

Remarks made at the Industrial Competitiveness Council

October 31, 2014

At the fourth implementation check meeting of the Industrial Competitiveness Council (October 24), private-sector members made the following remarks concerning the Corporate Governance Code.

- The issue that is the focus of the greatest concern on part of foreign investors concerning governance in Japan is that of cross-shareholding. In addition to limiting profits and capital efficiency, the greatest problem with cross-shareholding lies in the dilution of voting rights. We may want to consider eliminating voting rights for cross-shareholding.
- In Japan, not only is officer remuneration low, but it is not structured so as to provide incentives. At foreign firms, the majority of remuneration is stock-based. We should consider the possibility of linking remuneration to stock-based incentives in Japan as well.
- Japan faces the problem of an excess of reciprocal dealings among companies within the same group. The consolidated settlement of accounts is seen as an excuse to engage in transactions adding about 3% to expenses. Human resources conducting such transactions are not profit centers, but, rather, cost centers. In Japan, the public service sector also account for a large part of the market. The true market outside of this is small, undermining the competitiveness of the Japanese economy. I hope we will be able to address this issue in some way.

Note: the above are not official minutes of the fourth implementation check meeting of the Industrial Competitiveness Council, but an account by staff of the Financial Services Agency attending the meeting.