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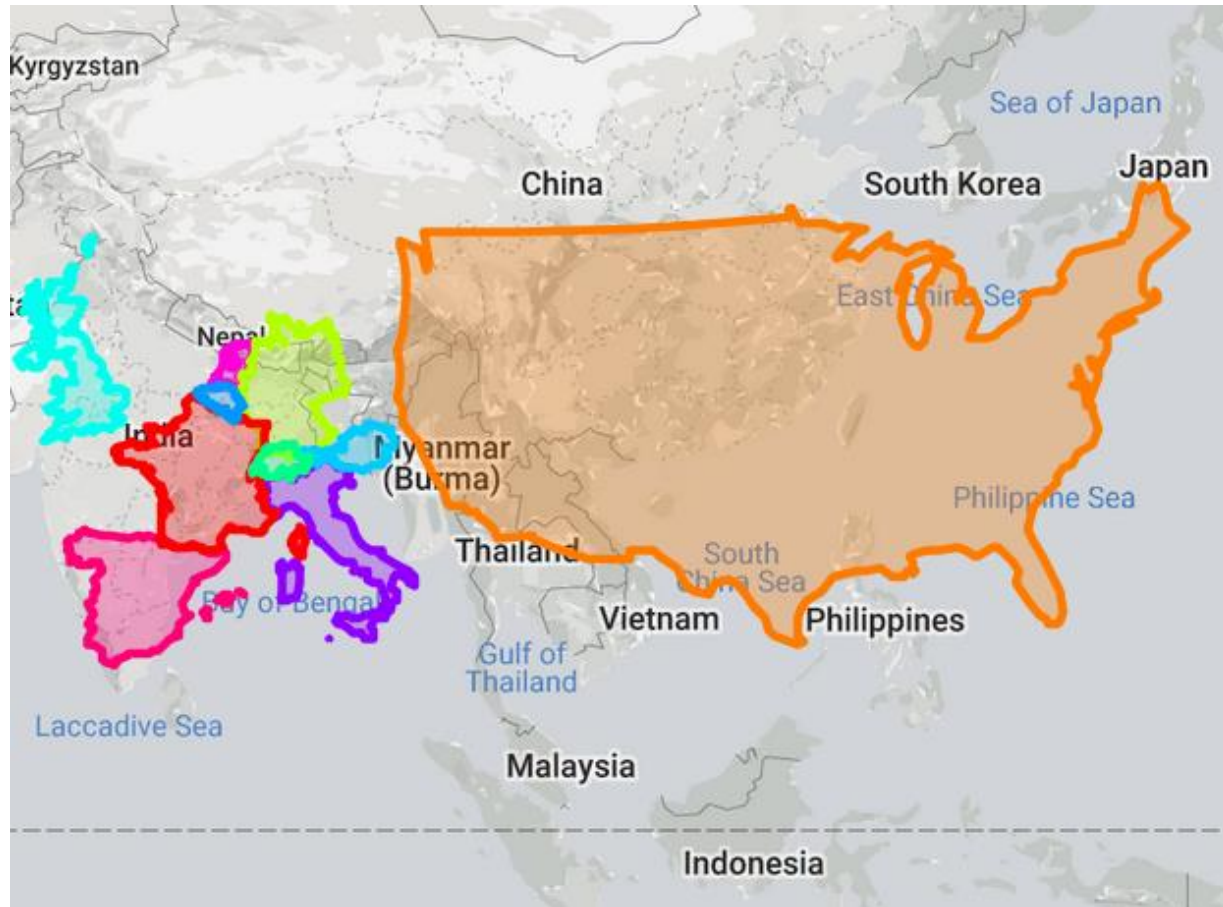
Asian Corporate Governance Association (ACGA)

“Globalising Japan: The road to successful
stewardship and engagement”

Presentation by:
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Asia engulfs Western Europe and the US



