

**Keynote Speech by FSA Commissioner Endo
IIF Spring Membership Meeting**

June 7, 2019 (Friday)

At Grand Hyatt Tokyo

Good morning everyone. It is a pleasure to be here at the IIF Spring Membership Meeting and to have the opportunity to provide keynote remarks to the world's leading bankers.

1. Towards sustainable corporate growth

There are dynamic changes happening in Japan's economic and social structures, including a shrinking and aging population, a rising number of double income households, more foreign workers, and technological innovation. If companies are to compete in this landscape, they must both quickly identify and flexibly respond to changing market trends and customer preferences. By doing so, they help ensure the long-term sustainability of their companies.

Let me quote Konosuke Matsushita, the founder of Panasonic, who provided insights into the sustainability of private companies:

“Companies might be legally owned by particular individuals or shareholders. Even so, our business is something entrusted to us by society as a whole ...”

Embracing the idea that a company has a public role to play, Matsushita also said that

“The mission of a company is something like providing tap water....”

What he meant by this is that even though water is indispensable for our daily lives, no one objects if a passerby drinks from a roadside tap. This is because the

supply of water is plentiful and its price is low, or even free. Matsushita believed that the mission of a manufacturer is to create material abundance by providing goods as plentiful and inexpensive as tap water, and through this, companies can eliminate poverty and make the world a better place.

The mission of a company, just like society, changes with time. However, for executives the question remains the same: what does society expect from their business and what social contributions can they make? Posing this question is critical to achieve sustainable growth.

2. Governance reforms to enhance long-term corporate value

As one of our priorities, we are working to lay a foundation for enhancing long-term corporate value. In the midst of large changes in the business environment, it is important to achieve optimal capital flow in Japan and create a virtuous circle where corporate value is enhanced and households are able to reap the benefits through efficient and attractive capital markets.

To do so, companies are expected to improve their governance through more constructive and engaged discussions with investors, and to promote better business decision making. This would let companies achieve sustainable growth and enhance their long-term corporate value. At the FSA we have placed a high priority on governance reforms, making good progress by establishing stewardship and corporate governance codes, and updating these codes.

Non-financial information, in addition to financial data, is increasingly being recognized as key for disclosure and assessing the sustainability of a company's growth. This includes management strategy, risk analysis, governance structure,

as well as environmental and social factors.

The FSA is striving for higher quality disclosure, and is encouraging senior managers to clearly explain both how they take the business environment into account and how they set their priorities. We have also published good-practice examples of non-financial disclosures, to help guide companies in improving their practices.

3. Changes in investors' perspective of companies

I will now turn to another form of non-financial information, ESG, or environmental, social and governance factors. These are now used globally for assessing a company's sustainability.

In Japan, the Government Pension Investment Fund, or GPIF, has started to incorporate ESG considerations in its investments as a universal owner with a highly diversified and long-term portfolio. This includes stocks and securities, and other asset classes. It is believed that this change has had a large impact on other investors' behavior. Investors are now not only looking at a company's financial records, but also using non-financial information to evaluate companies' future risks and opportunities.

In response to shifting investor preferences, many firms have started to view ESG matters as relevant to their long-term strategies for boosting corporate value. A recent survey suggests that the total amount of funds invested using an ESG approach increased by nearly two and a half fold between 2012 and 2018, to just over 30 trillion US dollars. Now in many companies, it is not only the Corporate Social Responsibility teams, but many teams like investors relations,

corporate planning and finance that are jointly discussing these issues with senior management.

4. Industry-led initiative: disseminating and promoting disclosure based on the TCFD recommendations

The environment is one ESG matter where Japan's private-sector has been proactive.

The private-sector led Task Force on Climate-related Financial Disclosures, or TCFD, was established in 2015 by the Financial Stability Board. In 2017 it recommended a voluntary disclosure framework for climate-related risks.

The recommendations reflect that companies face physical risks from more severe-weather events, and transition risks from the regulatory shift towards a lower-carbon economy. Some companies, on the other hand, will indeed benefit, particularly from those offering solutions for climate change mitigation and adaptation. While climate change is a long-term issue, they are already impacting businesses and their strategies. The voluntary TCFD framework provides a way for companies to assess and disclose the risks and opportunities from climate change.

I suppose that many companies here today have shown their support for the TCFD recommendations. Japan has the largest number of supporters in the world: as of last month, a total of 162 Japanese companies and organizations had formally expressed support. This is a sign of Japanese industry's positive attitude toward the better disclosure of climate-related risks.

To go even further, on May 27th a forum called the TCFD Consortium was established in Japan. It will serve as a platform for companies and investors to discuss climate-related disclosures in line with the TCFD recommendations. It is led by the private sector, including the Japanese Bankers Association and the Japan Business Federation.

It is early days for companies voluntarily making efforts to better disclose climate-related risks and opportunities, and they are learning by doing. Many companies and investors therefore said that they were looking for a venue where they can collectively assess and analyze disclosure issues. The Consortium can serve this function, allowing for discussion and debates that will lead to better disclosure aligned with the TCFD recommendations.

Later today we will build on some of these themes at a session on sustainable finance, and where we will be joined by Hiro Mizuno, Chief Investment Officer of the GPIF. The FSA, in cooperation with other relevant Ministries, will support such initiative led by private sector including participants here today and the GPIF.

5. Conclusion

I'll now wrap-up. I hope that today's discussion with financial institutions, other experts, and all of you, will highlight the ways in which we can work towards enhancing long-term corporate value and achieving sustainable economic growth.

Thank you so much for listening.

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