PRESENTATION AT THE HARVARD LAW SCHOOL'S JAPAN-U.S. SYMPOSIUM ON
Building the Financial System of the Twenty-first Century:
An Agenda for Japan and the United States Building the Financial System of the Twenty-first Century: An Agenda for Japan and the United States
IN KARUIZAWA, October 28-30, 2016

TITLE: THE CURRENT STAGE AND PENDING ISSUES OF JAPANESE CORPORATE GOVERNANCE REFORM

Takeshi KADOTA
President & CEO, Kadota & Co.,Inc.
Representative Director ,
Institute of Corporate Governance Japan

THE Tokyo Stock Exchange (TSE) released its report "Appointment of Independent Directors by TSE-Listed Companies (June 17th in 2016)"
http://www.jpx.co.jp/english/news/1020/b5b4pj000001538o-att/20160617-2.pdf
According to the report, independent directors currently occupy almost 6000 seats on the boards of TSE-Listed Companies, the number of which is about 3500.

This remarkable development is represented by the fact that now among the approximately 2000 firms listed in the First Section of the TSE, 80% have two or more independent directors, while the ratio was a mere 20% two years ago before the introduction of the Japanese Corporate Governance Code. Also, 96% of the TSE First Section listed firms have at least one independent director on their board. Of all 3500 TSE-listed firms, some 60% now have two or more independent directors. (For a more detailed statistical picture of these developments, please refer to the link above.)

We are observing the following characteristics in recent discussions of Japanese corporate governance:

1) Increased importance of the CEO nomination committee and overall board supervision reflecting recent corporate scandals such as Toshiba and Seven & I, where the board did not serve as an adequate check on executive decisions.

2) Emphasis on dividend payments and share buy-backs from the viewpoint of increased return to shareholders and capital efficiency

3) Necessity of a vigorous self-evaluation of the board's effectiveness, including input from outside directors, and the training of both internal and outside directors

4) Institutional investors' active engagement in dialogue with corporate management and the board under the Japanese Stewardship Code

It will take a sustained effort to achieve the necessary reform, due in no small part to the traditional Japanese corporate system of lifetime employment and inward looking decision-making; the following four basic ideas in the Japanese Corporate Governance Code are seen to be critical for success:

1) Fiduciary duty of the directors

2) Separation between the board of directors and executive officers

3) Diversity of the board

4) Dialogue with shareholders

The ICGJ see the pursuit of these initiatives as a key aspect of strategies to reinvigorate the economy as a whole.