Report on Corporate Governance

AVANT CORPORATION

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AVANT Corporation
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The following is an overview of corporate governance at AVANT Corporation

I. Fundamental policy covering corporate governance and basic information about capital structure, corporate attributes

1. Fundamental Policy

(1) Corporate Philosophy

Our corporate philosophy since our founding has been to respect the Japanese view of management as a public entity of society and to develop as an organization that exists for society. We believe that the fundamental idea of management based on Japanese culture lies in viewing the company as a public entity of society. Even in a globalized society, we respect this management philosophy as a cultural asset and aim to develop as an organization that exists for society.

Based on this Japanese management philosophy, we call our corporate activities "the creation of a 100-year company," which we have positioned as our corporate philosophy since our founding. It is not simply a continuation of the company or the brand. As a 100-year company, we have passed on our management philosophy as a public entity beyond generations, and all members are able to aim beyond his or her capacity in providing value to society in a free and creative manner. To this end, we practice group management that fosters independent organization and group synergies.

We emphasize advanced corporate governance for group management that contributes to the growth of people and organizations. By engaging in dialogue with various stakeholders and continuing to learn from them, we aim to develop our business from an open perspective so that we can provide value to society without being biased toward specific stakeholders.

(2) Policy on Corporate Governance

Based on this corporate philosophy, we have formulated the "Avant Group Fundamental Policy on Corporate Governance" and are striving to enhance corporate governance by enhancing the transparency and soundness of management, carrying out business operations promptly based on accurate decision-making, and building a management system that enables appropriate monitoring of these operations.

Reference document: https://www.avantcorp.com/en/ir/governance/pdf/AVANTCorpCorporateGovernanceRule_en.pdf

[Reasons for non-compliance with the principals of the Corporate Governance Code]

<Supplementary principle 1-2-4: Improving the infrastructure for exercising voting rights at general meetings of shareholders>

Since the 21st General Meeting of Shareholders held on September 26, 2017, the Company has established an infrastructure that enables electronic exercise of voting rights. The convocation notice is also disclosed in English. We do not participate in the electronic voting platform, as foreign shareholders are still limited to 14.3% at present. We use a third party to conduct shareholder identification survey to monitor the situation.

<Supplementary principle 4-1-3: Establishment of a succession plan>

The successor to the CEO is recognized as an important management issue for the Company, and discussions began at the Board of Directors from the fiscal year ended June 2018. In the fiscal year ended June 2019, we have contracted a third-party consultant and continued discussion of a comprehensive succession plan.

[Disclosure based on the individual principle of the Corporate Governance Code]

<Principle 1-4: Strategic shareholding > (Comply)

The Company does not have so-called strategic shareholding. In case the Company acquires strategic shares, it should do so for the purpose of maintaining and strengthening business-to-business transactions. To that end, the director in charge of finance shall report the risk and return on such holding of shares regularly and seek approval by the Board of Directors as stipulated in "Rule on management of funds" and others. The basic criteria for exercising voting rights for strategic shares is whether or not the Company and the investee company are mutually increasing each other's corporate value.

<Principle 1-7: Related party transactions> (Comply)

The Company consults with the Board of Directors on discussions and resolutions regarding directors' transactions which could be competitive against or conflict with the interest of the Company. At the end of the fiscal year, each director, corporate auditor, and corporate officer will be questioned regarding transactions with related parties to confirm that there are no harms to the common interests of the Company or shareholders. There are no transactions between related parties.

<Principle 2-6: Role of corporate pension funds as asset owners> (Comply)

Although we do not have a corporate pension scheme, we will make sure a corporate pension scheme should perform its role as an asset owner when introducing a scheme.

<Principle 3-1: Full disclosure> (Comply)

(i) We have formulated a philosophy system that includes the corporate philosophy of the Avant Group and announced management strategies and medium-term management plans for realizing our philosophy. Our corporate philosophy is also included in this report. Details of this philosophy, as well as our management strategies and medium-term management plans, are available on our website.

(ii) Based on the principles of each of these codes, the Company's basic stance on corporate governance is described in "I.1 Basic Concept" in this report.

(iii) In determining the compensation for directors, the basic policy is to make them function effectively as compensation for the director's contribution to improve corporate value. Within the limits of the amount of compensation which shall be resolved at the General Meeting of Shareholders, the allocation is determined in consideration of the position, performance and results during his tenure.

(iv) When appointing and nominating candidates for directors and corporate auditors, the Board of Directors shall select the most suitable person by resolution considering whether they have the personality, experience, capabilities, broad insights and other factors to improve corporate value, and have a various experience and broad expertise in our business. In addition, outside directors also consider whether they can perform management oversight functions for the Company's management team from a neutral and fair objective perspective.

(v) The reasons for the appointment of candidates for outside directors and candidates for outside auditors are disclosed in the convocation notice of the general meeting of shareholders.

<Supplementary Principle 4-1-1: Scope of delegation to management>

The Company established a separation between management decision-making and supervision and business execution through the Board of Directors as a management decision-making and supervisory body and the corporate officer system as a business execution system based on such decisions. The outline is disclosed on our website and reports on corporate governance. The Board of Directors decides on matters stipulated in laws and the Articles of Incorporation and important matters of the Company and Group companies. In addition, Avant's directors and key members attend the meetings of each business subsidiary's board of directors to recognize their business conditions. The Company signs with its subsidiaries a management guidance / management contract, and the Company receives reports on important matters related to the execution of duties by directors. The results are reported to the Avant's Board of Directors. The Avant Group General Affairs Office shall confirm that the Board of Directors of each operating subsidiary is held monthly. While the board of directors of each subsidiary decides important matters, directors shall seek approval from Avant, a holding company, on matters such as (a) investment including office contracts, (b) human resources, and (c) finance including capital policy.

Our corporate governance system is disclosed on the following website.
(https://www.avantcorp.com/en/ir/governance/policy.html)

< Principle 4-2: Role and responsibilities of the board > (Comply)

The Board of Directors accepts proposals from directors and corporate officers who are responsible for business execution at any time, and makes a multifaceted and thorough examination that the proposals are in line with the management philosophy, fiscal year business plan, medium-term management plan, etc. At the same time, proposals approved by the Board of Directors are executed mainly by directors and corporate officers in each business field. The Board of Directors will provide personnel, finance, and other necessary support for smooth execution.

<Supplementary principle 4-2-1: Healthy management compensation based on sustainable growth> (Comply)

The Board of Directors of the Company consists of three independent outside directors, which is the majority of the five directors, and we believe that independent and objective procedures have been properly conducted. However, as part of our efforts to further strengthen corporate governance, we have decided to establish the Compensation Advisory Committee as a voluntary body to enhance the independence, objectivity, and accountability of the compensation decision process for directors, corporate auditors, and executive officers. The Compensation Advisory Committee shall consist of three members: two independent directors and the Representative Director and Group CEO, and the chairperson of the committee shall be selected from the independent outside directors. The items to be discussed by the Remuneration Advisory Committee will be as follows. The Board of Directors shall respect the opinions of the Remuneration Advisory Committee in making its decisions.

