

Corporate Governance Reform in Japan

Japan Corporate Governance Forum



金融庁

Financial Services Agency, the Japanese Government

Speech by Prime Minister KISHIDA Fumio at the New York Stock Exchange (1) (September 22, 2022)

□ Corporate Governance Reform

One very important policy is corporate governance reform.

As a result of numerous reforms Japan has made in the last decade, the behavior of Japanese companies has significantly changed.

ROE ratios have soared, and almost all companies now have independent outside directors. We also expect more companies to appoint women and foreign talent to their boards.

We have witnessed more companies undertaking vast corporate reforms not seen in the past, such as divesting non-core businesses and pivoting to new fields.

[We will accelerate and further strengthen corporate governance reforms in Japan, such as establishing a forum in the near future to hear from investors from around the world.](#)

It has been three decades since the burst of the "bubble" economy in Japan. Since then, Japan has cut costs by tackling excessive debt, excessive investments and excessive capital. We have achieved a slim, cost-sensitive economy as a result. But clearly more is required.

We face the challenge of investing in the future and developing an economy that consistently creates new value.

Speech by Prime Minister KISHIDA Fumio at the New York Stock Exchange (2) (September 22, 2022)

□ Human Capital

Let me share Japan's five priorities.

First is to invest in people.

Digitalization and greening have drastically changed the economy. We know that a source of a great deal of added value will be intangible, not tangible, assets. And in particular, it will be human capital.

So, **we will advance a society where human capital is central.**

Labor market reform is my priority. Japanese labor management will be updated, from a seniority-based, lifelong employment system into a new Japanese system where job-based pay is located at its core, through the cooperation between the government and business community.

This will facilitate labor mobility and give birth to a cycle in which paying higher wages attracts highly skilled personnel, thereby increasing labor productivity and level of salaries.

We will further bolster our support for the reskilling of workers in digital and other fields, while encouraging labor mobility.

Japan's future depends upon the vitality that women bring to our economy. "Women empowerment" is crucial. There has been a clear shift in the attitudes of the younger generation. Over the past 10 years, the percentage of full-time female employees under the age of 35 has increased by 10% or by 0.6 million -even though the population of this generation decreased by 1.2 million over the same period.

We are determined to clear the obstacles that hinder women's advancement because women must be at the core of the Japanese economy.

We need women to pursue their careers and have families. There is no reason we cannot pursue both and help the declining birthrate. In April of next year, we will establish the Child and Family Affairs Agency to consolidate child-rearing policies. This is a landmark policy that aims to meet the structural challenges of our population decline.

Reforming the wage system, investing in people, and women empowerment. **All of these efforts will be promoted in a transparent manner as we establish disclosure protocols for human capital, and we will lead the international rule-making process as well.**

Corporate Governance Reform: Future issues and Initiatives

- With the aim of promoting the sustainable growth of companies and their medium- to long-term increase in value, it is required to proceed with initiatives toward the substance of corporate governance reform.

Assumed Initiatives

- Enforce the disclosure form of non-financial information, including human capital investment and climate change.
- Examine whether corporate governance reform has contributed to enhancing corporate value, and further improve the substance.
 - ✓ Enhance the quality of stewardship activities and stewardship report of institutional investors.
 - ✓ Examine the effectiveness of institutions' incorporation of the revised Code. (Applying the PDCA cycle.)
- Review the large shareholding reporting system to facilitate dialogue between companies and investors.
 - ✓ Clarify the range of (i) "joint holder" and (ii) an "act of making important suggestions."

Set up a Forum to hear a wide range of opinions from stakeholders, including global investors, and compile an Action Program to take action on corporate governance reform in terms of substance.