<https://thetruesize.com>

Asian demographics: Complicated

	Australia	China	Hong Kong	India	Indonesia	Japan
Population (million)	23.5	1,384.7	7.2	1,296.8	262.8	126.2
Land area (sq km)	7,741,000	9,591,000	1,100	3,287,000	1,905,000	378,000
Ethnicities (%)	English 26 Australian 25 Irish/Scottish 14	Han Chinese 92 Zhuang 1 Other 7	Chinese 92 Filipino 3 Indonesian 2	Indo-Aryan 72 Dravidian 25	Javanese 40 Sundanese 16 Other Indonesian 29 (12 groups),	Japanese 98
Religion (%)	Protestant 23 Catholic 23 Other Christian 4 None 30 Unspecified 10	Buddhist 18 Christian 5 Muslim 2 Folk religion 22 Unaffiliated 52	Buddhist/Tao 28 Protestant 7 Catholic 5 Other/none 54	Hindu 80 Muslim 14 Christian 2 Sikh 2	Muslim 87 Protestant 7 Catholic 3 Hindu 2	Shintoism 70 Buddhism 70
Language (%)	English 73 Mandarin 3	Mandarin , Cantonese, Shanghainese, 5 others	Cantonese 89 English 4 Mandarin 2 Other Chinese 3	English (subsidiary) Hindi 44 Bengali 8, and 20 others	Bahasa Indonesia (Malay form, English, Dutch, Javanese, 700 others	Japanese
Government system	Parliamentary democracy under constitutional monarchy	Communist party-led state	Presidential limited democracy	Federal parliamentary republic	Presidential republic	Parliamentary constitutional monarchy
Legal system	Common, based on English	Civil, influenced by Soviet and continental European systems	Mixed; common based on English and Chinese customary law	Common, based on English; separate personal law codes apply to Muslims, Christians, and Hindus	Civil, based on Roman-Dutch, influenced by customary law	Civil, based on German; Anglo-American influence and Japanese traditions
GDP per capita (2017, USD)	50,400	16,700	61,500	7,200	12,400	42,900

CG Watch 2018 market rankings

CG Watch 2018: market scores and rankings		
Market	Total (%)	Key CG reform themes and questions
1. Australia	71%	Bank governance needs overhaul, time for a federal ICAC
2. Hong Kong (+1)	60%	Going backwards on DCS, about to go forwards on audit regulation
3. Singapore (-1)	59%	Going backwards on DCS, reform direction reflects contradictory ideas
4. Malaysia (+3)	58%	Can new government rid the system of corruption and cronyism?
5. Taiwan	56%	Moving forward, yet piecemeal reforms hinder progress
6. Thailand	55%	Moving forward, yet corruption and decline in press freedom are concerns
=7. India (+1)	54%	Bank governance needs overhaul, new audit regulator disappoints
=7. Japan (-3)	54%	Heavy focus on soft law needs to be balanced with hard law reforms
9. Korea	46%	Stewardship code gaining traction, but sadly so is DCS
10. China	41%	Reinforcement of Party Committees raises numerous questions
11. Philippines	37%	CG reform low on the government's priorities, direction unclear
12. Indonesia	34%	CG reform low on the government's priorities, direction unclear

Source: Asian Corporate Governance Association

Note: Total market scores are based on actual total scores, converted to a percentage and rounded. Blue highlighted markets improved their rankings; red declined.

Why Japan's ranking fell

1. Government policy leadership on corporate governance has been relatively strong and the revised Stewardship and CG Codes mark a step forward. Yet there has been much more focus on “soft law” than “hard law”—and shareholder rights remain weak in many areas.
2. Enforcement outcomes curiously limited for such a large market.
3. Impressive growth in numbers of “independent directors” and new-style “audit committees”, yet systemic impact appears limited.
4. Depth and quality of corporate disclosure—financial, CG, ESG (integrated reporting)—well below what one would expect.
5. More positively, Japan scores well on institutional investors (asset owners and managers) and civil society/media.
6. Japan also scores reasonably well for accounting and auditing, including regulation and audit firm governance code. But well behind on key audit matters (KAMs).

Note: While Japan has undertaken numerous CG reforms since 2013, the fact is that most Asian markets started the same process much earlier: in the early 2000s.

Category scores, 2018

Categories	AU	CH	HK	IN	ID	JP	KR	MY	PH	SG	TW	TH
1. Government & Public Governance	65%	31%	63%	38%	26%	55%	52%	42%	23%	55%	60%	45%
2. Regulators	57%	56%	69%	60%	21%	52%	56%	61%	25%	54%	60%	50%
- Funding, Capacity, Reform	54%	48%	60%	60%	22%	48%	56%	62%	24%	48%	60%	52%
- Enforcement	60%	64%	78%	60%	19%	57%	55%	59%	26%	59%	60%	49%
3. Rules	78%	58%	74%	68%	35%	47%	45%	70%	43%	68%	63%	68%
4. Listed Companies	73%	36%	55%	62%	43%	48%	38%	57%	44%	63%	56%	63%
5. Investors	63%	18%	26%	36%	19%	53%	33%	38%	21%	32%	33%	30%
6. Auditing & Audit Regulators	84%	50%	74%	39%	61%	71%	69%	84%	63%	79%	70%	71%
7. Civil Society & Media	78%	22%	60%	71%	44%	62%	31%	47%	38%	62%	51%	51%

Source: Asian Corporate Governance Association

Japan's CG Ecosystem

Listed Companies

Ranked 8th regionally / 48%

Strengths

- Companies are adapting to new CG rules and standards (eg, voluntary S/K disclosure).
- Rapid growth in ID numbers.
- Improvements in ROE, share buybacks, dividends.
- More companies willing to engage with investors.
- Relatively quick release of (first) annual audited accounts in Business Reports.

