Compliance and Risk Management Systems

Internal Control System

The Isetan Mitsukoshi Group established the Basic Policy for Internal Control Systems at a meeting of the Board of Directors in 2008 to ensure sound and highly transparent Group management, as well as to maximize corporate value. Since then, we have been continuously reviewing and improving these policies as times and the environment change to make them more appropriate and efficient.

Our Basic Policy for Internal Control Systems contain the following items.

❶ Compliance systems
❷ Risk management systems
❸ Internal control systems regarding financial reporting
❹ Information storage management systems
❺ Systems for the efficient execution of duties
❻ Group company management systems
❼ Items relating to Audit Committee staff
❽ Items relating to reports to the Audit Committee
❾ Policy for processing auditing fees
❿ Systems relating to the guarantee of the effectiveness of audits by the Audit Committee

After the end of each fiscal year, in accordance with the above items, we conduct voluntary inspections and confirm these at meetings of the Board of Executive Officers and other meetings on the status of establishment and operation of internal controls. The results are reported to the Audit Committee and the Board of Directors and are used to strengthen internal control systems and improve operations for the next fiscal year.

Risk Management Systems

The Isetan Mitsukoshi Group has developed and established a Group-wide risk management system based on the Basic Policy for Internal Control Systems, including such things as the prevention of risks in all business areas and cross-sectional responses to risks when they occur. To achieve sustainable growth for the future in a business environment with diversifying risks, the Isetan Mitsukoshi Group engages in the further strengthening of the systems for promoting risk management, with the safety and security of customers, business partners, and employees as its top priority.

Risk Management Systems
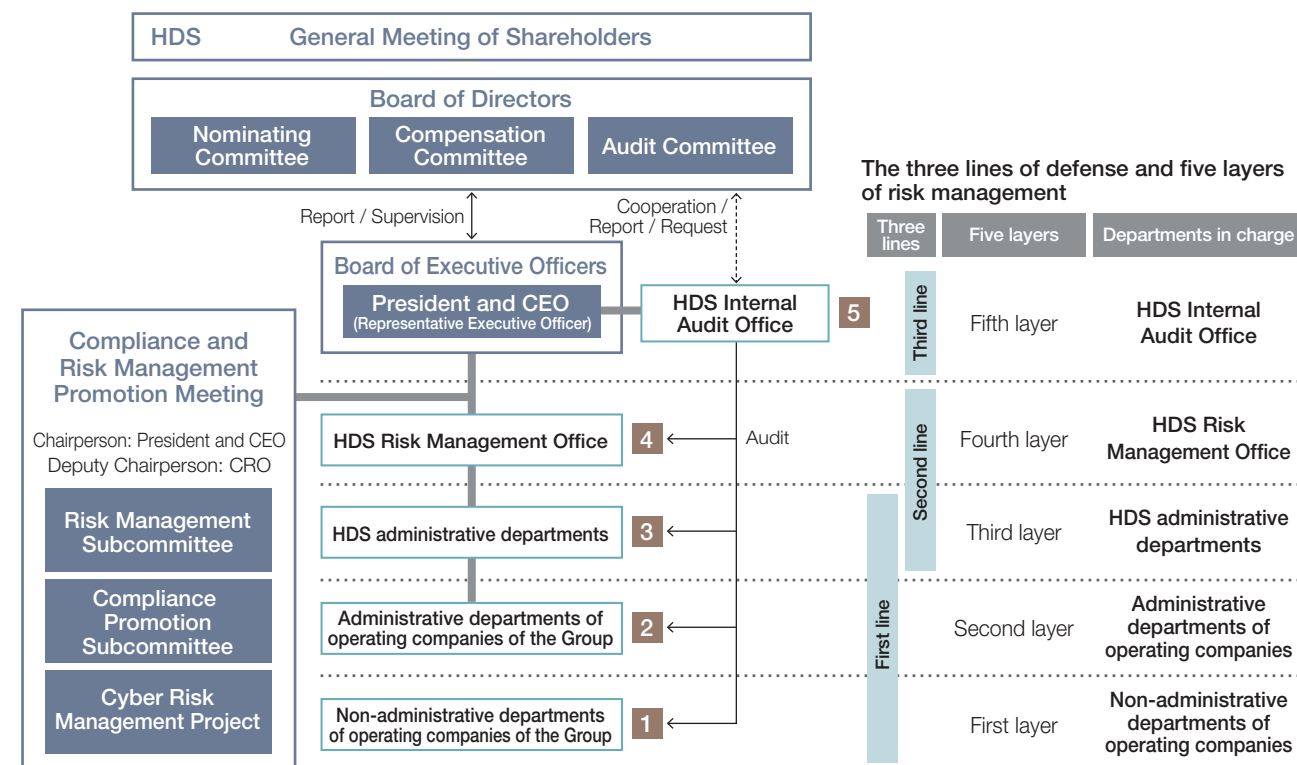
*HDS stands for "holdings company."

