

ICGN Annual Japan Forum, hosted by JPX & TSE 14 July 2022

Opening Remarks from ICGN: Kerrie Waring, CEO, ICGN

Welcome everyone to ICGN's Annual Japan Forum, hosted by the Tokyo Stock Exchange and Japan Exchange Group. This is the second year that we have held this event and we are grateful for endorsement from the FSA, METI, MOJ and Keidanren and for the support from our many partners and sponsors.

I would like to say from the outset how saddened we are following the tragic assassination of Former Prime Minister Shinzo Abe. Abe san was instrumental in leading a new era for corporate governance and investor stewardship in Japan, impacting the wider region. His revitalization strategy – otherwise known as Abenomics – led to a series of regulatory initiatives including Japan's Stewardship Code in 2014, and Corporate Governance Code the following year. Its incumbent on all of us to carry on his legacy.

For those of you who might not know ICGN, we were established over 25 years ago to develop the highest standards of corporate governance and investor stewardship worldwide to support long-term value creation, contributing to sustainable economies, society, and environment. Our work programme is led by investors responsible for assets of \$70 trillion, based mainly in Europe and North America but with growing Asia representation, particularly in Japan, where overseas investors hold around 30% of shares in TSE listed companies.

ICGN has supported reforms in Japan for over two decades, contributing to regulatory consultations and convening international meetings in Tokyo. Since 2017, I have had the privilege of serving on the Council of Experts convened by the FSA and TSE which has been a rewarding experience and has helped to inform ICGN's own Global Governance and Stewardship Principles.

In 2019 we published a Statement of Japan Corporate Governance Priorities which will be updated this year and launched at the TSE in Tokyo on 04 October so I will take the liberty of giving you a preview of some of the likely changes now:

Firstly, we welcome the positive trend of more than 80% of companies listed on the JPX Prime Market to have at least one third of independent directors. Going forward, we recommend that a timeframe be imposed for all Prime Market listed companies to abide by this requirement. Ideally, all listed companies whether in the standard or growth market should meet this requirement and we should aim for a majority of independent directors.

Secondly, effective corporate governance relies - not only on the quantity - but the quality of independent directors. We encourage companies to clarify the rationale for appointments with information around the how the skills, experience and attributes of independent directors align with the company's purpose, succession planning, and long-term strategy.

Third, we recommend that companies demonstrate their commitment to board diversity, equity and inclusion in clear policies expressing goals, action plans and measurable, time-bound objectives.

We welcome the positive trend of around 80% of companies having established nomination and compensation committees. We encourage all Prime Market listed companies to adopt a three-committee system as an optimal governance structure with Audit and Remuneration Committees comprised fully of independent directors and the Nomination Committee having a majority.

We understand that it is prudent for companies to take a conservative approach to capital allocation in these challenging times to manage efficiency, mitigate risk, and ensure resilience. However, compared to European and North American markets, JPX listed companies take a markedly risk adverse approach to capital allocation as evidenced in the continual build-up of retained earnings and cash deposits.

We encourage companies to improve their disclosures around the rationale for capital allocation decisions. Additionally, the rationale for dividend policies and pay-out ratios could be improved. The general 30-40% dividend in Japan is conservative compared to other markets linking.

We recognise improvement in reducing cross shareholdings, particularly in the banking sector. However, there many companies still retain cross-shareholding without a clear rationale. Companies should clarify the precise nature of cross-shareholdings, e.g., if they are a parent company, subsidiary, or supplier, and how they intend to be reduced or eliminated over a designated time-period.

Corporate governance disclosure should be consolidated in the Yuho, made available in English and published before the AGM. This provides investors with information around the business model, corporate strategy, audited financial results, Key Audit Matters and cross-shareholdings – all of which are vital for voting decision making.

We applaud the continued development of the Sustainability Standards Board of Japan, and national efforts to expedite reporting aligned with the TCFD, and we look forward to hearing more about this on our second panel today.

Finally, ICGN Members would welcome further clarity around their ability to act collaboratively without being considered a concert party. It would be helpful for the FSA to publish guidance on what constitutes acceptable engagement subjects to ensure investors do not breach rules regarding collective holding thresholds above which would trigger onerous reporting requirements.

Over 1,000 people have registered for today from 23 countries and our aim is to discuss the extent to which recent social and environmental related principles in Japan's Corporate Governance Code are being implemented in practice. Before we break into our panel discussions, I am honoured to introduce you our kind host, Yasuyuki Konuma-san who is Director and Senior Executive Officer of the Tokyo Stock Exchange.

Konuma-san is responsible for developing TSE's Listing Rules for ETF and other asset backed products and leads TSE's efforts to encourage new listings. He has been instrumental in helping ICGN convene overseas investors with Japanese companies in the spirit of open and constructive dialogue and I welcome him to our virtual stage.

End.

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