ACGA 16TH
ANNUAL CONFERENCE

Asian Business Dialogue on Corporate Governance 2016

Conference Report

"Corporate Governance in North Asia:
Contrasting Paths to Reform"

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We also express sincere thanks to our new sponsors and supporters this year:

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Contents

Highlights of ACGA's 16th Annual Conference

November 15–16, 2016, Conrad Hotel, Tokyo

ACGA's 16th Annual Conference, the "Asian Business Dialogue on Corporate Governance 2016", took place at the Conrad Hotel in Tokyo over November 15-16, 2016. The theme of the Conference was "Corporate Governance in North Asia: Contrasting Paths to Reform", and the event attracted some 300 delegates and speakers from 20 countries in Asia and other parts of the world. The following are key takeaways for each of the sessions.

Day 1

Welcoming Remarks

Nobuyuki Idei, Founder & CEO, Quantum Leaps Corporation, Tokyo; Vice President, Japan Association of Corporate Directors.

- Japan has maintained a unique way of managing corporations, which worked during the days when the economy was doing well. But this has changed dramatically.
- The Abe administration is emphasizing the importance of CG for Japanese companies. To enhance corporate competitiveness, you need to change the corporate structure.
- The question Japanese companies are asking: Is CG a brake or accelerator?
- We have to do business globally. When Sony acquired US companies, I keenly felt the necessity of good governance. I separated oversight from execution and appointed outside directors to support our oversight capabilities. We were the first Japanese company to do this.
- Now, outside directors are prevalent among Japanese companies. So, I believe CG is changing in the right direction … We're witnessing faster technological changes. We expect to see the emergence of new businesses. We have to prepare for the future.

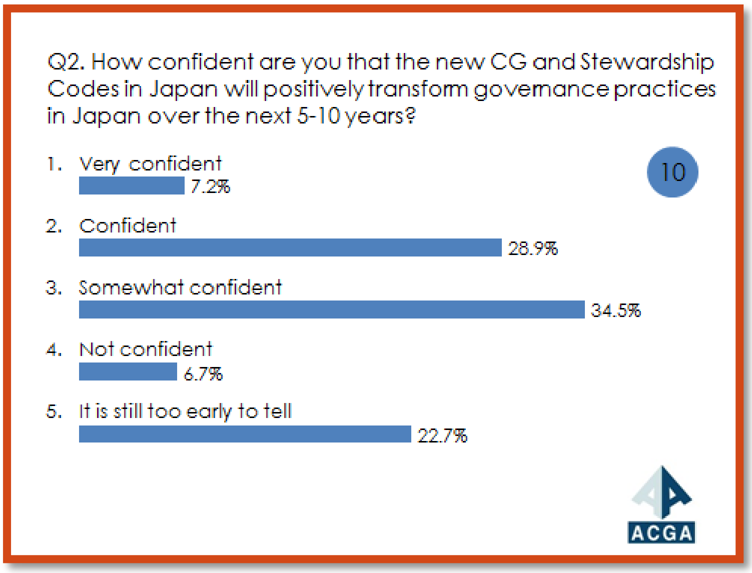
Plenary Session – Asia Overview

Jamie Allen, Secretary General of ACGA, talked about the importance of a strong ecosystem for good CG and recent strides made by most North Asian markets.

- "CG Watch 2016" included Australia for the first time. There was a big difference between the country and the rest of the markets surveyed, in part because Australia has been doing CG for longer, but also because it is more receptive to new ideas.
- In North Asia, the score for 3 out of 4 markets rose from 2014. Four years ago, we saw CG in Southeast Asia rising and now North Asia is rising.
- Overall, the key conclusions were: 1) Ecosystems matter—meaning strong regulators, companies, investors, auditors, media, and dialogue among them—supported by robust enforcement and directors with a sense of fiduciary duty; 2) Public governance – or accountable and clean government—really matters; and 3) Investor stewardship matters to produce much stronger bottom-up reforms.

Surveying the four main markets in North Asia:

- China has real challenges, though in 2015 enforcement improved and the work to update the 14-year-old CG code is under way. But SOE reform has been disappointing and new controlling shareholders don't necessarily bring improvement. Some CG theories don't really work in China, such as the concept that takeovers inevitably target underperforming companies and improve governance. Some low-hanging fruit for reform include adopting the long-form audit report and having more disclosure in English on regulatory websites.
- Korea has seen a spate of reforms in recent months, with a new anti-corruption law and a revised CG code, which KRX plans to make a "comply or explain" document. Meanwhile, the Korea Corporate Governance Service is working on drafting a stewardship code. But companies need to review their board composition and have a more open dialogue with shareholders.
- Taiwan has made consistent improvements over the last couple of years, with a new stewardship code, mandatory electronic voting and a lot of work done on corporate reporting. But domestic institutional investors face a steep learning curve on their stewardship duties and the leadership of financial regulators suffers from high turnover.



- A lot has also happened in Japan—there's a new CG code and the implementation of the stewardship code marches on, while the number of outside directors is increasing and the Government Pension Investment Fund is taking a leading role on stewardship. But CG reports are formulaic, shareholder rights weak in areas, director nomination and training regimes could be strengthened, and the voice of investors could be louder.
- But in comparison to 2008 when ACGA's White Paper on Japan was published, there have been significant improvements in policy and practices in most areas that needed urgent reform.

Shaun Cochran, Global Head of Thematic Research at CLSA, Seoul, presented his assessment of CG in North Asia based on a survey of companies that they cover.

- CLSA's bottom-up analysis of CG in Asia is relatively aligned with ACGA's top-down assessment. Australia is a clear leader in both, but Korea is ranked lower than in ACGA's, though the CG reforms taking place at Samsung and Hyundai Motor groups could catalyse wider changes elsewhere.
- On the bottom-up basis, Japan has pushed out Singapore and Hong Kong, thanks to clear evidence of companies' willingness to engage with investors. There's evidence that their interaction is beginning to deliver changes.
- However, there is no evidence of a strong correlation between CG scores and share prices, which are driven by a complex range of internal and external factors. Terrible CG companies can sometimes be spectacular investments. Where CG is valuable is in times of market distress.
- Moreover, risk in earnings is lower when CG is higher. So fundamentals are absolutely driven by CG, and good governance leads to better fundamental outcomes.
- Contrary to perceived wisdom, passive funds can have a positive impact on corporate governance outcomes.

Plenary Session – The ACGA Debate: "Can Comply-or-Explain work in North Asia?"

