

Material 4

Provisional
Translation

Board Effectiveness and Ensuring Diversity

November 18, 2020
Financial Services Agency

Policy Speech by the Prime Minister to the 203rd Session of the Diet (Cabinet decision on October 26, 2020) (Excerpt)

5. Creating new flows of people

Through our fight against the novel coronavirus, we now see rural living in a different light and at the same time the environments surrounding industries and companies are changing dramatically. Given such a situation, we will create new flows of people from urban to rural areas and between companies, including to small- and medium-sized enterprises (SMEs) and startups, opening up a path for future growth.

Competent human resources are found in every company, whether a major corporation or an SME. We will launch before the end of this year an initiative to utilize a sovereign wealth fund to introduce experienced professionals in major corporations to local SMEs or companies in between as managerial talent, starting with the banking sector.

For Japan, the need for interacting with people from overseas and incorporating overseas growth will not change, even in the post-coronavirus era.

Earlier this month we relaxed restrictions on business travelers and foreign students entering Japan from all over the world. We will raise our screening capacity at the point of entry into Japan to 20,000 screenings per day in November and resume global economic activities while thoroughly implementing preventive measures.

We will welcome finance-sector professionals from overseas, aiming to be a financial center for Asia, and even a global financial center. To this end, we will immediately review relevant aspects of the tax system, the provision of broader administrative services in English, and the relaxation of the requirements to qualify for status of residence.

[Corporate governance reform is key in raising the value of Japanese companies. To spur further growth, we will promote appointments of women, non-Japanese and mid-career professionals, and advance reforms with a view to realizing workplaces with diversity and business management free of shackles.](#)

15th Meeting of the Council on Economic and Fiscal Policy (October 23, 2020) Materials Submitted by Experts (Excerpt)

"Bringing vitality to the economy through creating "New flows of People"" (materials submitted by TAKEMORI Shumpei, NAKANISHI Hiroaki, NIINAMI Takeshi, YANAGAWA Noriyuki)

2. Priority Issues to be Addressed Immediately

To build a vibrant local community, create employment opportunities and convenient living environments, including tourism and agriculture, and create flows of people to rural areas. In particular, with regard to the enhancement of financial functions and corporate governance reforms to strengthen corporate vitality, and work styles and lifestyle reforms aimed at revitalizing the human resources that play an active role there, specific measures should be established by relevant ministries and agencies under the following basic policies and promptly addressed.

(2) Corporate Governance Reforms

- In order to improve corporate value-added productivity and strengthen competitiveness, we should further promote diversity and inclusion by [further promoting outside directors, increasing the mobility of management personnel through significant promotion to executive candidates for women, mid-career recruits, foreign nationals, young people, etc., and securing diversity.](#)
- In addition to promoting the formulation of policies for the development of human resources from an employee's perspective and the development of a child-rearing environment, such as taking childcare leave, companies above a certain size should be encouraged to voluntarily disclose such conditions and improve engagement.
- [The Corporate Governance Code should be expanded in line with the next revision in order to promote such initiatives, visualizations of them, and explanations of the reasons for difficulties by each company.](#)

15th Meeting of the Council on Economic and Fiscal Policy (October 23, 2020) Materials Submitted by Experts (Excerpt)

"Movement of People to Rural Areas and Digitization "(materials submitted by NIINAMI Takeshi)

1 Strengthening corporate vitality through new flows of people

○ Strengthening corporate governance

- Half or more independent directors
- Requirement of Establishment of Nomination Committee composed of independent directors
- Fulfilling the fiduciary duty of institutional investors by strengthening the Stewardship Code (utilization of GPIF, etc.)

"Individual additional issues raised"

(YANAGAWA Noriyuki)

2 Reform of working styles and human resource development

- To create flows of people, it is crucial at any level of movement to upgrade the skills to be able to thrive in new areas. Bold measures to support recurring education are necessary, including a long-term leave system for education and training and the promotion of OJT through trial employment through side jobs and other means.

(TAKEMORI Shumpei)

2 Reform of working styles and human resource development

- Local economies will be revitalized only when external human resources, recurring training, and banking reforms are all in place. The Council on Economic and Fiscal Policy should confirm that the overall reform is going on.

(1) Ensuring the knowledge, abilities, and experience necessary for Board Effectiveness i)

□ The characteristics of independent directors of JPX400 companies are as follows.

Combination of knowledge, abilities, and experience in companies with two independent directors

Include those from other companies	About 69%
Include academics	About 18%
Include attorneys	About 34%
Include Certified Public Accountants	About 15%
Include CPTAs	About 6%
Others	About 12%

Specific characteristics of those from other companies

Include those with experience as CEOs, presidents, and representatives of other companies	About 80%
Include those with experience as officers (directors, auditors, and executive officers) of other companies	About 33%
Others	About 7%

Combination of knowledge, abilities, and experience in companies with three or more independent directors

Include those from other companies	About 96%
Include academics	About 35%
Include attorneys	About 39%
Include Certified Public Accountants	About 20%
Include CPTAs	About 1%
Others	About 24%

Specific characteristics of those from other companies

Include those with experience as CEOs, presidents, and representatives of other companies	About 91%
Include those with experience as officers (directors, auditors, and executive officers) of other companies	About 49%
Others	About 23%

(1) Ensuring the knowledge, abilities, and experience necessary for Board Effectiveness ii)

- It has been pointed out that, in order for the board of directors to effectively fulfill their roles and responsibilities as a whole, it is important for companies to **consider the skills necessary for their own directors in light of their business strategies, and to realize an appropriate combination of knowledge, experience, and abilities of directors, etc. accordingly.**
- There are domestic and foreign companies that utilize skill matrixes, too.

SKILLS & EXPERTISE										
EXPERIENCE	Genze		Henry		Lubak		Luttorf		Murray	
	Genze	Henry	Lubak	Luttorf	Murray	Liu	Smith	Susan	William	Henry
Senior Leadership	●	●	●	●	●	●	●	●	●	●
Global/International	●	●	●	●	●	●	●	●	●	●
Industry and IT/Technical	●	●	●	●	●	●	●	●	●	●
Financial Expertise	●	●	●	●	●	●	●	●	●	●
Human Capital	●	●	●	●	●	●	●	●	●	●
Operating and Manufacturing	●	●	●	●	●	●	●	●	●	●
Sales, Marketing, and Brand Management	●	●	●	●	●	●	●	●	●	●
Emerging Technologies and Business Models	●	●	●	●	●	●	●	●	●	●
Business Development and M&A	●	●	●	●	●	●	●	●	●	●
Cybersecurity/Information Security	●	●	●	●	●	●	●	●	●	●
Government, Legal, and Regulatory	●	●	●	●	●	●	●	●	●	●
Public Company Board	●	●	●	●	●	●	●	●	●	●

Knowledge and experience of management, internationality, IT, finance, industry, marketing, cyber security and government agencies, etc.

