Japan

Employee Stock Purchase Plans

Employment

Labor Concerns

It is becoming more common for employees to claim they have entitlements under Plans. The risk of employee claims for additional benefits can be reduced by having the employee acknowledge the Plan's discretionary nature in writing and by preparing Plan documents that are separate from the employment contract and work rules. Employee contributions to a Plan should be remitted to the Issuer without delay. 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 are 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 between ¥10,000,000 and ¥100,000,000 that are offered to 50 or more employees. For grants in excess of ¥100,000,000, delivery of a 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 the case of a listed company, quarterly) filings are required once a Form 7 has been filed.

Foreign Exchange

When an employee pays ¥30,000,000 or more to acquire stock under the Plan via a bank or money transferring company, he/she must send a Payment Report to that bank or money lending/transferring company (within 10 days of payment). The relevant bank or money lending/transferring company must then file a Payment Report to the Ministry of Finance (MOFO) via the Bank of Japan within 10 business days of receipt of the Payment Report. Alternatively, if the payment was not through a bank or money transferring company, 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 was made. If the payment (value of the securities acquired) exceeds ¥100,000,000, he/she must file an additional report (Report concerning Acquisition or Transfer of Securities) with MOFO via the Bank of Japan within 20 days from the 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 is generally 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 salary for labor performed by the employee for this purpose.

Tax Favored Program

None.

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 pursuant 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 the economic benefit.

Certain assets, including company shares located outside of Japan, are subject to a tax reporting obligation.

Employer Tax Treatment

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

Tax Rates

Income tax is charged at rates of up to 55% (including local tax) plus special recovery tax, provided that there remains a risk of forfeiture until vesting.

Any gain made on the sale of shares is taxed at rates up to 32.26%.

Restricted Stock and RSUs

Employment

Labor Concerns

It is becoming more common for employees to claim they have entitlements under restricted stock or RSU plans. The risk of employee claims for additional benefits can be reduced by having the employee acknowledge the Plan's discretionary nature in writing and by preparing Plan documents that are separate from the employment contract and work rules. The awards may not be made in lieu of salary.

Communications

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

Regulatory

Securities Compliance

Securities restrictions generally do not apply to restricted stock or RSUs.

Foreign Exchange

Employees must file a report with the Ministry of Finance via the Bank of Japan within 20 days of the grant of restricted stock or, in case of RSUs, the acquisition of shares, if the value of the securities underlying the restricted Stock or RSUs exceeds ¥100,000,000.

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

Japanese tax laws lack explicit provisions for restricted stock and RSU plans which are granted from employers outside of Japan and thus the tax consequences are uncertain. The employee will most likely be subject to tax upon vesting, provided that there remains a risk of forfeiture until vesting. In the case of restricted stock, if employees maintain shareholders' rights (e.g., to receive dividends and to vote) from grant, the Japanese tax authorities would likely assert that the employee should be subject to tax upon grant despite the potential for forfeiture in the future. The value of the Stock at the taxable event (vesting or grant) is taxed as general remuneration income. Capital gains tax is generally due on the gain from the sale of the Stock.

An amendment to tax law, that became effective on 1 April 2016, clarified how restricted stock issued by domestic Japanese corporations is treated. Under the amended tax law, "**Specific Restricted Stock**" is Stock that (i) is provided to an individual as compensation by a domestic corporation, (ii) is the Stock of the domestic corporation or the domestic corporation's wholly-owning parent corporation, (iii) the grantee may not dispose of the Stock for a certain period, (iv) can be obtained by the granting domestic corporation without consideration upon specified events, and (v) is provided in exchange for the individual's claim for compensation for services. Income tax is imposed on the individual as of the date on which the restriction on disposal of the Specific Restricted Stock is lifted (the "**Removal Date**").

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.

Withholding and Reporting

Withholding and reporting requirements generally do not apply if the domestic corporation /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 domestic 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 pursuant to a right granted by the foreign corporation, the domestic corporation/head of the Japanese office is required to submit a report concerning the provision of the economic benefit.

Certain assets, including company shares located outside of Japan, are subject to a tax reporting obligation.

Employer Tax Treatment

On the Removal Date, the domestic corporation can take a tax deduction for the income that it provides to the individual in the form of Specific Restricted Stock. When Specific Restricted Stock is given to executives, the domestic corporation needs to follow a certain procedure to be able to take a tax deduction.

Tax Rates

Income tax is charged at rates of up to 55% (including local tax) plus special recovery tax, provided that there remains a risk of forfeiture until vesting.

Any gain made on the sale of shares is taxed at rates up to 32.26%.

Stock Option Plans

Employment

Labor Concerns

It is becoming more common for employees to claim they have entitlements under Plans. The risk of employee claims for additional benefits can be reduced by having the employee acknowledge the Plan's discretionary nature in writing and by preparing Plan documents that are separate from the employment contract and work rules.

Communications

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

Regulatory

Securities Compliance

Offers of options to employees of local Subsidiaries that are directly and wholly owned by the parent company and are 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 between ¥10,000,000 and ¥100,000,000 that are offered to 50 or more employees. For grants that are in excess of ¥100,000,000, delivery of a prospectus is required, and, depending on whether the company is a reporting company and the number of employees, a securities registration statement (Form 7) is required. In addition, annual and semi-annual (and in the case of a listed company, quarterly) filings are required once a Form 7 has been filed.

Foreign Exchange

When an employee pays ¥30,000,000 or more to exercise options under the Plan via a bank or money transferring company, he/she must send a Payment Report to that bank or money lending/transferring company (within 10 days of payment). The relevant bank or money lending/transferring company must then file a Payment Report to the Ministry of Finance (MOFO) via the Bank of Japan within 10 business days of receipt of the Payment Report. Alternatively, if the payment was not through a bank or money transferring company, 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 was made. If the payment (value of the securities acquired) exceeds ¥100,000,000, he/she must file an additional report (Report concerning Acquisition or Transfer of Securities) with MOFO via the Bank of Japan within 20 days from the 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

Employees will recognize income equal to the difference (or spread) between the option exercise price and the fair market value of the shares on the date of exercise, provided that stock options are considered to be non-transferable stock options or subject to other special conditions for Japanese tax purposes. The income will be subject to tax as "remuneration income." Capital gains tax is generally 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 salary for labor performed by the employee for this purpose.

Tax Favored Program

According to the 2011 tax reform, a stock option to be issued by certain foreign parent corporations by company resolution under foreign statute is eligible to be a "tax-qualified stock option".

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 pursuant 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.

Certain assets, including company shares located outside of Japan, are subject to a tax reporting obligation.

Employer Tax Treatment

Although the law is vague, a deduction may be allowed if the Subsidiary bears the cost for Plan benefits, subject to prescribed requirements for deduction.

Tax Rates

Income tax is charged at rates of up to 55% (including local tax) plus special recovery tax, provided that there remains a risk of forfeiture until vesting.

Any gain made on the sale of shares is taxed at rates up to 32.26%.

NY1016/ECBEL/M/314460_01