

## Two “Codes” will change Japanese companies and stock market

Two “Codes” are now attracting attention of the Japanese equity market participants. The codes are “Corporate Governance Code” and “Stewardship Code”. The two “Codes” aim to enhance corporate governance of the companies for sustainable growth and urge them to increase the corporate value for medium to long term through meaningful dialogue between corporations and institutional investors. The two “Codes” are expected to help lifting the corporation’s “profit growth” and play a vital role in long term growth of Japanese corporations and equity market.

### Point 1

#### Corporate Governance as a part of Abe government’s economic growth strategies

##### Japan’s “Corporate Governance Code” and “Stewardship Code”

- The “Corporate Governance” is defined as corporations’ comprehensive activities to increase their sustainable corporate value. The “Corporate Governance Code” is a standard for corporations to pursue their responsibility as public companies and the “Stewardship Code” is a standard for institutional investors to take a responsible action as shareholders.
- The “Stewardship Code” of Japan was unveiled in February 2014 and was adopted by many institutional investors. The “Corporate Governance Code (Draft)” was published in March 2015. The two codes were based on the Abe government’s package including “Japan Revitalisation Strategy (June 2013)” and “Japan Revitalisation Strategy 2014 Revised Version (June 2014)”.

### Point 2

#### Urging both investors and corporations to take proactive actions

##### A key role to promote economic growth package

- Until lately, there was no clear “code of conduct” for public companies and institutional investors on their behaviors. The “Japan Revitalisation Strategy 2014 Revised Version” encourages company’s management to make proactive decisions to secure global competitiveness through the establishment of corporate governance and raising ROE (Return on Equity). Also, institutional investors’ commitment to the “Stewardship Code” and reconstruction of portfolio management of public and quasi-public pension funds are vital to accomplish successful growth strategy.

### Future Outlook

#### Point is change in “dialogue” of investors and “profit growth” of corporations

##### ■ Important “Dialogue” of institutional investors

In the course of commitment to Japan’s “Stewardship Code”, institutional investors are required to enhance their skills in engagement, having dialogue with corporations as a shareholder in a constructive manner, based on the understandings of the corporations’ management plan and business strategy. Some changes in investors’ behavior have emerged as a large life insurance company announced to have a constructive dialogue with a company of less than 5% ROE and urge improvement.

## ■ Focus is changes at AGMs under new corporate governance code in June

The “Corporate Governance Code” will be launched on June 1 as Tokyo Stock Exchange is currently finalising the new code. Coming Annual General Meetings (AGMs) of shareholders in June will be held under the new code which requires public companies to submit a clear management goal with a specific quantitative target, to disclose appropriate information and to secure transparency of the management for investors. Under such circumstances, attention is increasing whether any positive change emerges in “dialogues” of investors and “profit growth” of corporations.

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