◆ Systems for promoting risk management

Our Group ensures that the Compliance and Risk Management Promotion Meeting, chaired by the president and CEO, is thoroughly informed of risk management systems and policies, and that highly effective measures are taken through three sub-committees (Risk Management Subcommittee, Compliance Promotion Subcommittee, and Cyber Risk Management Project).

Our Group's risk management system comprises of three lines of defense and five layers that assume risk management in the current organization. Based on the three lines of defense, with each Group company as the first line of defense, the HDS Risk Management Office as the second line of defense, and the HDS Internal Audit Office as the third line of defense, we have strengthened our risk management system by dividing it into five layers with more specifically defined roles (❶ Non-administrative departments of operating companies; ❷ Administrative departments of operating companies; ❸ HDS administrative departments; ❹ HDS Risk Management Office; and ❺ HDS Internal Audit Office).

◆ Organizations improving the effectiveness of risk management

The Group takes effective measures to prevent the occurrence of priority risks identified by the Compliance and Risk Management Promotion Meeting, through the following subcommittees, thereby implementing a PDCA cycle of suggesting, promoting, and examining more specific countermeasures.

Priority risks are explained in "◆ Concept of risk" on page 60.

■ Risk Management Subcommittee

This subcommittee works to improve the effectiveness of risk countermeasures by conducting rigorous drills and inspections, as well as formulating measures and BCP to reduce and prevent various risks, including natural disasters and fires.

■ Compliance Promotion Subcommittee

In order to maintain a sense of ethics that is responsive to the times and to correctly respond to rapid changes in the environment, this subcommittee works to foster a compliance mindset as part of our corporate culture by promoting understanding of legal knowledge and administrative trends that management should be aware of, and by linking this to practices that comply with the principle of fair trade.

■ Cyber Risk Management Project

This organization maintains knowledge of the latest security trends to optimize the Group's security technology, improves daily monitoring systems to prevent and quickly respond to any incidents, and provides training to employees.

◆ The PDCA cycle of risk management

Based on the basic policies presented at the Compliance and Risk Management Promotion Meeting, countermeasures for specific priority risks are formulated and thoroughly communicated through each subcommittee.

In order to implement countermeasures, training and voluntary inspection activities are conducted at each Group company. We carry out risk management based on the PDCA cycle, in which monitoring and evaluation lead to further improvements in response measures.
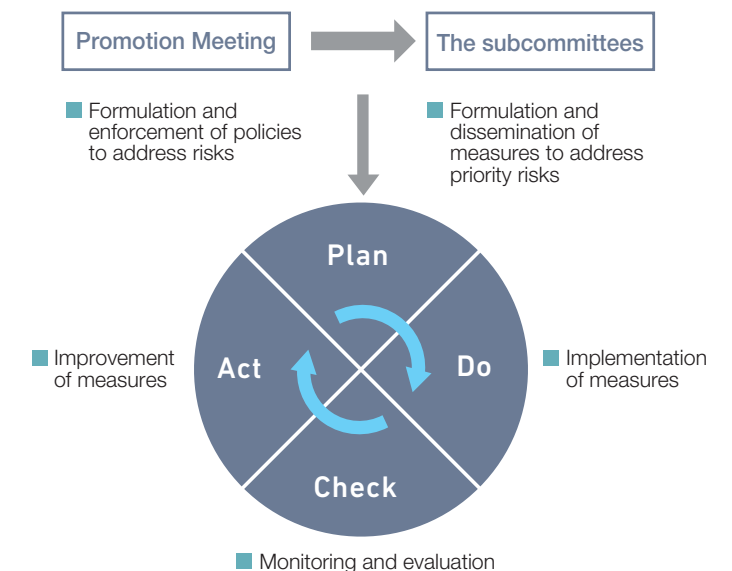
Compliance and Risk Management Systems