Source: Annual report of A Co., Ltd (foreign firm)

Non-Executive Directors												
	Nils Andersen	Laura Colao	Victoria Colao	Marin Dekkers	Judith Hartmann	Andrea Jung	Susan Klaby	Susan Masiywi	Strive Masiywi	Youngme Moon	John Rishon	Felle Sijbesma
Age	61	70	58	62	50	60	61	59	55	62	60	
Gender	Male	Female	Male	Male	Female	Female	Female	Male	Female	Male	Male	
Nationality	Danish	Chinese	Italian	Dutch / American	Austrian	American / Canadian	American / British	Zimbabwean	American	British	Dutch	
Appointment date	April 2015	May 2013	July 2015	April 2015	April 2015	May 2015	August 2015	April 2015	April 2015	May 2015	November 2015	
Committee membership*	CC, NCGC (Chairman)	CC, NCGC	CC, NCGC	CC, NCGC	CC, NCGC	CC, NCGC	CC, NCGC	CC, NCGC	CC, NCGC	CC, NCGC	CC, NCGC	
Leadership of complex global entities	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Broad Board experience	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Geo-political exposure	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Financial expertise	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
EMCG/consumer insights	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Emerging markets experience	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Digital insights	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Marketing and sales expertise	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Science, technology and innovation expertise	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
CSB experience	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
HR and remuneration in international firms	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Attendance at planned Board Meetings	6/6	5/6	5/6	5/6	5/6	5/6	5/6	5/6	5/6	5/6	5/6	
Attendance at ad hoc Board Meetings	2/2	1/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	1/2	1/2	
Tenure as of 2019 AGM	4	6	4	3	4	1	0	3	3	6	5	

Management experience at global institutions, experience as a director, knowledge and experience in various fields such as finance and digital technology, and the number of meetings of the Board of Directors attended

Source: Proxy statement of B Co., Ltd (foreign firm)

候補者番号	氏名	現在の当社における地位及び担当	取締役候補者に特に期待する分野*					
			経	財	技	リ	戦	法
1	小林 喜光	取締役会長 指名委員	●	●	●	●	●	
2	越 智 仁	取締役兼執行役社長	●	●	●	●	●	
3	伊 達 英文	取締役兼執行役常務 報酬委員	●	●	●	●	●	
4	藤 原 謙	取締役兼執行役常務 報酬委員	●	●	●	●	●	
5	Glenn H. Frickson グレン・フレデリクソン	取締役	●	●	●	●	●	
6	小林 茂	取締役 監査委員	●	●	●	●	●	

Clarified management experience, finance and accounting, science/ technology/IT and production, risk management, business strategy and marketing, legal affairs and legal regulations, etc., internationality and diversity, as "areas of particular expectation for director candidates."

Source: Convening notice of C Co., Ltd (Japanese firm)

(1) Ensuring the knowledge, abilities, and experience necessary for Board Effectiveness iii)

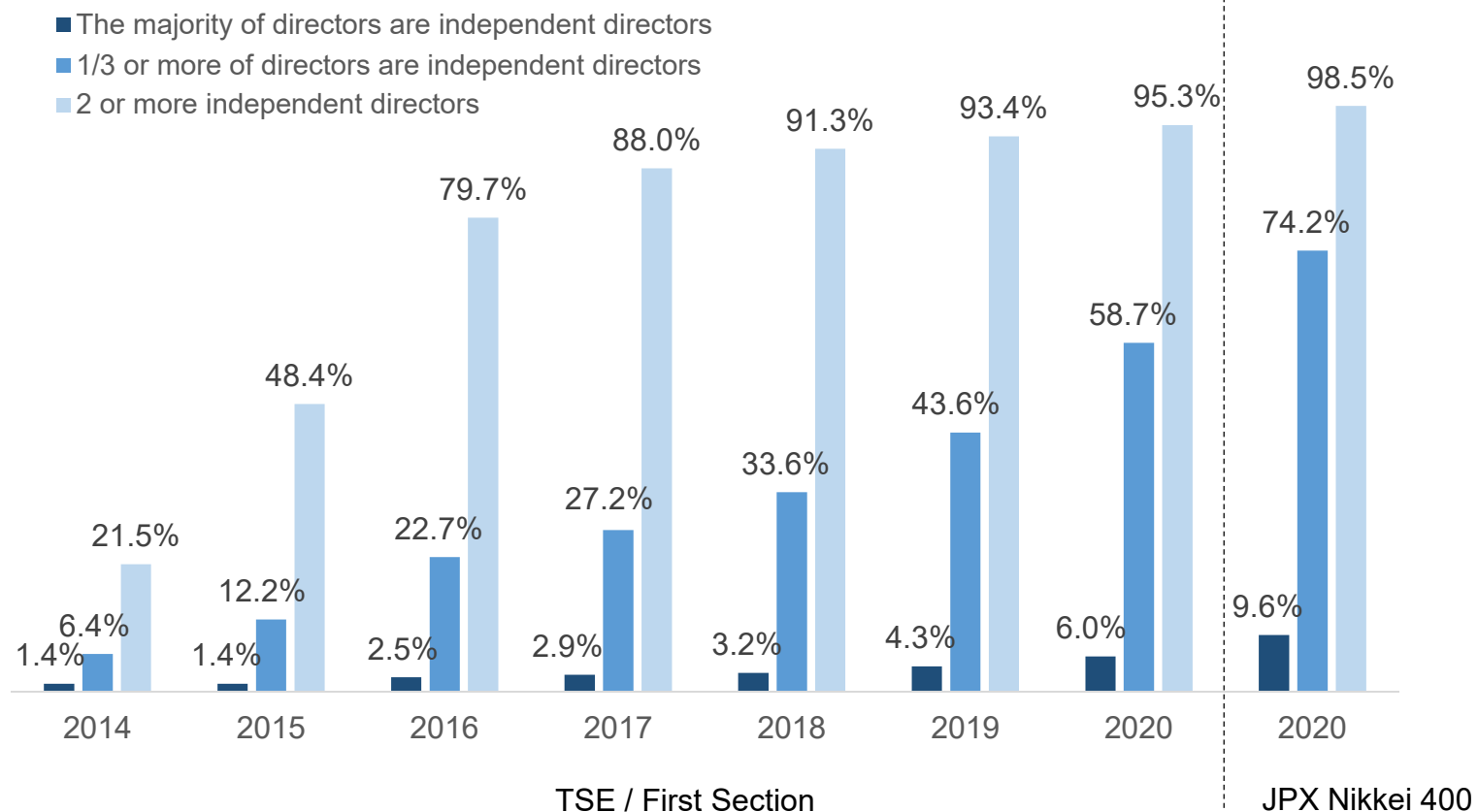
- ❑ Corporate Governance Codes, etc., in the U.K., Germany and ICGN mention what is known as “skill matrix”.

