

Human Resources Governance Leaders Co., Ltd.
Comments on Revisions to Japan's Corporate Governance Code and
to the Guidelines for Investor and Company Engagement
(Summary)

May 2021

Human Resources Governance Leaders Co., Ltd. ("HRGL") has submitted comments to the Tokyo Stock Exchange on the revisions to Japan's Corporate Governance Code and to the Financial Services Agency on revisions to the Guidelines for Investor and Company Engagement. A summary of our comments is as follows:

1. Introduction

- i. HRGL's stated mission is to build an ecosystem of corporate "sustainability governance," while our purpose is to be a "family doctor" of corporate governance that tells the growth story of a company. We work and engage closely with executives at many of Japan's listed companies, as well as institutional investors in Japan and abroad, with the aim of creating a trend among the nation's listed companies of establishing sustainability governance to help to resolve social challenges.
- ii. From that perspective, we wish to submit comments on the latest revisions to Japan's Corporate Governance Code ("CGC") and to the Guidelines for Investor and Company Engagement ("Engagement Guidelines") so as to contribute both to creating world-class guidelines and to solving practical problems.

2. Overall comments and assessment of the revisions

- i. To improve the substance of corporate governance, we focus on three elements in terms of actual corporate practice: vision and basic policy; scope and methods of oversight and monitoring; and disclosure and engagement with investors. We consider that, at the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code, where the revisions were drafted, all discussion points included discussion on substantive improvements to each of these elements, resulting in significant improvements to both the CGC and the Engagement Guidelines.
- ii. At the same time, we believe that, in order for the three elements to have an effective impact, they must be linked through a narrative. From that perspective, however, the revisions make no specific reference to purpose or materiality, the most critical elements in terms of companies' vision and basic policy. Initiatives such as having the board fulfill its functions, ensuring diversity, and overseeing sustainability should be approached based on a narrative grounded in purpose and materiality. We would like to see this point continue to be discussed at future Council meetings in order to make it clearer in the revisions.

- iii. While the CGC and the Engagement Guidelines were revised as a unit this time, we note that certain initiatives which are critical in terms of comparison with global standards but which represent some difficulty for companies have been included in the Engagement Guidelines, to which the comply-or-explain principle does not apply. Companies must understand why these initiatives were included in the Engagement Guidelines this time and avoid taking the Engagement Guidelines lightly despite the inapplicability of the comply-or-explain principle. In particular, those companies that wish to list on the Prime Market should be reminded that they need to take an ambitious approach to the initiatives in question.