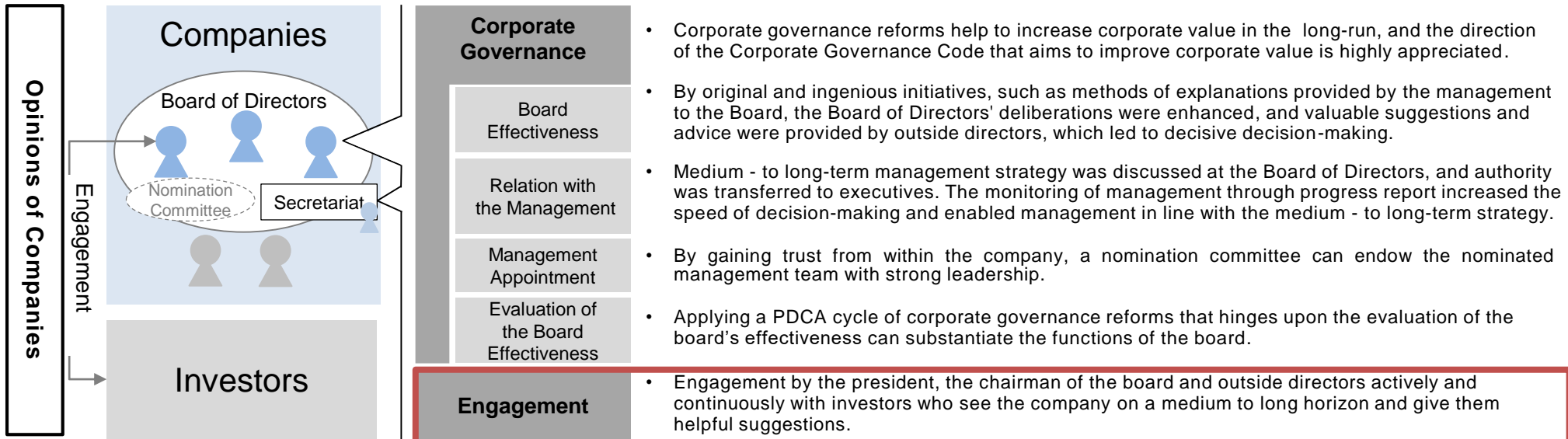
Overview of the interviews with companies on corporate governance reforms

- FSA, with the cooperation of Keidanren (Japan Business Federation), conducted a series of interviews with companies in order to look into their corporate governance initiatives and their views.

[Interviewed companies (in alphabetical order)]

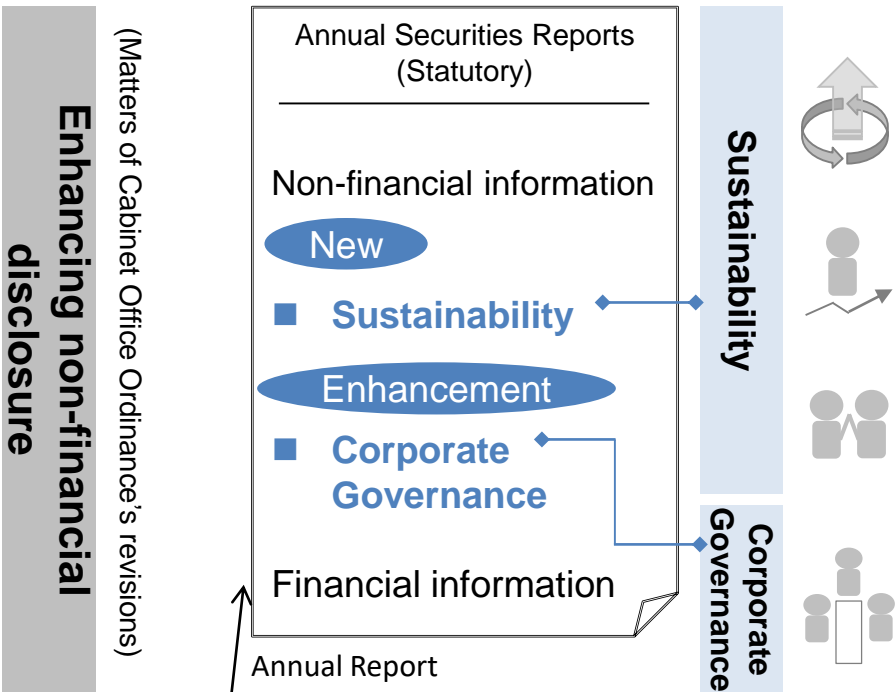
Astellas Pharma, Ebara, FP Corporation, Omron, Kao, Sun Frontier Fudosan, Shin-Etsu Chemical, Suzuki Motor, Sumitomo Electric Industries, TDK, Nitori HD, Fujitsu, Mitsui & Co., Mitsui Fudosan, Yamaha, Yokogawa

