a leading role in the planning and formulation of systemization plans and the selection of outsourced contractors related to these plans. In this sense, the System Planning Department is not in a position to monitor regarding the rationality of the selection of outsourced contractors from the second-line

department perspectives. Accordingly, it can be said that, practically, there is no department that conducts such monitoring regarding the system as a second-line department.

In addition, there are departments such as the Risk Management Department responsible for outsourcing management and risk management as a department within the planning and administration departments that is involved in the outsourcing procedures. However, the role of the Risk Management Department, etc. in the outsourcing procedures under the internal rules of CBJ was limited to checking whether the outsourcing contract contains various provisions stipulated in the Outsourcing Management Rules upon the completion of the selection of the outsourced contractor and execution of the contract. Therefore, its exercise of the check-and-balance function with respect to outsourcing management was limited. The fact that the rationality of the selection of outsourced contractors was not structured to be verified by the planning and administration departments could be considered as one of the factors that led to the determination of outsourced contractors without comparing multiple candidates and the situation where contracts with potential conflicts of interest could have been entered into.

#### **D. Internal Audits on Outsourcing Management Were Not Necessarily Sufficient**

Internal audits on outsourcing management have been carried out within CBJ. However, with regard to reviewing the status of the establishment of rules for outsourcing management, while mainly a comparative review of the CBJ rules for outsourcing management and the rules for outsourcing management of some of the Major Shareholders had been conducted, it was observed that sufficient consideration regarding the establishment of stricter rules for outsourcing management in light of the actual risks of CBJ related to the outsourcing had not been conducted. In addition, with respect to confirming the compliance status of outsourcing management rules in the frontline departments and the actual state of outsourcing management, given that the occurrence of the Examined Cases and the vulnerability of the outsourcing management system were not previously detected by the internal auditing function of CBJ, it can be said that the timely detection of risks and understanding of the actual state of the frontline departments were not necessarily sufficient and that the carrying out of advanced and constant monitoring and information exchange with the frontline departments would have been desirable.

In addition, while currently the Internal Audit Department is comprised of a total of

23 employees in their late 40s to late 60s (average age is 58.4 years old), from the perspective of fully exercising a third-line checking function in various initiatives for highly important projects and the strengthening of governance in the future, it was observed that the current resources of the Internal Audit Department may not be sufficient. Furthermore, with respect to this point, it was observed that the measures to expand the personnel resources of the Internal Audit Department from a medium- to long-term perspective, both qualitative and quantitative, were not sufficiently considered.

#### **E. Awareness of Budget Management Is Weak**

CBJ is entrusted only with asset administrative work that is carved out from the entire asset management business process of each shareholder company and basically, the business structure is not designed for CBJ to independently develop customers and generate revenue. Accordingly, IT system investment expenses, product sales expenses and personnel expenses, etc., incurred by CBJ are considered as costs required to carry out the asset administrative work entrusted by each shareholder company, and based on this, the outsourcing fees and other fees paid to CBJ by each shareholder company are determined. As a result, the profitability of CBJ is maintained. Since CBJ will never fall into deficit, regardless of how much it pays in expenses, this structure makes CBJ tend to have lower incentives for cost reductions, and as a result, it was discovered that budget control and actual expenses control were not strictly implemented in CBJ.

Such “lack of tension” with respect to budget control is one of the reasons behind the insufficient monitoring of contractors and subcontractors that has been identified to date.

### **3. Governance and Corporate Culture Issues**

#### **(1) Discussions among Officers regarding Proper State of CBJ, Company Philosophy, Medium-to Long-Term Management Strategy and Human Resources Strategy among Officers Have Not Necessarily Been Adequately Pursued**

At the meetings of the Board of Directors and the Executive Management Committee of CBJ to date, IT system integration plan and related individual IT system development projects were at the center of discussions, and it appears that discussions regarding the proper state of CBJ, corporate philosophy, medium-to long-term

management strategy, and human resources strategy based thereon have not been adequately pursued. As a result, officers and employees could not share the same vision of the company future, and the various issues with respect to governance and corporate culture described in (2) to (8) below have become exposed but remain unresolved.

**(2) Mutual Check-and-Balance and Supervisory Functions among Officers Were Not Adequately Exercised**

**A. Substantive and Multifaced Discussions among Officers Were Not Conducted Sufficiently**

When developing IT systems that would have a significant impact on company's business and implementing the outsourcing related thereto, substantive and multifaced discussions regarding the necessity and feasibility thereof, specific policies, risks associated with the relevant cases, and the appropriateness of outsourced contractors should be pursued among officers and the full exercise of mutual check-and-balance and supervisory functions among officers is required.

However, since the Board of Directors other than the former director and Corporate Auditors were aware that there was an overwhelming difference between them and the former director in terms of their knowledge levels regarding IT and related systems, they have not been able to engage fully in substantive and multifaced discussions, for example, by critically evaluating the opinions of the former director and frankly expressing dissenting opinions. The mutual check-and-balance and supervisory functions among CBJ's officers were not adequately exercised.

**B. Measures to Ensure Mutual Check-and-Balance and Supervisory Functions among Officers Were Not Sufficient**

**(a) Officers Not Nominated from Perspective of Ensuring Mutual Check-and-Balance and Supervisory Functions among Officers and Total Optimization for CBJ**

Managing Directors and Corporate Auditors of CBJ are nominated by shareholders in accordance with the ratio of nomination rights (number of members) stipulated in the shareholders agreement, and are elected at the General Meeting of Shareholders of CBJ. Although the shareholders' rights to nominate candidates for External Directors of CBJ are not stipulated in the shareholders agreement, it was discovered that, in reality, External Directors are appointed by the General Meeting of

Shareholders of CBJ after some of the shareholders decide on the candidates, and CBJ are not substantially involved in the personnel affairs of the External Directors. In order to aim for an officer composition where mutual check-and-balance can be easily functioned among the officers and that is totally optimized under this system of appointing officers, CBJ will be required to (i) sufficiently consider the diversity and balance of the backgrounds of the officers that are most suitable from a medium-to long-term perspective, (ii) clearly present to shareholders the qualifications, skills and knowledge sought in officer candidates from time to time, and (iii) have ongoing and sufficient discussions with shareholders regarding the officer composition from the perspective of ensuring mutual check-and-balance and supervisory functions among the officers as well as total optimization for CBJ.

However, although currently CBJ is preparing a skill matrix for the members of the Board of Directors and making transparent the experiences and knowledge of individual Directors, it cannot be said that substantive discussions are being conducted sufficiently regarding whether the composition of the Board of Directors is optimal after considering the medium-to long-term business of CBJ. In addition, there have been no confirmed cases in the past where the Performance Evaluation Committee or other committees of CBJ have refused to appoint candidates nominated by shareholders. The results of the annual evaluations of Managing Directors conducted by the Performance Evaluation Committee are mainly reflected in the compensation standards for Managing Directors, but are not necessarily used in the reappointment process. Moreover, since there was a bias in the background of the External Directors and Corporate Auditors of CBJ toward businesses with an affinity to the asset-administration work of CBJ, it can be said that it was difficult to expect them to perform check and supervision role from a broad perspective, including from an IT and related system perspective. Furthermore, since four out of the six Corporate Auditors have a relationship with some of Managing Directors seconded from the same Major Shareholders to audit the execution of CBJ's business by such Directors, depending on their relationship (especially in cases where a particular Managing Director and Corporate Auditor were in superior-and-subordinate relationship or colleagues when they were working for the same Major Shareholders), it may be said that the structure was designed in a way that would make it difficult for Corporate Auditors to exercise strict check-and-balance and supervisory functions.

As such, the fact that CBJ officers were not nominated at CBJ from the perspective of exercising mutual check-and-balance and supervisory functions among the officers nor from the perspective of ensuring total optimization for CBJ may be considered as

factors contributing to (i) Directors other than the former director and Corporate Auditors falling into the perception of not being able to express opinions against the former director who has extensive knowledge of IT and related systems and (ii) the inability to fully exercise the mutual check-and-balance and supervisory functions among the officers.

**(b) Sharing of Information with External Directors and Corporate Auditors Was Insufficient**

It was found at CBJ that the way in which information was shared with officers was insufficient, such as: (i) the volume of materials for Board of Directors and Executive Management Committee meetings was large and important points were not organized; (ii) since large volumes of materials were sent to External Directors immediately prior to Board of Directors meetings, the External Directors were unable to engage in discussions at Board of Directors meetings with a full understanding of the items on the agenda; and (iii) External Directors were unable to understand the deliberation process within the Executive Management Committee and frontline departments, the existence of any alternatives, nor the evaluations thereon, and the materials for examining the content of the proposals submitted to the Board of Directors were insufficient. In addition, with respect to the Life Insurance Company Asset Custody Case set forth in III, 2 above, it was also discovered that in some instances, the Board of Directors' report materials did not adequately describe matters related to the technical challenges, which may have resulted in insufficient information for discussion at the Board of Directors meetings. It is considered that these issues were factors that made it difficult to achieve substantive discussions at Board of Directors meetings.