◆ Concept of risk

In assessing risk, our Group strives to understand risks from multiple perspectives, taking into consideration the ever-changing external environment and the Group's business characteristics and strategies.

We have classified the risks surrounding the businesses of the entire Group into five categories (❶ Management strategy risks; ❷ Financial risks; ❸ Personnel and labor risks; ❹ Disasters and other external risks; and ❺ Operational risks), and have established a flow to regularly evaluate and confirm the progress of countermeasures after further subdividing each risk. Furthermore, should a risk materialize, we consider it to be a risk that could result in damage to property, injury to personnel, impediment to the execution of financial and management strategies, or damage to our reputation. As such, based on the frequency of occurrence and impact on business, we create a risk map (see below), select priority risks among them, and take countermeasures as early as possible.

Risk examples

Category	Risk item
❶Management strategy risks	■Promotion of sustainability management ■Responding to conditions overseas ■Strategies to cope with digital society
❷Financial risks	■Fundraising ■Increase in market interest rates ■Foreign exchange fluctuation
❸Personnel and labor risks	■Securing and developing professional human resources ■Addressing diversity, equity & inclusion ■Harassment, proper working hour management
❹Disasters and other external risks	■Natural disasters and fires ■Infectious diseases ■Information security
❺Operational risks	■Commodity transaction risks ■Food sanitation incidents ■Leakage of personal information