<p>U.K.</p>	<p>【Corporate Governance Code】</p> <ul style="list-style-type: none"> The board and its committees should have a combination of skills, experience and knowledge. <p>【Guidance on Board Effectiveness】</p> <ul style="list-style-type: none"> Skills matrices that map the existing skillset against that required to execute strategy and meet future challenges can be an effective way of identifying skills gaps. They are a useful tool for role evaluation and succession planning.
<p>Germany</p>	<p>【Corporate Governance Code】</p> <ul style="list-style-type: none"> The Supervisory Board shall determine specific objectives regarding its composition, and shall prepare a profile of skills and expertise for the entire Board while taking the principle of diversity into account.
<p>ICGN</p>	<p>【Global Governance Principles】</p> <ul style="list-style-type: none"> The board should disclose the process for director nomination and election/re-election along with information about board candidates which includes: <ol style="list-style-type: none"> board member identities and rationale for appointment; core competencies, qualifications, and professional background; recent and current board and management mandates at other companies, as well as significant roles on non-profit / charitable organisations; factors affecting independence, including relationship/s with controlling shareholders; length of tenure; board and committee meeting attendance; and any shareholdings in the company. <p>Consolidating this disclosure in a skills matrix can be an efficient way to identify how key skills are accounted for within the board as a whole. (Abbreviated)</p>

(1) Ensuring the knowledge, abilities, and experience necessary for Board Effectiveness iv)

- ❑ The number of companies with two or more independent directors has increased significantly to 95.3% of companies listed on the TSE First Section and 98.5% of companies in the JPX-Nikkei 400.
- ❑ The number of companies with independent directors accounting for 1/3 or more of the board has also increased to about 60% of companies listed on the TSE First Section.
- ❑ The number of companies with the majority of independent directors has been only 6% of companies listed on the TSE First Section.

Change in proportion of companies with two or more independent directors, where 1/3 or more of total number of directors or where the majority of directors are independent directors



(1) Ensuring the knowledge, abilities, and experience necessary for Board Effectiveness v)

Rules on the number of independent directors of the board in foreign countries

Two or more	Three or more	One-third or more	Half or more
Italy(*1)	Korea(*2)	Portugal Hong Kong(*3) Singapore(*4)	United Kingdom(*5) United States(*6) France Italy (Large companies(*1)) Sweden Australia Singapore(*4) Korea (Large companies(*2)) ICGN

(*1) In companies other than large companies, at least two independent directors are required other than the chair. Large companies with concentrated ownership, such as controlling shareholders, are required at least one-third of their board to be independent directors. (Code)

(*2) Half of the directors at large listed corporations is recommended to be composed of outside directors. (Code)

(*3) Listing rules require at least one-third of the board to be independent non-executive directors.

(*4) It is required to Seek a majority when the chairman is not independent. (Code) In addition, at least two persons are required under the Listing Rules to date, but at least one-third of the board are required to be independent directors under the Amended Listing Rules, which will become effective on January 1, 2022.

(*5) At least half of the board, excluding the chair, should be required to be non-executive directors whom the board considers to be independent. In addition, the chair should be independent.

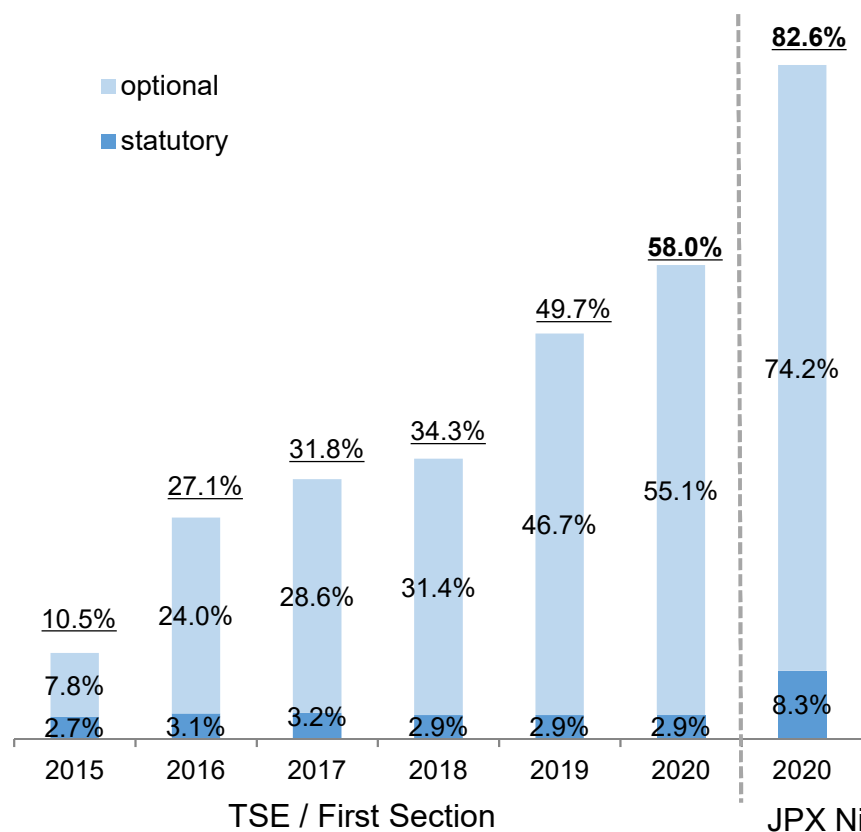
(*6) Listing rules require a majority of the board to be independent directors.

(*7) In Germany, more than half of the shareholder representatives shall be independent from the company and the Management Board. (Code)

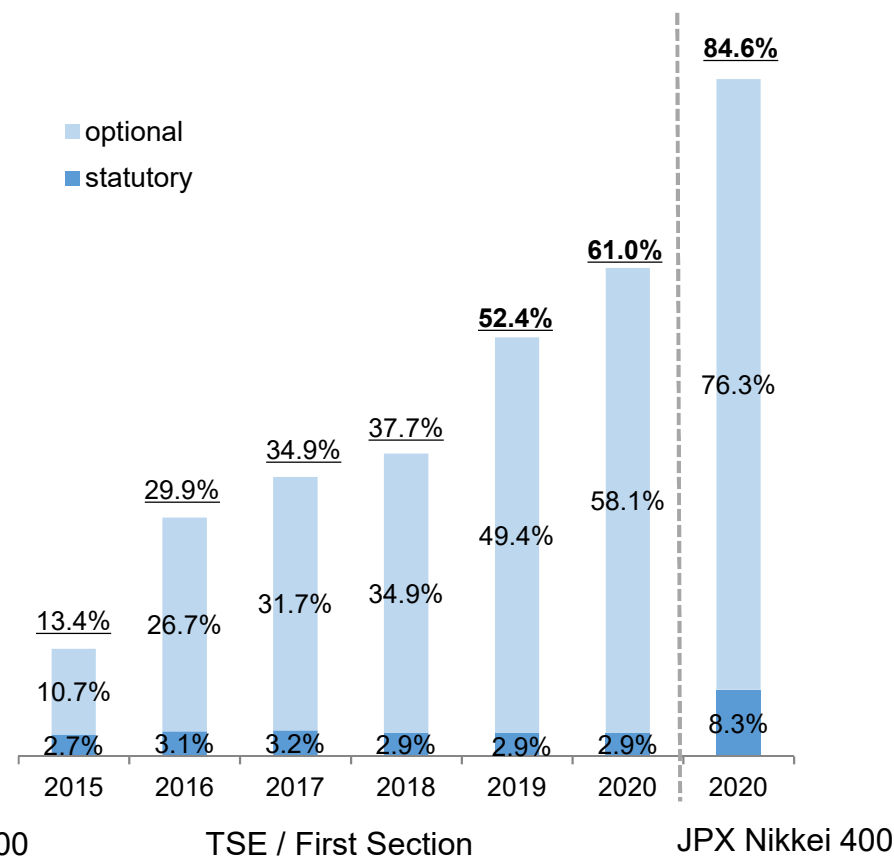
(2) Appointment / Dismissal of CEO, etc., Succession Planning, Nomination Committee i)

- An increasing number of companies have established statutory or optional **nomination committees** and **remuneration committees**, which account for around 60% of all companies listed on the First Section of the Tokyo Stock Exchange.