**(3) Having Adopted a Personnel System That Is Unlikely to Generate Incentives to Proactively Raise Issues and Obtain Opinions of Frontline Department Employees**

**A. Lack of the Perspective of the "Right Person in the Right Position" in Consideration of Total Optimization in the Process of Appointing Executive Officers**

**(a) Inadequate Discussions by the Performance Evaluation Committee and the Board of Directors Regarding the Appointment of Executive Officers**

There are two types of candidates for Executive Officers: those elected from

among the General Managers of CBJ; and those seconded from the shareholders. The Performance Evaluation Committee of CBJ deliberates on the candidates and the Board of Directors makes the appointment. However, the discussions at meetings of the Performance Evaluation Committee and the Board of Directors regarding the selection of the suitable individuals as Executive Officers were not necessarily sufficient in both types, as the directors of CBJ, who are from the same shareholders as the candidate in question, discussed the selection in private based on the personnel policies of each of the Major Shareholders in advance. Accordingly, when appointing Executive Officers, CBJ failed to identify the skills and knowledge lacking in the existing Executive Officers in light of CBJ's business strategy and human resources strategy and to sufficiently consider whether or not the candidates were suitable as Executive Officers from that point of view.

**(b) Only Personnel Seconded from Major Shareholders Are Appointed as Executive Officers**

Since Major Shareholders do not have the right to nominate Executive Officers, selection of Executive Officers should be conducted from the viewpoint of choosing persons who have the knowledge, experience and ability required as CBJ's Executive Officers. Therefore, in addition to the employees seconded from Major Shareholders, consideration should also be given to appointment of permanent employees of CBJ, including new personnel to be employed from outside. However, thus far, no permanent employees of CBJ have ever been appointed as Executive Officers, and all of the Executive Officers have been seconded from Major Shareholders. This suggests that the main focus has been on maintaining de facto nomination rights by Major Shareholders and ratio of employees seconded from each Major Shareholder. It is doubtful that the selection of persons suitable as Executive Officers of CBJ has been made from the perspective of total optimization.<sup>16</sup>

Under the above framework, there has been diminution of the incentives of Executive Officers to take actions, such as voluntarily gathering opinions from the frontline departments, appropriately conveying them to the Directors, and sometimes expressing opposition to the Directors on business policies and individual measures. This is one of the factors that has lain behind the inability of Executive Officers to

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<sup>16</sup> Several responses to the Questionnaire Investigation pointed out this issue as follows: "I feel that officers tend to adopt options advantageous to their own companies (original trustees)," and "I believe that officers value benefit to the company they are from, not to CBJ, and they do not value an optimal solution for the entire company."

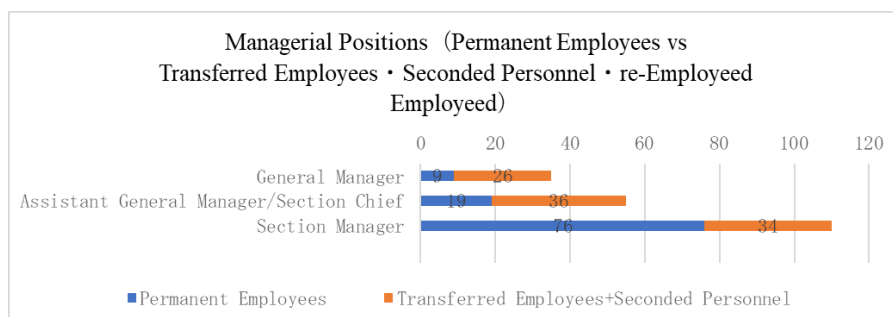
proactively raise issues with regard to the Examined Cases.

**B. Limited Appointment of Permanent Employees to Managerial Positions, such as General Manager**

**(a) High Percentage of the Seconded Personnel, etc. in Managerial Positions**

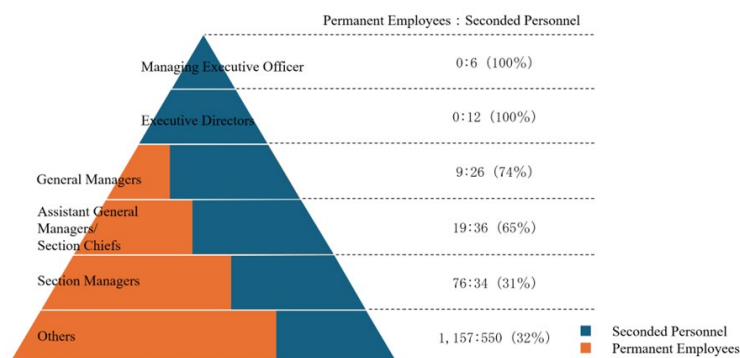
The following table shows the percentage of permanent employees and the Seconded Personnel, etc. in managerial positions at CBJ.

**Diagram 5: Percentage of Permanent Employees and Seconded Personnel, etc. in Managerial Positions (as of October 2023) (Number of Persons)**



Of the 110 Senior Managers, 76 (70%) are permanent employees, indicating that more permanent employees have been becoming Section Managers. On the other hand, of 35 General Managers, 26 (74%) are the Seconded Personnel, etc., and approximately only 30% are permanent employees who are General Managers.

**Diagram 6: Percentage of Permanent Employees and Seconded Personnel, etc. in Managerial Positions (as of October 2023) (Number of Persons)**



At CBJ, the higher the position, the greater the percentage of the Seconded Personnel, etc. In particular, appointment of permanent employees as General

Managers is limited, and there has never been a case in which a permanent employee has been appointed as an Executive Officer. At CBJ, the appointment of permanent employees as General Managers is limited because the de facto requirement for General Managers is, in addition to the capabilities and qualifications required for General Managers, to reach a certain level of seniority, and the number of permanent employees who reach that level of seniority is limited. However, from the point of view of permanent employees, the fact that a large number of General Manager positions are held by the Seconded Personnel, etc., for the reasons stated above may have been a hindrance to their own hopes for the future, and as a consequence, it has become difficult for them to incentivize themselves to make their best efforts for CBJ and to raise their voice in order to correct problems of which they become aware.

**(b) There Is No Permanent Employee Who Is in the Position of General Manager of Planning and Administration Departments**

Since planning and administration departments perform a supervisory and directional role to determine and co-ordinate various measures based on the actual situation faced by the frontline departments which are responsible for system development and asset administration, General Managers of planning and administration departments are required to be particularly familiar with the characteristics of the business of CBJ and the actual work situation at the frontline departments. From this perspective, permanent employees of CBJ with lengthy work experience in CBJ are considered to be qualified to act as General Managers of those departments. However, there is no permanent employee who is in the position of General Manager of a planning and administration departments, and all of the General Managers are the Seconded Personnel, etc. General Managers who are the Seconded Personnel, etc. are not necessarily familiar with the characteristics of CBJ's business or the actual work situation at the frontline departments<sup>17</sup>, and as a consequence, it has become difficult to collect information on issues faced by the frontline departments and obtain the opinions of the frontline departments workers regarding business plans.

**(c) Increase in the Number of Retirees Among Permanent Employees**

The number of retirees among CBJ employees is increasing. In particular, the

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<sup>17</sup> However, a certain number of seconded personnel have been on secondment for many years and have developed their careers similarly to those of permanent employees.

number of retirees among permanent employees is increasing, and some of such retirees cite concern about their career prospects as a reason for their retirement. In addition, among the permanent employees, the number of retirees with substantial years of service is increasing. There is a risk that such increase in the number of retirees among permanent employees will be a factor preventing the appointment of permanent employees in managerial positions, such as the position of General Manager.

**(d) Personnel Evaluation System of Seconded Personnel, Including General Managers, Makes It Difficult for Seconded Personnel to Act for the Benefit of CBJ**

Since the shareholders (i.e., employer) have the authority to decide the treatment of personnel seconded from the shareholders, such as salary increases and promotions, from a structural perspective, seconded personnel, including personnel who are General Managers, are less incentivized to contribute to the business of CBJ. Furthermore, personnel evaluations of General Managers who are seconded personnel are conducted by a Director in charge of the same department as well as a Director appointed by the same shareholder, and the evaluations of both are submitted to the Human Resources & General Affairs Department. Since the latter personnel evaluation is not necessarily based on the work performance of the employee being evaluated, the structure of the personnel evaluation system tends to create behavioral patterns aimed at being evaluated by the shareholders (and their appointed Directors) from whom they are seconded, rather than contributing to CBJ through the work they are responsible for at CBJ. In this regard, it is specified in several of the responses in the Questionnaire Investigation that some seconded personnel are paying more attention to their evaluators (i.e., supervisors in their direct employer) than to their supervisors at CBJ.

**(e) Summary**

It is difficult to incentivize seconded personnel or transferred employees to make best efforts to increase the value of CBJ from a medium-to long-term perspectives because, in the case of seconded personnel, the shareholders (i.e., their employer) have the authority to decide on their treatment, such as salary increases and promotions, and in the case of transferred employees, the age of 55 or older is the condition for transfer to work at CBJ. In addition, as described in (d) above, the personnel evaluations of General Managers who are seconded from the shareholders

may not be appropriate based on their work performance and involves a risk that such persons may prioritize personnel evaluation by their direct employer over the benefit of the entire CBJ organization. Under such structure, in which many of the persons in managerial positions are Seconded Personnel, etc., the persons in managerial positions are inclined to follow the decisions of management without objection, rather than becoming a “bridge” between the frontline departments and management by conveying the actual work situation of the frontline departments to management. This is considered to be one factor behind the fact that issues were not escalated in the Examined Cases.

**C. The Planning and Administration Departments Are Staffed Mainly by Seconded Personnel, etc., Resulting in Considering Measures Lacking Perspectives of the Frontline**

CBJ has 38 Departments in total; comprising of 10 planning and administration departments; 27 operational departments, and an Internal Audit Department, which is not classified as either of these department types. Of the 10 planning and administration departments, there are six in which the number of Seconded Personnel, etc., is larger than that the number of permanent employees. In contrast, of the 27 operational departments, there are seven in which the number of Seconded Personnel, etc. is more than the number of permanent employees.

