7 December 2022

Corporate Disclosure Division
Policy and Markets Bureau
Financial Services Agency
〒100-8967 Central Government Building
No. 7, 3-2-1 Kasumigaseki
Chiyoda-ku, Tokyo, Japan

Proposal to amend the Cabinet directive regarding disclosure of corporate details pertaining to sustainability and corporate governance

Dear Sir/Madam,

We are writing in response to the call for public comment on the "Proposal to amend the Cabinet directive regarding disclosure of corporate details pertaining to sustainability and corporate governance" issued by the Financial Services Agency (FSA) on 7 November 2022. We welcome the opportunity to provide comment.

The Asian Corporate Governance Association (ACGA) is a non-profit membership association founded in 1999. We conduct research on corporate governance and ESG in 12 markets in Asia-Pacific and advocate at the regulatory and corporate level across the region to improve standards and practices. ACGA is entirely funded by a network of 113 member firms, of which 70% are institutional investors with more than US$40 trillion in assets under management globally.

Sustainability disclosure

Given the rising importance of ESG disclosure, we support the addition of a sustainability section in the Annual Securities Report, as well as framing this disclosure around the Task Force on Climate-Related Financial Disclosures (TCFD) model. We believe this is an appropriate starting point prior to the release of global standards from the International Sustainability Standards Board and sets the groundwork for the Japan market to be able to quickly adopt those standards when they become available.

As we understand it, the current proposal calls for required disclosure of Governance and Risk Management as a first step, with further disclosure of Strategy and Metrics and Targets depending on materiality assessments. We understand that reporters will be "expected" to conduct such materiality assessments and to disclose the basis for their conclusions, which we support, but believe these assessments should clearly be required. In addition, we would hope to see clarification on how "material" is defined in this context and note that what companies consider "material" may not match what investors consider "material". Also, guidance on how companies are to conduct these materiality assessments

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18th Floor, Wilson House, 19-27 Wyndham Street, Central, Hong Kong Tel 852 2160 1788 Fax 852 2147 3818

will be necessary for the results to be meaningful. Finally, a company's broader long-term sustainability Strategy and its Metrics and Targets may not necessarily be grounded only in issues that would be considered material at the present moment. As such, we suggest disclosure of Strategy and Metrics and Targets be required and not only contingent on materiality considerations.

Diversity disclosures
We support the proposed inclusion of disclosures to promote greater gender equality including the ratio of women in managerial positions, the ratio of men taking childcare leave, and the wage gap between men and women. Details on the number of male employees, how many of them have children and how many took childcare leave, as well as comparable figures for female employees would be welcome. As for the ratio of women in managerial positions, we strongly encourage requiring disclosure of the ratio of women in upper management and executive positions. The aim in doing so is to foster organisation-wide empowerment of women and develop a pipeline of well-qualified female senior executives and potential internal board candidates with operational expertise, as discussed in our recent letter calling for greater board gender diversity.

Board activity disclosure
We welcome proposals to require disclosure on the activity of board committees (Nomination, Compensation and so on) including frequency of meetings, details of discussions, and attendance, but note that only a small percentage of firms in Japan have such structures.

In addition to the board activity reporting, we encourage the regulator to consider disclosures and requirements to enhance overall board effectiveness. We note that the boards of many firms in Japan have a great deal of operational expertise, but often lack diversity of experience, for example in terms of finance background or international exposure. This can hamper the ability of boards to exercise their oversight role. The addition of a skills matrix would aid in identifying skill and experience gaps, while a formal director training and education system as found in other markets such as Singapore and Malaysia would serve to fill them. In addition, conducting and disclosing the results of third-party board evaluations every two to three years would contribute to the ability of boards to correct course when needed and improve their function.

Timing of disclosure
We encourage regulators to require the disclosure of the Annual Securities Report well before the Annual General Meeting so investors have complete and up-to-date information when they exercise their voting rights.

Additional comments
In addition to the proposals included in this consultation, we would like to bring attention to two other related topics. In his speech at the New York Stock Exchange on 22

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September, Prime Minister Kishida expressed the administration's desire to hear from international investors about corporate governance reforms. In addition to the corporate governance forum he proposed, which we welcome, another important mechanism for receiving investor input and feedback is public consultations such as this one. Given the importance of this mechanism, starting with *CG Watch 2020*, we have begun evaluating markets on their public consultation processes, as reflected in Question 2.7 of our survey. Among the items we assess are how much time is given to submit consultation responses and the availability of English information. For major revisions such as in this consultation, we hope to see key materials in English and at least a 60-day window for responses so that we have the time and information necessary to coordinate among our members to produce fully developed and complete input for regulators. We hope that these resources will be available in future consultations.

Our second concern is regarding quarterly reporting. We have learned that the FSA's Disclosure Working Group on 25 November discussed the possibility of making quarterly reporting voluntary. We understand that possible reasons for the proposal include the belief that making quarterly reporting optional may reduce short-term thinking, could reduce costs for issuers and can be successfully substituted with real-time disclosure of price sensitive information. However, ACGA does not support making quarterly reporting optional for a number of reasons:

- Time without input – Without quarterly reporting, investors who do not have access to management teams are left for months at a time between annual and interim reports without visibility into how a company is performing.

- Costs – When investors lack information on performance, this increases their risk. This increased risk translates into increased cost of capital for issuers, erasing savings to be had by not producing quarterly reporting.

- Continuous disclosure is not a substitute – Real-time disclosure of price sensitive information does not serve the same purpose as quarterly reporting. It does not provide an overall picture of a company's performance in a given period.

- Volatility and effective management – Every management team must continually and simultaneously focus on the short, medium and long-term. As the world faces increased volatility and daily developments in the arenas of technology, climate change, and geopolitical tensions to name but a few, management cannot afford to only consider and disclose on the medium to long-term. By the same token, investors can ill afford to invest in firms that do not offer visibility into the short-term perspective.

It is for these reasons that we include Question 3.4 on quarterly reporting in our *CG Watch* survey. We ask if quarterly reporting is mandatory and consolidated, and whether it requires Profit and Loss, Balance Sheet, and Cashflow statements with an explanation of the numbers.

In conclusion, we appreciate the opportunity to share our thoughts on the direction of travel of the proposals in this consultation and our concerns on additional issues. We would welcome further discussion with you on any of the points in our letter.

Yours sincerely,

Neesha Wolf

Neesha Wolf
Research Director – Taiwan and Malaysia
Supporting Research Director – Japan
Lead ISSB Advocacy

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