



NORGES BANK
INVESTMENT MANAGEMENT

Corporate Accounting and Disclosure Division,
Policy and Markets Bureau,
Financial Services Agency
Via email: sccgfollowup1@fsa.go.jp

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Consultation on revisions to Japan's Guidelines for Investor and Company Engagement

We refer to the consultation by the Financial Services Agency on revisions to the Guidelines for Investor and Company Engagement, 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 recognise the importance of Japan's Corporate Governance Code and the supplementary Guidelines in promoting corporate governance standards in the Japanese market. We provided feedback for the update of the Code and the Guidelines 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.

The Guidelines cover important dimensions of company engagement and are useful to institutional investors and companies alike. We would like to highlight the importance of board independence, board composition, the nomination process and sustainability reporting as four issues for us as a minority investor in the Japanese market.

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

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Signed AW, CSI



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 highlighting the importance of considering diversity in the board nomination process, as we believe the board 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 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 welcome the additional item in the Guideline on enhancing the dialogue between shareholders and companies. Over the last years, we have seen that Japanese companies are increasingly willing to engage with shareholders. We would welcome further engagement directly with independent directors, especially in companies where the chairperson is an executive.

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

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

