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ICGN Webinar Keynote Remarks
of Director-General Hideki Ito

Provisional translation

I'm Hideki Ito, Director-General of the Planning and Market Bureau, Financial Services Agency, The Government of Japan. Thank you for the great opportunity to speak at the ICGN meeting, which is a gathering of institutional investors leading the global investment industry.

First of all, I would like to thank Ms. Waring, CEO of ICGN for her significant contributions since October 2017 as a member of the Financial Services Agency's Council of Experts, which discusses and reviews corporate governance reforms. At this year's Council meeting of Experts, we received opinions from her tackling issues related to sustainability, which captured the issues of Japan's capital markets from international context, and she provided valuable suggestions regarding the future direction of corporate governance reforms.

I would like to continue to discuss improvement of governance in Japan and globally with CEO Ms. Waring and other ICGN members.

Next, Mr. Konuma mentioned earlier about the obituary of former Prime Minister Shinzo Abe and I also would like to express my deepest condolences and pray for the soul from the bottom of my heart. Former Prime Minister Abe received the "Governance Award" at the 2019 General Assembly of ICGN since he was the first to embark on corporate governance reforms in Japan and has promoted reforms such as establishment of the Stewardship Code and the Corporate Governance Code. We would like to further promote the reforms that have been carried out under Abenomics.

Today, after briefly discussing the "new form of capitalism" advocated by the Kishida administration and the overall picture of the issues that should be tackled in financial administration under that philosophy, I would like to introduce how FSA is tackling sustainability issues in corporate governance reforms and disclosure administration.

Prime Minister Kishida called for "Invest in Kishida" at the Guildhall in London in May this year and defined the "new form of capitalism" as "stronger, more sustainable version of capitalism". Under the new form of capitalism, we decided to "shift social issues into an engine of growth rather than seeing them as obstacles." And he said for that purpose, it is necessary to "eliminate distribution blockages", "overcome underinvestment in new value-added sectors", "boost labor mobility to new sectors", "promote diversity", and "realize healthy economic metabolism".

The "Grand Design and Action Plan for a New Form of Capitalism" approved by the cabinet in June this year embodies this initiative of Prime Minister Kishida. The following items are on the concrete action agenda: "Investment and distribution to people", "Accelerating

establishment of start-ups and promoting open innovation", etc., and "developing financial markets".

In line with this major government policy, the Financial Services Agency is also considering reforming various systems related to financial and capital markets in order to realize a "virtuous cycle of growth and distribution".

In the interim report of the Working Group on Capital Market Regulations of the Financial System Council, which was compiled last month, it shows the direction and challenges of measures to improve financial literacy and secure customer-oriented business operations for returning the fruits of growth to households, and to boost financial growth through the smooth supply of funds to startups.

In addition, as the momentum for responding to social issues such as climate change, disparity, and population decline is increasing worldwide, the importance of sustainable finance is increasing in Japan as well. Sustainable finance provides funds and advice that contributes to solving these social issues, and the Financial Services Agency is working on it as an important theme.

Specifically, in order to promote sustainable finance as an infrastructure that supports a sustainable economic and social system, we are proceeding with individual measures "enhancement of corporate disclosure", "exercise of market functions" and "support for investment and loan destinations of financial institutions and risk management".

From now on, I would like to talk about "enhancement of corporate disclosure" as related to "practice of the Corporate Governance Code", which is the subject of today's event. Specifically, I would like to talk about three things: "Revision of the Corporate Governance Code", "Disclosure of Sustainability Information in Legal Disclosure Documents", and "Dissemination of Opinions to International Sustainability Disclosure Standards".

First, I would like to talk about the "Revision of the Corporate Governance Code".

Last year's revision of the Corporate Governance Code was carried out as part of the market restructuring of the Tokyo Stock Exchange in April this year. As a result of the market restructuring, the previous five market segments have been reorganized into three markets: "prime market", "standard market", and "growth market". Especially, "prime market" has been clarified its concept as "the market oriented to companies which center their business on constructive dialogue with global investors", and listed companies are also required to have a higher corporate governance system.

Last year's revision of the Corporate Governance Code required listed companies to comply with the following four points in relation to sustainability.

- First, the board of directors formulates and discloses a basic policy regarding sustainability of the company from the perspective of improving corporate value.
- Second, prime market-listed companies should improve the quality and quantity of disclosures based on TCFD or equivalent frameworks.
- Third, companies should disclose information on investment in human capital in an easy-to-understand manner.
- Finally, from the perspective of ensuring diversity, companies should show the concept and voluntary and measurable goals for ensuring diversity in the promotion of core human resources, such as the promotion of women, foreigners, and mid-career hires to managerial positions.

The second is "disclosure of sustainability information in legal disclosure documents." While the Corporate Governance Code, which is a so-called soft law discipline, is important, statutory disclosure, which is a hard law, is also important from the perspective of ensuring the further reliability of information.

In the report of the Working Group on Corporate Disclosure of Financial System Council released on June 13, this year, it was decided to add a "sustainability information entry field" to the annual securities report.

In this, sustainability information including climate change will be disclosed in the category of "governance," "strategy," "risk management," and "indicators and goals" in line with international framework. Specifically, "governance" and "risk management" are disclosed by all companies, and "strategies" and "indicators and goals" are disclosed after the companies judge their importance.

Also, regarding human capital and diversity, which are becoming more important to investors, the report includes following points.

- Companies should disclose "Human Resources Development Policies" and "Policies on improving workplace environment".
- Companies should set measurable indicators that are consistent with these "policies" and disclose their goals and progress.
- Companies should disclose the wage gap between men and women, the ratio of female managers, and the rate of male employees taking childcare leave as items necessary for medium-to-long-term corporate value judgment.

And the third is about "disseminating opinions on international sustainability disclosure standards."

Last November, the International Financial Reporting Standards Foundation (IFRS Foundation) announced the establishment of the International Sustainability Standards Council (ISSB).

In response to this, as an organization responsible for disseminating opinions from Japan regarding the formulation of ISSB standards and examining disclosure items in Japan, on July 1, this year, under the Financial Accounting Standards Foundation, which formulates accounting standards for Japan, A new "Sustainability Standards Committee (SSBJ)" has been established. In the future, it is important for Japan to actively participate in the movement to formulate international sustainability disclosure standards, with SSBJ playing a central role.

At that time, in addition to contributing to the international discussions on the preceding climate change standards, I would like to actively disseminate opinions from Japan that human capital should be addressed as a theme that should be discussed with priority.

Finally, I would like to thank all of ICGN members for their great contributions to the improvement of corporate governance in Japan. Thank you for your attention.

End.

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