



ICGN Annual Japan Forum

Hosted by Japan Exchange Group & Tokyo Stock Exchange, 14 July 2022

Opening Remarks from Kerrie Waring, CEO, ICGN

Welcome everyone to ICGN's Annual Japan Forum, kindly hosted by the Tokyo Stock Exchange and Japan Exchange Group. Over 1,000 people have registered, and we are grateful for endorsement from FSA, METI, MOJ and Keidanren and for the support from our many partners and sponsors.

From the outset I would like to say how saddened we are following the assassination of Former Prime Minister Shinzo Abe. An ICGN Award Winner, 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 governance and 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, responding 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 Principles.

In 2019 we published a Statement of Japan Corporate Governance Priorities which will be updated this year and re-published in 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 on the board. We recommend that a timeframe be imposed for those that have not yet met this obligation. Ideally, companies - whether in the standard or growth market - should meet this basic independence requirement and be aiming for a majority in the near future.

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, companies should 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 with nomination and compensation committees. Over time, we encourage the adoption of a three-committee system 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 are distinctly risk adverse as evidenced in the continual build-up of retained earnings and cash deposits. We encourage improved disclosures around the rationale for this.

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.

We recognise improvement in reducing cross shareholdings, particularly in the banking sector. We encourage companies to 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, vital for voting decision-making, around corporate strategy, audited financial results, Key Audit Matters, cross-shareholdings and so on.

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.

ICGN applauds the leadership of TSE, FSA, and others for the positive reforms in Japan over the last decade. We encourage continued momentum under the Kishida Administration aligned with international acceptance, that effective corporate governance based on the principles of fairness, accountability, responsibility, and transparency directly contribute to successful companies and sustained value creation. This requires corporate boards, management, and investors alike to focus not only on financial capital, but also on social and environmental factors too.

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