ACGA's signature debate this year featured a face-off between **Dr. Daniel Summerfield**, Co-head of Responsible Investment, USS Investment Management, London, who defended the motion in the affirmative, and **James Hawrylak**, Director, Institutional Relations, Sustainalytics, Tokyo, who argued the opposite case. **Dan Konigsburg**, Managing Director, Corporate Governance & Public Policy Deloitte Touche Tohmatsu, New York, was the moderator.

- **Daniel Summerfield**: The "comply or explain" model provides a flexible approach to CG. "One-size-fits-all" doesn't work. What we want is a code to be aspirational in nature—we want companies to rise up to the challenge. One can't regulate for good behavior; at the end of the day it's about good leadership. What we want government regulators to do is to allow for this model to take root. We have in Japan a very exciting possibility with a CG code and a stewardship code. Markets can adapt very quickly, while regulations could take a long time. It requires a collective effort, but a principles-based approach towards CG is better than a regulatory one.
- **James Hawrylak:** The concept is valid, and it can work in ideal situations. But the cultural framework in Japan and East Asia would preclude it from working. Within two years, some 90% of Japanese companies are complying with the CG code. The question is, is this a new-found embracing of CG or an old love of following rules? Japan is a rule-and-order-based culture, and companies are complying with minimum explanations. Japan is also a risk-averse culture, so when companies are asked to explain, you get "one-size-fits-all" explanations. This is what you get when you ask risk-averse people to take the risk of explaining.

- **Daniel Summerfield**: To date, disclosure hasn't been particularly forthcoming. There is a risk of boilerplate reporting. Form over substance is a problem here. Yes, culture is always a factor. We've got to be conscious of different practices in different markets. That's not to say we shouldn't push towards better practices. Global investors expect certain basic practices to be introduced. In Japan, we have the GPIF, combined with the collective effort of global investors, pushing for change. It's a collective global effort.

- **James Hawrylak:** If we were to look at the engagement culture that is so important for the "comply or explain" to work, we have to think of a few things. The stewardship code is very new, and engagement is a religion. But in Japan, there is a long-term history of not engaging. When the stewardship code came, Japanese asset managers said, 'it's here, but what does it mean?' On top of that, in Japan you have 70% of companies holding AGMs over three days in June. The proxy season is so strenuous on the system, even the post office can't handle it and must hire part-time workers. This is a country with excellent logistics, yet still they can't handle the proxy season!
- **Daniel Summerfield**: What has happened in Japan over the last few years—with the introduction of the concept of independent directors—has been a significant improvement and welcome development. Nevertheless, there is a risk that this new concept could become like Toto toilets—it looks fantastic, but people don't quite know what to do with them or what they are for…
- **James Hawrylak:** I get the feeling that corporate Japan thinks they're done because they've complied. But without strong leadership to drive changes needed to make this work, it will die on the vine. For example, how does this drive corporate value? You need a home-grown solution developed by looking at Japan's strengths.

Note: A poll of the audience showed that 59.7% (vs. 38.7%) initially replied affirmatively to the question, "***Can Comply-or-Explain work in North Asia?***. When the question was asked again after the debate, 65% said "yes" and 34% "no".

CG Reports in Japan – An Assessment of Disclosure

Runa Urheim, Senior Analyst, Norges Bank Investment Management (NBIM), introduced a new assessment that NBIM is doing on the quality of disclosure in English-language CG reports from Japanese listed companies.

- NBIM is encouraged by changes in Japan and is invested in the long-term success of corporate Japan.
- NBIM is assessing CG reports from about 120 companies and applauds them for investing time and resources to publish in English.
- NBIM is focused on the quality of information given. But companies are struggling to report and are looking for guidance on investor expectations. NBIM aims to encourage high-quality disclosures.
- Over the coming year, NBIM plans to announce the companies with the best CG reports in English.

Workshop on Board Culture & Dynamics

Corporate Reporting: Trying to reach a no-boilerplate nirvana

How can companies improve their corporate reports that so often put the reader to sleep with their formulaic and legalistic language? **Elizabeth Sun**, Senior Director of Corporate Communications, TSMC, Hsinchu, Taiwan, put the question to **David Simmonds**, Group General Counsel and Chief Administrative Officer, CLP Holdings, Hong Kong, and **Yoshiko Shibasaka**, Associate Partner, KPMG AZSA LLC, Tokyo.

- The word “boilerplate” means clichéd or predictable ideas in writing, according to the Oxford dictionary definition. Boilerplating is an enemy of clarity and simplicity, especially in sustainability. It’s the worst sort of plagiarism.
- So why do we see so much of it? It’s a mindset issue. Many companies still think of it as compliance, rather than shareholder engagement, opportunity.
- A classic example is risk reporting, which often looks like a list of exclusions in insurance where everything is covered without any thought as to what the company itself thinks of as risks. But this type of reporting is perceived as easy, simple and safe. When you suggest people move away from this approach, they often react with shock and outrage.
- Gaining trust through transparency, or providing the right information at the right time in a fair, balanced and understandable way—it really doesn't take a lot to provide more relevant information.
- There is a fear of transparency among companies. Why go beyond compliance? Because there is value in it for companies: enhanced access to capital; enhanced discipline and accountability for the board; discipline in documenting that helps to bring issues to surface; building and maintaining trust; enhancing the reputation of the company; and a better relationship with regulators.
- Think of reporting as a way of communicating with providers of capital on why you do what you do and how you intend to provide value long-term.

