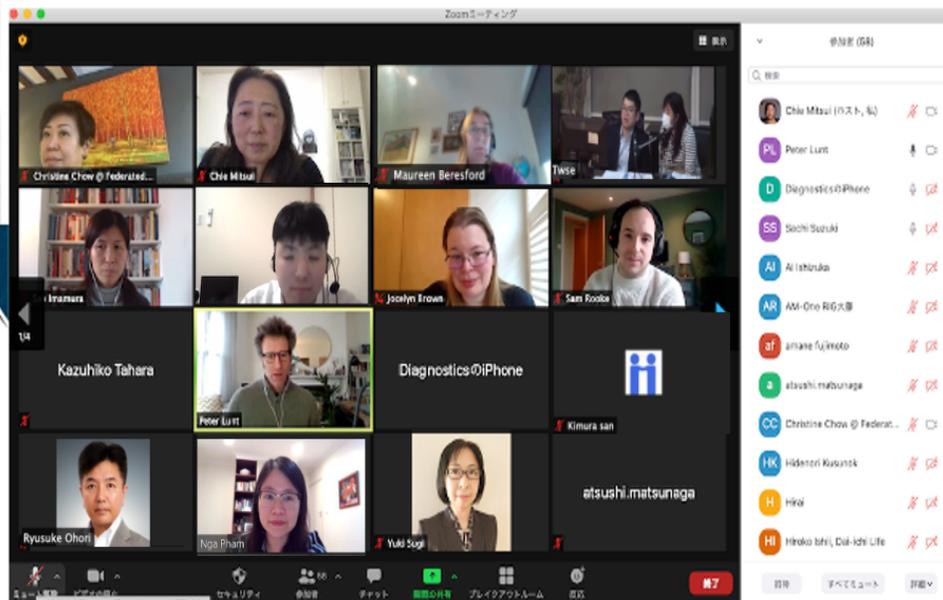
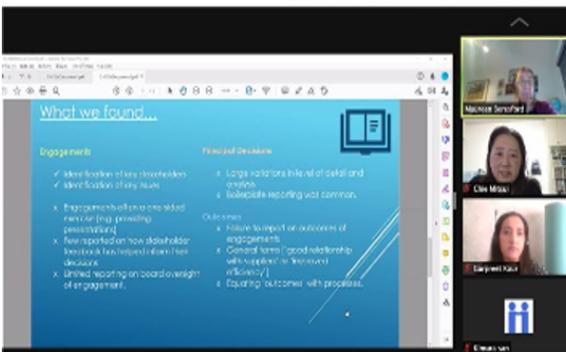


Revising CG code in Japan, what we should consider?

---- What has been discussed outside Japan? We should catch-up now. ----



Online workshop



CG & Other Digital Reporting Workshop 20

Date and time : 26th Jan 2021, 18:30-20:30 JST

What kind of CG discussions outside Japan?

We have been discussing disclosure related issues since 2014. mostly investors and related market participants in Japan, and inviting foreign friends. Discussion themes are chosen by IFRS or Corporate Governance issues and responding public consultation of IASB or other organisations in sometimes. Since we responded EU consultation Fitness Check in 2018, recently also picking up the Sustainable / environment topics as agenda.

Japan FSA is going to revise Corporate Governance Code for the second time in the past 3 years, what kind of discussion has been made in other countries/regions? There are lots of things that we should consider...This workshop we have some experienced people from other countries/regions. We were shared how stakeholder interests are now discussed in UK, Australia as a management responsibility, great progress of the Taiwan stock exchange. We also shared the modern slavery statement which is one of the important considerations companies must disclose against other stakeholders.



Discuss!

	Who join the discussion?
Attendees (Japan) <i>*attendees have joined this workshop as private,</i>	8 Investors, 4 Investor(Analysts) organization, 6 sell-side analyst, 5 pension & insurance & bank, 8 Information providers/Researchers, 4 Company side (include Independent non - executive director, support service), 6 Auditor, 8 Regulator & Accounting setter & stock exchange,
Attendees (outside Japan)	8 Investors, 1 Investor(Analysts) organization, 5 Information providers/Researchers, 1 Company side (include Independent non - executive director , support service), 1 Audit firm, 2 academic, , 4 Regulator & Accounting setter & stock exchange,

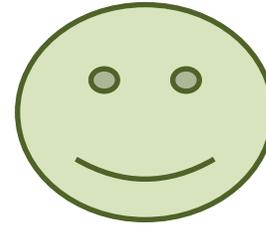
New Corporate governance – Stakeholder’s Engagement