**Diagram7: Ratio of permanent employees and Seconded Personnel, etc. in planning and administration departments and operational departments (as of October 2023)**



As shown in Diagram 7, the Seconded Personnel etc. account for the majority of personnel in planning and administration departments. On the other hand, Seconded Personnel, etc. account for only 30% of the personnel in operational departments. Given that all General Managers in the planning and administration departments are Seconded Personnel, etc., it can be said that Seconded Personnel etc. perform the core

function of planning and administration departments.

The planning and administration departments are key departments of CBJ that are required to obtain and monitor the opinions of frontline employees carefully and consider new actions to meet their needs. Therefore, the planning and administration departments are required to be familiar with the characteristics of the businesses of CBJ and the actual conditions in the operation of frontline activities. However, the majority of the Seconded Personnels, etc. in the planning and administration departments are not assigned to any operational departments before moving to the planning and administration departments. Rather, they are usually assigned to planning and administration departments immediately after being seconded to CBJ. As a result, there are few opportunities for such Seconded Personnel, etc. to learn the actual conditions in operation of frontline activities, and they therefore have no choice but to consider the plans and measures to be implemented in operational departments without fully understanding the characteristics of the business of CBJ. This lack of understanding of the business characteristics by the Seconded Personnel, etc. is considered to be one of the factors that has formed the gap between the planning and administration departments and the operational departments. It is further considered that such gap has resulted in a lack of cooperation between the two department types, and is an underlying factor in the outsourcing cases proceeding without taking into account frontline situation as described in III, 2 above.<sup>18</sup>

**D. The Organization Is Partially “Closed Off” Because Some Departments Have a Bias in the Banks from which the Employees Came from**

Organizations with extremely few personnel exchanges may accelerate their exclusiveness over time, which may in turn lead to a solidification or rigidity in the behavioral patterns and values of members of the organization as they unconsciously refuse to adopt new perspectives and values. Once such biased behavioral patterns and values take root, even if such behaviors and values are inappropriate, it will gradually become difficult to disagree with or oppose them, and the risk of the work environment becoming a ripe for the occurrence of misconduct will be higher.

Of the 38 departments of CBJ, there are 12 departments in which employees from

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<sup>18</sup> There were several responses in the Questionnaire Investigation stating to the effect that “the employees at the frontline feel uncomfortable since the planning and administration departments do not work from the perspectives of CBJ” and “There is a gap between the measures taken by the planning and administration departments and our understanding of the frontline situation.”

either former JTBSB or former TCSB account for 70% of the personnel in the department (employees from former JTBSB account for 70% of the personnel in nine departments, and employees from former TCSB account for 70% in three departments). Despite the fact that more than three years have passed since the business integration of former JTBSB and former TCSB, there are still many departments personnel structure of which is biased towards those from either of the predecessor banks, and it seems that personnel exchanges are not always actively carried out in such departments. In departments where the bias towards the former banks still exists, employees tend to stick with “partial optimum solutions” for matters relating to their own departments, and there is a risk of cooperation between the departments being blocked or restricted. As a result, it seems that the risk-sharing throughout the company was inhibited.

**(4) Lack of Internal Communication and Collaboration between Departments.**

The primary role of officers is to listen to the opinions of the frontline employees and make constant efforts to review the management policies and the feasibility of individual measures based on such policies by learning about the actual frontline environment and communicating with frontline employees. However, there were cases where the communication between officers and frontline employees was found to be insufficient.<sup>19</sup>

In addition, regarding management level discussions on the background of decision-making of the company policies, sufficient explanation was not given to the frontline employees from General Managers, who are at the middle-management level and expected to serve as a hub connecting frontline employees with the company management, and the frontline employees did not voice their opinions and problems, nor was there an adequate attitude of asking for clear explanations about the policies of the company. It can be said that, in the Administrative Work Outsourcing Case among the Examined Cases in III, 2 above, these problems took the form of frontline employees not fully understanding the requirements for outsourcing administrative work, etc. and their opinion about the burden on the frontline employees associated with outsourcing administrative work not sufficiently reaching company management.

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<sup>19</sup> For example, in frontline departments, there were several General Managers who had doubts or concerns about how to proceed with the Investment Trust System Integration. However, they did not express their opinions, and neither directors nor executives were willing to listen to the opinions of frontline employees, even though the directors and employees were aware that there was a delay in the integration schedule.

Furthermore, the Investment Trust System Integration could rather function to increase the workload of the operational departments if the system departments in charge proceed with the integration without fully examining the extent of the operational differences due to the specifications of the systems of former TCSB and the former JTTSB while cooperating with the operational departments. Nevertheless, the system departments in charge of the integration did not fully understand the operation of the operational departments, the users of the system, and did not examine the differences in workload that would arise in the operational departments after the Investment Trust System Integration was implemented. As a result, the burden on the operational departments rather increased, suggesting a lack of collaboration between the operational departments and the system departments.

In addition, during the Investment Trust System Integration, System Development Department 1, which was in charge of the system of the former JTTSB, moved forward with the systemization plan followed by the plan of the System Development Department 6, which was in charge of the system of the former TCSB. Since there was no time to define the requirements together, it was necessary for both system development departments to consciously communicate with each other to ensure that there were no discrepancies in understanding the way of proceeding with the Investment Trust System Integration. However, since the data conversion was proceeded by way of aligning the data specifications of former TCSB, the “provider,” to the data specifications of former JTTSB, the “receiver,” through the Company A, a vendor, the Company A needed to accurately understand the specifications of systems of both the former TCSB and the former JTTSB. However, such task is highly difficult for Company A and, even from that point on, although there were occasions when it was more efficient for both system development departments to communicate with each other directly, they communicated with each other only via the Company A and there were not many opportunities for these departments to directly communicate with each other. It can be seen that communication between these departments was not properly conducted.

##### **(5) Low Reliability of Whistle-Blowing System**

CBJ established a whistle-blowing system (the “**Compliance Hotline System**”) under the jurisdiction of the Compliance Department, and internally conducted questionnaire surveys on the Compliance Hotline System twice in 2022 and 2023 (respectively, the “**First Hotline Questionnaire**”, and the “**Second Hotline Questionnaire**”). In the result, the percentage of questionees who answered “Yes” to

the question, “If an employee makes any reports through the Compliance Hotline System, is the whistleblower adequately protected?” was only 44% in the First Hotline Questionnaire and 52% in the Second Hotline Questionnaire. In addition, in the Second Hotline Questionnaire, 109 questionees answered “Yes” to the question, “Have you ever thought of using the Compliance Hotline System but did not for some reason?” and the percentage of questionees who answered that they did not use the Compliance Hotline System because “they thought that there might be some disadvantage” or “they thought the situation would not be modified even if they would make a report” was 58%.<sup>20</sup>

Judging from the results of these questionnaire surveys, it can be said that CBJ’s employees did not have an adequate level of confidence in the Compliance Hotline System due to the concern that it would be disadvantageous to give a notification to the company through the Compliance Hotline System and the belief that the situation would not be improved even if they did make a report through the Compliance Hotline System. It could be possible that the low level of confidence of the employees in the whistle-blowing system prevented them from speaking up through the system, which in turn may be considered to be one of the factors behind the fact that the issues in the Examined Cases were not recognized within the company at an early stage.

#### **(6) Harmonization of Predecessor Banks Was Not Sufficiently Achieved**

CBJ is a bank that was established as a result of the business integration of JTSB and TCSB. By the nature of its establishment, this has meant that officers and employees with different background coexist in one entity, and the harmonization of the predecessor banks and the establishment of common corporate culture as CBJ are the issues that CBJ should continuously make effort to address.

Since the business integration in July 2020, CBJ has conducted “CBJ Kaizen Activities” for the purpose of promoting harmonization between two predecessor banks. CBJ also conducted the “Kaizen Project Introduction,” a sharing of projects and know-how of departments at the project sharing meeting, as well as CBJ community activities at the “Kaizen Square” to share know-how and expertise that is

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<sup>20</sup> Of these 109 employees, 11 responded that they did not use the Compliance Hotline System for events that may violate laws or internal regulations, but these questionee who also responded that they did not use the Compliance Hotline System because they “thought there might be some disadvantage” or “thought the situation would not be modified even if they would make a report” represented 64% of all respondents who gave such responses as the reason why they did not use the Compliance Hotline System.

distributed across the departments. Since then, various measures have been continuously taken in each department for specific operational improvement.

Nevertheless, in the employee awareness survey conducted by CBJ, the number of positive responses to the survey item “In your workplace, there is an atmosphere in which employees can play an active role without worrying about differences in employment form, what company the employee is seconded from, and which of the former banks the employee is from.” has decreased since its commencement in 2020. In addition, in the Questionnaire Investigation, 93 questionees answered “Yes” and 102 questionees answered “No” to the question, “Have you ever felt that there is a lack of communication among officers and employees of CBJ or any problems in operating the services due to the difference of which bank (former JTSB and former TCSB) they came from not only in a specific case?” and more than half of the questionees who answered “Yes” chose “since the rule and working practices were directly succeeded by CBJ as they were without any unification, the work efficiency is low” as the reason for their answers. It seems that both employees from the former JTSB and employees from the former TCSB feel stressed by the fact that the old rules and workflow are still remaining and do not match the actual operations of CBJ.

Consequently, CBJ has promoted efforts for the integration of the predecessor banks. However, even at the present stage, more than three years after the business integration of CBJ, there still exists some problems with the integration of the predecessor banks. It can be said that the certain distance between the employees from the respective predecessor banks in such circumstance have become a factor preventing the formation of a corporate culture in which employees can mutually express their opinions and address problems across the boundaries between departments and positions at work. This became a ground for the existence of an environment where it was difficult for employees to express their concerns even if they were aware of problems in the Examined Cases.

