# Outside Director Interview

**Kazuhiko Ishimura**
Outside Director
Chairman of the Nomination Committee, Chairman of the Compensation Committee
Former Representative Director and President & CEO of Asahi Glass Co., Ltd. (currently, AGC Inc.)
President of the National Institute of Advanced Industrial Science and Technology

## Activities of the Nomination Committee

### Q First, please tell us about the activities of the Nomination Committee.

Last year, the Nomination Committee met eight times. The year before last, with the appointment of the new CEO, the Committee met nine times which was more frequently than usual. Similarly, last year we met more frequently because Mr. Hiroshi Kimura was set to retire as chairman of the Nomination and Compensation Committees, Mr. Michael Lim Choo San had already completed his ten year tenure, and we were looking to increase the number of Directors from outside Japan given the growing contribution to earnings from the international business, particularly the US.

### Q What considerations went into the appointment of the four new Outside Directors?

Diversity was a major consideration, not only with respect to nationality and gender but also skills and expertise, experience and professional background.

Mr. Takahisa Takahara and I are not finance professionals, but based on our experience in senior management, we are able to offer advice on the overall direction of the company from a macro perspective. We can also provide insights on how the company may be viewed from the outside if a compliance or reputation related crisis occurs and how the company could rebuild in such a situation.

Newly appointed directors Mr. J. Christopher Giancarlo and Ms. Patricia Mosser are US nationals and bring to the Board financial expertise, business experience and experience in academia. From Asia, Mr. Victor Chu was appointed to replace Mr. Lim. While there are no directors from Europe, Mr. Chu is qualified as a lawyer in both the UK and Hong Kong and has insights on the European region.

The Board is well-balanced and aligned with Nomura's business in terms of regional composition and expertise. Directors come from diverse professional backgrounds. The newly appointed directors are highly knowledgeable on the financial industry, particularly the US. I believe an organization that leans too much in one direction loses value. Diversity helps the organization to be successful over the long-term and generate value. While it may be easier to find common ground in a highly homogenous Board, people from diverse backgrounds bring unique perspectives, ideas and added value.

### Q Explain the process involved in selecting board candidates.

Prospective board members are not simply selected based on current directors' network of influence. For candidates that have a particularly high level of skills and expertise, we create a list taking into consideration senior management input and information in the public domain. We also use consulting firms as necessary. The Committee then discusses and narrows the list, and candidates are interviewed to gauge their interest.

Last fiscal year, we conducted a third party evaluation of board effectiveness to determine appropriate board management for a global financial services company. After multiple discussions on what we needed to do to enhance governance, we decided that the Board should focus on monitoring Nomura's medium- to long-term business strategy. The Nomination Committee therefore needed to select candidates with this in mind. Financial knowledge and expertise was previously not a prerequisite to become an outside director at Nomura Holdings. However, in order for Nomura to build on its performance as a global financial services firm, we also focused our research on candidates knowledgeable in finance.

### Q The digital domain has become essential in the finance industry. Has the Nomination Committee discussed expertise in this area?

Mr. Giancarlo has expertise in the international finance business and is strong in the IT domain. Ms. Mosser has also been involved with financial regulations for most of her career and has an extensive background in academics. Having people with such expertise is a plus for the Board.

Digital is becoming increasingly vital to management in many industries including finance. The pace of change is extremely fast, so much so that the term digital transformation is practically obsolete in the US. I believe it is critical that the management of Nomura makes maximum use of the transformations taking place and implement digital technologies.

**Nomination Committee Calendar for election of directors**

| Ad-hock | March | April | June |
|---|---|---|---|
| Discussion for outside director candidates | Determination of candidates to be submitted to Ordinary General Meeting of Shareholders | Determination of grounds of appointments<br>Determination of contents of their disclosure | Election of Directors at Shareholders Meetings<br>Appointment of the Nomination Committee Members by Board of Directors |

**Consideration in election of directors**

- Selection criteria based on personality, insight, ethics, deep knowledge and experience in one's area of expertise
- Number of outside directors can hold concurrent positions at other listed companies up to 3.
  In principle, there is 1 internal director (non-executive).
- As a general rule, majority of the board is composed of outside directors
- The term of outside directors is expected to be six years
- As a general rule, outside directors should meet the company's standards for independence
- As a general rule, the Group CEO and COO serve concurrently as directors
- As a general rule, experts in finance, corporate management, and law should be included

## Q What are your thoughts on director term limits and variation in director terms?

From the perspective of independence, the term for an outside director is set at about six years. However, director changes do not always fit perfectly into this timeline. In deciding on the timing of director changes, we carefully discuss the role and contributions of the director, independence, whether we have a replacement candidate and other such factors. I think the important thing is the skillset matrix. It is critical that when there is a director change at the end of the term specified in the rules, we do not create a void in the board for an important role.

## Activities of the Compensation Committee

## Q Please tell us about the Compensation Committee's activities, such as how frequently the Committee meets and what topics are discussed.

The Compensation Committee convened seven times last fiscal year, mainly to discuss drafting of rules governing executive compensation and to determine actual compensation based on these rules. Group CEO Kentaro Okuda set ROE as a new management KPI, and we therefore changed the KPI used to determine performance-related executive compensation to ROE.