■ UK, Engagement to Employee, Customer, Supplier as Management Responsibilities

[Section 172

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to –

- a. *The likely consequences of any decision in the long term,*
- b. *The interests of the company's employees,*
- c. *The need to foster the company's business relationships with suppliers, customers and others,*
- d. *The impact of the company's operations on the community and the environment,*
- e. *The desirability of the company maintaining a reputation for high standards of business conduct, and*
- f. *The need to act fairly as between members of the company.]*



UK PWC corporate reporting Expert

disclose how to implement feedback from stakeholders

Stakeholder engagement

New requirements to disclosure:

- **How the directors have engaged with employees, and**
- **How the directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year.**

Plus other stakeholders too

S172 relates to the responsibilities of directors to the companies they govern, and their shareholders and other stakeholders. It recognises that a range of stakeholders can be important if a company is to be successful in the long term, and benefit its shareholders. This year, the following disclosure cases were seen. In Company A, the management actually changed the payment method after receiving feedback from stakeholders. Company B introduced how to make long-term decisions and engage with stakeholders. Company C gave each item of S172 requirements and explained them in detail. Company D, in tabular form, explained how stakeholders were determined and also described their long-term implementations.

Regulator view for s172 disclosure on Annual Report



UK FRC

- We are not trying to rebalance the shareholder's interest and other stakeholders. We believe that stakeholder engagement enhances shareholder returns.
- The FRC has already investigated the progress in this year's annual report and has the following expectations for the next year:

What we expect...

Detailed s.172 statements; cross referencing where appropriate.

Engagements and Outcomes

- ✓ Identify key stakeholders and issues
- ✓ Strategic importance of each group
- ✓ Steps taken to understand stakeholder views
- ✓ How stakeholder feedback has helped inform decisions.

Board Oversight

- ✓ Examples of key stakeholder decisions
- ✓ Report on how, and on what basis, stakeholder information is passed to the board,
- ✓ Report on how often the board reviews engagement methods.

Not only listed companies,
Large companies are also required.

QA from Attendees

■ What is material for investors?

How do companies choose certain stakeholders?

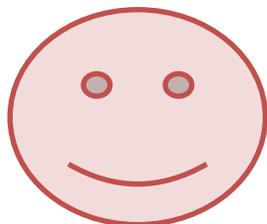


Investor in Japan

A stakeholder who gives the main impact to the company. Also, they may change from year to year.

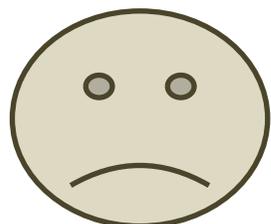


UK FRC



Investor in UK

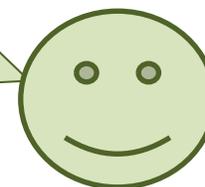
I remember talking to a UK company about the board committee. They launched the Board Committee to discuss issues of the year and disclose their outcomes. Very helpful. I think the issues are different every year. It was clear that it was COVID-19 last year. And employees, workforce, important supply chain logistics ...They explained how they would discuss with different stakeholders for a couple of years to five years.... and financial sustainability. It was a good practice.



INED in Japan

I think there may be various kinds of conflicts of interests and trade-offs between different stakeholders. Do you know good cases of companies' dealing the trade-offs?

COVID-19 is a good case study of where different stakeholders have needed to be considered in Board decision making over the last 12 months. For example, a company paying a dividend needs to consider the decision in line with any decisions made on employees and any government assistance taken. There is a reputational impact here. Company has a purpose. This is an important part of the code.



If company paid dividends with shareholders as the primary, it reduces the amount of money left in the workforce or any recovery plan...



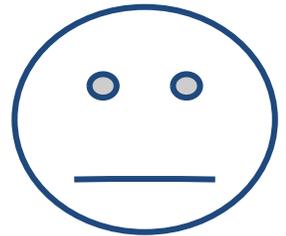
Transparency of the impact of difficult decisions is important

Great progress of our Neighbor, Taiwan

- Company secretary, Mandatory Audit Committee, English disclosure, Great Progress of Taiwan Stock Exchange(TWSE)

The CG promotion of the TWSE began in 1998. A corporate governance roadmap was created in 2013, and a CG centre was established on the TWSE. From 2017, all companies listed on TWSE and TPEX needed independent directors. And the audit committee has also been strengthened. 797 out of 948 companies in TWSE have introduced the audit committee, and 558 out of 782 companies in TPEX have introduced same. Next step is the support for these boards. We introduced "company secretaries" in stages. This is the Corporate Governance Officer and responsible for the Corporate Governance Best Practice Principles. Responsibilities are to handle the board of directors and shareholders' meetings, keep minutes of them, assist directors, provide the necessary information and assist in legal compliance. Next is the English disclosure. Improving English disclosure for foreign investors is important for transparency. Large companies are required to disclose the annual report in English. In 2020, 594 companies prepared financial statements in English. More than 600 companies have published their shareholders' meeting materials in English. We want to internationalise the disclosure of listed companies and enhance their competitiveness overseas.