#### **(7) Employee Engagement Is Low, and the Workplace Is Not Satisfying.**

Since July 2021, CBJ has implemented measures for the improvement of employee engagement and SDGs, including employee engagement surveys, employee awareness surveys, installation of an officer opinion box, “town” meetings, “town hall” meetings, workshops and 360-degree evaluations, which were mainly conducted by the Employee Engagement Subcommittee, Human Resources & General Affairs Department, and the Corporate Strategy Department. Nevertheless, in the employee engagement survey implemented by CBJ, the scores of “Overall” and other items have

been below the benchmark since its commencement in February 2022. It can be said that there is room for improvement in every item that covers employee engagement.

In particular, with respect to the item “Philosophy and Strategy” which consists of sub-items: “(i) empathy with the corporate mission and vision, (ii) feel convinced with policies and business strategies of the company, (iii) confidence in the company management, and (iv) pride in the business and services,” since the commencement in February 2022, the scores for all of these sub-items have remained unchanged or decreased. This suggests that the company management of CBJ could not sufficiently communicate the aspirations of the company for the medium- to long- term and social significance of working at CBJ to the employees and that employees perform their duties without being truly convinced.

In addition, with respect to the item “Organizational Culture” which consists of sub-items: “(i) provision of career opportunities, (ii) culture of challenge, (iii) cooperation among departments, and (iv) appropriateness of admiration,” since the commencement in February 2022, the scores for these sub-items have remained unchanged or decreased. Especially, the score for “(ii) culture of challenge,” has remained at a low level. This suggests that, as a result of the increasing burden on the frontline employees and the situation where the opinions of the frontline employees have not been conveyed to the company management sufficiently, it was difficult to establish an environment which encouraged employees to actively cooperate with others to try new business activities and that the improvement of employee engagement was hindered.

#### **(8) Vulnerabilities in the Management System for Business Entertainment and Gifts**

Since CBJ is in the position of the buyer in outsourcing its business as an outsourcer to outsourced contractors, such as system vendors, there is less need for CBJ to provide entertainment to outsourced contractors. In this context, repeatedly providing entertainment and gifts (the “**Business Entertainment**”) to specific outsourcing contractors could create a risk of forming an inappropriate collusive relationship with such outsourced contractors, and the loss of sound outsourcing relationships. However, even if the Human Resources & General Affairs Department, which approved Business Entertainment by the Directors, and the Corporate Auditor, who received written request for approval of Business Entertainment that was approved by the Human Resources & General Affairs Department, were aware that there were many transactions between the former director and specific outsourced contractors, they

assumed that such Business Entertainment was necessary for smooth business implementation without assessing the risk of losing soundness in business, and did not raise concerns to the former directors because CBJ did not have clear standards on the limit of Business Entertainment before April 1, 2023.

Such vulnerabilities in the management system of Business Entertainment cannot be deemed to be the direct cause of the issues arising in the Examined Cases; however, it can be said that this should be carefully monitored and controlled in order not to create inappropriate collusive relationships with specific outsourced contractors.

#### **4. Summary**

As a result of the Review, various issues were identified in the Examined Cases: some of them were caused by deficiencies and non-compliance with the CBJ's rules regarding outsourcing management and others arose from the issues related to CBJ's governance and corporate culture. In particular, the fact that the officers of CBJ failed to carry out mutual check-and-balance functions or perform their supervisory function and detect the concerns of employees so as to openly acknowledge and solve problems at an early stage was the most serious issue.

The factors that obstructed the mutual check-and-balance functions of the officers and the detection of concerns of the frontline employees are as follows: (i) insufficient consideration of the check-and-balance functions and perspective of total optimization in the framework for appointing officers under the shareholders agreement and (ii) the personnel system that made it difficult to create incentives for the Executive Officers and General Managers to obtain the opinions of frontline employees, and a lack of internal communication and collaboration among departments resulting from such personnel system. In addition, the low reliability of the whistle-blowing system and low employee engagement suggest that an environment for presenting problems or raising issues was not sufficiently fostered. Taking the societal role of CBJ into consideration, it is desirable for CBJ, as a company with significant responsibilities as described above, to establish a robust governance structure, without attributing various issues identified in the Review as well as the CBJ Investigation Committee Cases which triggered the Review, to the compliance awareness or behavior of specific individuals. To achieve this, it is further desirable for CBJ to continue to maintain rules on governance and compliance, and to promote improvement, focusing on the factors that caused the above-mentioned issues regarding governance and corporate culture.

Determining the plan for the Non-Investment Trust System Integration and the execution thereof is the most important management issue presently facing CBJ. It is

also not exaggeration to say that the national government policy for “Promoting Japan as a Leading Asset Management Center” largely depends on CBJ’s success in completing the Non-Investment Trust System Integration. Given that CBJ plays a part in this significant project of Japan, it is the societal responsibility of CBJ to consider and implement measures to prevent the recurrence of the issues discovered in the Review and discussed in this Report. In V. below, the Committee makes proposals for improvement measures in light of the importance of the role that CBJ is expected to play and its current circumstances.

## **V. Committee Proposals regarding Improvement Measures**

### **1. Overview**

On July 12, 2023, CBJ established the CBJ Governance Reform Task Force for the purpose of responding to the issues mainly concerning outsourcing-related and other misconduct cases that were detected from the CBJ Investigation Commission Cases, as well as formulating and promoting measures to improve and upgrade its governance. Since then, CBJ has proceeded with consideration and implementation of measures to improve its governance, in cooperation with the shareholders.

Based on the issues discussed in IV. above, this section provides a summary of the efforts that the CBJ Governance Reform Task Force has made to date and the Committee's assessment thereof, and then describes the details of the Committee's recommended improvement and upgrading measures.

### **2. Enhancement of Outsourcing Management**

#### **(1) Improvement Measures Already Implemented by CBJ and Assessment Thereof**

##### **A. Introduction of Internal Approval (*Ringi*) Process for Selection of Outsourced Contractors**

In December 2022, the following problems existed at CBJ: (i) no comparative review of outsourced contractor candidates was ensured; (ii) the involvement of secondary checking departments, such as the Compliance Department, in outsourcing was limited; and (iii) whether consulting services were subject to the management of outsourcing management was unclear. Therefore, in response to the detection of the CBJ Investigation Committee Cases and the results of the investigation thereof led by the CBJ Investigation Committee, CBJ revised the Outsourcing Management Rules on July 1, 2023. Under these revised Rules, any department which conducts outsourcing is required to obtain internal approval (*ringi*) for their outsourced contractors selection in accordance with the categories set forth in Table 4 below when selecting outsourced contractors.

**Table 4: Outsourcing subject to Application of Internal Approval (*Ringi*) Process for Outsourced Contractors Selection**

Category	Scope of application
Outsourcing of administrative work	Work required to conduct core business <sup>21</sup> Outsourcing related to consulting
IT system-related outsourcing	Outsourcing related to consulting

In addition, as described in (a) and (b) below, a procedure for comparative review of outsourced contractor candidates by an acceptance/refusal check sheet has been introduced into the internal approval (*ringi*) of outsourced contractors selection, and the acceptance authority for the acceptance/refusal check sheet has been vested in a person who concurrently serves in the Compliance Department, whereby a secondary checking department was also introduced into the process of reviewing outsourced contractor candidates. Furthermore, it was made clear that the outsourcing of consulting services is subject to such internal approval (*ringi*), and with respect to consulting services, the department conducting outsourcing has also become required to execute a related contract with the outsourced contractor after such department obtains internal approval (*ringi*)<sup>22</sup>.

**(a) Procedures for Managing Outsourcing regarding Administrative Work**

When conducting new outsourcing<sup>23</sup>, with respect to any outsourcing related to work required to perform core business or consulting services, the outsourcing department must assess the appropriateness of the purpose, effectiveness and costs of the outsourcing, as well as the ability of the contractor to whom the work is being outsourced to conduct business and other related matters, in accordance with the acceptance/refusal check sheet. In addition, the outsourcing department is required to request the Senior Manager of the Processing Risk Management Office<sup>24</sup> of the Operations Planning Department, which is responsible for conducting the review

<sup>21</sup> Core business means banking business or trust business.

<sup>22</sup> Whenever the terms of an outsourcing contract are amended, internal approval (*ringi*) from the General Manager of the department conducting the outsourcing is required.

<sup>23</sup> Including cases where the terms of an outsourcing contract are amended and cases where the volume or scope of the outsourced operations is increased.

<sup>24</sup> The Processing Risk Management Office was established on April 1, 2023, and the Chief of the Processing Risk Management Office concurrently serves in the Compliance Department.

prescribed in the Outsourcing Management Rules, to review the acceptance/refusal check sheet<sup>25</sup>.

After the acceptance/refusal check sheet is approved by the Senior Manager of the Processing Risk Management Office, the outsourcing department must prepare a written request for the internal approval (*ringi*) for outsourced contractors selection and obtain approval from the persons who have approval authority based on the contract amount as set forth in the Outsourcing Management Rules.

After internal approval (*ringi*) for outsourced contractors selection has been obtained, the outsourcing department must attach the check sheet for the terms of the contract and other necessary documents to such written request for internal approval (*ringi*) and obtain internal approval (*ringi*) of the contract from the General Manager of the outsourcing department.

