



ICGN

International Corporate Governance Network
Inspiring good governance & stewardship

**Meeting with Prime Minister Kishida
Remarks from Kerrie Waring, CEO, ICGN
03 April 2024 (16:05-16:35)**

Thank you for the opportunity to present ICGN's views on Japan's approach for ensuring robust corporate governance, high-quality corporate reporting, and strong investor protections. These measures encourage long-term corporate value creation, contributing to Japan's economic growth and social prosperity.

We applaud the FSA's action programme for 'Accelerating Corporate Governance Reform' and initiatives undertaken by METI, the Cabinet Office, and the Japan Exchange Group, among others.

As a result, global investor confidence in Japan as an attractive financial centre is high, as evidenced in today's strong stock market performance.

Going forward, we agree with the FSA's approach to focus on substantive – not formulaic – market reform as mentioned by Mr Yamaji.

In this regard, I offer four areas of particular interest to global investors which may benefit from increased focus by regulatory authorities.

Firstly, we welcome various initiative to improve the accessibility of corporate reporting in Japan.

We applauded the TSE's recent requirement for Prime Market companies to publish simultaneously in English and Japanese statutory disclosures. Over time, we encourage application to non-statutory disclosures and to a broader scope of companies.

We also welcome the JSSB's efforts to develop national corporate sustainability reporting standards, functionally aligned with the ISSB's global baseline.

We particularly applaud the mandatory requirement for reporting on human capital, IP, and diversity in the Yuho. This complements other important information including audited financial results, Key Audit Matters, cross-shareholdings, and executive remuneration.

However, the Yuho is often published after the AGM in Japan and is therefore of limited value to global investors. We strongly encourage all JPX Prime Market listed companies to publish the Yuho, in English, ahead of the AGM (30 days in advance).

Secondly, we welcome FSA's focus on encouraging management to have a greater awareness of corporate profitability and growth, based on the cost of capital. And many ICGN members are using the new data provided by the TSE's recent requirement for companies to enhance capital allocation disclosure.

The board should oversee a company's capital allocation policy aligned with long-term strategy and explain its rationale to shareholders. For example, in relation to acquiring new businesses, large capital investments, discontinuing businesses and R&D expenditure.

We are encouraged by the decline in cross-shareholdings and some companies are disclosing numerical reduction targets and timelines. However, while Japan's Corporate Governance Code clarifies that there are cases where cross-shareholdings can be rationale, disclosure is often vague (for example, "to smooth business relations") and investors want clearer linkage regarding how such holdings impact a company's returns on capital.

Third, we support the FSA's objective to improve the effectiveness of boards and committees, and the quality of independent directors more generally.

We are pleased that (95%) Prime Market companies now have one third or more independent directors on the Board.

Ideally, companies - whether in the standard or growth market - should have a majority of independent directors, particularly for companies with controlling shareholders.

More generally, Independent Director appointments be subject to a formal and transparent procedure based on relevant and objective selection criteria led by the Nomination Committee.

We support the Government's target for at least one female board director by 2025 and 30% of female directors, auditors, or executives by 2030.

We expect companies to describe their approach to this in a Diversity Policy specifying measurable, time-bound targets, aligned with a company's purpose, values, and long-term strategy.

Nomination Committees should oversee a company's approach to diversity and hold the CEO to account – linked to KPIs - for ensuring a diverse executive pipeline.

The rationale for all director appointments (executive and independent) should be disclosed including how their experience relates to a Skills Matrix. The criteria used in the matrix should align with the company purpose, long-term strategy, succession plan, Diversity Policy and any factors affecting their independence.

Fourth, we appreciate the FSA's efforts to address potential legislative obstacles for effective dialogue between investors and companies in Japan. In particular, we welcome revisions to the Financial Instruments & Exchange Act and the definition of "Joint holders."

This may help provide clarity for investors around their ability to act collaboratively with other investors without being considered a 'concert party' when engaging with companies. In this regard, it may 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.

To conclude, corporate governance reform is a journey, not a destination. It is clear that Japan is prioritising the highest standards of corporate governance as a driver for corporate success and economic growth for which we wholeheartedly encourage.

Thank you for your consideration.

ENDS.

Participants: Prime Minister Fumio Kishida, Minister Shinichi Suzuki, JPX CEO, Mr. Hiromi Yamaji, Kerrie Waring, CEO, ICGN, Ted Pick, Morgan Stanley CEO, Akiyoshi Oba, JIAA.