

January 30, 2015

Mr. Motoyuki Yufu
Director, Corporate Accounting and Disclosure Division
Financial Services Agency, Japanese Government
3-2-1 Kasumigaseki
Chiyoda-ku, Tokyo
100-8967, Japan

Via Email: corporategovernance1@fsa.go.jp

bcIMC Comments on Exposure Draft of Japan's Corporate Governance Code ("the Code")

Dear Mr. Yuku,

British Columbia Investment Management Corporation (bcIMC) welcomes the opportunity to respond to the Exposure Draft of Japan's Corporate Governance Code by the Financial Services Agency (FSA) and the Tokyo Stock Exchange (TSE) published in English on December 12.

bcIMC is an asset manager with more than \$114 billion in assets under management, the fourth largest institutional investor in Canada. Our investment activities help finance the pensions of approximately 500,000 people in our Canadian province, including university and college instructors, teachers, health care workers, firefighters, police officers, municipal and other public sector workers. On behalf of these pension beneficiaries, we provide long term capital to companies around the world that we believe will provide strong and stable financial returns.

As a member of the Asian Corporate Governance Association (ACGA), bcIMC supports the detailed ACGA submission to the FSA and TSE, but we take this opportunity to provide additional comments and highlight some areas we believe are critical for effective corporate governance and for achieving enhanced performance and increasing investor confidence.

Encouraged by recent changes to board composition at a number of Japanese companies, we underline the importance that we attach to the role of independent directors. For effective board oversight of management, it is crucial that the board comprises a sufficient level of independent directors. In order for the board to be able to exercise objective independent judgment on corporate affairs, we usually expect the board to be composed of a minimum of two-thirds independent directors. Taking into consideration specific market dynamics, we wrote to many Japanese companies in 2014, along with a group of global institutional investors and asset owners, calling for a minimum of one-third independent directors. For the 2015 Japanese AGM season, bcIMC is implementing new proxy voting guidelines in Japan that will see us voting against top executives, including the Chairman and President, should the board not be one-third independent.

Furthermore, bcIMC has long advocated for the separation of the role of CEO/President and Chair and for the appointment of an independent Chairman of the board. To that effect, the OECD Principles of Corporate Governance, on which the Code is referenced to be based on, endorses that *“the objectivity of the board and its independence from management may be strengthened by the separation of the role of chief executive and chairman, or, if these roles are combined, by designating a lead non-executive director to convene or chair sessions of the outside directors. Separation of the two posts may be regarded as good practice, as it can help to achieve an appropriate balance of power, increase accountability and improve the board’s capacity for decision making independent of management”*.¹

If such separation does not exist, or if the Chairman is not independent, the appointment of an Independent Lead Director (ILD) is recommended, especially considering the predominance of insiders on Japanese boards. *“The designation of a lead director is also regarded as a good practice alternative in some jurisdictions. Such mechanisms can also help to ensure high quality governance of the enterprise and the effective functioning of the board”*.² While we appreciate the reference to the appointment of an ILD as an example of a possible effective use of independent directors under the Supplementary Principle 4.8.2, we would encourage the inclusion of the requirement to appoint an ILD with clearly defined responsibilities. Such a requirement would empower independent directors to constructively contribute to the board oversight responsibilities.

In addition, we look at independent directors to represent our interests as minority shareholders. We advocate for the inclusion of a specific reference to the role of such directors in engaging with shareholders under Principle 4.8 (Effective Use of Independent Directors) and Principle 5.1 (Policy for Constructive Dialogue with Shareholder). We view direct engagement with independent directors as an effective channel to communicate our interests and concerns. As noted in the Code, such an approach would be complementary to the recent Japan Stewardship Code.

In conclusion, we believe that companies with good corporate governance and sustainable business model will deliver enhanced shareholder value. A Code calling for higher corporate governance standards will be instrumental in delivering the outcomes envisaged by the Abenomics’ structural reforms.

Please feel free to reach out to our Manager of Shareholder Engagement, Jennifer Coulson (jennifer.coulson@bcimc.com) as you consider these comments or if you require further clarification. I appreciate your time and consideration.

Regards,

A handwritten signature in blue ink, appearing to read 'Bryan Thomson', written in a cursive style.

Bryan Thomson
Senior Vice President, Public Equities

¹ OECD Principles of Corporate Governance (2004), p. 63. A revised version of these guidelines is to be published soon following the consultation period that closed on January 4th 2015.

² OECD Principles of Corporate Governance (2004), p. 64