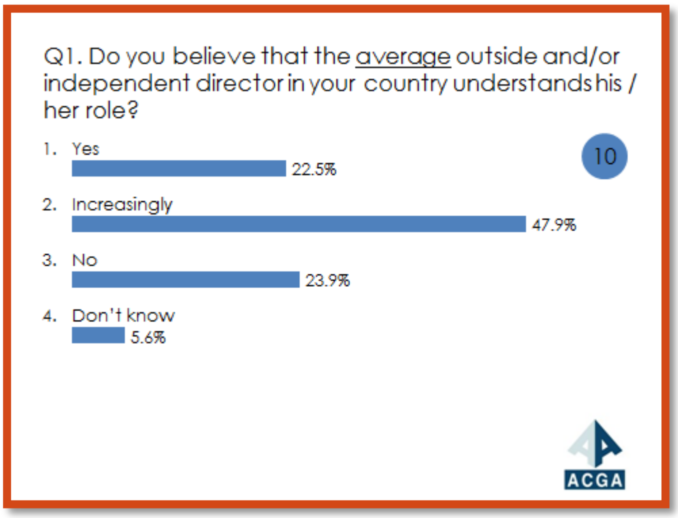
- Good reporting starts with knowing your audience. Communication is a two-way exercise. You can spend a lot of time figuring out who your audience is. But it's important for companies to do this and then make their report as relevant to that audience as possible.
- You can use innovative means to communicate (eg, videos embedded in online sustainability reports). Also use data from that by seeing how much time is spent on video and then tailor the experience based on that data.
- It's becoming increasingly important in Japanese companies to have tools to communicate with investors, which is why corporate reporting is higher on the agenda. Over 2,000 companies in Japan already publish CSR reports. More than 200 companies plan to incorporate "integrated reporting".
- But issues and challenges remain on integrated reporting. For example, companies want to use their reports to talk to many different audiences on many issues, but there isn't enough discussion on what is material to each company. Also, reports are written according to stock exchange rules, but this does not take into consideration what actually needs to be communicated. Right now, the priority in Japan is placed on the preparation of the report itself.
- Almost all Japanese integrated reports are missing many critical elements, such as a discussion on the company's business model, so they are not yet satisfying investor expectations.
- To create more informative reports, management must clarify and identify their significant target audience.
- The integrated report is only one of the results of integrated reporting. If the management team takes leadership in the process, it could also help enhance sustainable corporate value.

Workshop on Board Culture & Dynamics

CG Fundamentals: What should a good director do?

Nicholas Benes, Founder, Board Director Training Institute of Japan, Tokyo, and **Hiroaki Toya**, Managing Director, Japan Special Situations, LIM Advisors, Hong Kong/Tokyo, led this audience-participation session where discussion focused on identifying the attributes that make a good director and allow them to help the entire board perform more effectively.

- Japanese boards have started to undergo significant change. While previously the board functioned more as a management committee comprising mainly internal executives, now many companies are moving to smaller boards with more outside directors. This fundamental shift is in turn generating huge changes around board function, board meeting frequency, streamlining agenda items, and also changing the distribution of authority.
- Some of the key challenges for boards in Japan include eliminating group think; understanding that boards should provide guidance and change management if it proves ineffective; and achieving more diversity to generate the appropriate amount of tension so that Japanese boards can think outside the box.
- The talent pool for directors is still small. Many individuals sit on multiple boards. There are also too many lawyers, accountants and academics. More independent directors with business experience are needed. Many senior officers in companies stay on in an advisory or unofficial capacity, which means very few become available to join other companies. Currently around 40% of board members in Japan come from the business world.



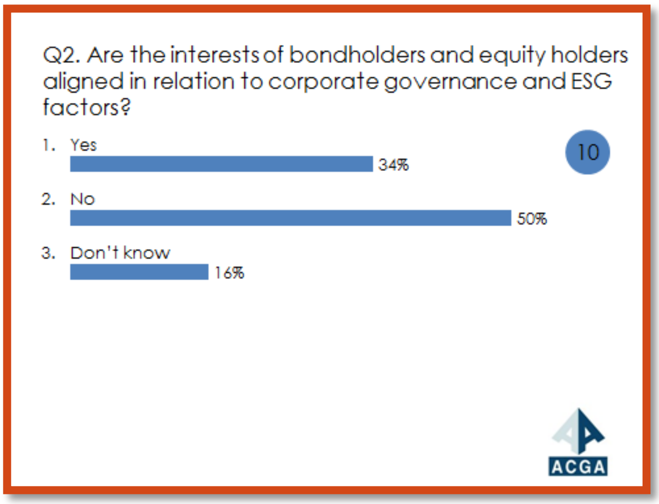
- Many investors want engagement with independent directors, but that's been difficult to date. The most cited reason for not agreeing to meetings is scheduling issues.
- Boards need to set KPIs: ROEs and hurdle rates for investment; and communicate them to investors. They also need performance evaluations.
- Key points from the results of the four workshop groups on board duties and responsibilities were:
  - Outside directors should be setting the board's agenda.
  - Being prepared for board meetings is critical.
  - Allow management to do its job, though be ready to step in. No micro-managing!
  - Director training is a continual process; there is no such thing as a perfect director.
  - Boards must talk to company shareholders—including outside shareholders.
  - Meeting management offsite—"walking the floor"—is very useful for independent directors.
  - Boards need to think strategically when setting performance metrics, adopting a long-term strategy rather than a short-term focus.
  - In Japan, having more than two outside directorships is a real challenge. When things get tough, they are expected to stay on the board. Independent directors should prepare to communicate to the stakeholders in times of crisis.

Workshop on Capital Markets

Same view, different lens? Bringing debt and equity interests in CG/ESG into focus

This session tackled the issue of bondholders' interest in corporate governance and whether there might be opportunities for collaborate with shareholders to effect better CG at their investee companies. Expert speakers were **Hiroki Sampei**, Director of Research, Fidelity International, Japan; **Rakhi Kumar**, Managing Director, Head of Corporate Governance, State Street Global Advisors, Boston; and **Tadashi Kakuchi**, Senior Portfolio Manager, PIMCO, Tokyo. **Adam Kirkman**, Head of ESG, AMP Capital, Sydney, moderated.

- Fixed Income is one of the largest asset classes globally. It has a very strong quantitative focus and on downside risk in particular. When things are going badly, the bond market behaves a bit like equity.
- The nature of the relationship between a bondholder and the company is different to that of an equity holder in that it's very much a contractual relationship. But protection on downside risk makes governance of critical importance.
- There is a growing understanding of the financial relevance of ESG issues, with bottom-up financial analysis as the most popular form of integration.
- Japan's CG Code doesn't have such significant emphasis on the avoidance of risk or scandals. The emphasis is on creating value over the medium to long term. So the Code is structured to support companies taking a reasonable amount of risk.
- A leading indicator that bondholders are trying to get comfort with is transparency, rather than board composition or quality: they want proof of the presence of assets. They're also looking at fraud risk, corruption, bribery, board risk and potential litigation. The issue has to be two to four times bigger to move the dial on the credit side versus the equity side.
- Getting rid of underperforming divisions is key for engagement in Japan. Because there are companies with great businesses, but they hold onto the underperforming business at the same time.
- Bondholders only go to about 10 meetings per year, despite holding trillions of dollars in bonds.
- Asset owner clients are more aware of green bonds. However, do they understand the whole picture of ESG? It isn't clear.