Finally, we will further strengthen Corporate Governance 3.0 and the three points so far, and from now on, we will pursue sustainable efforts in search of the ESG ecosystem.

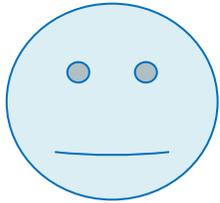


TWSE



Australia's Modern Slavery Statement

- The revised ASX Corporate Governance Principles and Recommendations, 4th revision, 2019



Academic
Australia



Stakeholder capitalism means that the focus is now on long-term value maximization. Australia focuses on the common interests of shareholders and other stakeholders. Interests of shareholders and stakeholders are not viewed to be competing or conflicting. Companies move from stakeholder management in silos (investor relations, CSR) to engagement where companies actively engage with shareholders and other stakeholders.

ASX's new CG Principles and Recommendations uphold the role of the board in building a corporate culture, identify key stakeholders and state that “the company must consider the long-term sustainable value of its shareholders.” The board must consider the company's reputation and its stand in the community. It is the responsibility of the board to strengthen culture and governance. Similarly, disclosure of climate change and financial risks is also mentioned. The same is for gender diversity. This is diversity not only at executive management level but also in the workforce. As a clear indicator, S&P/ASX 300 companies must have 30% of board members for each gender.

Investors are now playing an important role in asking companies to consider the interests of their stakeholders. An example of that was the case where a mining company destroyed a religious site of the aboriginal people and investor groups were up against the project.

- Australia's Modern Slavery Act

Introduced in the UK in 2015. Introduced in 2018 in Australia, effective in 2019. The law applies to companies based or operating in Australia with the consolidated revenue of A\$100 million and above. Such companies must disclose this risk by submitting the Modern Slavery Statement. Submitted statements are stored in the Modern Slavery register.

First, modern-day slavery is a serious exploitation situation in which criminals exploit victims and use coercion, intimidation or deception to undermine their freedom. Trafficking, slavery, slavery, forced labour, debt bondage, forced marriage, and the worst forms of child labour. Modern slavery is not substandard working conditions or underpayment of workers. Guidance from the Australian Border Force is also available.

Investors' discussion !!

What challenges did Taiwanese companies face in disclosing English?



Investors organisation

We showed the roadmap in 5 years, and 3 years after. We then put out best practices, evaluated companies in order to give them incentives. We requested to adopt it from larger companies, and gradually to smaller companies.



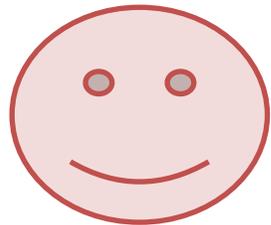
TWSE

Recently, Taiwanese companies have improved tremendously. I think this is the result of the efforts made by TWSE. You said that you will focus on disclosing ESG information from now on. Some big Taiwanese companies have already made very good disclosures. On the other hand, there is a big gap between large companies and smaller companies which are important to grow Taiwan in the future. Smaller companies also play an important role in the global supply chain. What do you think about them?

In Roadmap 3.0, we have set four chapters on ESG promotion. First, we are asking companies for TCFD standards or SASBs to close the gap in ESG reports. We are going to demand it for small companies year by year. Some small companies have already disclosed it. Because they know they will eventually have to disclose.

Detail info is

<https://cgc.twse.com.tw/frontEN/aboutCorp21t23>



The key to surviving has been changing. It used to be a financial metric. Today, everything about ESG is an issue, since investors are looking at. In Australia, a group of investors may actually ask companies to rethink their business activities.

For example, lending fossil fuels, and they are putting pressure on super funds to reduce their carbon footprint from their portfolio. Several funds have in fact declared that they will reduce the carbon footprint over the next decade. Other investors also divest from fossil fuel companies. As a result, companies are forced to change their business models.



UK investors' view for Japanese Companies' CG

Group Governance, Cross-shareholdings, Independent Directors ... The cross-shareholding issue is not limited to the impact on capital discipline, but we also engage on how it impacts the independence of directors and statutory auditors. However, the disclosure of cross-shareholdings has improved from the previous CG code revision. The proposal by ISS to include the relationship between net assets and cross-shareholding in their voting policy for 2022 has put this higher on companies' agendas. Regarding ESG, many Japanese companies do not disclose SASB or TCFD requirements, which means the ESG ratings agencies may not give them the credit they deserve. As for culture, it will take some time for change to appear. Diversity and inclusion is very much in the spotlight, not only in terms of gender representation at the Board, but also within the workforce. However, little progress has been made on the internationalisation of boards. Interestingly, Japan has the largest number of companies that support TCFD. Nevertheless, disclosure is limited. The declaration of Net Zero was made by the PM in October, and we expect companies' preparedness to be a focus for company dialogues after the next AGM season.

