director." Beyond being an outside director as outlined in the Companies Act, these directors must not have any conflict of interest with management and the company.

2) New requirements on outside directors (or outside statutory auditors)
   a. No longer permit, among others, directors or employees of a parent company, management officers of affiliate companies, and certain close family members or relatives of a director of a company to serve as outside officers.
   b. Exceptions to allow person who has not served in the capacity of a management officer in the last 10 years to serve as an outside director of such company.
3) Introduction of an entirely new corporate governance system
   Introduction of a third corporate governance structure called a supervisory committee (on top of the traditional Kansayaku or statutory auditor system and the Committee System introduced in 2004), consisting of three or more directors of which at least a majority must be outside directors. This system aims to reduce the burden on companies to look for independent directors to serve on their board as well as on their auditing committees, as it is often suggested that the pool of qualified outside directors is still small in Japan.

3.6 *Board Structure of Listed Firms*

Based on the new rules, outside directors are deemed independent only when non-business relationship is established by each company. Otherwise, outside directors may be related to individuals who may be dealing heavily with the companies or related to companies that deal heavily with the board on which the director sits. Audit and Supervisory Board is independent from the board of directors and are tasked to work with the company's accounting and internal auditors. Following the introduction of such rules, the number of independent directors has indeed increased. Table 3 shows the board of director structure and the statutory audit board structure of the largest 20 firms on the