(1) Policy for determining the compensation, etc. of Directors, and Executive Officers
(2) Draft proposals on compensation, etc. of Directors, Corporate Auditors and Executive Officers to be submitted to the General Meeting of Shareholders
(3) Draft policy regarding decisions on the details of compensation, etc. for individual Directors and Executive Officers to be submitted to the Board of Directors
(4) Proposed contents of individual compensation, etc. of Directors and Executive Officers to be submitted to the Board of Directors.
(5) Any other matters deemed necessary by the Board of Directors in relation to the preceding items.

The Company's executive compensation is divided into basic compensation and bonuses and is determined within the scope of compensation approved by the General Meeting of Shareholders. Basic compensation is fixed and determined based on job title, responsibility, among others. Bonus is determined mainly based on company's performance for the corresponding period, determined within the scope of compensation approved by the General Meeting of Shareholders. In order to encourage healthy entrepreneurship among directors, the Company introduced performance-based stock compensation, which reflects company's results and risk over the medium term, for directors after seeking shareholders' approval at 22nd Annual General Meeting of Shareholders held on September 19, 2018.

<Supplementary Principle 4-8-2: Effective use of independent directors> (Comply)

Mr. Naohisa Fukutani was appointed as the lead independent outside director at the regular board meeting on May 23, 2018.

<Principle 4-9: Criteria for Determining Independence and Qualifications of Independent Outside Directors> (Comply)

The Company has established the following independence standards for independent outside directors, which are based on the independence standards set forth in the Companies Act and the Financial Instruments and Exchange Law and focus on ensuring the independence of the persons who become independent outside directors in terms of substance. At the Board of Directors meetings, outside directors actively provide opinions and advice from an objective and neutral standpoint, and fully contribute to constructive discussions.

(1) A person who is currently, and during the last 10 years have been, an officer (executive officer, corporate officer, employee or contractor) of the Company or its subsidiaries, affiliates (collectively, the "Group");
(2) An organization or its officer who directly or indirectly holds 10% or more of the total number of voting rights of the Company
(3) An organization or its officer who conducts major transaction (Note1) to the Group, or to who the Group conduct major transaction (Note1)
(4) An organization or its officer who has earned a large (Note2) amount of money or other financial benefits other than executive compensation, or an executive officer, in exchange for providing professional services to our group through consultants, lawyers, certified public accountants, tax accountants, etc.
(5) An organization or its officer who receive donations or grants from our group exceeding 15 million yen per year
(6) A person who belongs to the auditing firm, which is the accounting auditor of the Group
(7) An officer of companies that appoint executives of the Group as officers
(8) A person who falls under the category of 2 to 7 above in the past three years
(9) Spouse or relative within the second degree of kinship of a person who falls under 1 to 8 above

(Note1) Major transactions are transactions involving the transfer of money in excess of 2% of annual consolidated net sales or financing of money in excess of 2% of consolidated total assets
(Note2) A large amount means that, in the case of an individual providing professional services, such profit, excluding executive compensation

received from our group, exceeds 15 million yen per year for the most recent fiscal year, and in the case of an organization such as a corporation or union, the person providing professional services exceeds the higher of 2% of the group's annual gross income or 15 million yen in the most recent fiscal year.

<Supplementary Principle 4-11-1: View on the diversity and size of the board as a whole> (Comply)

Our Board of Directors is composed of five directors (including three outside & independent directors and two foreigners) and 3 Audit & Supervisory Board Members (including two outside directors and one independent), representing diverse and specialized expertise in legal, accounting, tax, corporate finance, IT industries and with management experience and knowledge, working together with the aim of enhancing corporate value.

The Board of Directors fully considers the diversity of human resources and the balance of knowledge, experience and abilities, and believes that it is at a level that maintains a high level of decision-making ability.

<Supplementary Principle 4-11-2: Directors and Auditors' concurrent position> (Comply)

The status of concurrent positions of outside directors and outside auditors is disclosed annually in the notice of convocation of the general meeting of shareholders, the annual securities report, and the corporate governance report. Regarding concurrent positions with other companies, they are appointed after confirming that there is no hindrance to the execution of duties as directors and corporate auditors of the Company

<Supplementary Principle 4-11-3: Analysis, Evaluation, and Disclosure of Results of the Effectiveness of the Board of Directors> (Comply)

With the aim of realizing sustainable enhancement of corporate value, the Company recognizes issues and areas for improvement regarding the responsibilities, management, and composition of the Board of Directors, and engage in continuous improvement. Every year, the Board of Directors analyzes and evaluates the effectiveness of the Board of Directors based on the self-evaluation of each Board of Directors. The method of evaluating the effectiveness of the Board and the outline of the evaluation results for the year ended June 31, 2020 are as follows.

<Evaluation method>

(1) In order to improve the independence and objectivity of analysis and evaluation, we conducted continuous evaluations with a third party view in fiscal year ended June 2018 and fiscal year ended June 2019. At the Board of Directors meeting held on July 17, 2019, the effectiveness of the Board of Directors was assessed by the use of a third party again, but the Board concluded the validity of the process for verifying the results of a questionnaire focusing on numerical values should be revised. For the fiscal year ended June 2020, the Company decided to conduct a questionnaire centering on free comments in accordance with the changes in important points and priorities for improving the effectiveness of the Board of Directors. In January 2020, the Company delivered the questionnaire to all directors and corporate auditors.

(2) The comments from the directors were broadly divided into 3 categories: issues to be discussed, points to be improved, and points to be improved in the future. The Board of Directors held discussions on August 3, 2020, and the assessment of the effectiveness of the comments was finalized.

<Summary of Evaluation Results>

In addition to the opinions that have been routinely discussed at the Board of Directors meetings, the Board of Directors evaluated the effectiveness of the Board of Directors meetings for the fiscal year ended June 2020 highly and appropriately, based on the exchange of opinions and questionnaires held in January 2020 with outside directors. Specifically, we judged that the effectiveness of the Board of Directors has been ensured appropriately and that improvements have been made in the following areas, which were recognized as issues in the previous year;

(i) Regular IR report to directors,
(ii) Scheduling and managing the progress of monthly board agendas,
(Comprehensiveness of items to be discussed and understanding of the overall picture)
(iii) Focus on key issues and manage monthly meetings of the Board of Directors,
(Significant improvements to the video conferencing system utilizing ZOOM conferences, etc.)
(iv) Operate informal exchanges, including between directors and executive officers, and exchange opinions frankly, and
(v) Exchanging opinions with experts at meetings of the Board of Directors as necessary

At the same time, it was recognized that the following issues need to be addressed on a regular and continuous basis in order to further enhance the effectiveness of the system;

(i) Enhanced discussion of CEO succession plans,
(ii) Review of Companies with Committees,
(iii) Number and Composition of Board of Directors with Gender Awareness, and
(iv) Constant improvement of the operational process

<Future measures>
Issues that need to be addressed on a regular and ongoing basis and that are recognized are scheduled to be discussed on the Board of Directors' schedule and will be discussed on a regular basis. We will focus on deepening substantial discussions on issues that still have a wide range of discussions among directors, starting with the hearing of each director and seeking further opinions from outside experts as necessary.