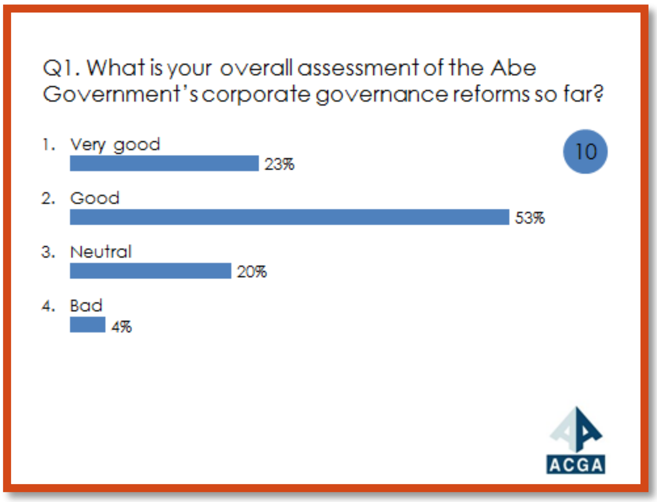


Workshop on Capital Markets

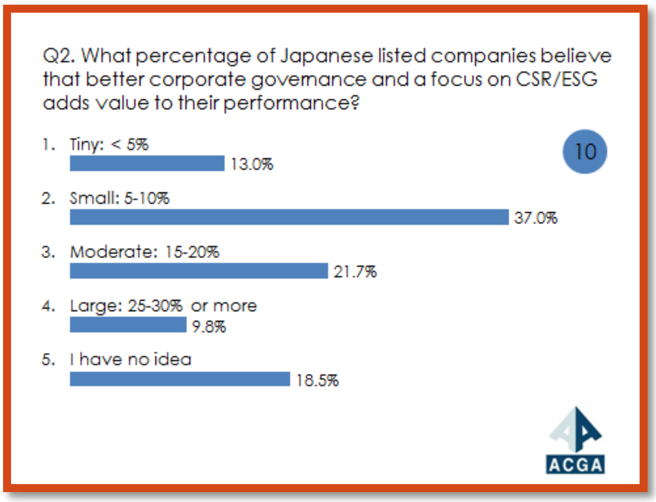
Progress in Corporate Governance in Japan: Perspectives from the business sector

To take stock of all the changes in the CG regulatory environment in Japan, **Dr. Ryohei Yanagi**, Senior Vice President, CFO and Chief IR Officer, Eisai Co., Ltd., Tokyo moderated an expert panel with **Kazuhiko Toyama**, Representative Director and CEO, Industrial Growth Platform Inc., Tokyo, and Vice President, Japan Association of Corporate Directors, and **Takumi Shibata**, President and CEO, Nikko Asset Management, Tokyo. In a wide-ranging discussion, they took a candid look at the issues that structure the CG opportunity in Japan and that will also require a focused approach from investors who prioritize CG. In the panelists' view, progress is being made, but the bias toward inaction is powerful.

- Dr. Yanagi's research shows satisfaction with Japan's corporate governance ranges from 16.2% to 33.3%. The polling data on the return on equity (ROE) of Japanese equities is worse: the satisfaction rating for Japan's ROE is 9.4% to 24.2%.
- Japan has an opportunity in that the 8% ROE goal articulated in the Ito Review—Japan's version of the UK's Kay report—and a positive equity spread (ROE minus cost of equity) can serve as a crucial catalyst for a governance-driven improvement of returns. When 40% of companies trade below book value, it's only natural to look at any strategy that can add value.
- The challenge is that the history of the past two-plus decades has reinforced an insider orientation where executive-led boards focus exclusively on downside risks and seek group harmony at the expense of new ideas and performance. Corporate succession and strategic decisions place a priority on continuity even in the face of serious competitive problems. Cash is hoarded as a bulwark against the resultant lack of profitability. When corporate malfeasance results, it is amplified by a lack of internal checks and balances.



- Just as boards lack outsiders who might be comfortable questioning strategic choices or outdated practices, insiders rarely seek or support the types of systems that might bring problems to light. Although the government has put important new policies into place, many Japanese boards "pretend to comply, but in reality they really hate the idea and wait to see if the storm is gone."
- Priorities for companies interested in CG include a strong case for staying focused on the independence of board members, which may be a long time off.
  - Corporate succession is also a crucial issue. Internal, executive-driven processes, need to be reformed and both the nominations and compensation process should be subject to careful checks and balances to ensure that decisions are not left in the hands of a CEO who will not address much-needed reforms that may be opposed by former executives who maintain a role in corporate affairs.
  - If balance sheets are to be cleaned up and capital is to be allocated more efficiently, CFOs must also be given more authority to assert themselves. CEOs reluctant to make decisions concerning asset sales and better cash management should not dominate the finance dialogue if more attention to returns is required.



- The stakes are high for Japanese investors because the central bank simply cannot produce transformative results alone. The decision to introduce the Stewardship Code was a message to asset managers that there is no more free lunch. While it may not be surprising that Japanese corporates will work hard to "comply" because they don't want to explain, it is up to asset managers to lift their game with thoughtful engagement.
- There's a tendency among institutional investors to do little more than ask for dividend increases or share buybacks. Investors must come with more serious and "real ideas" about growth and capital efficiency.

- Engagements started between asset managers, many of whom are new to the game, and corporate management, many of whom thought that their efforts to improve corporate governance were done because boxes were ticked. It's a start of a long journey.
- GPIF is engaging with asset managers and JPX 400 corporate management to assess and improve the current state of investor engagement with corporate management

Workshop on the Governance of Sustainability

Exploring Japan: How to get from 'doing stuff' to strategic engagement

Japanese companies are already active in the E and S aspects of ESG. But what role does the G play, and how can investors engage with the companies to jointly enhance sustainability? To address such questions, **Lauren Compere**, Managing Director and Director of Shareowner Engagement, Boston Common Asset Management, Boston, sat down with **Asako Nagai**, Director, BSR Japan, Tokyo, and **Yozo Nakao**, Associate General Manager, Global Communication Department, Ajinomoto, Tokyo.

- Recent regulatory changes have caused investors to become more strategic about the governance of sustainability, including the Global Stewardship Principles from the International Corporate Governance Network.
- Japanese companies are good at following international frameworks and standards compare to other major countries in the world. Nearly 200 companies published integrated reports in 2015. More than 70% of companies have signed up to the UN Global Compact and ISO 26000 standards, according to a METI study in 2014.
- The drivers were many regulatory changes in the world on the CSR side during the past few years, and Japanese companies tend to do the same thing at the same time. Also, institutional investors and NGOs have become more active in recent years in looking at sustainability issues and have been publishing more reports in Japanese. The nuclear accident at Fukushima was one trigger.
- Japanese companies are more sensitive to climate change, environmental issues, and less interested in human rights, social benefits and gender diversity

issues. For example, Japan ratified the 2015 Paris Agreement on November 8, 2016 before the US and China.

