

Strategic Directions and Priorities 2017-2018 (Excerpt) (Financial Services Agency Nov.10th 2017)

IV. TRANSFORMING THE FLOW OF FUNDS

2. Institutional investors and market surveillance

(a) Boosting further corporate governance reform

The framework for Corporate Governance Reform has been provided by various policies such as the two codes: the Stewardship Code in 2014 (and revised in 2017); and the Corporate Governance Code in 2015. Meanwhile, issues such as those below have been pointed out.

- As senior management has insufficient awareness of capital efficiency, decisive management decisions including restructuring of business portfolio are not made in response to changes in the business environment.
- Cash and deposits are not effectively allocated to investment in equipment, R&D and human resources. Many companies pile up cash and deposits along with retained earnings.
- Initiatives are not sufficient for the development of CEO candidates and appointment of CEOs who are able to make provident management decisions in response to changes in the business environment. Independent directors do not effectively fulfill their responsibilities in many companies.
- Progress has not been made in the reduction of cross-shareholdings especially between non-financial companies because of reluctance of “held company”.
- The content of dialogue by investors is still conventional and few give suggestions to companies.
- Many asset owners especially corporate pension funds do not have enough people in terms of quality and quantity in charge of investment and monitoring of asset managers. Few corporate pension funds have accepted the Stewardship Code.

Based on such current status, “The Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code” will verify the progress of corporate governance reform by initiatives taken so far in order to deepen corporate governance reform from “Form” to “Substance”. Moreover, we will formulate guidance about the subjects expected to be focused on in the dialogue for increase of mid- to long-term corporate value through the dialogue between investors and companies.

At that time, it is important for asset owners to enhance their expertise. For example, corporate pension funds are expected to enhance their expertise in personnel and operational aspects, and initiatives for that purpose will be discussed.