



December 24, 2015

Secretariat of the Follow-up Council
Corporate Accounting and Disclosure Division
Planning and Coordination Bureau
Financial Services Agency, Japanese Government
3-2-1 Kasumigaseki
Chiyoda-ku, Tokyo
100-8967, Japan

By email

Via Email: sccgfollowup1@fsa.go.jp

bcIMC Feedback on the Corporate Governance Code (“the CG Code”)

Dear Sir/Madam,

British Columbia Investment Management Corporation (bcIMC) welcomes the opportunity to comment on the issues to be discussed and reviewed by the newly created "Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code".

bcIMC is an asset manager with more than CA\$124 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 provided to the Secretariat of the Follow-up Council. But we take this opportunity to provide additional comments and highlight some areas we believe to be critical for effective corporate governance and for achieving enhanced performance while increasing investor confidence.

We emphasize our alignment with ACGA's detailed position on the following areas: the strategic role of the board as a supervisory body; a minimum of one-third board independence; the appointment of an independent board chair or an independent lead director; the disclosure of a director skills-set matrix; the importance of independent audit committees; considerations to reduce cross-shareholdings; upholding equal shareholder rights in line with the one-share-one-vote principle; the necessity of English disclosure; and more broadly the need to enhance the quality of the disclosure against the Corporate Governance Code.

Strong disclosure is central to delivering on the intent of the CG Code. We would recommend that the Follow-up Council reviews and benchmarks companies' disclosure against the Code's principles and develops a guide of best disclosure practices in order to support Japanese issuers in their implementation of the "comply or explain" approach. One Canadian example of such an exercise conducted by regulatory authorities is the Canadian Securities Administrators and the Ontario Securities Commission having issued in 2015 a summary report of their compliance review against new gender diversity reporting requirements introduced in 2014. The review summarizes their findings and includes examples of deficient disclosure statements as well as samples of best disclosure practices by issuers listed on the Toronto Stock Exchange and subject to the new reporting requirements¹. And more recently in Asia, the Bursa Malaysia Exchange has issued its second Report on Analysis of Corporate Governance Disclosures in Annual Reports². Such analyses are valuable tools to strengthen the quality of reporting and to continuously improve the corporate governance culture. Publicly available reviews and guidance documents are beneficial to investors and companies in order to benchmark disclosures and to identify best practice in order to meet investors' needs.

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 including auditing functions, 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 and 2015, 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 implemented new proxy voting guidelines in Japan holding top executives accountable when the board was not one-third independent. This new policy translated in voting against 71% of Presidents and 63% of Chairmen up for election out of 105 Japanese meetings we voted at.

Furthermore, bcIMC has long advocated for the appointment of an independent Chairman of the board. If the Chairman is not independent, the appointment of an Independent Lead Director (ILD) is critical, especially considering the predominance of insiders on Japanese boards. 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 board oversight responsibilities.

In addition, we look at independent directors to represent our interests as minority shareholders. We advocate for a review of disclosure associated with 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 Shareholders). We view direct engagement with independent directors as an effective channel to communicate our interests and concerns. As noted in the CG Code, such an approach would be complementary to the Japan Stewardship Code.

¹ https://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20150928_58-307_staff-review-women-boards.htm

² <http://www.bursamalaysia.com/misc/system/assets/16493/2015%20Analysis%20of%20Corporate%20Governance%20Disclosures%20in%20Annual%20Reports%20-%20Report.pdf>

In conclusion, we believe that companies with good corporate governance and a sustainable business model will deliver enhanced shareholder value. Better quality disclosure against 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 Senior Manager, ESG Integration, 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