#### **(b) Procedures for Managing Outsourcing regarding IT Systems**

In the case of outsourcing regarding IT systems, the internal approval (*ringi*) for outsourced contractors selection is also required for outsourcing related to consulting services for IT systems, in the same manner as in the case of outsourcing regarding administrative work, and the authority to determine acceptance or refusal in the acceptance/refusal check sheet lies with the Senior Manager of the System Monitoring Office<sup>26</sup> of the System Planning Department.

However, in the case of outsourcing regarding IT systems, only outsourcing of consulting services for IT systems is subject to the internal approval (*ringi*) process for outsourced contractors selection<sup>27</sup>. Outsourcing related to work required to conduct core business requires approval by the System Development Council, instead of approval under the internal approval (*ringi*) process for outsourced contractors selection.

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<sup>25</sup> The items in the acceptance/refusal check sheet include check items related to estimates from multiple companies, and it is stipulated that estimates for the same work should be obtained from, in general, three or more companies, or at least two companies, to compare the quality and cost, and that the positions in the industry of the competing candidates for an outsourced contractor should also be specified.

<sup>26</sup> The System Monitoring Office was established on April 1, 2023. The Chief of the System Monitoring Office concurrently serves in the Compliance Department.

<sup>27</sup> The classification of the persons who have approval authority regarding the internal approval (*ringi*) for outsourced contractors selection is the same as that for outsourcing regarding administrative work.

## **B. Assessment Ranking System for Outsourced Contractors**

CBJ is proceeding with examining the introduction of an assessment ranking system for outsourced contractors in July 2024. Under this contemplated system, the outsourced contractors to receive a risk assessment ranking will be limited based on the type of services (such as administrative work for core business, consulting, or IT system development services) and a monetary limit or other standard (such as the outsourcing contract amount being equal to or above the contract amount for which approval from the officer with approval authority is required, or the business history of the outsourced contractor being less than three years). The outsourced contractors that comprise this pool will then each be given a score based on certain assessment criteria<sup>28</sup>. Based on the assessment ranking, additional measures for control over outsourced contractors would be implemented by the department conducting the outsourcing. Moreover, in connection with the introduction of such an assessment ranking system for outsourced contractors, CBJ is considering creating an internal structure that would ensure the outsourcing management by secondary checking departments, by newly establishing an Outsourcing Management Section, which would specialize in performing management and control of outsourced contractors.

## **C. Thorough Dissemination of Requirement for Prior Approval of Contracts and Introduction of a System for Checking by Compliance Managers**

In the All-out Survey conducted by the Compliance Department and the Risk Management Department, the following causes of delay in the internal approval (*ringi*) process were identified: (i) insufficient awareness of complying with requirements under the rule, (ii) inadequate management of deadlines, (iii) insufficient development of procedures and methods, and (iv) insufficient check-and-balance functions. The recurrence prevention measures set forth in Table 5 below have been taken for each of such causes.

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<sup>28</sup> It is presumed that each outsourced contractor will be given a score based on assessment criteria such as the ability to conduct business, effectiveness of the outsourcing (whether the initially expected results were achieved) and cost effectiveness (the amount of outsourcing costs and whether the quality of services provided is commensurate with such costs).

**Table 5: Measures for Preventing Delay in Internal Approval (*Ringi*) Process**

Cause of delay	Recurrence prevention measures
Insufficient awareness of complying with requirements under the rule	<ul style="list-style-type: none"><li>• Thorough dissemination within CBJ of prohibition of (i) commencement of outsourcing prior to approval and (ii) retroactive internal approval (<i>ringi</i>) for outsourcing</li><li>• Dissemination within CBJ of the results of the All-out Survey and recurrence prevention measures</li></ul>
Inadequate management of deadlines	<ul style="list-style-type: none"><li>• Clarification of deadline management responsibility of Outsourcing Managers<sup>29</sup> and clarification of the procedural flow</li></ul>
Insufficient development of procedures and methods	<ul style="list-style-type: none"><li>• Formulation of rules on conditional approval procedures</li></ul>
Insufficient check-and-balance functions	<ul style="list-style-type: none"><li>• Reinforcement of checking functions by the Compliance Managers<sup>30</sup> and voluntary inspections</li></ul>

#### **D. Enhancement of Managing Subcontractors**

In December 2023, CBJ revised the guidelines for management of outsourcing of administrative work in order to strengthen the monitoring of subcontracting. Specifically, the following procedures have been stipulated: (i) “reasons for subcontracting” and “reasons for selection of subcontractor” have been added to the items to be verified when seeking prior approval for a subcontractor; (ii) when an outsourced contractor is required to prepare a written subcontractor evaluation report, the outsourced contractor is required to confirm the position of the subcontractor in the industry, whether the subcontractor has actually accepted outsourcing from other companies, reputation of the subcontractor, certainty of complying with delivery deadline, measures to be taken by the subcontractor for busy periods or in the case of an emergency, and risk management system of the subcontractor; (iii) information regarding the business execution status and deliverables of the subcontractor are

<sup>29</sup> Outsourcing Managers are managers who coordinate the entire department involved in outsourcing, and are appointed by the General Manager of each department.

<sup>30</sup> Compliance Managers are persons who conduct compliance-related matters and other related actions in each department based on the instructions and policies of the Compliance Department, and are appointed by the General Manager of each department.

required to be obtained and confirmed through the direct outsourced contractor; and (iv) when necessary, an on-site inspection of the subcontractor is to be conducted accompanied by the direct outsourced contractor.

## **E. Assessment**

As stated in A through D above, after the detection of the CBJ Investigation Commission Cases, CBJ introduced the internal approval (*ringi*) process for outsourced contractors selection; considered introducing an assessment ranking system for outsourced contractors; thoroughly disseminated within CBJ the requirement for obtaining prior approval of outsourcing contracts and introduced procedures for checking by Compliance Managers; and introduced measures for managing subcontractors.

Among these measures, the introduction of the internal approval (*ringi*) process for outsourced contractors selection and the evaluation of (i) the appropriateness of the purpose, effectiveness and costs of the outsourcing, (ii) the business execution ability of the outsourced contractor and (iii) other matters relating to the outsourced contractor, which has been implemented through the acceptance/refusal check sheet, are reasonable measures from the perspective of ensuring the rationality and transparency of the selection of outsourced contractors, in addition to ensuring that review of the purpose and necessity of outsourcing is appropriately conducted.

Both the potential introduction of an assessment ranking system for outsourced contractors and the introduction of procedures for checking by Compliance Managers with respect to obtaining prior approvals have contributed to the strengthening of control by secondary checking departments over the outsourcing departments and can thus be considered as reasonable measures. In addition, in the process of considering the introduction of the assessment ranking system for outsourced contractors, CBJ adopted a risk-based approach using the human resources of the risk management departments with the aim of enhancing control to the extent feasible. In this regard, efforts have been made by CBJ to avoid the situation where the introduced control measures would be ineffective. Such measures can therefore be considered as appropriate.

## **(2) Proposals**

### **A. Enhance Management of System-Related Outsourcing**

Internal approval (*ringi*) for outsourced contractors selection regarding system-

related outsourcing applies only to consulting services; not to outsourcing of the services that are necessary for work required to the core business. In this regard, CBJ has explained that rational judgment has been ensured because discussions are held on the System Development Council. However, the related regulations do not specifically stipulate either the items to be deliberated or the criteria for selection of contractors on the System Development Council. In order to clarify the deliberation criteria and ensure that decision-makers regarding outsourcing are regulated by rules, it is necessary to consider that outsourcing of the businesses that are necessary for work required to conduct the system-related core business should be subject to the seeking of internal approval (*ringi*) for outsourced contractors selection or that deliberation criteria on selection of outsourced contractors should be clarified in the regulations of the System Development Council.

#### **B. Enhance Monitoring by Secondary Checking Departments**

The Senior Manager of the Processing Risk Management Office within the Operations Planning Department is responsible for reviewing approval/refusal check sheets regarding outsourcing of administrative work, and the Senior Manager of the System Monitoring Office within the System Planning Department is responsible for reviewing approval/refusal check sheets regarding system-related outsourcing. These Section Chiefs are concurrently in charge of the Compliance Department. However, both of the Section Chiefs belong to the Operations Planning Department and the System Planning Department, i.e., the Section Chiefs are evaluated by the said departments and officers in charge. Accordingly, with respect to outsourcings the amount of which is less than JPY 100 million and with respect to which the right of approval lies with the officers in charge or the General Manager, the review and seeking of internal approval (*ringi*) of approval/refusal check sheets are completed on the reporting line of the Operations Planning Department or the System Planning Department, and thus we are unable to give the assessment that checks and balances by the secondary checking departments have been functioning perfectly.

In order to cause the secondary checking departments to participate in review of approval/refusal check sheets and keep in check the exercise of rights of approval by the General Managers of the System Planning Department and the Operations Planning Department and officers in charge, it is necessary to reconsider who should conduct the review of approval/refusal check sheets. In addition, the fact that there is no department in charge of monitoring the entire process of outsourcings on behalf of the secondary checking departments is an issue in relation to which CBJ must

immediately consider measures.

### **C. Prepare a Management System for Conflicts of Interest**

CBJ generally prohibits transactions in which there is a conflict of interest between its Directors and Executive Officers and CBJ. However, in each outsourcing case, no system has been prepared to prevent transactions in which there is a conflict of interest between the Directors and Executive Officers and CBJ.