Risk map
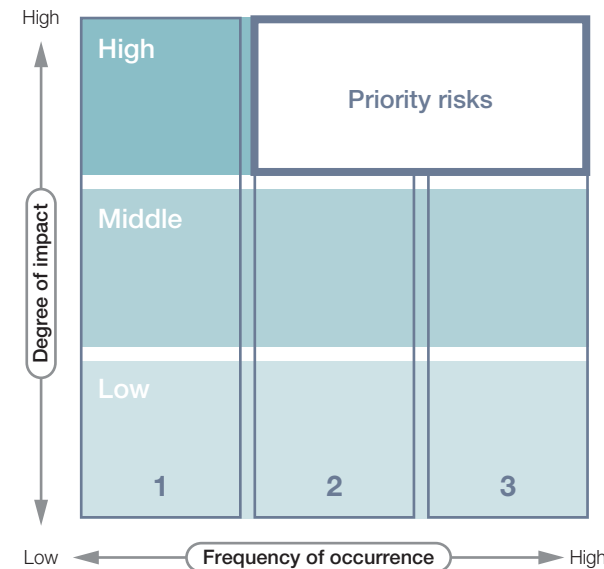
Compliance Systems

◆ Our views on compliance

The Isetan Mitsukoshi Group believes that it is essential that employees incorporate compliance into their values, awareness and actions, and practice it to observe laws, ethics, social norms and the like.
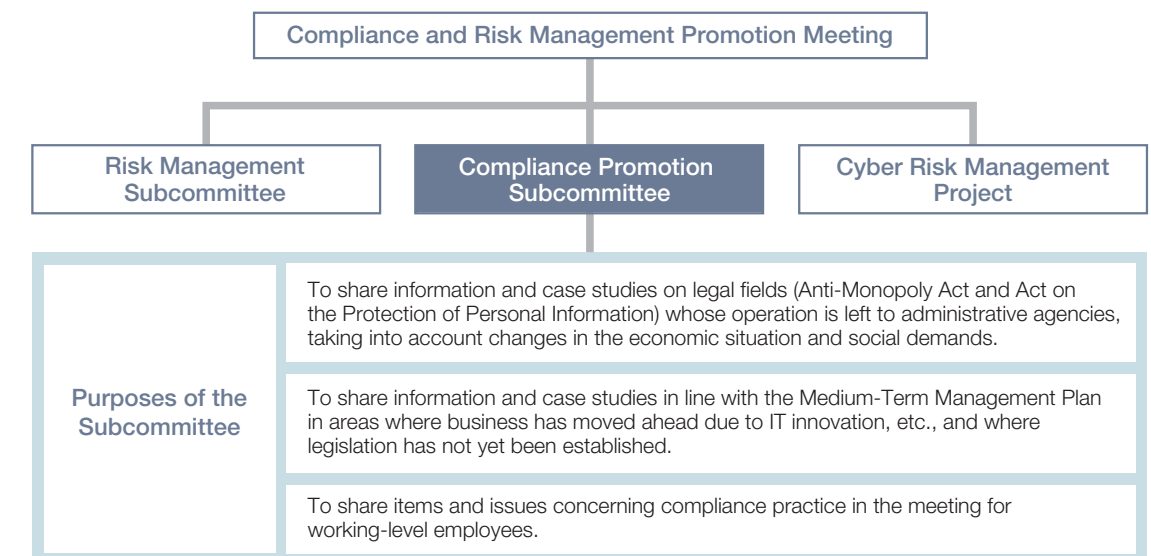
For that purpose, the Group has established the Isetan Mitsukoshi Group Standards of Corporate Ethical Behavior as a code of conduct for officers and employees. The Group seeks to maintain and improve compliance systems to ensure the trust of society, in addition to working to share the Standards throughout the Company. The Group also works to make compliance in everyday businesses known to all employees by posting the Compliance Guidebook, which outlines laws and guidelines for ethical actions that should be observed in relation to customers, business partners, and employees, on the Intranet.

◆ Compliance Subcommittee

The Compliance Subcommittee, a meeting for managers separate to the meeting for working-level employees, has expanded its scope to include laws and regulations, ethics, social norms, and soft law, and is promoting a variety of initiatives in these areas.

On the other hand, the meeting for working-level employees focuses on personal information management and preventing food hygiene incidents, as well as the Anti-Monopoly Act (cartel bidding), Subcontract Act, and Act against Unjustifiable Premiums and Misleading Representations as specific items of compliance in business operations, and conducts practical activities for checking and preventing such violations. The status of these activities is also shared at the Compliance Promotion Subcommittee.

◆ Enhancing compliance in our relationships with stakeholders

❶ Customers: Initiatives for the protection of personal information	The Group has established and released a Privacy Policy and Cookie Policy for appropriate management and proper use of the personal information received from customers to meet their expectations and earn their trust. The Group has also created Personal Information Management Rules based on the Privacy Policy. Under these rules, the Group ensures proper use of personal information and strict protection and management.
❷ Shareholders: Establishment of an IR Policy	The Group has established and published an IR Policy to earn the trust and understanding of shareholders and investors through its investor relations activities (public relations activities for shareholders and investors). The goals of the Group are, based on this policy, to disclose information fairly and improve communication.
❸ Local community: Response to antisocial forces	At the Isetan Mitsukoshi Group, our Basic Policy for Internal Control Systems and the Isetan Mitsukoshi Group Procurement Policy state that the Group will have no relationship with antisocial forces, reject undue claims from them, and prevent damage which may be caused by them.
❹ Business partners: Establishment and application of systems promoting fair trade	The Group has established Fair Trade Guidelines. Under these guidelines, the Group promotes the establishment of systems to avoid unfair trade restrictions and the like and their strict application to ensure that the Group competes fairly and freely and continues to extensively contribute to society.
❺ Employees: Establishment and operation of a whistleblowing hotline	The Group has established Group Hotline Rules to promptly identify unfair actions, and to make improvements in such cases. Based on these rules, it has provided the Group Hotline, a system where external expert firms and law offices receive reports on unfair actions to protect whistleblowers from any unfair treatment.