- Ajinomoto's original intention in paying attention to sustainability was to satisfy demand for health products to long-term customers. It adopts global indicators in terms of non-financial disclosure and ranks against benchmark companies. It tries to understand these developments as pertaining to reputational risk.
- What is common in Japanese companies for the governance of sustainability is that there is an official committee composed of executive members that meets two to four times a year. But board director responsibility and how often the sustainability agenda is taken up are a little unclear.
- Japan now has a stewardship code. This will provide more opportunities for dialogue with investors. But Japanese companies haven't reached the level of constructive dialogue yet.

Gala Dinner Keynote Speech: "A Long-Tem Vision – Japan Beyond 2020"

By **Ken Shibusawa**, Founding Partner and Chairman, Commons Asset Management, Inc., Tokyo

- I'm a long-term investor, so I think about the future a lot. When people think about the future, they usually draw a straight line from the present. But the future doesn't go in a straight line. Mark Twain said 'history doesn't repeat itself, but it does rhyme'.
- After I was born in 1961, for 30 years Japan enjoyed an era of economic growth. But since 1990 we've been told that Japan lost a decade and then another decade. I believe Japan is in a 30 year era of destruction, and that a new era should once again start from around 2020. So what's so important about 2020? – A monumental demographic shift.
- The demographics of Japan in the 1930s comprised of lots of young people. In the 1970s when baby boomers came into the workforce, the economy prospered, the era of Japan as Number One. However, most people believe that 2020 and beyond, Japan will wither away because of the aging society.
- But 30 years from now, none of the old guard that built the previous growth will be around. From 2020, a new generation will come in with no experience, and therefore, no pretense of what economic growth looks like. That could be good news, because perhaps they can define growth not just in terms of material goods, but also in other terms.

- In the US, the millennials—those who were born between 1982-2000—are more populous than the baby boomers. They are more diverse ethnically than the older generation, and a big force for consumption and workforce, as well as maybe investment. Unlike the baby boomers, the millennial's daily life was and is always connected via the net. And this determines their notion of value. A sharing economy, the environment, their health, and a strong social consciousness. Beyond 2020, this younger generation will have different values as compared to the previous generation. So what the old generation needs to do is give the younger generation a lot more breathing room. This is not just an American phenomenon, but a global one, including Japan.
- In 1873, my great great grandfather, Eiichi Shibusawa, founded the first bank in Japan, and is credited for starting about 500 companies. He is also known as "the father of Japanese capitalism." He imported capitalism from the West, not for his personal wealth, but in the hope modernizing Japan. But capitalism today is criticized for causing inequality and other ills. It's a negative word. But the origin of capitalism is to bring together small amounts of capital "dropping like a dew drop" and turning it into a "mighty river" of growth capital for the wealth of the nation and its people.
- I believe that at the origins of capitalism in Japan there was some empowering force that brought these "dew drops" together. I think that is "common values" shared by all. A better tomorrow than today. "Mutual aid" fills in the shortages among the gathered, and with this, it leads to "co-creation". Ethical capitalism is not just about doing good in a bad world. It is the basic ingredient of sustainable value creation, leading towards a better tomorrow than today.
- All of us carry a box and live inside that box. It might be a country or your origin, your place of residence, your industry, your company or department. It may be your personal values or your success story. We live inside this box, because it is our comfort zone. People like to be comfortable. But what happens if one only stays inside his comfort zone? The box may be getting smaller, but we may not realize it. That is because we lost the perspective from the outside, looking in. The key to sustainable growth, I believe, is to always challenge the boundaries of our box, our comfort zone. The ability to look from the outside to the inside, and bringing home new perspectives. This is how we stimulate sustainable growth.

Day 2

Workshop 1 – The Brave New World of Investor: Company Dialogue in Japan

This session examined the progress and challenges in the level of interaction between listed companies and institutional investors nearly three years after the introduction of Japan's Stewardship Code. **Jamie Allen**, Secretary General, ACGA, moderated a panel with **Kenji Iwamoto**, Director for Engagement, Governance for Owners Japan, Tokyo; **Akira Fuse,** Investment Specialist, Capital International, Tokyo; and **Shinichiro Hyogo**, Chief Analyst, Asset Management Division, MUFJ Trust and Banking Corporation, Tokyo.

- The Stewardship and Corporate Governance codes have led to better access to management. Top management now have prepared answers to typical questions.
- Engagement still takes patience, building up relationships with management, and soft pressure. Investors must not give up. Keep saying the same thing, even if the management does not initially accept the idea.
- Take a constructive approach, but be aggressive about demanding continuous improvements.
- Encouraging rather than forcing management leads to longer-term outcomes.
- Since the Stewardship Code, the number of engagements is increasing, access to company management is improving and there are more meetings with outside directors.
- Initial contact is usually with the investor relations person. Then you meet several directors. But before investing, you have to meet the CEO or CFO. You want to really assess the motivation with management, especially on long-term vision and strategy. This can take one to two years before your investment.
- Deep discussions on company fundamentals help to build trust.
- Try to make sure that middle management has the same view as top management, particularly relating to capital allocation. If you want to know about long-term vision and strategy, you need to know what is going on in each different division and engage with divisional heads. Sometimes the lower level has great ideas that the investor can take upstairs.

- Companies' experiences through lean decades have led some to hoard cash. This conservative mindset will take time to change.
- ROE vs cost of capital—the idea is spreading. Smart management teams understand that cost of capital is the return that they need to exceed when they invest. This is gradually changing.

Workshop 2 – New Experiments in Corporate Governance in North Asia

Speakers from China, Korea and Taiwan discussed how CG is evolving in their respective markets and roles played by different stakeholders, as well as the outlook for further reform in the future. **Dr. Hans-Christoph Hirt**, Co-Head, Hermes EOS, London, and **Yoo-Kyung Park**, Director, Global Responsible Investment and Governance Team, APG Asset Management Asia, Hong Kong, co-moderated a panel featuring **Philip W. Ong**, Chairman, Chunghwa Post, Taiwan; **Dr. Woochan Kim**, Associate Professor of Finance, Korea University Business School, Seoul; and **Jasper Xu**, Partner, PricewaterhouseCoopers Business Consulting, Shanghai.

- Companies in Taiwan are nervous but curious about making corporate governance change.
- However most of them are still very conservative about engaging with investors. The chairman or senior management, nevertheless, should be doing this—it's something very normal.