To give two points, one is a single purpose, and the other is a little philosophical about which stakeholders management should prioritise and how to balance different stakeholders. In Japan, thinking about stakeholders and things is a part of business culture. There are issues such as diversity and shadow director issues, but I think Japanese companies have a long-term perspective, but absolutely UK and US companies should emulate Japanese companies a little.

I've been engaged to Japanese companies for the past few years and the dialogue doesn't improve much. They should also engage more ESG issues with investors. It doesn't disclose how to evaluate a stakeholder, how to engage, why you chose that stakeholder, or how important it is to your business.

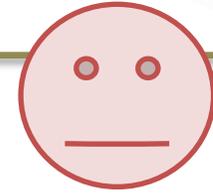
When it comes to governance, there is still a cross-shareholding issue. It is one of them, such as how to manage conflicts of interest between different stakeholders. I want more transparent disclosure. Also, how to decide the capital allocation, who to put on the board ... Diversity, board internationalisation are needed, and there are few women from the workforce regarding gender diversity, so It is argued that there are few experienced women. Therefore, we have to foster the next generation of board diversity through various things ways such as law revisions. However, I would like to hear more about how to utilise diversity in business. It's not just about putting women on the board.

Regarding the environment, we would like to encourage more disclosure of SASB and TCFD frameworks. It seems that Japanese companies are still focusing on CSR elements rather than ESG. The important thing is to link to the actual business and think about the business itself, as that will affect the environment. For the COVID-19 pandemic, for example, if you treat your employees without thinking about a long-term business, continue to pay high management bonuses, and get government subsidies, that's terrible for many stakeholders. Therefore, I would like you to make long-term decisions that consider stakeholders. I want Japanese companies to think more about why their governance works for them, not just whether they meet the code requirements.

Long-term? Should companies last forever?



Do you think companies should last forever? There may be times to close it. When that time comes, investors have to say, "Don't waste any more money, invest it in something productive, so shut it down effectively." ... who is responsible for the decision?



Investor in HK

Investor in UK



The Japanese case is the opposite. In fact, the government is pouring money into companies that should not be able to survive anymore, and they are artificially living. This is actually happening. ...

Recently a book about the corporate philosophy has published. It describes companies over 100 years old, such as Mitsubishi and Yamaha. Companies always have shareholders, they have the role of thinking about how to shift their business for lasting forever. So I think companies need to constantly review for themselves how they can continue to create long-term value from stakeholder perspectives. The case studies in this book, which need to be balanced between the different interests of each stakeholder, have a lot to learn.

In my understanding, the UK s172 is telling companies to have a solid corporate purpose. Did UK companies manage this part well? Will this corporate purpose help increase the sustainable corporate value and sustainable society of a company?



There are two ways to mix purpose, culture and outcomes. Investors have recently been paying attention to these questions, one is how they think about stakeholders and the other is whether their purpose or mission is reflected in employee engagement.

We evaluated how the company wrote about it. There were various reports. Some companies clearly stated their purpose, what they wanted to achieve, how they looked at it in the long run, and so on. Many companies were like advertisements. We wanted the company to explain a well-defined purpose, something that companies could see and understand who was going to do what in the medium-term future. Unfortunately, it wasn't very useful for understanding the company, such as "We want to save the world" or "We will do our best for the environment". In other words, next year we would like to see what companies will do in the next few years, how purpose and culture will fit together.



Instead of our conclusion...

Comments after discussion

- I think **it is necessary to catch up overseas without satisfying at the current situation** in Japan. What is positive as a recent change is that politics is strengthening its commitment to CG. PM Suga's statement of belief contained concrete content and was better than before.
- it was very encouraging that one of the speakers clearly said "**Stakeholders engagement is for the shareholders long-term value**"
- Regarding human rights, as PM Suga's answer to the Uighur issue today shows, of course, Japan has already begun to respond globally, including legislation. In addition to the environment, **major institutional investors have begun to take up human rights-related issues**, especially under Covid-19 situation. So I think it is necessary to continue to call attention. I would like to discuss **the Modern Slavery Act**, next.
- The efforts of the stock exchanges in Taiwan and Australia have been helpful in considering **what we should do next in Japan**.
- It is great opportunity to know foreign investors' opinion to Japanese companies corporate governance.
- **"I would like to hear more about how to utilise diversity in business. It's not just about putting women on the board"** (by UK investor, P9) It was very important to point. I would like to continue this discussion.

Discussion is to be continued....