【Trend in the number of companies with nomination committees (TSE / First Section)】



【Trend in the number of companies with remuneration committees (TSE / First Section)】

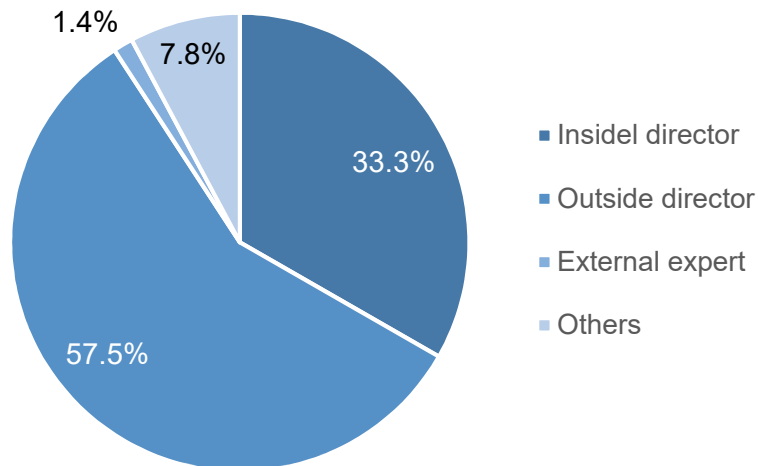


Source: Prepared by JFSA from Tokyo Stock Exchange, Inc.

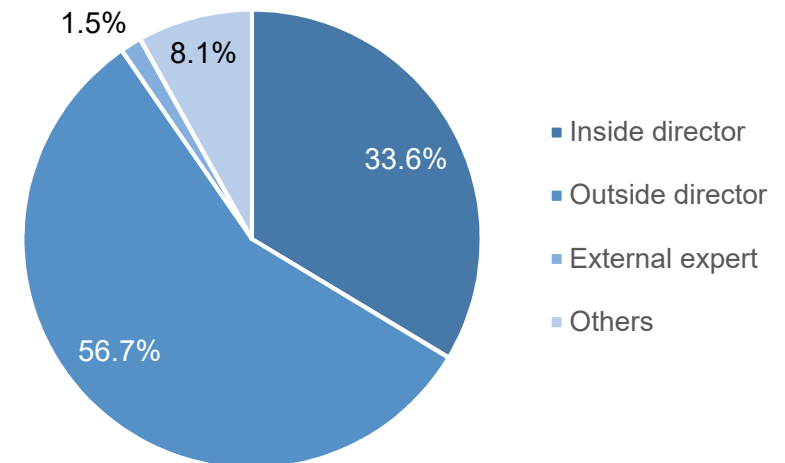
(2) Appointment / Dismissal of CEO, etc., Succession Planning, Nomination Committee ii)

- While the majority of optional nomination committees and remuneration committees are outside directors as a whole, outside directors account for less than half of the members in a considerable number of such committees.

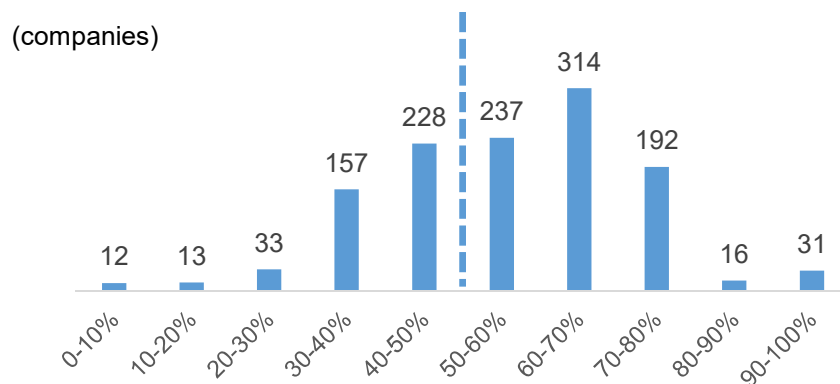
The component of optional nomination committees (average)



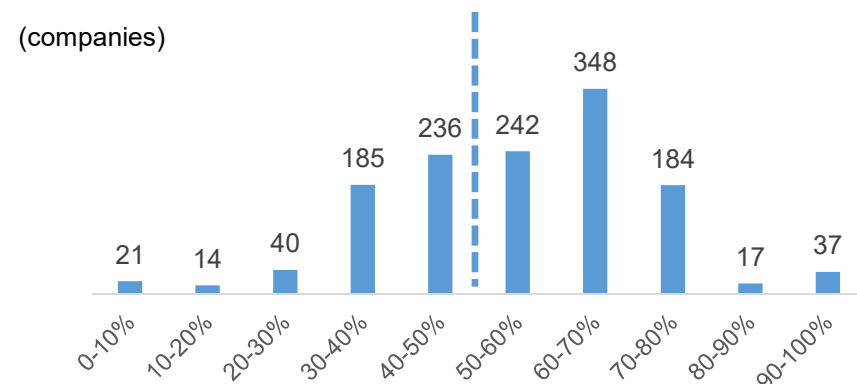
The component of optional remuneration committees (average)



The ratio of outside directors at optional nomination committees



The ratio of outside directors at optional remuneration committees



Source: Prepared by JFSA from the corporate governance reports of as of August 2020

(2) Appointment / Dismissal of CEO, etc., Succession Planning, Nomination Committee iii)

【Nomination committee】

U.K.	<ul style="list-style-type: none"> • A majority of members of the committee should be independent non-executive directors. (Code) • The annual report should describe the work of the nomination committee, including: (i) the process used in relation to appointments, its approach to succession planning, etc., (ii) how the board evaluation has been conducted, etc., (iii) the policy on diversity and inclusion, etc., (iv) the gender balance of those in the senior management, etc. (Code) • The chair should ensure board committees are properly structured with appropriate terms of reference, which should be published on the company website. The terms of each committee should set out its responsibilities and the authority delegated to it by the board. (Guidance) ※ as well as a remuneration committee
Germany	<ul style="list-style-type: none"> • The Supervisory Board shall form a Nomination Committee, composed exclusively of shareholder representatives • Names suitable candidates to the Supervisory Board for its proposals to the General Meeting.
France	<ul style="list-style-type: none"> • It must mostly consist of independent directors. • The nominations committee (or an ad hoc committee) should design a plan for replacement of company officers.