<Supplementary Principle 4-14-2: Training policy for directors and auditors> (Comply)
In appointing candidates for directors and corporate auditors, we consider whether they have personality, experience, expertise and broad insights and others, but among others we place importance on experience and knowledge about the business of the Group. We provide training such as compliance education by lawyers and others for the candidate to acquire the knowledge necessary for performing their duties. The training policy is disclosed on our website.
https://www.avantcorp.com/en/ir/governance/policy.html

<Principle 5-1: Constructive dialogue with shareholders> (Comply)
The Company recognizes that active dialogue with shareholders and reflecting the opinions and requests of shareholders in management will contribute to the sustainable enhancement of corporate value of the Company. Therefore, from July 2019, we have established a system for allocating an IR director under the director in charge of finance and established a forum for dialogue with shareholders and investors to gain an understanding of our management strategy and management plan.

2. Capital Structure

Percentage of shares held by foreigners	More than 10% but less than 20%

<Major Shareholders>

Name of Shareholders	Number of shares held (shares)	Percentage (%)
Tetsuji Morikawa	9,764,000	25.98
AVANT Employee Stock Ownership Association	3,195,300	8.50
Japan Trustee Services Bank Ltd. (Trust Account)	2,248,500	5.98
Tsuyoshi Noshiro	1,868,800	4.97
OBIC Business Consultants Co., Ltd.	1,600,000	4.26
PCA Corporation	1,556,800	4.14
SSBTC CLIENT OMNIBUS ACCOUNT	1,426,200	3.79
The Master Trust Bank of Japan, Ltd.	983,500	2.62
FCP SEXTANT AUTOUR DU MONDE	811,600	2.16
BBH/DESTINATIONS INTERNATIONAL EQUITY FUND/WASATCH ADVISORS	653,640	1.74

Controlling shareholder	None
Parent company	None

Supplementary notes

Wasatch Advisors Inc. announced in the Report of Possession of Large Volume published for public inspection as of January 2020, 2020, that it owns the following shares as of January 15, 2020. However, as we are not able to confirm the actual number of shares owned as of March 31, 2020, it is not included in the above-mentioned major shareholders. The content of the Report of Possession of Large Volume (amended on December 3, 2020) is as follows.

Name or registration	Address	Shares owned (000's)	Percentage held (%)
WASATCH ADVISORS INC	1-4-1 Kasumigaseki, Chiyoda-ku, Tokyo Nittochi Bldg., 4F Blakemore & Mitsuki	23,782	6.32

3. Corporate Attributes

Stock Exchange and Section	Tokyo Stock Exchange, First Section

Fiscal year end	June
Sector	Information & Communication
Number of employees at the end of previous fiscal year (consolidated)	More than 1,000
Consolidated revenues in previous fiscal year	More than 10 billion but less than 100 billion yen
Number of consolidated subsidiaries at the end of previous fiscal year	Less than 10

4. Guidelines for the protection of minority shareholders when making transactions with controlling shareholders

None

5. Other special circumstances that may have a material impact on corporate governance

None

II. Overview of corporate governance structure in terms of the organization of management regarding managerial decision-making, execution of duty, oversight and other matters

1. Items concerning institutional structure, organizational operation, etc.

Organization form	Company with Audit and Supervisory Board

[Directors]

Number of directors in the company's Article of Incorporation	Nine
Directors' term in the company's Article of Incorporation	One year
Chairman of the Board of Directors	President
Number of directors	Five
Elected outside directors	Elected
Number of outside directors	Three
Number of outside directors designated as independent directors	Three

Relationship with the Company (1)

Name	Attributes	Relationship with the Company (*1)									
		a	b	c	d	e	f	g	h	i	j	k
Naohisa Fukutani	Comes from other company								△			
Georges Ugeux	Comes from other company								△			
Jon Robertson												

*1 selection criterion regarding relationship with the Company
(a) A business executor of a listed company or its subsidiary
(b) A business executor or a non-executive director of a parent company of a listed company
(c) A business executor of a sister company of a listed company
(d) An individual whose major business client is a listed company or a business executor of said individual
(e) A major business client of a listed company or a business executor of said business client
(f) A consultant, accounting specialist, or legal professional who receives a substantial amount of money or assets in addition to the customary compensation from a listed company
(g) A major shareholder of a listed company (In the case that said major shareholder is a corporation, a business executor thereof)
(h) A business executor of a business client (that does not fall under any of (d), (e), or (f)) of a listed company [This applies to the individual only.]
(i) A business executor of a company whose external corporate officers are mutually assigned [This applies to the individual only.]
(j) A business executor of a company to which a listed company donates products, services, or money [This applies to the individual only.]
(k) Other

Relationship with the Company (2)

Name	Independent director	Supplementary information for eligibility	Reason for appointment
Naohisa Fukutani	○	At GCA Co., Ltd., where he once served as Managing Director, he used information retrieval services such as accounting / audit / tax laws / notifications / committee reports provided by our subsidiary Internet Disclosure. Although there is a history of transactions that have been made, it is an extremely minor transaction and there is no risk of affecting our decision-making.	Drawing on his many years of experience in managing independent global M&A advisory firms, commercial banking and investment banking, he has provided valuable advice to all aspects of management and has requested him to become the lead independent outside director. The Company believes that his advice will contribute to the strengthening of management supervision and corporate governance in the future and expect his appointment.
George Ugeux	○	There is no current transaction between Galileo Global Advisors, where he is represented, and the Company, and there is no risk of affecting the Company's decision making.	In addition to his wide-ranging experience as the top management of a consulting firm, he participates in the management of banks, securities companies, and investment banks, and offers useful advice based on his wealth of knowledge and knowledge related to finance and the securities market. The Company continues to believe his appointment will contribute to the

			strengthening of management oversight and corporate governance in the future.
Jon Robertson	○	Snowflake Inc., for which Mr. Robertson serves as President for Asia Pacific and Japan, and our wholly owned subsidiary, Zeal Corporation, have signed a solution partner agreement. ZEAL conducts business transaction with Snowflake Inc. regarding products provided by Snowflake Inc., but the amount of the business relationship is within the range of the amount specified in the independence standards for outside directors, and there is no risk of influencing the Company's decision-making process.	He has been leading an international organization for 30 years in Japan and the Asia-Pacific region, and he is well-skilled in management, gravitation, and communication skills. He has demonstrated avid leadership in the rapidly changing IT industry with deep knowledge of the latest IT technologies, including the cloud-native field. We expect he will provide the same leadership in our effort to achieve corporate value creation through our corporate vision “BE GLOBAL” and our shift to cloud business in our medium-term management plan.

