

Closing Remarks by Mr. Toshihide Endo
Commissioner, Financial Services Agency
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Thank you very much for the fruitful discussion. I heard a number of inspiring ideas in the two sessions.

In Session 1, national regulators and international bodies shared their experiences and achievements based on the 2015 G20 / OECD Corporate Governance Principles. These inputs will be a great reference source for policy makers to enhance corporate governance, even though there are regional and country differences in market structure and economic environment.

As Minister Aso and Mr. Inoue noted, corporate governance reform in Japan has achieved remarkable results. Within just 5 years we have seen significant changes in company behaviour.

However, we are not content with these results. We are continuing our reforms, focussing on substantive issues. These include ensuring that the quality of decision-making continues to get better, and that improved communication between investors and management leads to exchange of new ideas and approaches, as well as better outcomes for Japanese companies.

Enhanced disclosure, including of non-financial information, would help facilitate constructive dialogue between investors and companies. We have made some progress in encouraging companies, in particular their senior executives, to actively disclose management direction and strategy. We are also considering further revisions to our stewardship code, and look forward to deepening our reforms based on the ideas shared by today's speakers.

In addition to our work here at home, Japan is also promoting the global dissemination of good governance practices. These efforts are focussed on Asia and are in cooperation with the OECD. The Asian Roundtable, co-hosted annually with the OECD, is a great opportunity to bring together government officials, academia and practitioners to build a network for sharing experiences, knowledge and best practices on corporate governance. We are also carrying out projects bilaterally in Myanmar and other countries, to help them establish corporate governance frameworks suited to their local conditions. We are determined to keep helping enhance corporate governance in Asia through these projects.

Improved corporate governance in emerging economies is in fact good for all countries. For emerging countries, it increases their access to global capital. For developed countries, it expands the number of investment opportunities in fast-growing markets. In the end, this leads to a more efficient global allocation of resources, and a wider societal sharing of the benefits.

In Session 2, we had an insightful discussion on the challenges we face given structural changes in capital markets

Global markets have evolved markedly over the last decade, as shown in the OECD's interesting analysis. As one example, in the past, start-ups set an IPO as their business goal. More recently, the number of listed companies has declined in some advanced economies, with many start-ups now looking to be acquired rather than choosing to go-it-alone in an IPO.

Equity markets provide societal benefits by making a broad range of public companies available to investors, including households, who can benefit from companies' growth. So we have to ask ourselves the question – can public markets continue to be attractive enough for both companies and global investors? What can we do to achieve this? This session underscored the common issues that we will need to consider now, and into the future, as well as new insights to help address them.

Another important change has been the shift from active to passive investment strategies. Asset managers once competed for investor funds for higher alpha. However, as it has recently become more difficult for them to earn excess returns from active investment strategies, the preference of institutional investors has shifted towards passive management. Accelerated by the growing presence of such investors, passive investment is now said to account for the vast majority of managed funds.

Asset managers of passive investments are expected to keep fees low while not having the option to exit specific assets. This means that they have stronger incentives to promote the longer-term growth of the companies they invest in. This highlights the value of promoting engagement between investors and companies. While this approach may sound simple, it is an important and practical way for asset managers to deepen knowledge of the investee firms, and to exercise voting rights in ways that will lead to long term corporate growth.

Now more than ever, we are likely to face common challenges in corporate governance, given the highly integrated nature of global markets. It will be only more important that we share our experiences and our understanding of the issues, and promote collaboration of the kind we saw today. Thank you very much.