

Revision of Japan's Corporate Governance Code and Guidelines for Investor and Company Engagement

Japan's Corporate Governance Code and the Guidelines for Investor and Company Engagement ("Engagement Guidelines") were revised in June 2021 with the aim of increasing mid- to long-term corporate value and promoting engagement between investors and companies.

SAWAJI OSAMU

IN recent years, the Japanese government has been promoting corporate governance reform as part of its growth strategy. The focus of that reform is the Corporate Governance Code and Japan's Stewardship Code, outlined below.

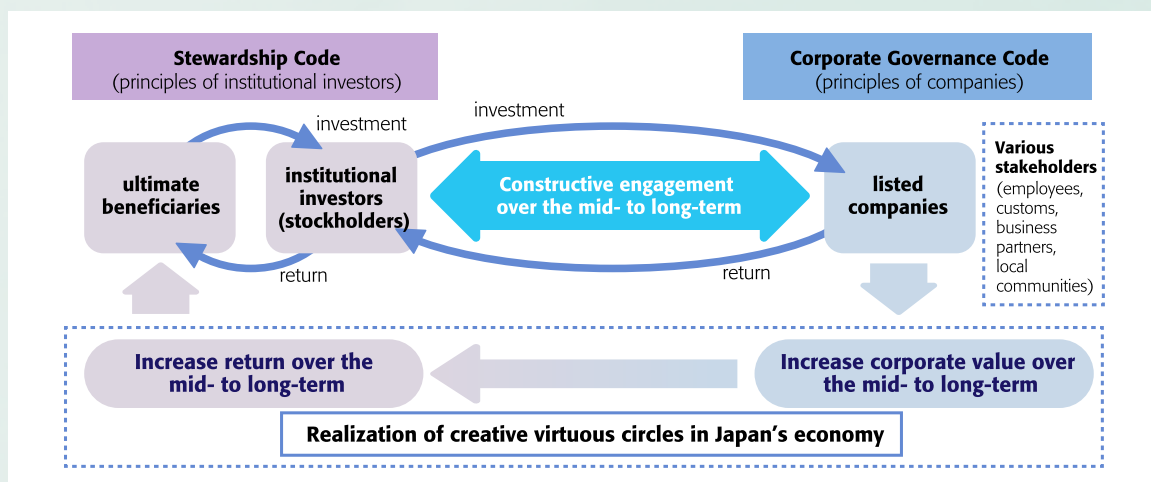
- **Corporate Governance Code:** A code of principles that requires listed companies to promote initiatives to increase mid- to long-term corporate value by appropriately cooperating with a wide range of stakeholders (shareholders, employees, customers, business partners, local communities, etc.). The Corporate Governance Code is a part of the Securities Listing Regulations set forth by the Tokyo Stock Exchange, with listed companies required to promote initiatives based on the Code in accordance with each company's specific circumstances.
- **Stewardship Code:** A code of principles that requires institutional investors (pension funds, trust banks, life insurance companies, etc.) to promote the sustainable growth of their investee companies through constructive engagement with companies from a mid- to long-term perspective. Acceptance of the Code by institutional investors is voluntary. As of the end of October, 2021, 320 domestic and foreign institutional investors have

announced their acceptance.

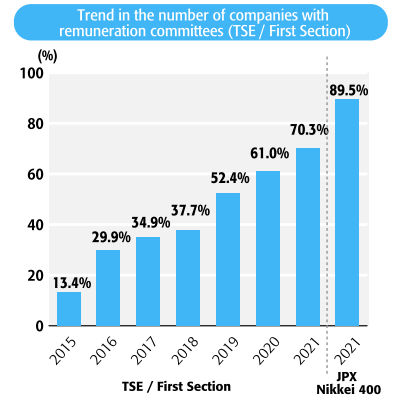
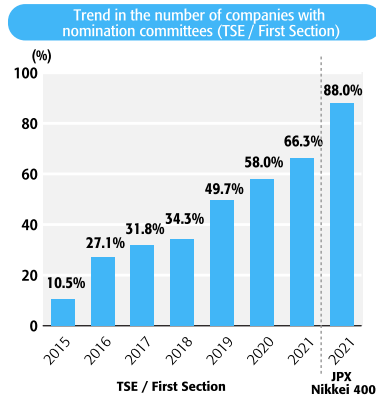
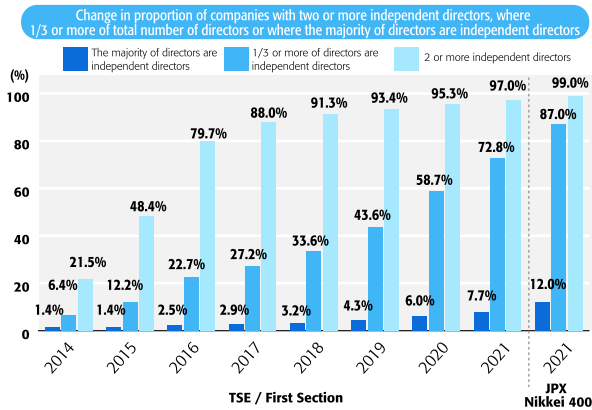
While these Codes contain no legally binding or punitive provisions, in cases where listed companies or institutional investors that have accepted the Codes do not comply with a principle of the Codes, they are required to fully explain their reasons. It is expected that listed companies and institutional investors will conduct constructive engagement and that individual companies will implement initiatives aimed at increasing mid- to long-term corporate value based on these Codes.