Voluntary committees

Existence of any committee equivalent to the Nomination Committee or the Compensation Committee	Yes

Details of compensation committee

Name of the committee	Compensation Advisory Committee					
Total members (person)	Standing members (person)	Corporate directors (person)	Outside directors (person)	Outside expert (person)	Others (person)	Chairperson
3	3	1	1	0	1	Outside director

Supplementary information

The Compensation Advisory Committee shall consist of three members: two independent directors and the Representative Director and Group CEO, and the chairperson of the committee shall be selected from the independent outside directors.

Audit & supervisory board member

Existence of audit & supervisory board	Exists
Number of audit & supervisory board member defined in Article of Incorporation	Three
Number of audit & supervisory board member	Three

Status of collaboration among audit & supervisory board member, accounting auditors, and internal audit departments

Audit & supervisory board members attend financial accounting audit report meetings, receive reports from audit firms, provide opportunities for hearing and discussion and collaborate by mutually confirming the status of internal controls in business and finance. Audit & supervisory board members and internal audit staff work together to coordinate business audits and strive for efficient audits and have opportunities for hearings and discussions with each other to confirm the status of management and business execution is appropriate and efficient.

Elected outside auditors	Elected
Number of outside auditors	Two
Number of outside auditors designated as independent directors	One

Relationship with the Company (1)

Name	Attributes	Relationship with the Company (*1)											
		a	b	c	d	e	f	g	h	i	j	k	l	m
Kunio Suzuki	Comes from other company													
Masanori Kobayashi	Attorney at law													

* Selection criteria regarding relationship with the Company
(a) A business executor of a listed company or its subsidiary
(b) Non-executive director or accounting advisor of a listed company or its subsidiary

(c) Business executive or non-executive director of the parent company of a listed company
(d) Auditor of the parent company of a listed company
(e) A business executive of a sister company of a listed company
(f) A person whose listed business is a listed company or a person who executes the business
(g) Major business partners of listed companies or their business operators
(h) A consultant, accounting professional, legal professionals who obtains large amounts of money and other assets in addition to executive compensation from listed companies
(i) Major shareholder of a listed company (if the major shareholder is a corporation, the executive of the corporation)
(j) Execution person of listed company's business partner (one that does not fall under any of f, g and h)
(k) Former business executors who have a relationship with outside officers (only the principal)
(l) The person who executed the business to which the listed company has donated (only the principal)
(m) other

Relationship with the Company (2)

Name	Independent director	Supplementary information on eligibility	Reason for appointment
Kunio Suzuki		Representative Director of KS Management Limited Company	He was a board member of IBM Japan, Ltd., has a wealth of experience and insight into IT and information fields and industries, and has a thorough understanding of our management environment and business policy. He has been appointed as an outside auditor, judging that he can appropriately perform the duties of the outside auditors, including useful advice in the process of management decisions and decision-making.
Masanori Kobayashi	○	Kobayashi Legal Accounting Office	He is qualified as a lawyer and certified public accountant and is well versed in the finance and legal affairs of the company and has been engaged in accounting and management through his many specialized experiences so far. We have determined that the duties of outside auditors, including useful advice in the decision-making process, can be appropriately performed. There are no special interests with the Company, and independent directors based on the provisions of the Tokyo Stock Exchange. As a result, the Board of Directors has designated him as an independent officer of the Company.

[Independent directors]

Number of independent directors	Four

Other matters related to independent directors

None

[Incentives]

Implementation of Measures to Grant Incentives to Directors	Introduction of performance-based compensation system

Supplementary information related to incentives

The Company has introduced a performance-based compensation system for the purpose of clarifying the responsibilities of directors. Short-term performance-based compensation is based on profits in the consolidated statement of income. Medium- to long-term performance-based stock compensation system was introduced at the 22nd Annual General Meeting of Shareholders held on September 19, 2018. This gives management the incentive to draw out mid- to long-term corporate value creation. It is a mechanism that enables flexible use of stock compensation, not money, and compensation linked to business performance.

Stock option grantee	None

Supplementary information related to stock option

None

[Directors compensation]

Disclosure of individual director compensation	Individual compensation is not disclosed

Supplementary information related to director compensation

The details of compensation for directors and corporate auditors for the fiscal year ended June 2020 are as follows.
Compensation paid to directors: 142 million yen
Compensation paid to Audit & Supervisory Board members: 17 million yen
(of which outside directors 36 million yen)
Of the above, the performance-based compensation for the fiscal year ended June 2020 is 30 million yen.

Existence or Nonexistence of Policies that Determine the Amount or Calculation Method of Compensation	Exists

Disclosure of policy for determining compensation or calculation method

Directors compensation of the Company is divided into fixed compensation (paid in the same amount regularly) and performance-based compensation. The fixed compensation is paid for each job title in consideration of the level commensurate with the required capability and responsibility. Performance-based compensation covers directors (excluding outside officers) and consist of (1) short-term performance-based compensation linked to business results for each fiscal year, and (2) medium- to long-term performance-based compensation linked to the rate of increase in share prices and others for the three-year evaluation period. Medium- to long-term performance-based compensation have been introduced from the fiscal year ended June 2018. From fiscal year ended June 2019, in order to incentivize directors on improvement of corporate value over the longer term and share the value with shareholders the Company has elected share-based compensation that the Company's common stock will be delivered according to the performance of the target period at the end of the target period.

The maximum amount of fixed compensation for the directors of the Company shall be no more than 150,000 thousand yen and was resolved at the 5th Annual General Meeting of Shareholders held in September 2001 and the 11th Annual General Meeting of Shareholders held in September 2007. Similarly, performance-based compensation is resolved at the 18th Annual General Meeting of Shareholders held in September 2014, with an annual amount of 41,250 thousand yen per eligible director. The upper limit of medium- to long-term performance-based share compensation is set at 100,000 thousand yen for each applicable period and was resolved at the 22nd Annual General Meeting of Shareholders held in September 2018.

Since outside directors and auditors are independent from business execution, performance-based compensation is not applied, and fixed compensation is paid.

The amount of compensation for corporate auditors is determined by discussions among corporate auditors within the limit of compensation approved at the general meeting of shareholders, taking into account the distinction between full-time and part-time corporate auditors, the distinction between internal and external corporate auditors, and the division of duties. At the extraordinary general meeting of shareholders held in December 2003, the maximum amount of compensation is set at 30,000 thousand yen per year.

