

**MEMO# 33490**

April 22, 2021

# Japan Launches Consultation on Revising Corporate Governance Code

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TO: ICI Global Members

ESG Task Force

ICI Global Regulated Funds Committee

ICI Global Regulated Funds Committee - Asia SUBJECTS: ESG

International/Global RE: Japan Launches Consultation on Revising Corporate Governance Code

On 6 April 2021, the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code ("Council"), jointly established by the Financial Services Agency (FSA) and Tokyo Stock Exchange (TSE), released for public consultation<sup>[1]</sup> the revisions to the Japan's Corporate Governance Code ("Governance Code") and the Guidelines for Investor and Company Engagement ("Guidelines"). The consultation is open for public comments until 7 May 2021.

The Governance Code was first released in 2015. It sets out the fundamental principles for effective corporate governance of listed companies and is incorporated into the listing rules of the TSE on a comply-or-explain basis. The proposed revisions to the Governance Code intend to, among other things, accelerate sustainability-related disclosure and promote diversity among Japanese-listed companies. The Guidelines, supplementing the Governance Code with specific engagement topics for investors and companies to consider, will be revised correspondingly to emphasize the importance of companies setting sustainability objectives and establishing the appropriate governance of sustainability initiatives. This memorandum provides a brief summary of the key proposed revisions to the Governance Code.

## 1. Promote Sustainability Disclosures

The Council recognizes the importance of sustainability-related disclosures in promoting engagement between investors and companies. It highlights the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) and the sustainability disclosure framework that the International Financial Reporting Standards (IFRS) Foundation is developing as noteworthy disclosure frameworks.

New supplementary principles are proposed to be added to call on companies to disclose their initiatives on sustainability along with their management strategies. Notably, "Prime Market"<sup>[2]</sup> listed companies would be required to improve the quality and quantity of disclosure based on TCFD recommendations or other internationally well-established disclosure frameworks. Companies would need to collect and analyze the necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits. The draft revised Governance Code further calls for developing a basic policy for the company's sustainability initiatives from the perspective of increasing corporate value over the mid to long term.

## 2. Promote Diversity in Management

Although the current Governance Code already calls for greater management diversity, the proposed revisions add further details such that companies should publish their diversity policies with their voluntary and measurable goals to increase senior management diversity by promoting women, foreign nationals, and midcareer hires to middle managerial positions. Companies should also disclose the status of implementing their diversity policies.

## 3. Enhance Board Independence and Governance

The proposed revisions also push for greater transparency and board effectiveness. Currently, all listed companies should appoint a minimum of two independent directors. The draft revised Governance Code would require Prime Market listed companies to have at least one-third of the board as independent directors, and at least two independent directors for companies listed on other trading sections. It further states that the board should appoint independent directors who have managerial experience in other companies, establish nomination and remuneration committees, and publish an analysis of board members' skills in the light of the company's business strategy.

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### endnotes

<sup>[1]</sup> The consultation on the proposed revisions to the Governance Code and Guidelines is available at <https://www.fsa.go.jp/en/news/2021/20210406.html>

<sup>[2]</sup> TSE will reorganize the current four trading sections into the "Prime," "Standard," and "Growth" sections on 4 April 2022. The Prime section is equivalent to the current First Section. Companies to be listed in this section will need to have at least 10 billion yen (US \$92 million) worth of floating shares, which will have to account for 35% or more of their outstanding shares in principle. These companies will be required to have at least 2.5 billion yen (US \$23 million) in profit for two business years prior to listing.

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