In order to prevent improper outsourcings that may result in a conflict of interest, it is worth considering introducing a system in which (i) the possibility of a conflict of interest is examined in the process of selection of outsourced contractors and upon approval of subcontractors and (ii) consultation can be made with the risk management departments if concerns arise. Nevertheless, in order to enable confirmation of the possibility of occurrence of a conflict of interest between officers or employees of CBJ and outsourced contractors at the time of approval of outsourcing, it is necessary to collect a certain amount of information in advance. Therefore, it is necessary to consider what kind of information is necessary for the examination and also to consider the methods of collection and confirmation of the information.

### **D. Effective Management of Subcontractors**

In order to enhance monitoring of subcontractors, it is important to effectively execute the provisions mentioned in (1) D above.

In addition, different from the selection of contractors that is subject to the seeking of internal approval (*ringi*) for outsourced contractors selection, with respect to selection (and approval) of subcontractors, there is no system, at this point in time, in which a department other than that in charge of outsourcing is involved in order to assess the appropriateness and reasonableness of such selection of subcontractors; neither is there a system for confirming whether the review of the evaluation is being appropriately conducted based on the business performance, etc., of subcontractors. Therefore, we believe that a system should be established whereby a department other than that in charge of outsourcing can keep subcontracts in check.

## **3. Consideration of Medium-to-Long-Term Human Resources Strategy and Drastic Improvement of Corporate Culture Reform**

### **(1) Overview**

Although the Committee has referred to the issues regarding “personnel affairs” in

its proposal, many of these issues will not be sufficiently solved by mere narrow consideration of personnel measures by only the Human Resources & General Affairs Department and officers in charge, i.e., many of these are issues that are related to the medium-to-long-term management strategy that is required to be addressed by all of CBJ's management members, while adequately communicating with the shareholders of CBJ.

The management members of CBJ are responsible for earnestly reviewing the business model and business strategy of CBJ and considering and implementing an appropriate human resources strategy and human resources management linked to such human resources strategy.

It is also important for the management members of CBJ to communicate to employees in their own words how such considered and formulated human resources strategy can be connected with the business strategy, because such direct communication will ultimately result in the improved corporate culture, such as enhanced internal communication and employee engagement.

Based on the assumption that the issues regarding "personnel affairs" pointed out by the Committee are the issues related to the business strategy and human resources strategy, we propose as follows in order to further enhance the improvement measures CBJ has been taking.

## **(2) Review and Implementation of Human Resources Strategy to Enhance Mutual Supervision and Check-and-Balance among Officers**

### **A. Improvement Measures Implemented by CBJ and Assessment Thereof**

As part of the improvement measures taken based on the CBJ Investigative Committee Cases, CBJ considered and took measures such as comparing the skill matrix for Directors with that of other companies, abolishing the Coordination Meetings of the Board of Directors, improving the operation of the Executive Management Committee and training officers in relation to systems. These improvement measures can be evaluated as efforts instrumental in enhancing the function of mutual check-and-balance and supervision among officers.

### **B. Proposals**

#### **(a) Promote in-depth Discussions on Composition of Directors and Corporate Auditors and Communication with Shareholders**

In order to further promote discussions and enhance mutual check-and-balance and

supervision among officers, CBJ should continue to strategically discuss the composition and skill matrices in respect of the Directors and Corporate Auditors based on the viewpoint above and should consider a composition that can ensure the total optimization of CBJ. CBJ should also consider promoting communication with shareholders regarding election of the Directors and Corporate Auditors.

In this regard, on the major premise that CBJ considers a composition of the Directors and Corporate Auditors that can ensure the total optimization of CBJ, it is necessary (i) to clarify the medium-to-long-term business strategy based on CBJ's corporate philosophy and identify the materiality (i.e., material issues) to be solved based on such strategy, and then, based on this, (ii) to visualize, by using skill matrices, etc., officers' skills, qualifications and knowledge, etc., required to achieve the first prong, and (iii) to examine whether those skills, qualifications and knowledge, etc., are satisfied by the composition of the current Directors and Corporate Auditors;<sup>31</sup> and then, (iv), it is important to continue to thoroughly communicate with shareholders in order to achieve the desired composition of the Directors and Corporate Auditors by clearly indicating to shareholders the desired composition of the Directors and Corporate Auditors, and the skills, qualifications and knowledge, etc. of candidates that have been identified as a result of the examination.<sup>32</sup>

In addition, CBJ should consider further ensuring the diversity of the background of the Corporate Auditors and External Directors, who are above all expected to be responsible for keeping in check and supervising the execution of business by Managing Directors (for example, diversifying by adding persons who have a background in IT systems, legal affairs, compliance and risk management and the like) in order rigorously to keep in check and supervise the execution of business by Managing Directors from multiple aspects.

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<sup>31</sup> In the examination, it is important to continue to review optimal composition for CBJ based on the medium-to-long-term perspective, taking into account diversity and balance in the background of the Directors and Corporate Auditors.

<sup>32</sup> Upon initiating the above-mentioned examination and communication with shareholders, it is also worth considering placing more importance on the function of the Performance Evaluation Committee, which is responsible for election, dismissal, and evaluation of business performance of Directors and having the Performance Evaluation Committee play a central role in such election, dismissal, and evaluation of business performance of Directors.

**(b) Enhance Methods for Sharing Information with External Directors and Corporate Auditors**

The Board of Directors and the Executive Management Committee of CBJ have held discussions on a number of highly specialized and complex system matters. The number of system matters that are to be discussed on the Board of Directors and the Executive Management Committee is expected to further increase because, going forward, regarding the Non-Investment Trust System Integration and renewal of the NICE Infrastructure is going to be discussed further and the governance regarding outsourcing and system matters, etc. has been enhanced. Therefore, it is important to simplify the content of documents to be submitted to the Board of Directors and the Executive Management Committee and to clarify points for discussion there. It is also important to proactively consider enhancing human resources within the Corporate Strategy Department, which is in charge of preparation of such documents to be submitted to the Board of Directors and the Executive Management Committee. In addition, it is worth considering regularly evaluating the effectiveness of the Board of Directors and providing opportunities for evaluating and examining the effectiveness of the Executive Management Committee in order to continue to identify and improve the above-mentioned issues related to the operation of the Board of Directors and the Executive Management Committee.

**(3) Review of Human Resources Strategy for Executive Officers and Employees and Personnel Measures based on Such Strategy**

**A. Improvement Measures Implemented by CBJ and Assessment Thereof**

In October 2023, CBJ revamped its personnel system (including improved treatment of personnel and support for career development). With regard to the improved treatment, CBJ provided across-the-board increase in the monthly base salaries for all of the permanent employees and transferred employees who were in managerial positions. In addition, a new position of “Manager” was created to provide opportunities for non-managerial employees to experience management duties on a small-scale basis, and across-the board increase in the monthly base salaries was provided to all of the employees in the said position of Manager. Moreover, base salaries were raised for non-managerial employees demonstrating a high level of expertise.

With regard to the support for career development, CBJ identified “development of genuine professional human resources” as an issue to be tackled and has been taking

new measures, such as (a) demonstrating career models to employees, (b) requesting employees to describe their desired future career plans in career development sheets, (c) holding trainings for career development and, in parallel with (a) through (c), (d) holding one-on-one meetings with the General Manager in charge of career plans, (e) holding discussions on each employee's career plan and on personnel rotation at meetings regarding human resources development, and (f) formulating a personnel rotation plan based on such discussions. Going forward, in principle, CBJ plans to implement cross-departmental personnel rotations approximately every four years for each employee.

These measures taken by CBJ are considered to be effective measures to support the career development of each employee. Nevertheless, in the employee survey on the revamp of the personnel system conducted in February 2024, nearly 40% of employees responded that they felt no interest in managerial duties and were not in favor of the policy on the support system for career development. Therefore, it is necessary, as a key issue, for CBJ to continue to engage in improvement of employees' awareness of human resources strategy and career development support. We recommend incorporating the following proposals in order to heighten employees' awareness of the personnel measures CBJ has been implementing and to further enhance the current measures.

## **B. Proposals**

There remain deep-rooted issues regarding the arrangement and operation of CBJ's personnel system, such as a gap between permanent employees and Seconded Personnel, etc. and bias in terms of which company's employees came from. In order to thoroughly alter the awareness of officers and employees of such deep-rooted issues, we hereby propose the following improvement measures.

### **(a) Review Personnel Affairs regarding Executive Officers**

As with personnel affairs regarding Directors, consideration is required to be given to personnel affairs regarding Executive Officers, taking into account the "total optimization" for the entire company.

If there is still no CBJ permanent employee who has the skills required for Executive Officers, CBJ will need to make a request for secondment of employees from its shareholders. In that case, it is extremely important to clearly indicate to the shareholders the skills required as Executive Officers. Nevertheless, continuing to rely on secondees from the shareholders because the permanent employees of CBJ

have not been developed would result in depriving the permanent employees of CBJ of opportunities for career development. Therefore, it is important to designate the development of permanent employees as an urgent issue, and it is important to indicate to employees that CBJ has been proactively considering appointing the permanent employees to the position of Executive Officer or above and implementing career development support; for example, by providing a role model in which a position of Executive Officer or above is set as the ultimate point of attainment that employees should seek and formulating and implementing a training program for executive candidates.

**(b) Enhance Improvement Personnel Measures for Managerial Positions**

In order to develop managerial personnel who are well versed in CBJ's business, based on a medium-to-long-term perspective, it is desirable for CBJ to proactively promote permanent employees in the future. To that end, CBJ needs to consider human resources strategy in a more proactive manner. Considering the fact that there is an increase in the number of permanent employees in certain seniority who left the company, it is imperative to give deliberate consideration and implement measures to develop human resources who will become candidates for General Manager in the future. For example, it is advisable to hold town hall meetings and workshops regarding enhancing employee engagement for employees regardless of grade; and to identify concerns and worries of employees who will become candidates for General Manager in the future; to select several employees who are expected to become managerial personnel in the future, and to hold discussions on the Executive Management Committee, etc. regarding the present performance and desirable next assignments and the like for such selected employees; and to implement career development for each employee across CBJ.

