

Key Note Address by Commissioner Toshihide Endo  
Financial Services Agency  
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**Opening**

Thank you for your introduction.

Good afternoon, ladies and gentlemen. It is my great pleasure to have an opportunity to speak to the world's leading institutional investors and corporate management at this year's ICGN Annual Conference.

**To Aim For Sustainable Growth of Companies**

I understand that the theme of this Conference is “Re-focusing Corporate Governance for Sustainable Value Creation”.

Today, companies in the world face environmental issues such as those related to greenhouse gases or water, social and employment issues stemming from transfer of the people crossing borders and emergence of new types of enterprises by rapidly developing information & communication technology.

Japan also faces great challenge due to its specific economic and social structural change by population decrease and low birth rate.

Under such circumstances, companies need to grasp market trends and customer needs accurately in order to grow sustainably, contribute to economic development and return its profits to households.

In Japan, there is a traditional aphorism called “Sanpo-Yoshi”, literally means “Three-way satisfaction”. This is the management philosophy of Ohmi-Shonin, Japanese merchants in the 17th and 18th century, telling that business needs to be appreciated by three parties, namely sellers, buyers and local community. This philosophy can be applied to company management even today.

After the publication of the Corporate Governance Code and the Stewardship Code, we established the Follow-up Council of the Stewardship Code and the Corporate Governance Code to discuss the corporate governance and stewardship activities in Japan with experts. One of the experts in the Council checked the account of the Ohmi merchant in the 18<sup>th</sup> century in Edo era who implemented “Three-way satisfaction” and found that the number equivalent to today’s ROE was average 18% annually over 61 years. This tells us that sustainable business and capital efficient management can stand together.

Early this year, the FSA organized the opinion exchange meeting between Chairman Laurence Fink of Blackrock and

members of the Council of Experts on corporate governance, to which I also attended.

Chairman Fink told that “corporate management should not only earn profits, but also define the purpose of the company” and “companies should be responsible for clients, employees and community”.

The former is the traditional business philosophy of Japan and the latter is the message of top management of US institutional investor today, but both tell us a common principle globally applicable anywhere in the world.

The missions of companies may change over the years. But companies may need to clarify its corporate philosophy and be managed based upon it in order so that they can achieve a long-term sustainable development.

### **Realizing Active Capital Market**

We, the FSA, aim to achieve as our policy target an increase in the welfare of the nation through sustainable growth of companies and economy under massive changes of circumstances. For this purpose, we are implementing various measures to realize an active capital market.

We consider it extremely important to promote a virtuous cycle

to realize the optimal capital flow in the entire nation, achieve improvements in corporate value and bring its fruits to households through fulfilling the functions of the capital market and increasing its attractiveness.

For this purpose, we expect that companies will pursue sustainable growth and increase corporate value for mid-to long-term by improving the quality of their corporate governance and making decisive business judgement through constructive dialogue with investors. Based on this policy initiative, we have carried out corporate governance reforms through formulating and revising the Stewardship Code and the Corporate Governance Code.

The two Codes were successful in changing behaviors of both investors and companies. 251 investors including all the major Japanese institutional investors participate in the Stewardship Code. Over 90% of Tokyo Stock Exchange listed companies elect two or more independent directors.

We implemented measures to promote corporate governance reform not only by soft law, but also by hard law.

Since corporate disclosure on corporate governance is critical to promote constructive dialogue with investors, we revised the corporate disclosure regulation in order to improve disclosure

of corporate governance related information including executive compensation and cross-shareholdings.

As a result, corporate disclosure has improved benefiting investment judgement through disclosure of contents of performance linked compensation of executives and rationales and detailed information of cross-shareholdings.

### **Future Agenda and Measures**

We will continuously carry out this reform to realize an active capital market based on the past achievements.

Firstly, we will further implement measures to improve quality of corporate disclosure and increase confidence in audits.

Specifically, we will improve quality of narrative information including management strategy, MD&A (management, discussion & analysis) and risk information which are critically important to have effective dialogue between investors and companies.

We will also revise the Audit Standards that auditors need to report Key Audit Matters (KAM) in the audit reports. This Standards will be adopted from March 2021 financial statements.

Secondly, we will help stewardship activities of institutional investors become more effective. The Opinion Statement published in April this year by the Follow-up Council of the Stewardship Code and the Corporate Governance Code pointed out the future agenda in regard to improvement of asset managers' reporting and disclosure of the stewardship activities, promotion of participation of asset owners to the Stewardship Code, especially corporate pension funds, and improvement of effective stewardship activities by service providers such as proxy advisors and investment consultants.

We will review possible revisions of the Stewardship Code in order to solicit more effective stewardship activities of institutional investors.

Thirdly, we will review the market structure of Tokyo Stock Exchange and improve the level of corporate governance of listed companies.

We are consulting with the Financial System Council to review the market structure of Tokyo Stock Exchange comprising of the 1st section, the 2nd section, Mothers and JASDAQ, clarify the definition of each sections and provide motivation to increase corporate value suitable for each section.

We also aim to define expected corporate governance of

companies in each section by clarification of the market structure.

### **Contributions of Japan at G20 Conference**

In early June this year, G20 Finance Ministers & Central Bank Governors meetings were held in Fukuoka, western part of Japan, preceding the G20 Summit meeting in Osaka.

Simultaneously, the G20/OECD Seminar on Corporate Governance also took place in Fukuoka. The participants of the seminar shared measures and outcomes from experiences of countries and international organizations to improve corporate governance, and also their understanding regarding the status and issues of capital markets such as heightening of market interdependence, decrease of listed companies or increase of passive investment.

We expect that cooperation will continue to advance through sharing experience and issues among countries and international organizations.

In this manner, the Japanese Government is playing a leading role at G20 meetings to share the understanding of the issues on corporate governance and the world's capital market by governments and international organizations.

Another High-level Seminar on Financial Innovation was also held in Fukuoka with the theme of “Our Future in the Digital Age”.

Participants of this Seminar discussed issues due to the rise of big data, AI, mobile banking, cloud services, block chain, and new business models stemming from them.

For coping with the emergence of these new business models, regulation of financial sector is required to become more horizontal, and shift from entity-driven to function-driven.

These changes of business models may also require a different corporate governance model, I believe that it is necessary to be prepared and flexible to meet these challenges.

### Closing

Last but not least, I wish the discussions among institutional investors, corporate management and experts attending this Conference will be further deepened to bring progress in corporate governance reforms in order to meet changing missions of companies and increase mid-to long term corporate value and sustainable economic growth.

Thank you for your kind attention.

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