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Opening Remarks by H.E. Taro Aso

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G20/OECD Seminar on Corporate Governance, June 8th, 2019

Thank you everyone for joining us today. Two years ago, we co-hosted the OECD Asian Roundtable on Corporate Governance in Tokyo. This time, in the context of Japan's G20 presidency, we are very pleased to welcome you to Fukuoka, which happens to be my hometown.

Since ancient times, Fukuoka has prospered as an important hub for Asian trade. Today's Fukuoka is a vibrant city with the highest level of new start-ups in Japan. As the birthplace of many new companies, I believe Fukuoka is well-suited for today's discussions, which will have a particular focus on the challenges faced by start-ups.

We are delighted to co-host this seminar with the OECD. We welcome OECD Secretary-General Angel Gurria for his remarks. We are also happy to have a host of distinguished speakers, each with deep knowledge and experience in corporate governance.

In this seminar we will cover two main themes. First, we will review the implementation of the G20/OECD Principles of Corporate Governance by individual countries and international bodies. Second, we will focus on the changing nature of capital markets around the globe, and the implications for corporate governance.

Leaders endorsed the G20/OECD Principles of Corporate Governance in 2015. This seminar marks the first opportunity under the auspices of the G20 to discuss its implementation. The Principles have supported the dissemination of good governance practices: they have been widely used as the global standard for corporate governance by national regulators, international organisations and standard-setting bodies.

Let me briefly talk about corporate governance reforms in Japan. As you know, Abenomics has focussed on revitalizing the Japanese economy and achieving a virtuous economic cycle.

Corporate governance reform is a key element of the Abenomics strategy. We brought in a stewardship code in 2014 and a corporate governance code in 2015. We have continued to review and update these codes.

The two codes have successfully transformed the behaviour of both investors and investee firms. 248 institutional investors, including all the major ones in Japan, have adopted the Stewardship Code. We have witnessed a sharp increase in the number of independent directors sitting on boards. Now more than 90% of the companies listed in the first section of the Tokyo Stock Exchange have more than two independent directors – this is up from just 20%. The OECD Principles have been a good reference point for our reforms.

Improving corporate governance is, however, a never ending process. Companies need to continuously adjust and update governance practices in light of rapidly evolving economic and market environments. We should help corporates accelerate their efforts.

To meet this end, one effective approach is to further promote constructive dialogue between investors and investee firms. This can contribute to improved governance and encourage corporate executives to make informed decisions and to act decisively. It will help lay the foundation for a longer term increase in corporate values. More broadly, it will support sustainable economic growth.

Japanese companies hold cash and deposits amounting to a staggering 240 trillion yen, or 2.2 trillion US dollars, on their balance sheet. This is equivalent to almost half of Japanese GDP. Further improvements to corporate governance could put this cash into action. Whether this cash would be used for boosting innovation through R&D, or higher wages to attract top talent, the upside to the Japanese economy could be enormous. We are therefore fully committed to further advancing corporate governance reform.

Let me now turn to the changing nature of capital markets across the world. More companies are choosing to be acquired rather than going public through an initial public offering, or IPO. Fewer IPOs and ongoing delistings have resulted in a declining number of listed companies in some advanced economies. This may shrink the boundaries of corporate governance via capital markets, and lessen the opportunity for public shareholders to benefit from companies' growth.

Also, passive investment, which follows benchmark indices, has grown relative to active investment. Passive investors may need to place greater importance on engagement with investee firms, as they have no choice but to hold the shares included in the benchmarks.

In light of these developments, the future landscape of corporate governance could look significantly different from what we see today.

In conclusion, I am confident that by building on today's discussion we could gain new ideas and deeper insights for better corporate governance. The discussion would help us to support a longer term rise in corporate values, as well as a wider societal sharing of its benefits through better corporate governance. Thank you very much for listening.