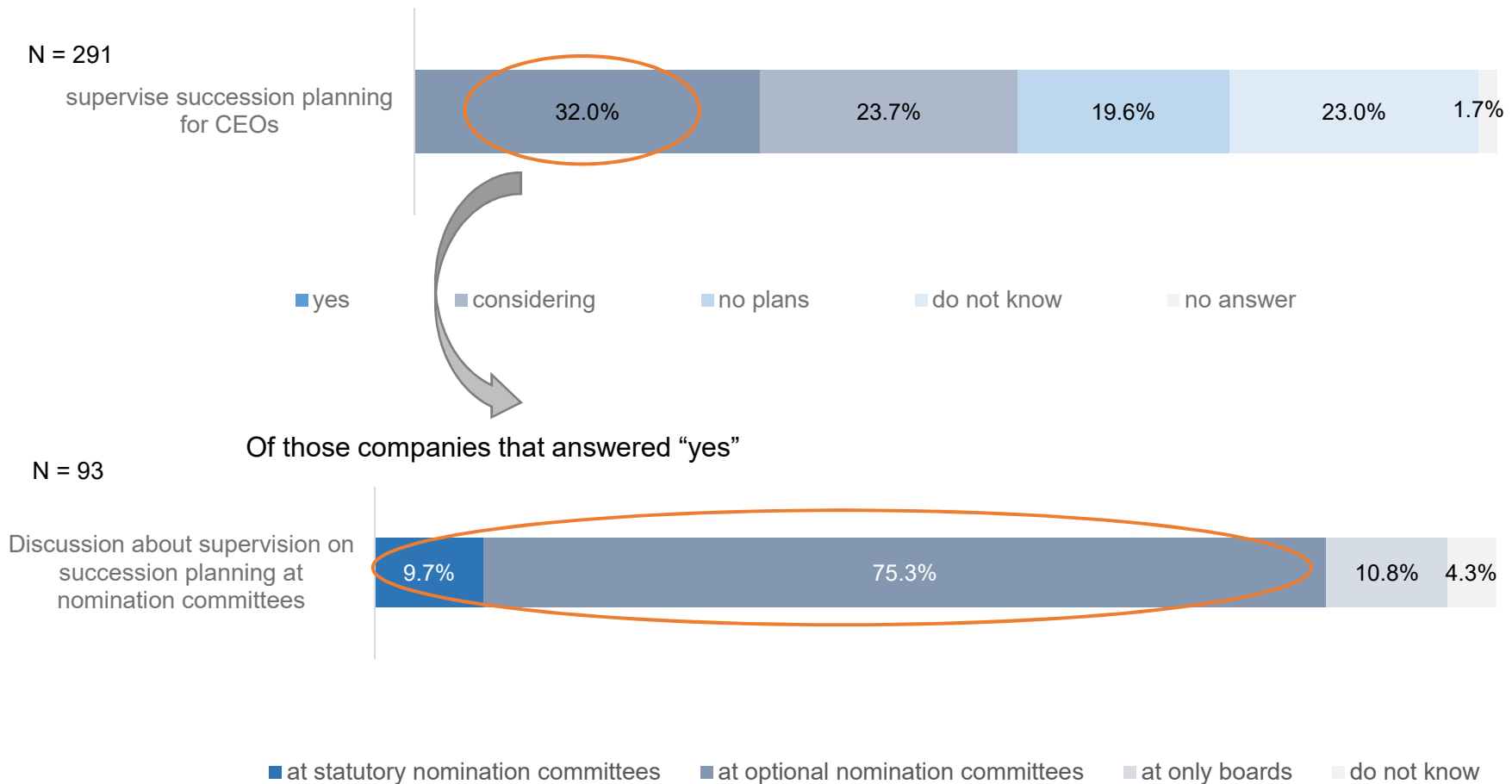
【Remuneration committee】

U.K.	<ul style="list-style-type: none"> • The board should establish a remuneration committee of independent non-executive directors, with a minimum membership of three (or in the case of smaller companies, two). There should be a description of the work of the remuneration committee in the annual report, including: (i) an explanation of the strategic rationale for any performance metrics, etc., (ii) reasons why the remuneration is appropriate, (iii) whether the remuneration policy operated as intended in terms of company performance and quantum, etc., (iv) what engagement has taken place with shareholders and the impact, (v) what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy, (vi) to what extent discretion has been applied to remuneration outcomes and the reasons why.
Germany	<ul style="list-style-type: none"> • The Chair of the committee that addresses Management Board remuneration, shall be independent from the company and the Management Board.
France	<ul style="list-style-type: none"> • It must mostly consist of independent directors. It is recommended that the chairman of the committee should be independent and that one of its members should be an employee director.

(2) Appointment / Dismissal of CEO, etc. , Succession Planning, Nomination Committee iv)

- ❑ Only **about 30%** of companies supervise succession planning for CEOs.
- ❑ About 80% of companies that supervise succession planning for CEOs **use nomination committees**.

Supervision on succession planning for CEOs

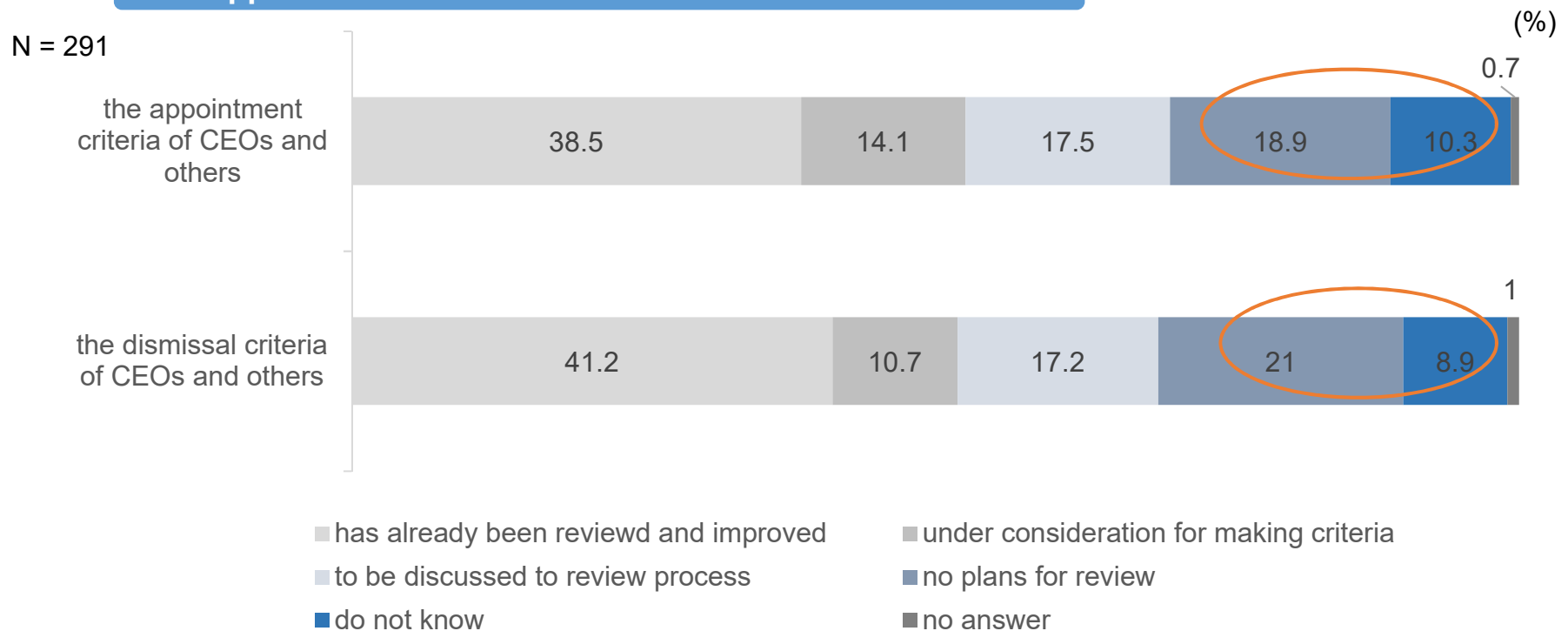


(Source) Prepared by JFSA from Board Advisors Japan, Inc. "Corporate Governance Survey 2019 Survey Report."