The main topic discussed was CEO compensation. We determined the remuneration curve based on the standard value of performance and the relationship between ROE and remuneration. Once CEO remuneration was determined, we then decided on the level and ways of compensation for executive officers. Predetermining the correlation between KPI and remuneration based on each executive officer's responsibilities is critical to this. I believe it is important to implement rules and manage the Board with transparency.

## Q As the Nomura Group Compensation Committee, what would you like to say to people outside the firm?

Nomura Group's remuneration system is quite advanced. Firstly, for executives who receive a certain level of remuneration, the variable performance-based component is larger than the fixed component. This ensures that compensation is aligned with the achievement of KPIs. From the viewpoint of stakeholders, a larger variable component better aligns with their interests. Another feature of executive compensation at Nomura is that stock-based remuneration was introduced at an early stage. Therefore, compensation is commensurate with the level of contribution directors make.

## Q Sustainability is increasingly being integrated into executive compensation.

Sustainability is something that the Compensation Committee has discussed, and we plan to have further discussions on how to evaluate it going forward.

Sustainability is generally considered a non-financial indicator and discussed separately from financial compensation. However, I believe companies should turn SDG goals into business opportunities. I think that in the end social issues will become embedded into the objectives of a company's core business and the results will be reflected in the financial indicators. In other words, resolving social issues should be an objective of the core business. This resonates with Nomura's vision of helping resolve issues affecting society while contributing to the creation of an affluent society by leveraging its expertise in the capital markets. I believe business performance can lead to resolving social problems and as a result financial indicators must also be improved.

## Strengthening Governance

## Q There is the view that the three Committees should comprise only outside directors.

The Nomination, Compensation and Audit Committees have one non-executive director each from within the firm. While having Committees comprised only of outside directors may lead to greater independence and objectivity, if we do not have anyone on the board who knows the business and the securities industry, we may not be able to select appropriate members for the board and determine compensation. We appoint a non-executive director from the firm who understands the business well to sit on the Audit Committee. This enables us to determine where we should focus our audit activities based on a proper understanding of the business.

With regard to decision-making, we are able to maintain the independence of the board as there is one internal director to two outside directors. Decisions made by a majority vote cannot be overturned. Each Committee also hears from outside directors who are not part of the respective Committee as necessary.

## Q What do you think are some of the issues or areas for improvement at Nomura Holdings?

Nomura has been involved in incidents of misconduct several times. Determining the root cause of these incidents is one of the major challenges for management. The year before last, I was involved in the drafting of Nomura's Code of Conduct and had the opportunity to talk with many people. I believe this was a very good exercise. Okuda-san and members of senior management are working to raise awareness and embed the Code of Conduct across the firm. However, there was an incident after the Code of Conduct was created, so efforts to embed the Code across the firm must continue.

The most important thing for management is to demonstrate their vision for the firm. Okuda-san has clearly outlined a corporate strategy and the direction he wants to take the firm. If employees identify with this vision, then they can move in the same direction as management. Employee motivation is also vital. Allowing employees to work in areas they are skilled in to improve performance is critical. The final thing is compensation.

To keep employees motivated, sharing the Code of Conduct and management's vision for the firm from the top down is vital. This will lead to greater employee engagement including mid-level employees. The firm trusts the employee and contributes to the employee. In the same way, the employee trusts the firm and contributes to the firm. This is the kind of firm Nomura must strive to be.

## Q There was a loss arising from transactions with a US client. What kind of discussions did the board have on this?

To ensure the sustainable growth of the international business, measures have been implemented to strengthen governance including appointing three new non-Japanese outside directors. I believe efforts should focus on bolstering the management structure and enhancing risk management to prevent an incident of this nature from happening again.

While the incident was not the result of misconduct or a compliance-related issue, we must consider whether warning signs about the potential risks could not have gone off within the organization at a much earlier stage. In addition, based on Nomura's management vision and corporate philosophy, the transaction with the US client is not a part of Nomura's core business. However, such is the nature of risk. It occurs in places that are away from the main areas. It is critical that Nomura implements risk management to control these businesses and reexamine its structure in line with the management vision.

## Conclusion

## Q How do you view progress made in the strategy Group CEO Okuda outlined last year?

Mr. Okuda took over as Group CEO under difficult conditions, with the pandemic and a loss reported in quarter immediately prior. He took swift action to change the direction of the business and take advantage of opportunities under the pandemic. Cost reductions were also achieved faster than planned.

I believe he is taking the firm in the right direction. He looked at the fundamental role of financial institutions and the services they should provide. I believe focusing on private side services in addition to the public domain is the natural course to take. Surviving as a financial institution depends on whether you can provide customized services matched to the needs of individual clients and provide value for clients.

## Q Finally, what message would you like to convey to stakeholders?

The board's responsibility is to support Nomura in becoming the most trusted partner for clients and achieving sustainable growth. We recognize the challenges that exist and the loss arising from transactions with the US client is something we take very seriously. Nomura must recognize how critical its role in society is as a financial institution and work to enhance its corporate value. I want stakeholders to witness the results of such efforts. We will also work together with Nomura Group to enhance the trust of all stakeholders.