- The Chinese translation of the new stewardship code is awkward, but it has sent a strong message to investors and will drive some more engagement among companies in Taiwan.
- It is true that the Asian business community still has a closed-mind about corporate governance, but more companies and leaders in the area should stand out and make a difference no matter what it takes.
- There are two reasons why Korea is falling behind: conservative regulators and the lax attitude of the government towards CG reform. The current president has only delivered one-third of her promises on governance during four years of her five-year term.

- The *chaebols* in Korea have become too powerful over the years for this market to have efficient CG. *Chaebols* have paralyzed everyone in the CG ecosystem—the media, prosecutors, the asset management industry. Nobody can really go against Korean *chaebols.* Look at Elliott Management and Samsung.
- The norm in Korea is for retired or former civil servants to become external consultants or outside directors. That is part of the reason why they remain silent about problems at *chaebols* much of the time they are in government.

- Korea, like many other markets in Asia, is a place where CG will be strongly influenced by government (public) governance. Do we have hope? Koreans want to change direction with the next president. We don't know who that will be, but there's a high chance that someone from the incumbent pro-business party cannot be elected. So someone who understands CG will likely be the next president.
- The National Pension Service (NPS) has the responsibility to encourage more company engagements in the market. But so far, it has been passive and has taken almost no engagement. But now the Korean government is working on a stewardship code. An official draft will come out by the end of this year. After that, the NPS will be pressured to sign it. Then, they will have to do things differently.
- China is a very large market, and the practice and CG quality among different markets around the country is very diversified. A more complete survey of China should look at different regions separately. The north is state-controlled, but below the Yangtze River, companies are more diversified.
- The SOE (state-owned enterprise) reform in China has been disappointing. There are two reasons for this: 1) The Chinese Communist Party does not want to repeat the Russian failure, thus reform moves very slowly; and 2) It is difficult to separate the policy burden from government ownership. Unless China works hard to separate the party's interests, which are more related to social stability than shareholder value, there will be no substantial reform of the SOE sector. Having said that, reform in southern China is more promising than in the north.

- Like Korea, CG development in China is also very much dependent on government governance.
- In the private sector, e-commerce companies in China are leading the world (Baidu, Alibaba and Tencent, or BAT). Together, BAT are challenging SOE dominance.
- The going-out strategy is also another driver for changes in Chinese company practice. They will be forced to change, eg, independent directors challenging the board.

Plenary Session – The Chairmen's Dialogue: Entrepreneurship and Management in Japan

Douglas Henck, Chairman, ACGA, and Former Chairman and CEO, Aegon Asia, moderated a wide-ranging discussion on how Japanese companies are trying to sharpen their competitive edge through innovation, more risk-taking and corporate governance reform. The two VIP panellists were **Kunitake Ando**, Honorary Chairman, AEGON Sony Life Insurance, Tokyo, and **Takeshi Niinami**, President and CEO, Suntory Holdings, Tokyo.

- Japan can be more innovative. Businesses encouraged entrepreneurship 20 years ago before the era of deflation. But since then, companies have been forced to keep cutting costs. Businesses accumulated cash with no destination.
- The key is to invest in innovation to avoid inertia. First, enhance CG and adopt risk-taking by management to generate long-term returns. Promote diversity in the workforce in terms of gender and country backgrounds. Also make mid-career hires. Second, shareholders should have a stronger voice. They should demand three-year growth plans with strong ROE, dividends and share buybacks. Third, the government must create an environment that supports innovation. Create investment opportunities through deregulation. Promote labor mobility and diversity. Challenge the constraints of lifelong employment. We need the government, businesses and shareholders to play active roles.
- Once Japan was called an economic animal. Now, Japan is much less aggressive and more conservative. After the 1990s, Japanese industry lost competitiveness. Even now, they are struggling, although things are changing.

- Why has Japan fallen low? Two reasons: 1) Somehow Japan didn't understand the rules of business in the global age. The world became flat. Now, we're competing with emerging countries as well as the US and Europe, like Korea. The business model has changed—you can't just provide high-quality, good products anymore; 2) While the US had a grand national strategy to bring up IT, software, and content businesses, Japan stuck with old business models for too long. Only now with Abenomics, we're finally coming up with a basic scenario and objective to make Japan a very innovative nation. We have to build the ecosystem.
- When Japanese come up with a clear objective, we can make an all-out effort. When leaders become conservative, it's very hard to generate bottom-up type of innovation. Revolution vs evolution—we're very good at evolution. We like continuity, based on the rice paddy culture of teaming up together. This is how we survived two decades of deflation. But we're too slow. We have to be more agile.
- A key to innovation is to create an innovative HR policy. Most younger generation have no experience of making decisions. So we have to develop an HR policy focusing on the younger generation, and also for people from abroad. We have to mix and create a more innovative country. How to accept different ideas instead of perpetuating a monoculture. That's very important.
- Businesses need a lot of entrepreneurship to become bigger in the future. Entrepreneurship is for the best and the brightest. A lot of young people are attempting to leave corporations for venture firms. That's a great sign.
- Innovation doesn't just come from R&D. Japanese put too much emphasis on R&D innovation. But the purpose of innovation is to create social values to solve social problems. That's why large corporations were created that have a lot of resources. The challenge always is how to go back and forth between R&D and commercialization. We need more collaboration between corporate R&D and academia.

- Performance-based compensation in the Japanese structure is very limited. The question is how to balance long-term and short-term incentives. They should align with shareholders. But the US system focuses on too much short-termism to raise the stock price. The current issue for Japanese companies is to find areas of new opportunities, so they shouldn't be bothered by share fluctuations. There's no best answer.

- The most important element of an innovative ecosystem is a strong CEO. Only the top management can make rule-breaking thinking. Who should support to make this happen? The mistake Japanese companies make is they try to create such groups from the existing system. Innovation in Japan has a negative connotation. When it comes to specifics like spending money, they always say no.

