

Japan Exchange Group
TSE Listing Department
Via email: jojo-kikaku@jpx.co.jp

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Consultation on revisions to Japan's Corporate Governance Code

We refer to the consultation by the Tokyo Stock Exchange on revisions to Japan's Corporate Governance Code, and we welcome the opportunity to contribute our perspective.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with USD 76.2 billion (JPY 7.87 trillion) invested in equities of 1,499 Japanese companies at the end of 2020. We regard the protection of minority shareholders through good corporate governance as necessary to safeguard and promote the fund's long-term financial interests. We are a member of the Asian Corporate Governance Association which will make a separate submission to this consultation.

We recognise the importance of Japan's Corporate Governance Code in promoting corporate governance standards in the Japanese market. We provided feedback for the update of the Code in 2018, and we are pleased to see continued improvements that work towards higher corporate governance standards and better protection of shareholder interests in Japan. To make the Code even more effective, we would welcome reporting against the Code in English by all companies well in advance of the annual shareholder meeting. This would enable us to consider the companies' own reporting when we make our voting decisions and engage with Japanese companies.

The board should be able to exercise independent judgement, without conflicts of interests. We have observed a gradual increase in independence levels on Japanese boards since the introduction of the Code. We welcome the recommendation in the revised Code for companies listed on the Prime Market to appoint at least one-third of the board as independent directors. We would encourage the Council over time to consider adopting a standard of a majority of independent board members for the Prime Market to align with global best practices. For companies listed on other markets, we would also encourage the Code to recommend an independence requirement of one-third, but with an ambition to achieve a majority of independent board members over time.

Beyond independence requirements, the board should also have a diversity of competences and backgrounds. We welcome the amendment to the Code on the importance of considering diversity in the board nomination process, as we believe boards should have an appropriate gender balance.¹ We also welcome the focus on identifying which specific skills are needed on a company's board, including the reference to management experience gained at other companies.² To enable the company to find the right mix of board members requires a robust nomination process that includes a rigorous search extending to a broad range of people with different backgrounds. We regard a dedicated nomination committee, constituted by a majority of independent board members and excluding executive members, as most effective in carrying out such a process.

We note that the Council encourages companies with material exposure to climate change risk to consider implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We welcome the reference to the TCFD, which provides an efficient structure for climate reporting on governance, strategy, risk management, and metrics and targets. If broadly adopted, the TCFD recommendations could result in a consistent reporting regime for climate risks across sectors, asset classes and jurisdictions.

In our view, the board should ensure that company reporting reflects all material sustainability risks and opportunities. While climate change is a material topic for many companies, other sustainability issues can also be financially material, and we note the reference to the efforts of the International Financial Reporting Standards (IFRS) to develop a unified sustainability framework. Given that the IFRS regime is not yet established, we encourage companies to base wider disclosures on the SASB and Global Reporting Initiative standards, and these frameworks could also be referenced in the Code.

We appreciate your willingness to consider our perspective, and we remain at your disposal should you wish to discuss these matters further.

Yours faithfully,



Carine Smith Ihenacho
Chief Governance and Compliance Officer



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¹ NBIM position paper on [board diversity](#).

² NBIM position paper on [industry expertise on the board](#).