Corporate Governance for Growth:
Japan's Initiative along with OECD

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1. Introduction

Thank you Chair. First, I'd like to express my appreciation to the OECD Secretariat for its great efforts to organize this exciting event and to the Government of Thailand for the wonderful hospitality. It is a great honor for me to have this opportunity to introduce Japan's recent initiatives of corporate governance reforms which are in line with the new OECD Principals and the mutual relationship between them. I'd be pleased if our experience may offer some useful insights to Asian friends here.

2. Relationship between Japanese Codes and OECD Principles

① Synchronized Processes

Japan formulated its Corporate Governance Code this June. During the formulation process, Mr. Mats Isaksson, who provided an excellent presentation just a moment ago, joined the council of experts to discuss Japan's code and provided us with invaluable wisdom. At the same time, the deputy commissioner of the Financial Services Agency, Japan, who is my predecessor, participated in the OECD's corporate governance committee and was actively involved with the discussion for revising the OECD's Principles from the viewpoints of Japan's experience. Therefore, our code and OECD's Principles interact with each other and our code is completely consistent with the OECD's principles.

② Relationship between Japan's code and OECD's Principles

Indeed, Japan's code shares many concepts with OECD's Principles, such as the rights and equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibility of the board. In addition, we formulated Japan's Stewardship Code in February 2014, which corresponds with the new chapter of OECD's Principle, that is, "Institutional investors, stock markets, and other intermediaries."

On the other hand, the Japanese Code has three unique features. First, it includes an original principle, "Dialogue with Shareholders," in addition to the shared principles in OECD. This encourages companies to engage in constructive dialogue with shareholders even outside the general shareholders meeting. We believe that the constructive engagement with mid-long term investors can provide CEOs with meaningful insights for their business strategy.

The second feature is the synergy effects of the Corporate Governance Code and the Stewardship code. Two codes are like two wheels on a cart and are expected to work together to create a virtuous cycle of sustainable corporate growth and higher returns for investors.

The third feature is growth oriented governance. While the purpose of the OECD Principles includes sustainable growth as well as financial stability and economic efficiency, Japan's code specifically places the strongest emphasis on sustainable corporate growth and increased corporate value. I would like to elaborate on these points some more.

③ Expected Mechanism to Enhance Growth in Japan's Code

The Stewardship code is like the first wheel on the cart of corporate governance reform and stipulates principles that institutional investors are expected to follow, in order to fulfill their fiduciary responsibilities to the final suppliers of funds. This code aims to help companies achieve sustainable growth through constructive dialogue with them. The second wheel on the cart is the corporate governance code. The underling idea of this code is to facilitate "aggressive" or "growth-oriented" governance, under which company's businesses act on sound entrepreneurship for developing better earning capacities. We believe that these initiatives as two wheels on a cart will boost Japanese enterprises' earning capacities and returns for shareholders.

3. Implementation and Progress of CG in Japan

Next, I would like to mention three areas in which progress has been made since the establishment of Japan's two codes.

① Implementation of Corporate Governance code

First, Tokyo Stock Exchange (TSE) requires every listed company to submit a report on corporate governance, and this report provides investors with information on corporate governance in comparable forms. 68 listing companies of the 1st Section already published their reports and 60% of companies declared compliance with all of the Principles. This share of full compliance is quite high for the first year of application compared to international experience.

② Appointment of two or more independent Directors

Second, our code stipulates that a company should secure multiple independent directors to attain effective use of an independent perspective. Although the application of the code started just three months ago, among companies listed on the Tokyo Stock Exchange First Section, companies which secure multiple independent directors accounted for 50%, which more than doubled from last year. They are surprisingly responsive to the code.

③ Participants of SC

Third, since the Stewardship code was established last year, 197 institutional investors have signed up to the code by this August. They include almost all of the large institutional investors in Japan.

④ Further improvement, Following-up Japan’s code

So, we can see much progress in our corporate governance system. However, we shouldn’t stop here. Whether numerical measures of progress are accompanied by substance and the codes are effectively functioning is still a major agenda. In this regard, we recently established “Council of Experts Concerning the Follow-up to Japan’s Stewardship code and Corporate governance code” to follow up the prevalence and adoption of Japan’s two codes as well as further improving corporate governance of listed companies.

At this council, we will discuss mainly three points.

The first is “Explain more.” Although we find a high rate of compliance with the Corporate Governance Code, there seems to be a tendency for companies to hesitate to explain, taking it for granted that compliance is necessary. However, formality alone is not enough; real substantive discussion is needed. In-depth explanation might be better than superficial compliance. Compliance with detailed explanations is much better.

The second point is “The Role of the Board.” Some argue that the duplication of supervision and enforcement in Japan imposes controversial issues such as the process of the appointment and dismissal of top management. The board is expected to seriously review the company’s whole governance structure, including the separation of supervision and enforcement and the potential restructuring of the overall governance based on the review.

The third point is “Dialogue between Companies and Institutional Investors.” Although institutional investors are expected to engage in high-quality dialogues with companies to support the “awareness” of corporate managers, domestic investors do not seem to have reached that level yet.

We will address these issues at the follow up council and I hope I can provide feedback to you and the OECD committee someday if successful.

4. Conclusion

Finally, I would like to briefly mention some implications for the implementation of OECD Principles in Asia. Japan is one of the first countries in Asia to introduce the integrated approach of a Corporate Governance Code and Stewardship Code, which is also described in the new OECD Principles. This framework will facilitate constructive dialogue between companies and institutional investors and aims to attain sustainable growth of companies. You might find some useful points in Japan’s experience, characterized by the growth oriented corporate governance framework and the encouragement of constructive dialogue between companies and institutional investors. I would like to invite all relevant jurisdictions to join in in this kind of initiative of utilizing the OECD Principles to improve corporate governance as an effective measure toward sustainable growth.

Thank you.