

# RESPONSE TO THE FINANCIAL SERVICES AGENCY REVISION OF THE JAPANESE CORPORATE GOVERNANCE CODE

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## INTRODUCTION

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 1900 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$70 trillion in assets under management. Over 60 of these signatories are based in Japan, managing USD \$7.2 trillion in assets under management.<sup>1</sup>

Responsible investment explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors in investment decision-making for the long-term health and stability of financial markets. The PRI welcomes the opportunity to contribute views on the establishment of guidelines for investor and company engagement.

## ABOUT THE CONSULTATION

The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code ('the Council') is jointly managed by the Financial Services Agency (FSA) and the Tokyo Stock Exchange (TSE). The Council has launched this consultation to explore stakeholder views on revisions to the Corporate Governance Code. Corporate governance standards are primarily regulated by The Companies Act, in addition to Financial Instruments and Exchange Law and listing requirements for listed companies.

## PRI'S SUMMARY RESPONSE

The PRI welcomes the Council seeking stakeholder views on its revision to the Corporate Governance Code. We particularly welcome emphasis on companies' sustainable growth to increase value over the long-term. We recommend strengthening the incorporation of sustainability considerations, with explicit reference to the need for company boards to consider ESG issues for long-term value creation. This will ensure consistency with the Council's previous expansion of its guidance under the Stewardship Code to explicitly reference the importance of ESG factors.<sup>2</sup> Our further comments below draw on specific expertise and evidence from the PRI's work.

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<sup>1</sup> See <https://www.unpri.org/signatory-directory/>

<sup>2</sup> The Council updated the Principles for Responsible Institutional Investors (Japan's Stewardship Code) in May 2017, following public consultation. The PRI welcomed the addition of a clear statement that 'collective engagement' as a beneficial option for engagement with companies.

# PRI'S COMMENTS ON THE REVISED CORPORATE GOVERNANCE CODE

## Principle 2.1 Business principles as the foundation of corporate value creation over the mid to long-term

We welcome focus on corporate value creation over the mid to long-term. We recognise the importance of corporate social responsibility (CSR) and recommend the principle provides greater clarity that CSR may be related to, but is distinct from, how ESG issues have been considered as part of risk management, strategy, and long-term value.

We observe that ESG issues are referenced in accompanying notes to General Principle 2, in the context of growing interest in social and environmental problems worldwide. We recommend this part of the Code is further strengthened by making explicit reference to ESG issues with the text of Principle 2.1.

The PRI recommends that the Code Principle 2.1 clarifies its definition of 'business principles.' We recommend that companies articulate their corporate purpose as part of these principles, and particularly how the Board of directors should consider how the company has considered environmental, social and governance issues in the formation of its strategy and long-term value.

## Principle 2.5 Whistleblowing

We welcome the clear statement on non-retaliation for whistleblowing. We also welcome board responsibility for establishing a framework for whistleblowing and monitoring its enforcement. We encourage reporting on number and types of reports made. Specific disclosures regarding the whistleblowing process provide a good indication of how effectively an anti-bribery and corruption system is implemented.<sup>3</sup>

## Principle 2.6 Roles of corporate pension funds as asset owners

We welcome the inclusion of questions about corporate pension funds' stewardship activity and disclosure on measures taken, including on how the company ensures it has sufficient investment management and stewardship expertise to monitor asset managers. A key recommendation of the PRI's Fiduciary Duty in the 21<sup>st</sup> Century Japan Roadmap<sup>4</sup> is that corporate pension plans should be encouraged to sign and implement the Stewardship Code, noting that a limited number have signed up. We note the importance of pension funds' stewardship activity to drive standards of fund governance and stewardship throughout the investment chain, as well as high standards of corporate governance.<sup>5</sup>

## General principle 3

We welcome the statement that the Board should recognise information disclosure as the basis for constructive dialogue with shareholders, and that companies should strive to provide

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<sup>3</sup> Between 2013-2015 a group of PRI investors participated in a coordinated engagement with companies, including those domiciled in Japan, on antibribery and corruption and their implementation of whistleblowing procedures. A majority of companies provided a confidential whistleblowing hotline, with leaders reporting on the number and types of concerns raised. See more in the PRI report: [Engaging on anti-bribery and corruption](#).

<sup>4</sup> <https://www.fiduciaryduty21.org/japan.html>

<sup>5</sup> For further recommendations on pension fund governance and stewardship see the PRI's publication: [How asset owners can drive responsible investment](#)

information beyond minimum legal and regulatory requirements. We welcome the statement that all information provided should be accurate, clear and useful, and to avoid 'boiler plate' disclosures. We recommend that Japanese companies begin to look to disclosure frameworks, such as those provided by the Task Force on Climate related Financial Disclosures for example, to broaden their definitions of financial information and develop the disclosure of their financial statements.<sup>6</sup>

## CONTACT

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<https://www.unpri.org/policy-and-regulation/tcf-recommendations-country-reviews--japan/282.article>