



ICGN

International Corporate Governance Network
Inspiring good governance & stewardship

ICGN Annual Virtual Japan Forum, Hosted by Tokyo Stock Exchange Opening Remarks from Kerrie Waring, CEO, ICGN 13 September 2023

Welcome everyone to ICGN's Annual Virtual Japan Forum, kindly hosted by the Tokyo Stock Exchange. Over 750 people have registered, and we are grateful for endorsement from FSA, METI, and Keidanren and for the support from our many partners and sponsors.

For those of you who may not know ICGN, we are an investor-led organisation, with members representing around \$77 trillion of assets under management, based in over 40 countries. Our purpose is to promote the highest standards of corporate governance and investor stewardship worldwide to preserve and enhance long-term corporate value – ultimately benefiting our economies and society.

Our work programme centres around the ICGN Global Governance Principles¹ which are used by many ICGN Members in their voting policies and company engagements. The Principles are also used by regulators as an international benchmark.

In Japan, ICGN has supported reforms for over two decades, responding to regulatory consultations, holding international meetings in Tokyo, and serving on the Council of Experts convened by the FSA and TSE.

This is our third Annual Forum, and our agenda today is focused on the FSA's Action Program for accelerating corporate governance reform. We will firstly hear from companies on how they are managing recommendations on board oversight of capital allocation, governance of sustainability and effectiveness of independent directors. We will then hear from investors around how they perceive progress.

Our agenda also refers to ICGN's Japan Governance Priorities, updated last October. There are five recommendations:

1. **Corporate reporting** and specifically for the Securities Report to be published in English ahead of the AGM. This is particularly important for investors to make considered use of their votes when assessing a company's approach to sustainability. And, we support the work of the Japan Sustainability Standards Board to harmonize national disclosure requirements with global standards.
2. **Board independence:** we expect that at least one third of board directors of TSE Prime Market companies be independent, noting the global standard is for a majority. We welcome progress in Japan and encourage improved disclosure around the rationale for individual director appointments, aligned with a skills matrix and company strategy.
3. **Board diversity** - we welcome the Basic Policy on Gender Equality and Empowerment of Women published in June. We also support targets for at least one female board director by 2025 and 30% of female directors, auditors, or executives

¹ [ICGN Global Governance Principles, 2021](#)

by 2030. Nomination Committees should oversee this and hold the CEO to account – linked to KPIs - for ensuring a diverse executive pipeline.

4. **Disclosure around the rationale for capital allocation** could be improved in Japan and ICGN supports the FSA and TSE's objectives to encourage board awareness on how to 'improve profitability based on an accurate understanding of cost of capital.'
5. **Executive pay**, we recommend replacing the rule requiring disclosure above 100 million yen with a requirement for annual disclosure of executive pay on an individual basis and without a specified limit.

The FSA Action Program also focuses on enhancing company and investor dialogue through improved disclosure and a better understanding of how the system of comply-or explain works in practice. This is consistent with efforts underway in the UK with a greater focus on evidencing the impact of engagement for long-term value creation.

After all, board directors and institutional investors share a mutual responsibility to preserve and enhance long term corporate value, facilitated through effective corporate governance and investor stewardship. In doing so, corporate boards hold management to account through strategic direction, risk oversight, financial discipline, reporting and executive oversight.

Investors are responsible for holding boards to account, on behalf of their beneficiaries, through company monitoring, voting and engagement. It is imperative that's both parties embrace their respective roles and enter into meaningful dialogue.

We therefore appreciate the FSA examining potential obstacles to company engagement with a review of rules regarding beneficial ownership, joint holdings and acts of material proposals. And we look forward to hearing about the conclusions of the review at in due course.

To conclude, in May, I had the pleasure of speaking at the OECD High-Level Corporate Governance Roundtable in Niigata under Japan's G7 Presidency. The meeting reiterated that effective corporate governance based on the principles of fairness, accountability, responsibility, and transparency directly contribute to successful companies and long-term value creation. Japan's Corporate Governance Code, G20-OECD Principles² and ICGN Principles all serve as guidance in this regard, and we welcome continued reform in Japan and around the world.

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² [G20-OECD Principles of Corporate Governance](#) (revised September 2023)