COMPILATION AND REVISION OF THE CODES

The Stewardship Code was established in 2014 by a council of experts, for which the Financial Services Agency serves as the secretariat. The Corporate Governance Code was established in 2015 by the Tokyo Stock Exchange based on discussions by a council of experts, for which the Financial Services Agency and the Tokyo Stock Exchange serve as the joint secretariat. The Stewardship Code was revised in 2017 and the Corporate Governance Code was revised in 2018. Also in 2018, the Financial Services Agency established the Engagement Guidelines. The Guidelines are intended to be a supplemental document to the Stewardship Code and the Corporate Governance Code, summarizing the agenda items for engagement that should



Promoting Constructive Engagement: Stewardship Code and Corporate Governance Code



be the focus of discussions by listed companies and institutional investors in order to promote constructive engagement between both parties. Agenda items include investment strategy policy and enhancing board independence.

The Corporate Governance Code and the Engagement Guidelines were revised further in June 2021, in order to encourage companies to demonstrate a higher level of governance in response to changes such as the COVID-19 spread and ahead of the Tokyo Stock Exchange's market restructuring in April 2022.

The revision addresses the following three pillars:

(1) Enhancing Board independence

- Increase in the number of independent directors from at least two to at least one-third of the board for Prime Market¹ listed companies (where necessary, a majority of the board members should be elected as independent directors)
- Establish a nomination committee and a remuneration committee (appointment of independent directors enough to have them form a majority of the committee members for Prime Market listed companies)
- Disclose a skill matrix of board members conforming to the company's business strategy
- Appoint independent directors having managerial experiences at other companies

(2) Promoting Diversity

- Disclose a policy and voluntary measurable targets in respect of promoting diversity in senior management by appointing females, non-Japanese and mid-career professionals
- Disclose human resource development policies ensuring diversity, including the status of implementation

(3) Attention to Sustainability and ESG (Environment, Social, Governance)

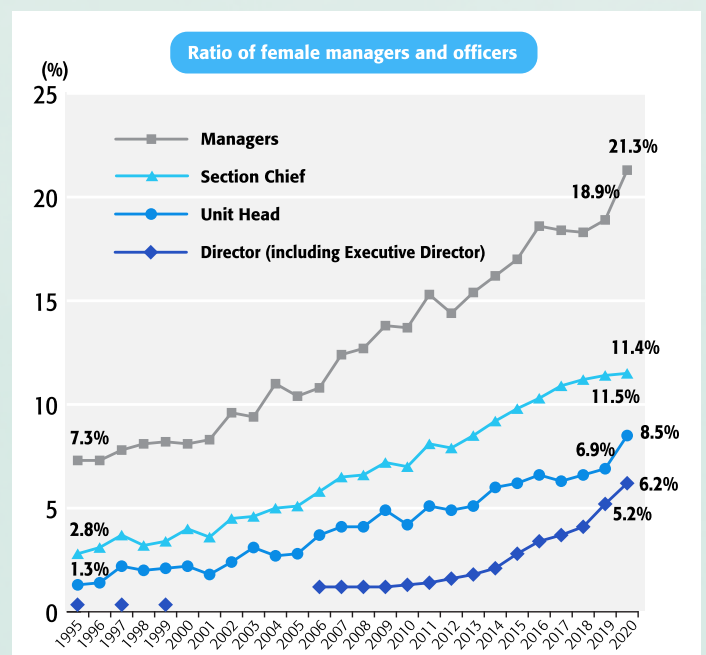
- Enhance the quality and quantity of climate-related dis-

closure based on Task Force on Climate-related Financial Disclosures (TCFD)ⁱⁱ recommendations or equivalent international frameworks at Prime Market listed companies

- Develop a basic policy and disclose initiatives on the company's sustainability

Based on these revisions, by making listed companies implement initiatives in accordance with their specific circumstances, it is expected to achieve sustainable corporate growth, increase mid- to long-term corporate value, and provide an enhanced return from institutional investors to their ultimate beneficiaries, contributing to economic growth in Japan and globally. [1](#)

Note: This article has been created with the consent of the Financial Services Agency and on the basis of materials published by the Agency.



i In April 2022, the Tokyo Stock Exchange will restructure its market segments from the four current divisions of 1st Section, 2nd Section, Mothers, and JASDAQ (Standard and Growth) to the three segments of Prime Market, Standard Market, and Growth Market. According to the Tokyo Stock Exchange, the Prime Market is positioned as "the market oriented to companies that center their business on constructive dialogue with global investors."

ii The Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board (FSB), which includes organizations such as central banks, financial authorities, and international organizations. The TCFD aims to "develop a framework for providing voluntary and consistent climate-related financial disclosures that would allow investors, lenders, and other stakeholders to assess significant climate change-related risks."