Weaknesses

- Multiple problems in financial disclosure: limited notes, little detail on operating expenses and receivables/payables.
- CG reporting formulaic: board committees, director training, board evaluation, executive remuneration.
- ESG (integrated) reporting is better, but often does not answer the big questions.
- Board diversity lacking.
- ID contribution?
- Audit committees?

Investor engagement: Growing rapidly

Domestic funds

- Local institutions engaging 1-1 with local companies. But limited transparency.
- Led by state pension funds: EPF, KWAP, GPF, NPS.
- Both super funds and AMs in Australia.
- GPIF, HKMA working through domestic AMs

- ACSI, Australia
- IICEF, Japan
- JEC, Japan
- IIC, Malaysia

Foreign funds

- Global institutions engaging 1-1 with Asian listed companies. More transparency through annual responsible investment reports.
- Mix of asset owners and managers.

- Investors working collaboratively, including through ACGA working groups.
- Issue or company focussed engagements.
- Short to medium term.

Individual engagement

Collective engagement

ESG reporting: Growing in importance

High-level themes:

- Weak explanation of materiality in ESG/sustainability reports of listed companies.
- Reports often contain detailed metrics on resource usage, but are short on targets.
- Limited attempt to link the mass of ESG data to company business and strategy.
- Few boards have deep ESG expertise.
- Few boards appear to read their own ESG reports!
- Few boards appear to discuss the impact of climate change on the company's future business operations.

Disparity in company reporting quality

Company Survey	Categories	AU	CH	HK	IN	ID	JP	KR	MY	PH	SG	TW	TH
	Count of firms in study	15	15	15	15	15	15	17	15	15	15	12	15
Q4	Downloadable sustainability / ESG reports , could be part of annual report?	0.7	0.9	1	0.8	0.9	0.9	0.7	1	0.4	0.9	0.9	1
Q32	Is there a reference to communication with stakeholders ?	0.5	0.5	0.5	0.5	0.2	0.5	0.8	0.8	0.2	0.7	0.9	0.6
Q33	Is there a materiality matrix ?	0.5	0.1	0.2	0.3	0.1	0.4	0.8	0.8	0.1	0.6	0.9	0.8
Q34	Is a sustainability policy provided (that addresses the material issues raised in the matrix)?	0.7	0.6	1	0.9	0.9	0.7	0.6	0.9	0.4	0.9	0.7	0.9
Q35	Are sustainability metrics provided (related to material issues)?	0.9	0.5	0.5	0.8	0.3	0.6	0.8	0.7	0.1	0.7	0.9	0.7
Q36	Are sustainability targets provided (related to material issues)?	0.7	0	0.1	0.1	0.1	0.1	0.6	0.1	0.1	0.5	0.7	0.5
Q37	Overall qualitative opinion on materiality?	0.2	0	0	0	0.1	0.3	0	0.2	0.1	0.6	0.6	0.5
Summary	Do the ESG/sustainability reports of large-cap companies compare favourably against international best practice?	62.2	32.8	50.0	49.4	37.8	48.3	65.7	70.0	25.6	78.3	73.1	74.4

Fragmentation in ESG policymaking in Japan

Ministries/Agencies	ESG Initiative Promotion Council
Ministry of the Environment	High Level Meeting on ESG Finance
	ESG Finance High-Level Panel
Financial Services Agency	The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code
Ministry of Economy, Trade, and Industry	Forum for Integrated Corporate Disclosure and ESG Dialogue
	SDG Management/ESG Investment Study Group
	TCFD Study Group
Ministries/Agencies	ESG Initiative Promotion Guidelines
Financial Services Agency	Guidelines for Dialogue Between Investors and Companies
Ministry of Economy, Trade, and Industry	Guidance for Collaborative Value Creation
	TCFD Guidance

Source: LIAJ "Initiatives by Life Insurers to Reinvigorate the Equity Market and Achieve a Sustainable Society through Asset Management"

Next steps for Japan

Company level:

1. Support the implementation of the CG Code with a stronger ecosystem of director training—for both inside and outside directors, and senior management.
2. Allow investors to meet directors—outside as well as inside.
3. Modernise board practices and disclosure around evaluation and director nomination.
4. Ensure boards become strategic oversight bodies, not operational decision-makers.

Regulatory level:

1. Allow institutional investors more flexibility around company engagement. Rules are too restrictive.
2. Streamline corporate financial and CG reporting.
3. Create more coordinated ESG reporting guidelines.

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