

Japan

Employment

Labor Concerns

Employee entitlement claims are becoming more common. The risk of employee claims for additional benefits can be reduced by having the employee acknowledge in writing the plan's discretionary nature and by preparing plan documents separated from the employment contract and work rules. Employee contributions to a purchase plan should be remitted to the Issuer without delay. If the Subsidiary is involved in the administration of the accounts in which the payroll deductions are held, notice to the Labor Standards Inspection office is required. In addition, an agreement between an employee representative and the Subsidiary may be required in order for payroll deductions to be permitted for a purchase plan.

Communications

Translation of plan documents for employees is recommended but not required. Government filings must be in Japanese.

Regulatory

Securities Compliance

Offers of purchase rights to employees of local subsidiaries that are directly and wholly owned by the parent company and non-transferable, are not subject to notification and registration requirements. Otherwise, the necessity for disclosure and registration filings is determined based upon the aggregate price of securities offered and the number of offerees. A securities notification (Form 6) is required for grants exceeding ¥10,000,000 but less than ¥100,000,000 and offered to 50 or more employees. For grants in excess of ¥100,000,000, delivery of the prospectus is required, and depending on whether the company is a reporting company and on the number of employees, a securities registration statement (Form 7) is required. Annual and semi-annual (and in case of listed company, quarterly) filings are required once a Form 7 has been filed.

Foreign Exchange

When an employee pays more than ¥30,000,000 under the plan, he/she must send a Payment Report to banks or money lending/transferring companies (within 10 days of payment) when the payment was through such banks or money transferring companies, and such banks money lending/transferring companies must file the Payment Report to the Ministry of Finance (MOFO) via the Bank of Japan within 10 business days of the receipt of the Payment Report. Alternatively, the employee must file a Payment Report to MOFO via the Bank of Japan by the 20th day of the month following the month the payment is made, where the payment was not through banks or money transferring companies. If the value of the Stock acquired exceeds ¥100,000,000, he/she must file an additional report (Report concerning Acquisition or Transfer of Securities) to MOFO via Bank of Japan within 20 days from acquisition or payment, whichever is later.

Data Protection

Employee consent for the processing and transfer of personal data is required, subject to certain statutory exemptions for "joint-use".

Tax

Employee Tax Treatment

The employee is taxed on the spread at the time the purchase rights are exercised, depending on the discount, provided that purchase rights are considered to be non-transferable or subject to other special conditions for Japanese tax purposes. The income will be subject to tax as "remuneration income." Capital gains tax generally is due on the gain from the sale of Stock.

Social Insurance Contributions

Social insurance charges should not be imposed, provided that the plan benefits are not treated as a salary for labor performed by the employee for this purpose.

Tax-Favored Program

None.

This summary is intended to reflect local law and practice as at 1 May 2013. Please note, however, that recent amendments and legal interpretations of the local law may not be included in these summaries. In addition, corporate governance, administration, and option plan design facts that are specific to your company may impact how the local laws affect the company's equity based compensation plans.

With these matters in mind, companies should not rely on the information provided in this summary when implementing their stock plans.

Withholding and Reporting

Withholding and reporting requirements generally do not apply if the Subsidiary/other local office remains uninvolved in the payment of plan benefits and the Issuer is not reimbursed for the cost of plan benefits. However, if an employee of a Japanese corporation which is over 50% owned by a foreign corporation or an employee of a Japanese office of a foreign corporation receives economic benefits from the foreign corporation according to a right granted by the foreign corporation, the Japanese corporation/head of the Japanese office is required to submit a report concerning the provision of economic benefit. This requirement applies to a report to be submitted on or after 1 January 2013.

According to 2013 tax reform, a certain assets including company shares located outside of Japan is subject to a reporting obligation. This rule applies to a report to be submitted on or after 1 January 2014.

Employer Tax Treatment

Although the law is unclear, a deduction may be allowed if the Subsidiary bears the cost for plan benefit, subject to prescribed requirements for deduction.

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