It is also worth considering proactively appointing as General Manager permanent employees who have the necessary capabilities and qualities, even if they have not reached the age at which employees were previously eligible to be appointed as General Manager. In order to promote the appointment of permanent employees as General Manager, it is necessary to review the personnel evaluation system in such a manner that evaluation and treatment become commensurate with the assignments, achievements and contributions of each employee. In addition, it is important to more proactively evaluate permanent employees who will become candidates for General Manager and permanent employees who are not in managerial positions but have a high level of expertise, and to endeavor to prevent such employees from leaving CBJ.

In addition to further enhance the above-mentioned development and personnel evaluation of permanent employees, it is also important to enhance awareness of Seconded Personnel, etc. from the shareholders of CBJ's businesses. In this regard, although CBJ has implemented such enhancement to a certain degree, it is advisable to continue to enhance personnel exchanges with the shareholders in order to develop personnel at the shareholders who are well versed in CBJ's businesses, based on the medium-to-long-term perspective. Specifically, it is worth considering more proactively introducing a system in which CBJ is able to develop, as planned, the capabilities which are required in the planning and administration departments of CBJ; for example, by requesting the shareholders to proactively second their younger employees to frontline departments of CBJ and have such secondees experience onsite work at CBJ before returning to the seconding shareholder, and subsequently to re-second such returners to the planning and administration departments of CBJ.

**(c) Promote Further Personnel Rotation to Eliminate Closed Organization**

As a way to eliminate a closed organization in which there has been the bias in terms of which company the employees came from and few personnel exchanges across departments have taken place, it should be further examined as to whether certain members of each department should be replaced. In this regard, CBJ has concerns about cross-departmental personnel exchange between departments where the IT systems developed or to be used differ due to the uncompleted Non-Investment Trust System Integration, since such personnel exchanges would adversely affect the efficient operations and the career development of employees. Although this concern of CBJ can be understood to some extent, in light of the current situation where the Non-Investment Trust System Integration is a long-term project aiming for completion until the subsequent deadline for the NICE Infrastructure Renewal, such rigid personnel management may create the risk of maintaining and encouraging a closed organization and personalized business operations, which, in turn, could create an environment in which misconduct could occur. Therefore, overly taking into account the above concern, as considering with the personnel exchanges until the completion of the system integration would not seem to be an advisable approach.

Accordingly, although CBJ has already examined and implemented certain cross-departmental personnel rotations, it should continue to examine measures to improve the closed organization environment, such as, for example, periodically replacing personnel served as certain managerial positions, by paying greater attention to the departments where personnel are becoming more fixed and unmovable due to, among

other things, the bias in terms of which company the employees came from. Employees who used the former TCSB systems were required to adjust to the IT system integration without being given the opportunity to become familiar with the former JTSB systems. Therefore, given that there was a great deal of confusion in the frontline departments immediately following the introduction of the integrated IT systems when implementing the Investment Trust System Integration, for the purpose of enabling personnel to become familiar with new IT systems that will be implemented after the Non-Investment Trust System Integration, the need to make certain personnel exchange ahead of such integration would seem high.

#### **(4) Promotion of Internal Communication**

##### **A. Improvement Measures Already Implemented by CBJ and Assessment Thereof**

First, as to the issue of communication between officers and frontline employees, CBJ has implemented measures to eliminate the gap between them, such as the President & Representative Director holding interviews with each section of each department, and the installation of the officer opinion box to continuously collect opinions from employees, as the “Measures to bring employees and executives close together.” These measures may be considered suitable in response to the problem that proactive efforts had not been sufficiently made by the officers to grasp the actual situation and opinions of the frontline employees.

In relation to the issue of communications between General Managers and frontline employees, in December 2023, CBJ implemented a measure whereby it held a review meeting on the next medium-term management plan and each Department Manager explained the future aspirations for CBJ, and exchanged their views with Directors and related General Managers. CBJ also implemented measures to provide 360-degree evaluations of officers and supervisors, and to provide feedback on these evaluations. These measures are appropriate in response to issues such as the fact that General Managers themselves are unaware of the reasons and purpose of the company’s policy decisions, and therefore they are unable to communicate the management policies to the employees below the rank of Senior Manager in their own words, and that there are employees below the rank of Senior Manager who feel that their General Managers are focusing on their relationship with the management for career advancement and disregard dialogue with their subordinates.

In addition, under the “thinking while driving” approach used in the implementation of the Investment Trust System Integration, that is, advancing the IT system

integration rather than considering the impact of the integration, and responding to issues as they arose, completion of the IT system integration was prioritized, and due to the lack of communication between the operational departments and system departments, the burden on the operational departments was greater than anticipated. In response, in order to realize the Non-Investment Trust System Integration, CBJ has established an organizational structure that mixes the personnel involved in the integration, and has commenced measures which enable the formation of career paths that cannot be completed by working only in either system departments or operational departments. These measures are useful for promoting mutual understanding between the operational departments and system departments and can be described as appropriate measures.

## **B. Proposals**

First, in terms of promoting communication between officers and frontline employees, it is desirable to enhance measures, such as: (i) all officers engaging in regular dialogue with employees and each officer being committed to dialogue with employees; (ii) the ideas of each officer regarding the management being disseminated regularly through e-mail and other means; (iii) when officers give specific instructions to frontline employees through the General Managers, conveying the intention behind such instructions through the General Managers; (iv) employees being given positive feedback to their opinions such as by introducing an opinion of an employee to the entire company, so that they do not feel “nothing will change if one expresses their opinion”; and (v) officers actively visiting frontline employees and creating opportunities for frontline employees to communicate their opinions.

From the perspective of promoting communication between General Managers and frontline employees, it is worth considering the following measures: (i) conducting management training for General Managers to have them understand the management policy, and holding sessions among General Managers and, as the case may be, with the officers, to discuss the ideal approach for General Managers to communicate management policies to subordinates below the rank of Senior Manager in an easy-to-understand manner; (ii) fostering a common understanding within each department by all employees, including General Managers and Senior Managers, through discussions regarding the approach and management policies of the company; and (iii) reflecting the results of 360-degree evaluations in the personnel evaluation of General Managers, and designing incentives for General Managers to emphasize dialogue with frontline employees.

In terms of promoting communication between operational departments and system departments, in order to ensure sufficient opportunities and time for communication between these departments at the stage prior to starting any system development and integration, it is desirable that the IT system development and integration schedules ensure sufficient time for both sides of departments to discuss the content of the IT system development and the resulting changes to the operations of the operational departments. Furthermore, as the Non-Investment Trust System Integration will be conducted over the long time until the subsequent deadline of the NICE Infrastructure Renewal, it is anticipated that the operations associated with the respective IT systems of the former JTSB and the former TCSB will change. Therefore, it is desirable to continue to provide opportunities for the system departments and operational departments to regularly check each other's operations and to exchange their respective views.

#### **(5) Promoting Harmony between Former Banks**

Since the business integration in 2020, CBJ has been providing opportunities for officers and employees from the former banks which merged to create CBJ to understand each other through the "CBJ Kaizen Activities." It can therefore be said that the foundation for the officers and employees of the former banks to foster a certain level of communication between them has been established in CBJ.

Nevertheless, it seems that there are still a certain officers and employees in CBJ who feel there are problems related to the harmonizing the former banks. Therefore, going forward, in addition to establishing a forum for communications, it is crucial to consciously build and develop mechanisms to achieve harmony between the personnel from the former banks in the ordinary course of business. Specifically, in addition to steadily integrating various operations, it is also important to strengthen cross-organizational collaboration by flexibly implementing active cross-departmental personnel exchanges while enhancing human resources and improving operational efficiency, in addition to consolidating the organizational structure of department that are currently divided.

Furthermore, even after establishing the above-mentioned structures, it will also be useful to regularly monitor the status of the rules and the efficiency of operational flows, etc., and to continuously review the issue of whether there is an excessive burden on the frontline employees due to the business operation methods of the former banks.

## **(6) Enhancing Employee Engagement and Job Satisfaction**

CBJ obtains information on and analyzes the actual state of employee engagement through employee engagement surveys and employee awareness surveys, and then makes certain efforts to improve employee engagement. While these are considered to be effective efforts, there is still room for further enhancing employee engagement.

First, regarding the fact that company management has not fully communicated to employees the company's medium-to long-term aspirations and the social significance of its business, and that employees do not comprehensively understand either of these, it is important for company management to clarify to employees the position that custody services in CBJ are highly specialized and differentiated, and play a key role in realizing "Policy Plan for Promoting Japan as a Leading Asset Management Center" promoted by the Japanese government. At the same time, it is important to continue to concretely convey to employees the fact that various initiatives are essential elements in supporting their missions in a manner linked to their day-to-day operations, and to foster an enabling environment for employees to truly understand the meaning of their existence as employees and the social significance of their work.

Regarding the fact that the burden and opinions of frontline employees are not sufficiently conveyed to the management, while reducing excessive burdens in the work of employees, it is necessary to establish a mechanism by which the information necessary for company management to understand the frontline situation is shared appropriately and in a timely manner in order to enhance the sense in the employees themselves that their opinions and ideas are reflected in the decision-making processes of the company and contribute to the development of the company, and to ensure the opportunity to carefully understand the actual situation of the work burden on the frontline and the opinions of the employees.