<Compensation Calculation Process>

The Company's board compensation policy and calculation method, and the compensation structure and compensation for each director are determined by the Board of Directors. We are endeavoring to ensure objectivity by taking the advice of external experts into consideration and taking into account the level of the entire market or industry as a whole.

<Purpose of performance-based compensation and performance-based stock compensation, basis of indicators, and specific calculation method>

(1) Short-term performance-based compensation)

This is a monetary bonus that is paid in the range of 0% to 200% relative to earnings and stock price achievement. For the purpose of improving the corporate value expected by investors, performance-based compensation is calculated using coefficients calculated from two indicators: A. Rate of increase in operating profit and B. Company stock price increase rate.

Short-term performance compensation = Short-term performance base amount (33.3% of fixed compensation) × Short-term incentive coefficient (A × B)

A Rate of increase in operating profit

Rate is calculated under the following formula where (a) represent consolidated operating profit for the current year and (b) represents consolidated operating profit of previous fiscal year
(i) (a) is less than (b): 0
(ii) (a) is higher than (b) but less than (b)×112%: 0.5×{1+((a)-(b))÷ ((b)×12%) }
(iii) (a) is higher than 112% of (b): 1+0.5×((a)-(b)×112%)÷((b)×6%)

B Company stock price increase rate

1 + (average stock price during the period÷stock price at the beginning of the period)-(average TOPIX value during the period ÷ TOPIX at the beginning of the period)

※Short-term incentive coefficient is limited to 2.0

In the fiscal year ended June 30, 2020, 129% of the base amount was paid as follows.

A. Consolidated operating income growth rate = 1 + 0.5 × (operating income: 2,278 million yen-(operating income of 1,966 million yen × 112%)) ÷ operating income for the previous fiscal year: 1,966 million yen × 6% = 1.32
B. Company stock price increase rate = 1 + (Average stock price during the period: 1,003 yen ÷ Stock price at the beginning of the period: 1,032 yen)-(Average TOPIX during the period: 1,578 yen ÷ TOPIX at the beginning of the period: 1,585 yen) =0.98
Short-term incentive coefficient =A×B=1.29

As the rate of increase in our share price is reflected in medium-to long-term performance-based compensation, the Board of Directors resolved at a meeting held on September 18, 2020 to use the rate of increase in consolidated operating income as a coefficient for short-term performance-based compensation from the fiscal year ending June 30, 2021 and onward.

(2) Medium- to long-term performance-based compensation

In order to provide directors with an incentive to increase our corporate value over a longer period of time and to further promote the sharing of value between directors and shareholders, we provide stock-based compensation as the number of shares of common stock that are calculated based on the growth rate of our shares during the period covered (Note) at the end of the period. An increase in corporate value is calculated by dividing the Company's TSR (Total Shareholder Return) for the period covered by the growth rate of the Tokyo Stock Exchange Stock Price Index (TOPIX) for the period covered. The number of shares to be issued is determined by our Board of Directors.

(Note) Three years from the month in which the Annual General Meeting of Shareholders of each year belongs. The initial period covered is from September 2018 to September 2021, and thereafter the period covered is from September of each year to September of the following 3 years.

After the end of the relevant period, the Company will pay monetary compensation claims to the relevant directors, and when issuing shares or disposing of treasury stock by the Company, the Company will deliver its shares by making contributions in kind to all of the monetary compensation claims. The amount of compensation for monetary compensation claims to be paid under the System shall not exceed 100 million yen per year. The number of shares to be delivered to the applicable directors under the System shall not exceed 60 thousand shares per year for all directors, and shall not exceed 0.1 million shares per year for the total number of Directors.

Medium- to long-term compensation (Number of shares delivered) = Standard no. of shares × stock compensation ratio

Stock compensation ratio

(i) Increase in corporate value (A) is less than 100%: 0
(ii) A is not less than 100% but less than 112%: 33%×(A-100%)÷12%
(iii) A is not less than 112% but less than 150%: 33%+67%×(A-112%)÷38%
(iv) A is more than 150%: 100%

A Increase in corporate value

$$\frac{\text{TSR during the period}}{\text{Rate of increase in TOPIX}}$$

Company's TSR (Total Shareholder Return)

$$\frac{\text{Simple average value of the closing price of the Company's common stock on the Tokyo Stock Exchange in the end month (September three years later)} + \text{Total dividend per share for surplus dividends during the period}}{\text{Simple average of the closing prices of the Company's common stock on the Tokyo Stock Exchange in the start month (September of the year)}}$$

Rate of increase in TOPIX

$$\frac{\text{Simple average of TOPIX for the end month (September after 3 years)}}{\text{Simple average of TOPIX for the start month (September of the year)}}$$

Because the current consolidated fiscal year was prior to the end of the current consolidated fiscal year, no payment was made.

At the Board of Directors meeting on August 19, 2020, in order to clarify the responsibilities of the Representative Directors toward realizing the Medium-Term Management Plan "BE GLOBAL," the Board approved the decision to impose restrictions on the share compensation of the President for the respective periods based on the following key quantitative indicators of the Medium-Term Management Plan: "recurrent revenue ratio (continuous sales ratio to sales)."

Recurrent revenue ratio that serve as the basis for granting stock-based compensation at the end of the term

Fiscal Years	Recurrent Revenue Ratio
June 2019	Over 50%
June 2020	Over 60%
June 2021	Over 70%
June 2022	Over 70%
June 2023	Over 70%

[The Support System for Outside Directors]

Currently, there are no full-time employees to assist outside officers (directors and corporate auditors), but administrative staff provides administrative support and other duties including communication. For information related to draft materials for board meetings and other necessary matters, prior briefing and guidance shall be conveyed to outside directors from administrative staff, outside auditors from full-time corporate auditors or from administrative staff.

2. Items concerning functions such as execution of duties, audit and supervision, designation, and compensation (Overview of the current state of Corporate Governance Structure)

(1) Board of Directors

The Company's Board of Directors currently consists of five directors (including two outside directors) and three Audit and Supervisory Board members (including two outside auditors). Principally, a regular board meeting is held on the second business day of the third Monday of each month. When there is a proposal to be discussed, extraordinary meeting will be held to make important management decisions.

(2) Execution Structure

The representative director, the director in charge of finance, and Corporate Officer, who are appointed by the Board of Directors, are responsible for the execution of business operations. The representative director of each Group company and the director in charge of business administration report the status of business execution to the representative director of the Company (Group CEO Line), and the director in charge of finance of each Group company reports to the director in charge of finance of the Company (Group CFO Line). Aiming for sustainable growth and enhancement of corporate value through Group management, the Board of Directors discusses important issues and consults with the Board of Directors on important matters.

(3) Corporate auditors and Audit and Supervisory Board

The Company adopts the Audit and Supervisory Board system, and the Board consists of one full-time corporate auditor and two outside auditors. Audit & Supervisory Board Members attend meetings of the Board of Directors and other important meetings, listen to reports on the status of business operations from directors, view important approval documents, etc., investigate the status of operations and assets in each department, and in accordance with the results of accounting audits, audit reports are prepared after considering business reports, financial statements and supplementary schedules.

