

February 22, 2023

Japan Association of Corporate Directors

To Whom It May Concern

■A Proposal by the Japan Association of Corporate Directors Concerning Corporate Governance
Toward Better Functioning of Boards of Directors Through Improving Gender Diversity

[Introduction]

The Japan Association of Corporate Directors (hereafter, JACD)—comprised of 190 regular member companies and 217 regular members, in addition to individual members and experts, for a total membership of approximately 450 people—is an organization that aims to restore the earning power of Japanese companies through the promotion of corporate governance (CG). JACD has a history that spans over 20 years, since it was established in November 2001. Many independent outside directors join JACD as individual members to learn about CG in greater detail, and to improve themselves through discussions and participation in training programs.

Reflecting on the number of female board members at listed companies in Japan, the number of female board members has increased 5.8 times in the 10 years from 2012 to 2022, steadily making progress toward achieving the board diversity that investors have been requesting. However, the percentage of female board members remains low at 9.1% (as of July 31, 2022), which is still a meager figure when compared to the percentage of female board members in other countries.*1

Even when limited to Tokyo Stock Exchange (TSE) Prime Market listed companies, women still account for only 11.9% of all directors.*2

JACD has established a Women's Working Group, consisting of 28 volunteer female JACD members who are serving as outside directors, to discuss how boards of directors in Japanese listed companies can fulfill their functions better by improving gender diversity. This document presents JACD's views and recommendations on this issue, including the discussions held by our Women's Working Group and the opinions of the Chairman and Vice Chairman.

At the same time, it also represents JACD's views on the "ACGA Open Letter: Gender Diversity in TSE Prime Market Boards" document published by the Asian Corporate Governance Association (ACGA) on October 19, 2022, as well as the draft of the "ICGN Japan Governance Priorities" document published by the International Corporate Governance Network (ICGN) on October 4, 2022.

[Main points of contention]

The following are the three main points of contention from JACD in response to the proposals from both ACGA and ICGN.

Specifically, these pertain to the two pathways for raising gender diversity among directors as proposed by ACGA, and the recommendations by ICGN with regard to board independence.

At the same time, it also relates to “Principle 2.4: Ensuring Diversity, Including Active Participation of Women,” “Principle 4.7: Roles and Responsibilities of Independent Directors,” and “Principle 4.14: Director and *Kansayaku* Training” in the revised version of “Japan’s Corporate Governance Code,” which was released by the Tokyo Stock Exchange on June 11, 2021.

- In order to better embody diversity on the board of directors at a company, two or more female directors should be appointed, not just one. Since the ratio of men to women in the Japanese population is roughly 1:1, JACD believes it would be more natural for the composition of boards of directors to get closer to that ratio in the future.

JACD recommends that member companies should have at least one female director, and will take the initiative and serve as an example.

- The number of independent outside directors should be further increased, since the role of independent outside directors—who have a variety of external perspectives and are responsible for overseeing their companies—is particularly important for improving the quality of decision-making by boards of directors.
- The CG system is becoming more and more sophisticated year by year, and each director must continue to learn about it in greater detail. JACD will continue to proactively provide a wide range of opportunities for directors to learn about the latest CG through training and other means.

[Background and arguments]

- In order to break through the current stagnant situation in Japan, where corporate value has not increased to a satisfactory degree—as indicated by the fact that half of TSE Prime Market listed companies (922 out of 1,837, or 50%*3) have P/B ratios below 1—companies must transform themselves by being flexible in their thinking, having diverse viewpoints, and proactively taking risks. Everyone is aware of the need for Japanese companies to attempt drastic new measures, rather than following the conventional way of doing things.
- A company’s board of directors decides the path the company should take. The role of independent outside directors, who possess a variety of external perspectives, is particularly important and enhances the quality of the board’s decision-making. The number of independent outside directors should be further increased.
- The role of independent outside directors is providing oversight, not implementing decisions.
- Even if they are not familiar with the details of the business of the company they are participating in, they can provide oversight as independent outside directors by using their own business knowledge and experience at other companies, as well as various ways of thinking.
- If the ratio of men to women in the Japanese population is roughly 1:1, it would be more natural for the composition of boards of directors to get closer to that ratio in the future.
- With each passing year, the basic knowledge about corporate governance (CG) that independent outside directors need to fulfill their oversight duties is becoming more and more sophisticated, in accordance with the times. Therefore, all directors must enrich their knowledge in an equal and continuous manner.
- JACD has many independent outside directors as individual members, who enrich their CG-related knowledge and learn from each other through discussions. JACD has a large female membership—mainly individual members—with more than 80 female members as of November 30, 2022.
- Making the most of these female Association members could be an immediate way to deal with the gender issues that foreign institutional investors are seeking to solve.
- In order to better embody diversity, two or more female directors should be appointed, not just one.
- JACD recommends that member companies should have at least one female director, and will take the initiative and serve as an example.
- Decision-making by a broader and more diverse membership, as called for by management policy, will boost corporate performance, enhance risk tolerance, and achieve sustainable growth.
- JACD hereby disseminates the above as recommendations, both in Japan and internationally.

Sources:

*1: <https://www.gender.go.jp/policy/mieruka/company/yakuin.html> (In Japanese)

https://www.gender.go.jp/english_contents/pr_act/pub/pamphlet/women-and-men18/pdf/2-8.pdf (In English)

*2: <https://www.nikkei.com/article/DGXZQOCD125860S2A810C2000000/> (In Japanese)

*3: <https://www.jpex.co.jp/equities/improvements/follow-up/nlsgeu000006gevo-att/nlsgeu000006j7nb.pdf>, 16p (In Japanese)

<https://www.jpex.co.jp/english/equities/market-restructure/index.html> (In English)

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