Q&A with the Government Pension Investment Fund, Japan

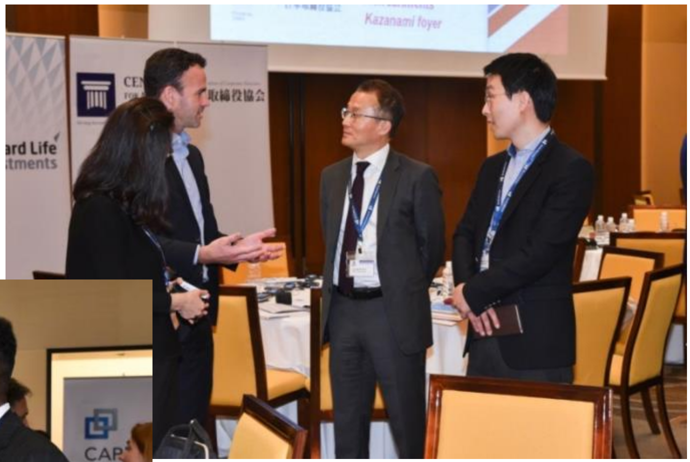
Hiromichi Mizuno, CIO, Government Pension Investment Fund, Japan, sat down with **Jamie Allen**, Secretary General, ACGA, to answer the many challenges facing the world's largest pension fund in fulfilling its stewardship responsibilities.

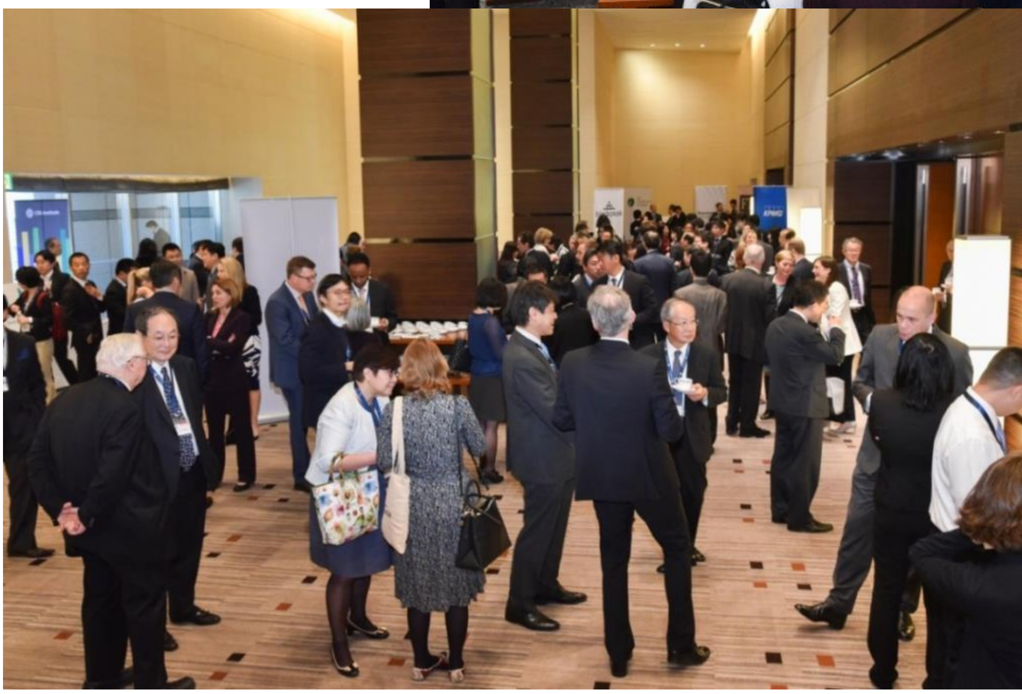
- The GPIF is an asset owner. Money comes from companies and their employees. It receives money and invests through external managers. It is legally prohibited from making direct investment in companies. The government didn't agree to grant an in-house investment capacity. The GPIF's CIO is appointed by the CEO, who in turn is appointed by the minister.
- So the external managers owe a stewardship responsibility to the GPIF. For example, we require them to report on the CG of their own business structures. Given the unique position of the GPIF, it needs to optimize this investment value chain. So its approach is to encourage all the participants to move towards better corporate growth. The GPIF doesn't compete with other asset managers, so it can have a dialogue with anyone in the investment chain.
- The GPIF encourages asset managers to come up with their own approach to see what works best. But they should make sure not to damage corporate value. In this regard, companies can also evaluate the quality of investor engagement, so they don't waste time. No prejudice. The GPIF demands that passive managers engage more with investee companies. Their reaction is, we're not paid enough!

But no business can talk about competition before delivering the value proposition. They're asking for the opposite of that.

- The GPIF became a signatory of PRI in September 2015. The reason why the GPIF has to be more involved in ESG integration is that it is a textbook universal owner of more than 5,000 companies across different capital markets. It is also a super long-term investor with a 25-year investment horizon. So all those ESG factors become relevant, especially in reducing long-term and contingent risks.
- The GPIF is not a direct shareholder, so hasn't signed up to the Japan CG Code. But if its asset managers don't know about the code, they wouldn't be hired. The GPIF urges asset managers to have a constructive dialogue with companies for sustainable growth, but has no intention to tell Japanese companies to do one particular thing. All that the GPIF can do is to promote more constructive dialogue. For instance, gender diversity on boards is a big concern, but it is not pushing companies to achieve a 30% target of female directors overnight.

Photo Gallery


Kazanami foyer




Aberdeen
Asset management
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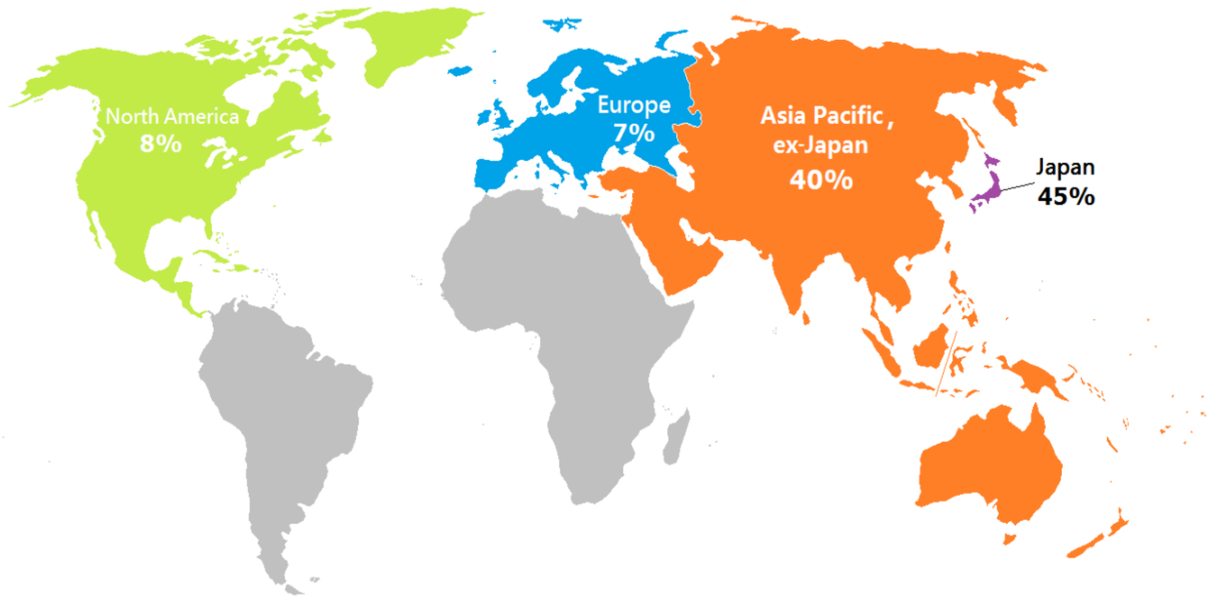
Delegate Statistics