In addition, the Company has signed an audit agreement with Deloitte Touche Tohmatsu LLC, and is striving to enhance information disclosure by ensuring the accuracy of financial figures and establishing an appropriate financial reporting system.

(4) Policy on determining compensation for directors and corporate auditors

The compensation system for Directors and Audit & Supervisory Board Members is explained in detail in [Directors' compensation] (Disclosure of the Policy for Determining the Amount of Compensation and its Calculation Method).

3. Reasons for choosing the current corporate governance system

The Company was established as a holding company with business support functions to support the growth of group operating companies on October 1, 2013 and aims to develop the group through consolidated management. Directors who are familiar with the business and organization of the group operating companies make decision making and business execution quickly, and the Company is responsible for governance and control functions for each company, and clarifies the functions, authorities and responsibilities of each group company. We are aiming for an organizational structure.

For this reason, outside directors are appointed, and the Company's Board of Directors specializes in management functions, and objectively determines the Group's governance and control status from a fair and neutral standpoint to ensure transparency in decision making and the process. We will establish a system that can secure the system and strengthen the supervisory function of the Board of Directors.

In addition to the audits by the full-time corporate auditors, we believe that the objectivity and neutrality of the management monitoring system are functioning sufficiently through the audits by two outside auditors.

III. Implementation status of measures for shareholders and other interested parties

1. Efforts to revitalize shareholders' meetings and facilitate the exercise of voting rights

	Supplementary information
Early dispatch of notice of convocation for shareholders	As a general rule, we try to dispatch three weeks before the date of the event.
Establishing a general meeting of shareholders that avoids concentration days	After confirming the concentration date of the General Meeting of Shareholders with the trust bank, we set the date to avoid the concentration date.
Exercise of voting rights by electric means	Shareholders can exercise voting rights by electric means.
Provision of convocation notice (summary) in English	Convocation notice in English is provided on the website.
Others	The Company continues to devise operational procedures such as proceedings while displaying slides for explanations at the General Meeting of Shareholders, work to further improve management, revitalize the General Meeting of Shareholders, and facilitate the exercise of voting rights. In addition, a notice of convocation is posted on the Company's website to facilitate attendance at general meetings of shareholders and the exercise of voting rights.

2. IR Activities

	Supplementary information	Explanation by the representative
Disclosure Policy	Disclosure policy is posted on our website https://www.avantcorp.com/en/ir/policy/disclosure.html	
Regular communication to individual investors	Although the schedule is irregular, briefings for individual investors are held several times a year.	No
Regular briefings for analysts and institutional investors	Financial results briefings are held in the second quarter and fourth quarter after the announcement of the financial results.	Yes
Regular briefings for overseas investors	In the fiscal year ended June 2017, we held a briefing session for foreign investors for the first time. Although information dissemination to overseas investors will be continually strengthened, there are no plans to hold briefing sessions at this time.	No
IR materials posted on HP	In addition to timely disclosure materials, financial results briefings and financial reports, etc. are posted on a quarterly basis, as well as a video presentation of the results briefing session.	
IR officer	Since July 2019, we have placed a director in charge of IR who report directly to the Chief Financial Officer.	
Others	—	

3. Efforts to respect for the position of stakeholders

	Supplementary information
Stipulates respect for the status of stakeholders through internal regulations	We have established “Rules on Insider Information Management” for the purpose of alerting the handling of information and preventing information leakage and insider trading. In addition, the “AVANT Code of Conduct” has been established, a basic policy for compliance has been established, and compliance and risk management have been thoroughly implemented in accordance with the “Avant Group Rules on Compliance and Risk Management”. In order to realize our Group philosophy of "Creating a 100-year Company," we believe it is important that each and every employee be aware of the relationship with society and the environment and act accordingly. Accordingly, we established the “Avant Group Human Rights Policy” and the “Avant Group Environmental Policy”, which were approved by the Board of Directors on July 22, 2020.
Implementation of environmental conservation activities, CSR activities, etc.	Since the fiscal year ended June 2017, as part of the Mecenat activities, we have been participating in the “MOMAT Support Circle”, a corporate program of the

	National Museum of Modern Art, Tokyo and supporting the activities of this museum. On August 25, 2020, the Avant Group signed the United Nations Global Compact, which is highly compatible with the Group's philosophy. We have also joined Global Compact Network Japan, a local network in Japan. The Avant Group supports the 10 principles of the United Nations Global Compact, which consist of the 4 fields of human rights, labor, the environment, and anti-corruption, and is actively working to resolve social issues in order to realize a sustainable society.
Establishing policies for providing information to stakeholders	System of timely disclosure has been prepared and published on our website. https://www.avantcorp.com/en/ir/governance/disclosure.html
Others	Based on the "AVANT Code of Conduct", envisioning a highly transparent organization, the Company is constantly working to create new value through customer orientation, and enjoying its own growth. In doing so, the Company respects all stakeholders involved in the Group's business.

IV. Matters concerning internal control systems, etc.

1. Basic concept and status of internal control system

In order to fulfill the responsibility of the company organization and activities as a public institution, and for the purpose of business growth and for the continuous and efficient operation of the company organization, the Company shall make the general meeting of shareholders the highest organization of the company, We have built an internal control system.

- Establish the Board of Directors and select a representative director for appropriate decision making and quick execution of business.
- Established the Audit and Supervisory Board for the Corporate auditor to improve soundness of the management and strengthen monitoring and supervisory functions.
  (Full-time Audit & Supervisory Board Member's business audit function, Outside Audit & Supervisory Board member's director monitoring, decision supervision function)
- Establish an accounting auditor to ensure the appropriateness of financial reporting and internal control through accounting audits and improve disclosure and information provision functions.
- Installation of Compliance & Risk Management Committee chaired by the President and the Information Security to promote compliance of laws and regulations and response to important risks.

In addition, the Board of Directors has resolved the basic policy regarding internal control system maintenance as follows.

1. Compliance system for Directors

1) System to ensure that the execution of duties by directors conforms to laws and the Articles of Incorporation

- Directors shall comply with the "AVANT Code of Conduct", practice "AVANT Value", and execute business appropriately in accordance with laws and regulations, the Articles of Incorporation, the rules of the Board of Directors, and other internal rules.
- Directors shall make decisions based on comprehensive considerations at the Board of Directors and various cross-organizational meetings when executing business.
- Personnel responsible for compliance and risk management (CRM) of each Group company nominated by the chairman shall deliberate and review important issues and response regarding corporate ethics, compliance and risk management, and promptly report to the Board of Directors.
- The Company will establish and operate a reporting system with legal advisors and corporate auditors as a contact point for legal violations and other legally suspicious acts.
- Corporate auditors shall audit the execution of duties by directors by attending meetings of the Board of Directors and other important meetings and investigating the status of business execution under the audit policy established by the Board of Corporate Auditor.