(2) Appointment / Dismissal of CEO, etc., Succession Planning, Nomination Committee v)

- About 40% of companies replied that "the process has already been reviewed and improved" in terms of both the appointment and dismissal criteria of CEOs and others. On the other hand, about 30% of companies responded that they "have no plans of commencing discussions on revisions" or "do not know," and there is still room for improvement.

The appointment and dismissal criteria of CEOs and others

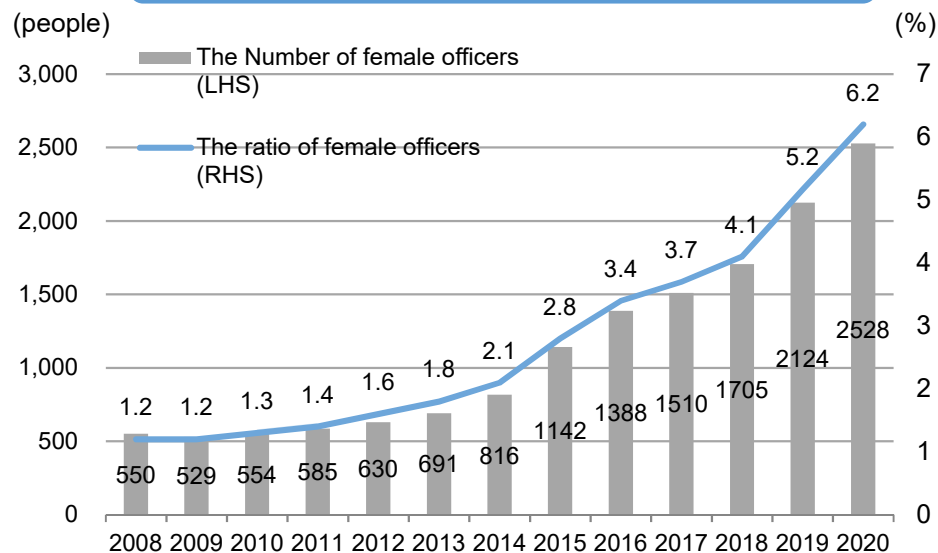


(Source) Prepared by JFSA from Board Advisors Japan, Inc. "Corporate Governance Survey 2019 Survey Report."

(3) Diversity in directors and core human resources of companies i)

- Currently, the number of female officers in listed companies has increased to more than 2500, but **the ratio of them is only 6.2%.**
- Looking at the ratio of female to inside and outside officers, the ratio of outside officers is on the rise, but the number of inside directors is sluggish.

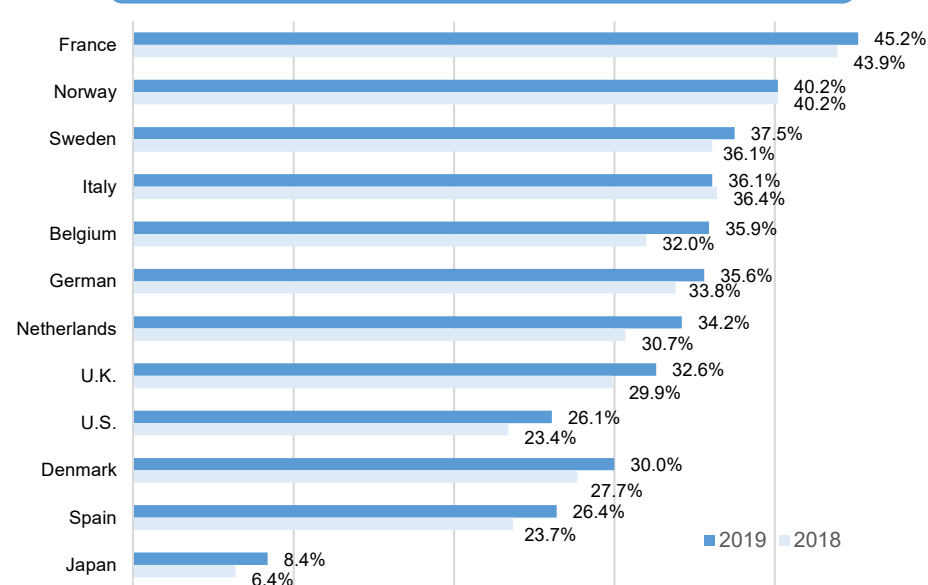
Trends in the number and the ratio of female officers of listed companies



Source: Prepared by JFSA, from Cabinet Office and Toyo Keizai "Yakuin Shikiho"

Note: As of July 31st, for each year. All listed companies, including JASDAQ companies. Officers include, Board member, accounting advisor, auditor, executive officers at company with Three Committees (Nomination, Audit and Remuneration), etc.

Ratio of female officers in large companies in other countries



Source: Prepared by JFSA, from OECD Statistics.

Note: For EU companies and Norway, 50 largest companies of the blue-chip index, and for other countries companies of MSCI ACWI Index

Ratio of companies with female inside and outside officers

	outside (2019)	Y to Y (outside)	inside (2019)	Y to Y (inside)
Director	36.8%	+8.9pt	6.8%	-0.2pt
<i>Kansayaku</i>	17.0%	+3.7pt	2.5%	+0.9pt

Note: N=1694. Survey conducted to all listed companies in Japan (domestic companies, excluding start-up and foreign companies), total of 2690.