It is beneficial to conduct regular monitoring of the effectiveness of the measures described above and their impact on employee engagement. To that end, for example, it is worth considering conducting review by third-party experts.

## **4. Strengthening of Internal Audit Function**

### **(1) Improvement Measures Implemented by CBJ and Assessment Thereof**

CBJ is currently considering shifting audit resources from the conventional audit operation centered around fixed and uniform general audits which focus on auditing and monitoring through "dialogue" with frontline departments to a regular monitoring and audit operation centered around permanent and risk-based thematic audits. These

efforts can be evaluated as effective initiatives that can be expected to identify risks in a more timely manner and in line with actual conditions at the frontline.

Since January 2023, CBJ has expanded the collaboration between the Internal Audit Department, and company management and second-line departments. These efforts can be regarded as being effective for company management, the first-line departments and second-line departments for the implementation of risk-based internal audits based on risk perceptions and risk realities, as well as for the timely coordination between company management and the second-line departments on issues detected in internal audits.

## **(2) Proposals**

Currently, CBJ is making various efforts to strengthen governance based on the CBJ Investigation Committee Cases, in addition to the ongoing projects which are of high importance such as the Non-Investment Trust System Integration and NICE Infrastructure Renewal Matter, etc. The Internal Audit Department is required to effectively monitor the implementation status of these projects and improvement measures and to exercise internal audit functions. Accordingly, the need to expand resources, including increasing the number of members of the Operations Audit Department, should be continuously discussed and considered with management.

In addition, employees in the current Internal Audit Department are comprised of senior people aged in their late 40s to late 60s (average age: 58.4). Given the risk that internal audit functions will decline due to the retirement of employees with extensive knowledge of the internal audit operations of CBJ, it is necessary to build and consider a system that enables the internal audit functions of CBJ to be fully exercised over the medium to long term and sustainably, such as increasing the number of mid-level employees, and the training and succession of know-how of mid-level employees.

## **5. Thorough Budget Management**

It is worth considering the introduction of a mechanism for examining the estimated amount of costs and returns on individual investment projects including outsourcing, and examining them in advance with objectivity and rationality, in light of the fact that, under the revenue and expenditure structure in CBJ, incentives for cost reductions may be reduced, and that it has been confirmed that the awareness of budget management in individual investment projects, such as outsourced projects, is weak. In addition, it is also important to thoroughly manage the future prospects after the execution of investment projects, confirm the actual costs incurred and the returns obtained, and

analyze the causes of any discrepancies between the cost estimates and the return forecasts during the preliminary examination stage.<sup>33</sup>

It is also necessary to consider the introduction of a mechanism for monitoring and ex-post verification by second and third-line departments such as the Compliance Department and the Internal Audit Department with regard to the above series of processes for budget management.

## **6. Improved Measures Implemented by CBJ regarding Business Entertainment and the Assessment Thereof**

Prior to April 1, 2023, rules concerning the Business Entertainment in CBJ were stipulated in the “Management Guidelines for Business Entertainment” (the “**Business Entertainment Management Guidelines**”) and the “Handling Guidelines for Execution of Business Entertainment of Directors and Corporate Auditors” (the “**Directors’ Business Entertainment Guidelines**”). In response to the detection of the CBJ Investigation Committee cases, however, the Business Entertainment Management Guidelines were revised on April 1, 2023.

First, in the Business Entertainment Management Guidelines prior to the revision (the “**Previous Business Entertainment Management Guidelines**”), officers to whom the guidelines applied were “officers other than Directors and Corporate Auditors (i.e., Executive Officers).” Business entertainment and other activities conducted by Directors or Corporate Auditors without accompanying employees were managed in accordance with the Directors’ Business Entertainment Guidelines. In this regard, the Business Entertainment Management Guidelines has changed the scope of application to “Directors (excluding External Directors) and Executive Officers (including Senior Adviser)” in accordance with the above revision and the departments with jurisdiction have been consolidated into the Compliance Department. As a result, the Business Entertainment Management Guidelines now apply except for cases where Non-Operating Executive Officers (External Directors and Auditors) conduct the Business Entertainment on their own, and it has also become necessary to consult with and obtain the approval of the Compliance Department regarding Business Entertainment provided

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<sup>33</sup> From the viewpoint of thoroughly managing the budget as described in the main text, it is also necessary to clearly state in internal rules, etc. that the prohibition of allocating the budget of other projects with spare capacity to balance the overall budget should be further prohibited in the event that the initial budget is exceeded in a given investment project, and to consider thoroughly disseminating this rule and practice throughout the company.

by the Directors on their own.

Second, among the Business Entertainment conducted by persons subject to the Previous Business Entertainment Management Guidelines, only when they provide the Business Entertainment to a system vendor, it was necessary to consult with the Compliance Department before the Business Entertainment would be provided. However, such consultation was not required when the Business Entertainment was provided to an outsourced contractor other than a system vendor. In this respect, the above revision requires that all exceptional Business Entertainment with outsourced contractors provided by persons subject to the Business Entertainment Management Guidelines must be discussed with the Compliance Department, and this is not limited to the Business Entertainment with system vendors.<sup>34</sup>

The Business Entertainment with outsourced contractors was generally prohibited under the Previous Business Entertainment Management Guidelines, but it was allowed under certain conditions in cases where “it is truly unavoidable.” However, there were no clear standards for the maximum number of conducting the Business Entertainment. In this respect, it was clarified by the above revision that in light of the “general prohibition” on conducting the Business Entertainment, the acceptance of the Business Entertainment from the same party in unavoidable cases shall, in general, be limited to once per calendar year.

Furthermore, in accordance with the revised Business Entertainment Management Guidelines, the Compliance Department conducts monitoring to confirm that the Business Entertainment being provided properly in CBJ, reports from the Compliance Department are made semi-annually to the President & Representative Director, and the results of the monitoring are also circulated to the Deputy President & Representative Director, the Corporate Auditor, and the Internal Audit Department.

These revisions are considered to be effective in preventing collusion with specific contractors. In addition, based on the fact that the number of Business Entertainment provided to a party is now generally limited to one in accordance with the Business Entertainment management Guidelines at the time of the preparation of this Report, it can be evaluated that reasonable measures have been taken and operations are being conducted based thereon. It is important to continue to appropriately monitor the compliance with the Business Entertainment Management Guidelines.

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<sup>34</sup> It is required to make a prima facie explanation to the effect that such Business Entertainment does not affect decisions and determinations concerning the transaction before approval for Business Entertainment can be given.

## **VI. Conclusion: Promoting Dialogue and Strengthening Collaboration with Shareholders**

CBJ has implemented various improvement initiatives. Needless to say, it is important not only to formulate and implement improvement measures, but also to move forward to realize the philosophy of the company, which is that the company contributes to the sound development of the economy and society through officers and employees making a concerted effort to play a role in the development of the asset management business and the formation of the assets of Japanese people, with the reform measures understood by each employee working on the frontline. To this end, the message from the top management is important; however, it is also important for mid-level managers to deepen their understanding by talking to their subordinates in their own words about company's policies and exchanging opinions among them. In addition, it is necessary to constantly examine whether the improvement measures have permeated throughout the company and had a resulted in actual effect, thereby unceasingly continuing a positive cycle of implementing greater improvement.

The relationship with the shareholders underlies the issues related to CBJ's governance and corporate culture. In considering the ideal state of CBJ in the future, it is inevitable that CBJ will continue to engage in dialogue with its shareholders and strengthen collaboration with them.

In light of CBJ's earnings structure and its executive personnel structure, CBJ will need to make personnel and physical investment decisions while respecting the intentions of its shareholders, and the shareholders will express their opinions on them as necessary. However, since each shareholder and CBJ are not in a relationship of wholly owned parent company-subsidary, shareholders do not make all the management decisions of CBJ on their own initiative. CBJ is required to make all necessary management decisions as a stand-alone company. It can be said that such requirement will be strengthened further as CBJ develops independently while entrusted with asset-management operations from customers other than shareholders in the future.

At present, however, the preparedness required for CBJ to become self-reliant as an asset administration bank, including system integration, has not been completed, and it can be said that CBJ is now in a so-called "transitional period" of its development. Therefore, it is essential to engage in necessary dialogue with shareholders and obtain appropriate cooperation from them.

However, in the current situation, the level of communication with shareholders is inadequate. It seems that sufficient discussions to realize the optimal management of CBJ, such as substantive discussions with Major Shareholders considering total

optimization of CBJ in the process of electing officers, have not been conducted.

In order for CBJ to develop while achieving both engagement by shareholders and independent decision-making in the future, in the present “transitional period” stage of CBJ it is expected that CBJ will provide appropriate information to shareholders while remaining cognizant of the fact that CBJ aims to conduct business independently in the future. This can be achieved by, for example, providing careful explanations and encouraging questions and answers on facts that form the premise of discussions and assumptions at the deliberation stage in CBJ through the venues of the shareholders management council and other forums. CBJ can also establish further mechanism to obtain essential understanding and cooperation on CBJ management issues from shareholders, thereby strengthening cooperation with shareholders in the mid-to-long-term and steadily making the preparations required for independence.

This is a transitional period for CBJ to mature as a stand-alone company. When CBJ has overcome the governance-related and corporate culture issues raised by the Committee in this Report and has completed implementation of the Non-Investment Trust System Integration, it is highly hoped that CBJ will flourish as a truly self-reliant specialized asset administration bank and become a mainstay supporting the growth of financial markets in Japan.

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