2) System to ensure that directors perform their duties efficiently

- The Board of Directors of the Company shall hold a regular Board of Directors meeting basically once a month, and shall hold an ad hoc meeting whenever necessary to make decisions and quickly execute business operations and supervise directors' important management decision and status of execution.
- Various conference bodies and committees, where directors or committee members are responsible, deliberate and decide on business execution within the scope of their authority.
- We shall promote the decentralization of management through organization based on management policies and business plans.

- In order to clarify management responsibilities and respond to changes in the management environment, the term of office for directors is set at one year.

3) System for storage and management of information related to the execution of duties by directors

Information regarding the execution of duties by directors shall be appropriately stored and managed by the department in charge based on laws and regulations, the Board of Directors regulations, document management regulations, and other related regulations.

2. System to ensure the appropriateness of company operations

1) Rules and other systems for managing risk of loss

- With regard to thorough progress management of business results and expense management, the Company shall conduct the management of business process, funds and prevention of risks by grasping the status of business in a cycle relative to business environment based on rolling forecast management.
- We shall manage risks related to compliance, information assets, and other business matters by developing and disseminating necessary regulations and manuals.
- In addition, to ensure thorough compliance, the CRM Committee will strengthen management and response. Also, for intellectual properties management, the Information Security Committee will reinforce management and response.
- The Company shall consult, receive advice and guidance from third parties with specialized knowledge such as lawyers, Accounting auditors, tax accountants, etc., as necessary for business execution.

2) System to ensure that the execution of duties by employees complies with laws and the Articles of Incorporation

- Employees shall comply with the "AVANT Code of Conduct", practice "AVANT Value", and conduct business in accordance with laws and regulations, the Articles of Incorporation and internal rules.
- In order to raise compliance awareness among employees and promote socially responsible behavior, the Company will prepare internal rules and conduct internal audits under the direction of the president.
- Employees will report to or consult with the whistleblower hotline when they learn that somebodies are violating laws, the Articles of Incorporation, internal rules, or conduct that violates social conventions.
- Directors shall respond promptly or make improvements at the CRM Committee in response to requests from the corporate auditors regarding the employee's compliance system and internal reporting system and requests for improvement.

3) System to ensure the appropriateness of business in the corporate group consisting of the Company and its subsidiaries

- Our subsidiaries will comply with our management policy and "AVANT Code of Conduct", share the practice of "AVANT Value", and contribute to the improvement of the corporate value of the Group.
- While respecting the independence of subsidiaries, the Company will support the development and improvement of internal control systems and promote in cooperation with subsidiaries.
- The Company's subsidiaries enter into management guidance and management contracts with the Holding Company Avant, and the Company receives reports on important matters related to the execution of duties by directors. Although the board of directors of each operating company decides important matters, the following three areas need approval from Avant: (i) investment including office contracts, (ii) human resources, and (iii) financing including capital management policy
- The Company's subsidiary shall hold a regular Board of Directors meeting basically once a month, and holds an ad hoc Board of Directors meetings as needed to make decisions and quickly execute business operations. The office of Group General Affairs of the Company confirms the status of meetings.
- As part of building a compliance system for the entire Group, employees of our subsidiaries report to or consult with the whistleblowing system when they learn that laws, the Articles of Incorporation, other internal rules and other social conventions are violated.
- The CRM Committee will provide support for legal violations and other compliance issues at subsidiaries.
- With regard to the progress of the performance of our subsidiaries and thorough cost management, the Company shall conduct the management of business process, funds and prevention of risks by grasping the status of business in a cycle relative to business environment based on rolling forecast management.
- The appropriateness of the operations of the Company's subsidiaries will be observed as necessary by conducting regular internal audits by the Internal Audit Group under Office of Group Management and Control and reporting the results to the Company's directors and the Audit and Supervisory Board.

4) System for ensuring appropriate financial reporting

Under the direction of the Board of Directors, the Company will establish a system for ensuring appropriate legal & financial reporting as well as operating system. Periodically the Company needs to conduct self-assessment and

independent assessment of internal control over financial reporting. At the same time, it is audited by an Accounting Auditor.

5) Basic approach to eliminate anti-social forces

In the AVANT Code of Conduct, we declare the exclusion of anti-social forces and the prohibition of anti-social acts that threaten the safety and order of society and the sound activities of companies. The basic idea is neither to have a relationship nor to respond to unjust and illegal requests.

In addition, we appoint the Prevention Officer for unfair requests, we endeavor to collect information from the beginning and check the business partners.

In the event of an incident, we are in close contact with relevant government agencies and attorneys and other specialists to deal with the issue promptly.

3. The audit system by Audit and Supervisory Board members

1) Matters related to the employee when the auditor requests that the employee be assisted, and the independence of the employee from the director

- Although the Company does not have employees to assist the duties of auditors, the Board of Directors can negotiate based on requests from corporate auditors and appoint and assign such employees.
- During the period to be appointed by the corporate auditor, the command and order of the employee appointed as an assistant to the duties of the corporate auditor shall be transferred to the auditor in order to ensure independence from the Directors. In addition, the evaluation of the employee is conducted after hearing the opinions of the auditors.

2) System for directors and employees to report to auditors and other systems for reporting to corporate auditors

- Auditors attend meetings of the Board of Directors, attend high level meetings, receive reports on the status of operations, and are able to attend any other meetings and committees or view minutes as necessary.
- Auditors can request directors and employees to report business and operations to corporate auditors regularly or at any time.

3) System to ensure that those who report to the corporate auditors are not subject to unfavorable treatment because of the report

- According to the compliance and risk management regulations stipulated in the Company's compliance hotline handling guidelines, we have stipulated and enforced that we will not be subject to adverse treatment.

4) Matters related to the policies relating to the processing of expenses or obligations arising from the execution of duties by the corporate auditors

- When an auditor makes a request for prepayment or reimbursement of expenses incurred for the performance of his / her duties, the expenses or obligations will be processed promptly unless it is deemed unnecessary for the performance of the duties of the corporate auditors.

5) Other systems to ensure that audits by corporate auditors are conducted effectively

- Auditors are able to hold meetings for communication and exchange of opinions with the President and Representative Director.
- The Company ensures to exchange opinions and information with accounting auditors and corporate auditors, and to request investigations and reports as necessary, while cooperating with them.

Operational status of the system to ensure the appropriateness of business

The Company has been continuously investigating the maintenance and operation status of the internal control system since the establishment of the system to ensure the appropriateness of the above operations and has reported the details of the investigation to the Board of Directors.

We have taken corrective actions for problems found as a result of the investigation and are working to build and operate a more appropriate internal control system.

