

# Corporate Governance Framework in Japan

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*\* Any views expressed in this presentation are those of the speaker, and are not necessarily the official views of the FSA.*

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## II. Measures to Improve Corporate Governance in Japan

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- ✓ **The Japanese economy supported for a long time by indirect financing: “main banks” system**
- ✓ **“Main banks” assume a “monitoring” role in the governance structure of a borrower company**

## II. Measures to Improve Corporate Governance in Japan

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- ✓ **In the late 1990s: a shift from indirect financing to direct financing**
- ⇒ **implications for corporate governance:**
  - **more market discipline through enhanced role of the stockholding investors, rather than “main banks”**

## II. Measures to Improve Corporate Governance in Japan

### (i) governance structure

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#### 1. “Company with Committees” model

- ✓ The board of directors focuses on supervision of executive officers
- ✓ Three committees
  - a nominating committee
  - a compensation committee
  - an audit committee
- ✓ Each committee shall be comprised of at least three members, and more than half of the members of each committee shall be outside directors

## II. Measures to Improve Corporate Governance in Japan

### (i)governance structure

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#### 2. “Company with Board of Auditors” model

- ✓ This model has been commonly seen in Japan
- ✓ Large and public companies opting for this option shall have a board of auditors
- ✓ The board of auditors shall be comprised of at least three auditors, and at least half of them shall be outside auditors
- ✓ Requires outside auditors, but not outside directors

## **II. Measures to Improve Corporate Governance in Japan**

### **(i)governance structure**

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- ✓ **Amendment of Cabinet Ordinance (Mar. 2010)**
  - ➔ **requires disclosure in Annual Securities Reports**
- **the roles and functions of outside directors and outside company auditors in corporate governance**
- **the corporate view on the appointment of outside directors and outside company auditors**
- **in case of not appointing outside directors and outside company auditors, the alternative governance structure and the rationale for it**

## **II. Measures to Improve Corporate Governance in Japan**

### **(i) governance structure**

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- ✓ **Discussions on possible amendment to the corporate law underway at a council in the Ministry of Justice**
- ✓ **An interim draft plan issued for public comment (Dec. 2011)**



## **II. Measures to Improve Corporate Governance in Japan**

### **(ii) exercise of voting rights**

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- ✓ **Enhanced disclosure by institutional investors is increasingly important.**
- ✓ **In particular, institutional investors are expected to fulfill fiduciary accountability for their clients through proper exercise of their voting rights and disclosure of the action.**
- ✓ **More specifically, institutional investors are expected to:**
  - **prepare and disclose guidelines on the exercise of their voting rights**
  - **disclose the results of vote execution**

## **II. Measures to Improve Corporate Governance in Japan**

### **(ii) exercise of voting rights**

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- ✓ **Disclosure by listed companies is also important.**
- ✓ **The amendment of Cabinet Office Ordinance on Disclosure of Corporate Affairs etc. (Mar. 1020)**
  - **listed companies shall disclose the number of votes cast for/against or withheld in legal documents**

### **III. New Initiatives**

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- ✓ **Minister of State for Financial Services expressed in December 2011**

**“The FSA should check to see whether there is room for improvement in the regulations and their implementation. The FSA should work in close cooperation with relevant parties and take appropriate preventive measures against recurrence of such dishonest practices.”**

### III. New Initiatives

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✓ **The amendment of an ordinance stipulating disclosure rules (Mar. 2012)**

➔ **requires disclosure of information to judge the degree of independence of outside directors and outside company auditors, such as relationship between the company and the current or previous employer of those outside directors/auditors.**

### **III. New Initiatives**

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- ✓ **A bill submitted by the JFSA to the current Diet session to revise the administrative penalty system.**
  
- ✓ **The bill includes provisions to:**
  - **impose an administrative monetary penalty for a conduct assisting an issuer with the submission of disclosure documents containing falsified financial statements**
  - **empower the authority to order offenders to appear in its office for investigations concerning administrative penalty.**

## **IV. Corporate Governance from International Perspectives**

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✓ **The OECD Principles**

➔ **A key international standard in corporate governance**

✓ **The revision of the Corporate Governance Principles**

## IV. Corporate Governance from International Perspectives

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- ✓ How to add an element of growth in the context of corporate governance?

e.g. concentrated ownership

- contributes to quick decision-making



- may sacrifice transparency and check-and-balance?

## IV. Corporate Governance from International Perspectives

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- ✓ **“Corporate Governance, Value Creation and Growth”**
  - focusing on value creation and growth of the company through improved corporate governance
- ✓ **Asian economies could contribute greatly to discussion on the role corporate governance can play to achieve growth and innovation**



## V. Concluding Remarks

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- ✓ **Japan also needs growth and innovation**
- ✓ **We have to:**
  - **ensure necessary financing to the Japanese companies**
  - **get trust from investors through enhanced transparency and due diligence**

**Thank you for your attention.**  
**ご清聴ありがとうございました。**