This year, a total of 306 delegates attended our conference. The delegates came from 20 countries or markets on four continents. The distribution of delegates by region is as follows:



North America

- Canada
- United States

Europe

- Belgium
- Norway
- Sweden
- The Netherlands
- United Kingdom

Asia Pacific

- Australia
- China
- Hong Kong
- India
- Indonesia
- Japan
- South Korea
- Malaysia
- Mongolia
- Singapore
- Taiwan
- Thailand
- Vietnam

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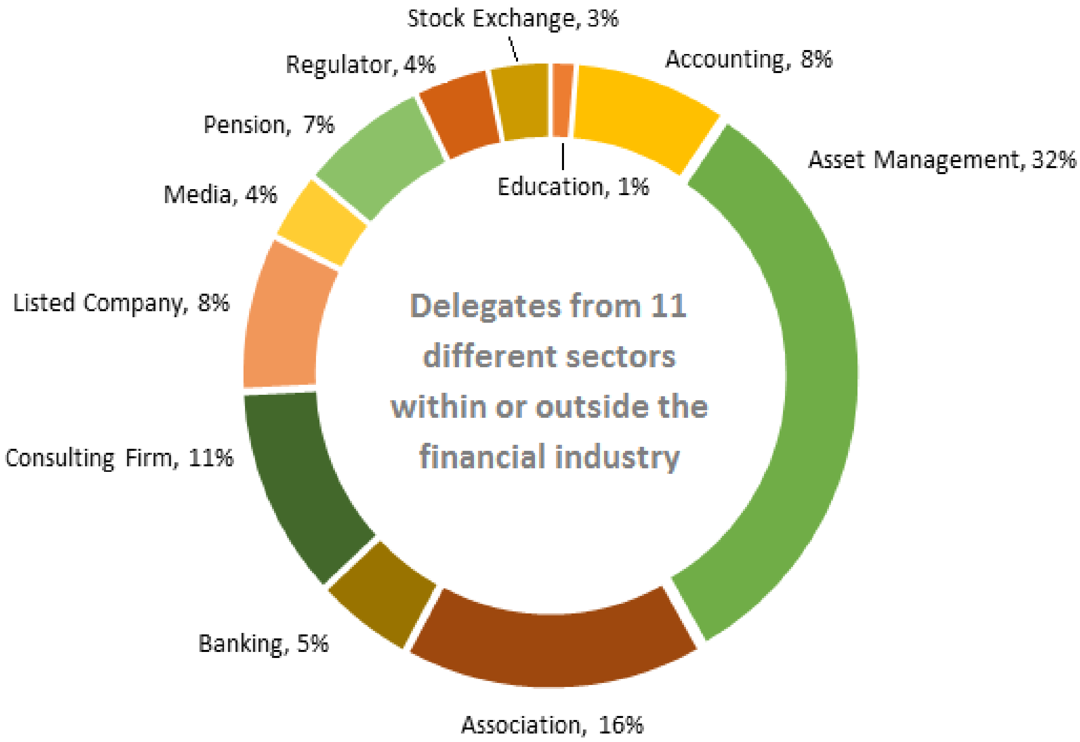
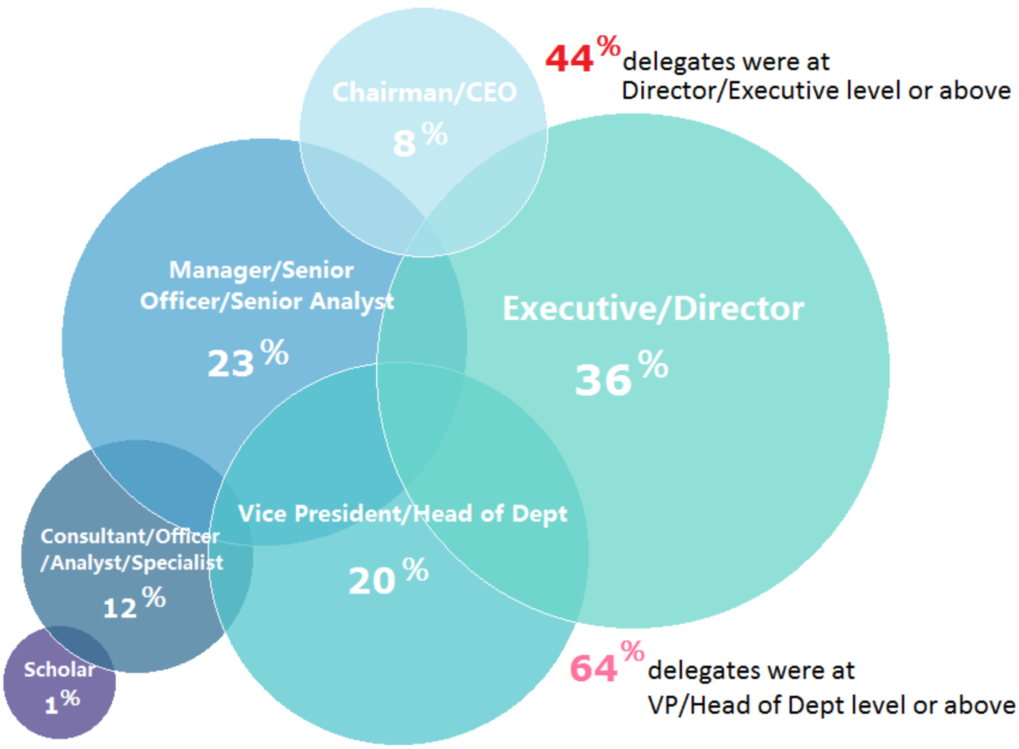
20 different countries or markets
came to our conference this year

Delegate distribution by industry/sector



Delegate distribution by seniority



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