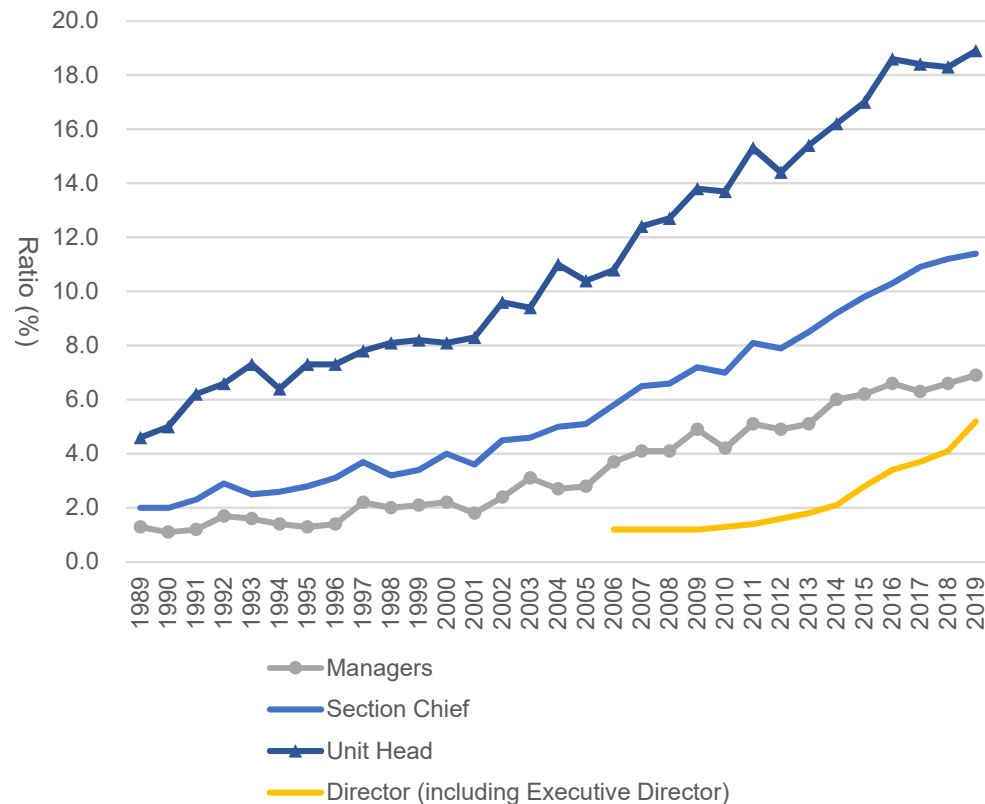
Note: Denominator for *Kansayaku*: Number of companies with *kansayaku* that responded Denominator for Direct: Number of companies that responded

Source: Prof. Manabu Matsunaka, Nagoya University, from "What changes and what do not change – reading the 2019 Annual General Meeting White Paper-," published in No.2218 (2019, Dec. 25), *Shojihomu* etc.

(3) Diversity in directors and core human resources of companies ii

As of 2018, the ratio of females in managerial positions who can be candidates for director was 14.9%.

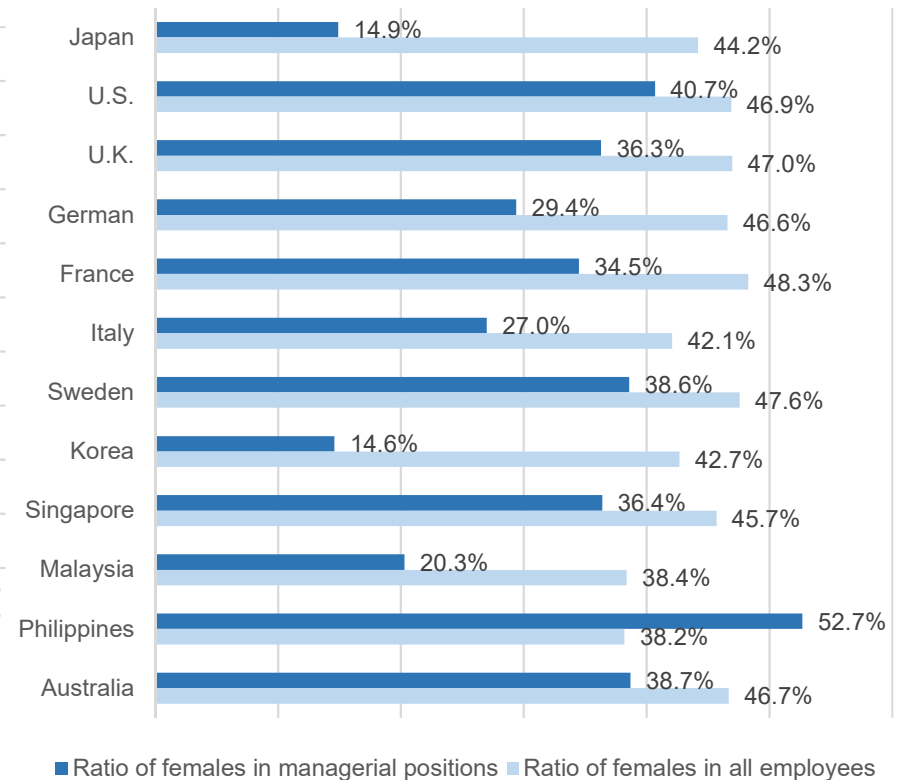
Ratio of female managers and officers



Note: Companies with 100 or more regular employees.

Source: Prepared by Prof. Manabu Matsunaka, Nagoya University, from "The White Paper On Gender Equality 2020"

Ratio of females to all employees and employees in managerial positions



Note: Malaysia in 2016, Australia in 2017, other countries in 2018

Source: Prepared by JFSA from The Japan Institute for Labour Policy and Training's "Databook International Labour Statistics 2019".

(4) Internal diversity, human resource development, and internal environmental improvement i)

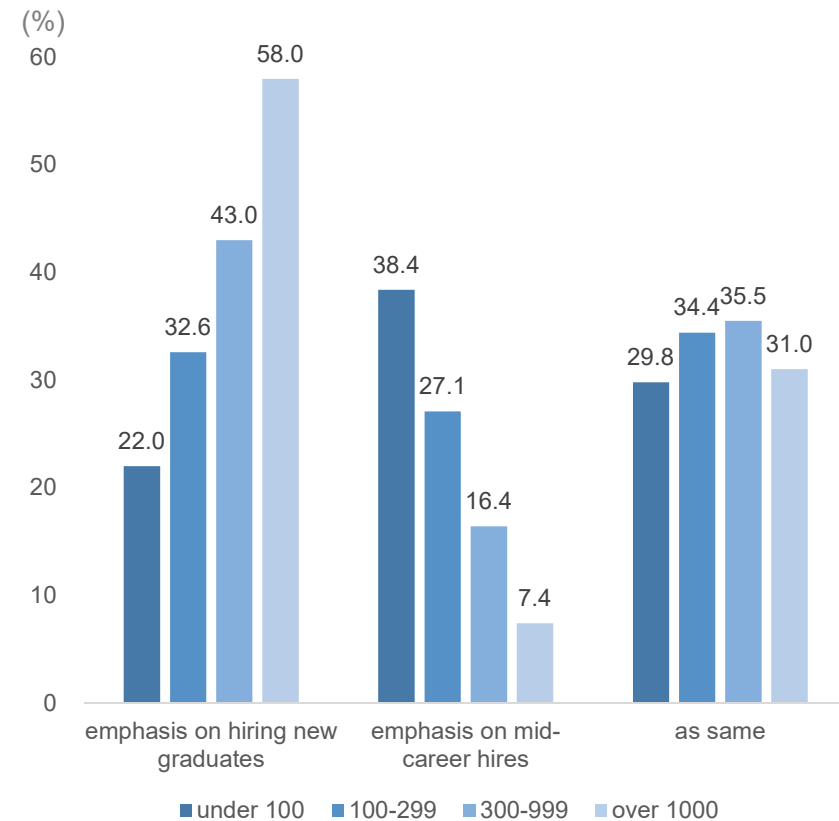
- ❑ In terms of mid-career recruitment, **the larger the number of employees in a company, the lower the mid-career hires rate.**
- ❑ In terms of recruitment policy, **some surveys indicate that the larger the number of employees in a company, the greater the emphasis on hiring new graduates.**

Ratio of new graduates and mid-career hires (2017)

		The number of companies	The ratio of new graduates (graduate in 2018)	The ratio of mid-career (FY 2017)	The number of new graduates in a company	The number of mid-career in a company
As a whole		4,055	34.7%	65.3%	0.78	1.47
By scale	5-299	2,084	23.3%	76.7%	0.38	1.25
	300-999	1,071	58.5%	41.5%	12.50	8.86
	1000-4999	710	59.6%	40.4%	35.71	24.20
	over 5000	190	62.6%	37.4%	127.89	76.31

Note: New graduate recruitment refers to university graduate students and post-graduate students (graduation in 2018); mid-career (FY2017) refers to full-time employees.
Source: FSA data from "Mid-Career Employment Survey (2017 results)," Recruit Works Research Institute.