Key Takeaways	Evaluation of the Corporate Governance Reforms	<ul style="list-style-type: none"> • Most companies, including the management side, said that enhanced deliberations by the board of directors and deepened discussions on medium- to long-term business strategies had a positive impact on their business, and that engagement with investors gives useful suggestions to the management, suggesting that the direction and effectiveness of corporate governance reforms are widely supported.
	Key Issues	<ul style="list-style-type: none"> • Given the pressure to comply on the companies' side, if the Corporate Governance Code refers to even details of businesses, it may lead to formalistic responses by companies, resulting in an insubstantial reforms. • High-quality engagement should be promoted by addressing issues such as exercise of voting rights based on a check-the-box by institutional investors, the lack of opportunities for engagement at medium-sized and smaller companies, and the difficulty for companies to identify beneficial owners.



Summary of Report by the Working Group on Corporate Disclosure of the Financial System Council (published on June 13, 2022)

■ The Working Group on Corporate Disclosure has discussed enhancing disclosure of non-financial information and improving efficiency of disclosure in light of recent changes in economic and social circumstances. The summary below is based on the discussions.



General

- A new section for disclosure of sustainability information will be created
 - "Governance" and "Risk Management" will be disclosed by all issuers.
 - "Strategy" and "Metrics and Targets" will be disclosed under materiality judgement by an issuer.

Human capital

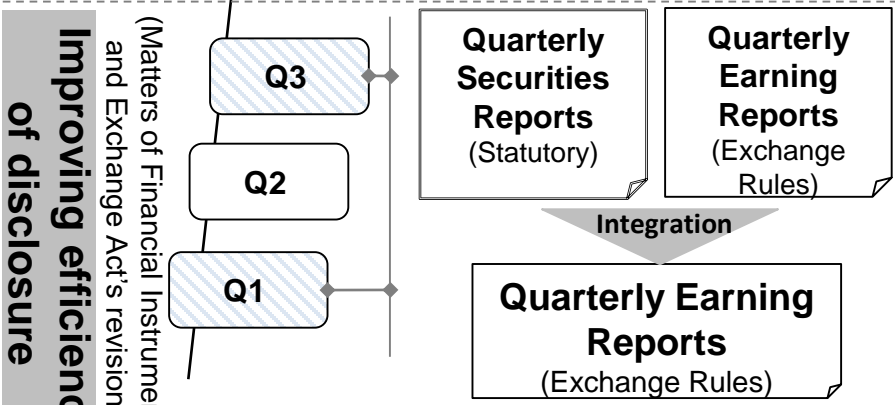
- "Human resource development policies" and "Policies on improving workplace environment" will be added to disclosure items.

Diversity

- "Gender pay gap," "Ratio of women in managerial positions," and "Ratio of male workers taking childcare leave" will be added to disclosure items.

Functioning of the Board of Directors

- A new section for disclosure of activities of the Board of Directors, Nomination Committee, and Remuneration Committee will be created.



Revision of Quarterly Disclosure System

- The quarterly disclosure requirements under the Financial Instruments and Exchange Act (Q1 and Q3) will be abolished and integrated into quarterly earning reports based on the Exchange Rules.
- Continue discussions on issues for materializing the integration, such as consideration regarding disclosure obligation, content of disclosure, enforcement against false statements and review by audit firms.

(Note) In addition to the above, clarification of disclosure requirements for material contracts entered into by companies with other parties, and promotion of disclosure in English have been also summarized.



Thank you for your attention.

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jcgf.secretariat@fsa.go.jp**



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