2. Basic approach to eliminate anti-social forces and their development status

The Company strive to improve systems to exclude itself from anti-social forces with the basic policy on internal control systems as follows.

(1) The “AVANT Code of Conduct” declares the exclusion of anti-social forces and the prohibition of anti-social acts. In addition, every year the executives and employees of the Company shall sign pledges regarding the “Code of Conduct / Management of Confidential Information” and conduct confirmations regarding compliance, including the elimination of

anti-social forces.
(2) The General affairs office of the Group is assigned as the department responsible for preventing unfair demands, and it cooperate with the police in charge is in place to eliminate anti-social forces. In addition, the Company endeavor to increase awareness and improve response to the elimination of antisocial forces, such as examination of the antisocial forces at the time of signing the basic contract with our business partners.

V. Other

1. Existence of takeover defense measures

Introduction of Takeover Defense Measures	None

Supplementary information related to takeover defense measures

None

2. Other matters concerning corporate governance system

The status of the internal system for timely disclosure of Company information is as follows.

(1) Basic policy for timely disclosure of company information
Timely disclosure of company information is the only way, in fulfilling our social responsibilities, for the stakeholders to broadly understand our company and is an important part of coordinating with our stakeholders and shaping corporate governance.
Accordingly, we shall provide the information in a timely, appropriate and fair manner.

(2) Status of internal structure related to timely disclosure
Important information related to the Company's operations, etc. are managed by the officer responsible for handling information, and the timely disclosure work is performed by the Group Management Office, which is making efforts to strengthen and improve the timely disclosure system.
In addition, since we handle financial results information of our customers, the Company encourage everyone to thoroughly understand laws and regulations related to the Securities and Exchange Law, rules of the stock exchange and internal "Rule on Management of Insider Information," and conduct training as a curriculum for internal education.
In view of the social situation regarding information management and its possible impact, the Information Security Committee has been established, and security policies and related document rules are currently being formulated to strengthen the company-wide information management system.

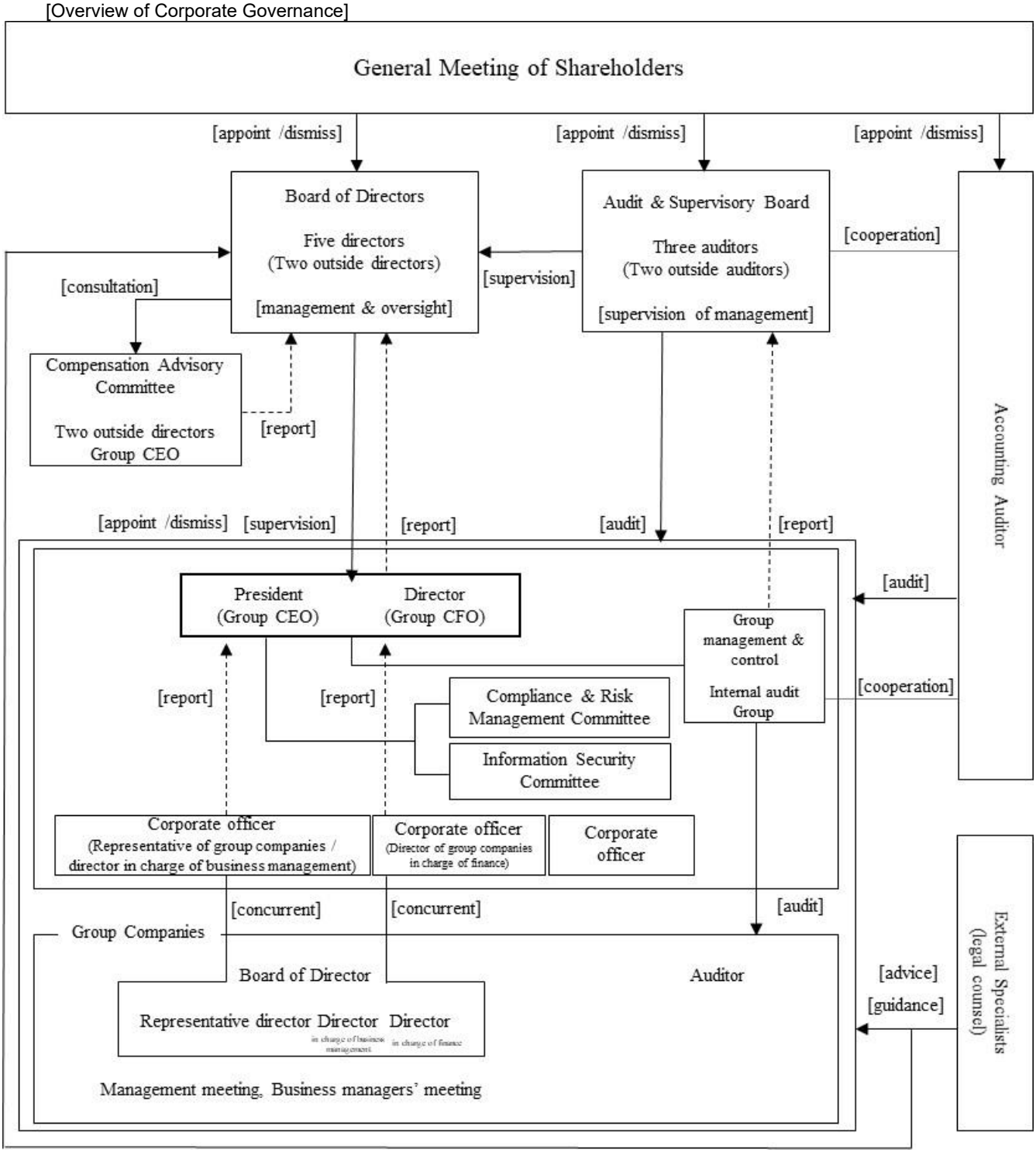
(3) Flow of timely disclosure
Existence of important information related to business operations are shared by each meeting body and report, and the person in charge of handling information shall proceed with the timely disclosure under the prescribed disclosure procedures.
Information regarding urgent incidents, important business decision and financial results is routed to officer in charge of information management. The officer shall examine and confirm the contents of the information and determine whether information is subject to timely disclosure. After the prescribed disclosure procedure, the release will be disclosed and posted on our website.

(4) Status of timely disclosure system monitoring

a) Audit and Supervisory Board member
Members of Audit and Supervisory Board shall attend board meetings and other important meetings, audits reports on important occurrences related to company information, the status of decisions. They monitor the operational status of internal systems related to comprehensive and timely disclosure of information including confirmation of financial results and financial status.

b) Board of Directors for timely disclosure
For information that require timely disclosure such as financial results, the Board of Directors and Audit & Supervisory Board Members of the Company, including certified public accountants, confirm the appropriateness of the preparation of timely disclosure documents and securities reports at board meeting.

[Overview of Corporate Governance]



Overview of system of timely disclosure