Employment policy for full-time employees

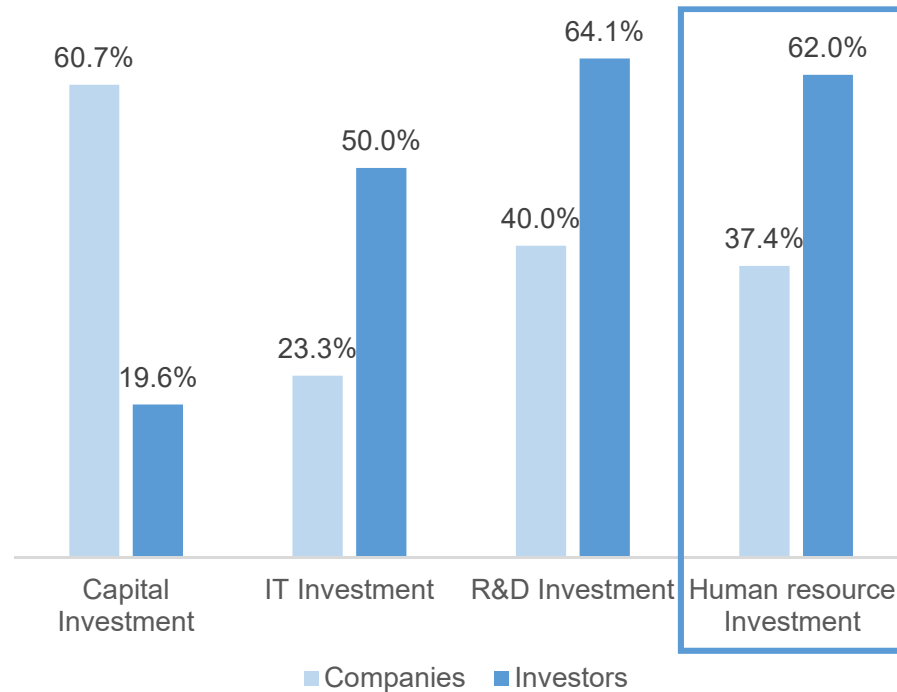


Note: Survey carried out in July 2017
Source: FSA, from Japan Institute for Labour Policy and Training, "Diverse Employment Policies of Companies."

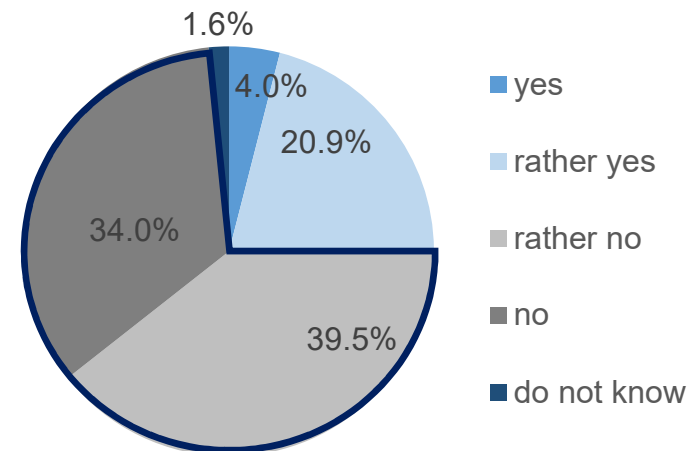
(4) Internal diversity, human resource development, and internal environmental improvement ii)

- ❑ **62% of investors place importance on human resource investment** among important items of mid- to long-term investing and financial strategies, while **only 37.4% of companies do**.
- ❑ About **three-quarters of companies have not or rather have not hired, deployed, or developed the human resources needed to implement their business strategies**.

Important items in medium-to long-term investment and financial strategies



Status of recruitment, deployment, and development of human resources necessary to realize business strategies



Note: Repose from companies 527, from investors 92. Each chose max. 3 items.
 Source: Prepared by JFSA, from The Life Insurance Association of Japan "bout Detailed Survey Results on Approaches toward Enhancing Enterprise Values" (2019)

Note: Online survey to members of "Nihon-no Jinjibu" (Human Resource Dept. in Japan) (from March 2020 to April 2020)
 Source: Prepared by JFSA from "Nihon-no Jinjibu" (Human Resource Dept. in Japan)'s "Human Resources White Paper 2020"

Subjects to be discussed at the 21st Council (1)

□ Board effectiveness centered on the composition

- How should the composition of the board be for companies to make prompt and decisive decisions while recognizing the challenges and getting ahead of the changes after COVID-19?
 - For companies to achieve renewed growth after COVID-19, it is considered more important to realize a combination of knowledge, experience, and abilities at the board than in the past. How should the composition of the board be, including improving the quality of independent directors, such as the appointment of directors from management personnel with diverse management experience?
 - More than half of the companies listed on the First Section of the Tokyo Stock Exchange appoint enough independent directors to make up at least one-third of the board, and the appointment of independent directors is becoming established among Japanese companies. In other countries, on the other hand, there are many countries that require the appointment of a majority of independent directors. Given this situation, how should the further enhancement of the number of independent directors be considered?
- Regarding the appointment and dismissal of the CEO and the candidate selection process, which are the most important strategic decisions, how should Board effectiveness be considered, including the roles and functions of the Nomination Committee, by, for example, making independent directors the majority of members?

Subjects to be discussed at the 21st Council (2)

□ Ensuring diversity

- (As with Board effectiveness) how should internal diversity be increased for companies to make prompt and decisive decisions while recognizing the challenges and getting ahead of the changes after COVID-19?
 - As shown in the current Code, the existence of diverse perspectives and values reflecting different experiences, skills, and characteristics within the company can be a strength in ensuring the sustainable growth of the company. For companies to lead transformation after COVID-19, how should the ensuring of diversity in gender, internationality, work experience, etc. in the managerial positions that are candidates for directors and their core human resources be considered? In particular, how should the requirement to make and disclose voluntary and measurable targets and status, especially for the promotion of human resources important to ensure diversity, such as the appointment of women, foreigners, and mid-career hires to managerial positions be considered?
 - It has been pointed out that in order to ensure diversity within a company as a whole, it is important to develop human resources within the company and improve the internal environment, such as diverse workstyles and career formation. Based on that, how should human resource and the internal environment be improved?