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Japan: Listed companies face more ESG, diversity disclosures

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Proposals to revise Japan's Corporate Governance Code (code) would require listed companies to increase the gender diversity of their senior managers, enhance board members' independence, and develop and disclose their sustainability policies. The measures feature in a consultation issued by the Council of Experts that invites input by 7 May 2021. The 2015 code is incorporated into the Tokyo Stock Exchange's listing rules on a 'comply or explain' basis.

A separate consultation on revised Guidelines for Investor and Company Engagement is also open for input until 7 May 2021. First published in 2014, the guidelines supplement the code, setting out specific engagement topics for companies and investors to consider.

Highlights of changes to proposed code

Increased independence of board members, governance. Independent directors would have to make up at least one-third of the boards of companies listed on the Prime Market (or two directors for companies listed on the other markets). "Where necessary," a majority of board members should be elected as independent members — an increase from the current minimum of two independent directors. Boards also should appoint independent directors who have managerial experience in other companies, establish nomination and remuneration committees, and publish an analysis of board members' skills in the light of the company's business strategy. Prime Market listed subsidiaries should appoint independent directors to address conflicts of interest between the parent organization and minority shareholders.

Management diversity. Companies should publish their diversity policies, along with voluntary and measurable goals to increase senior management diversity by promoting women, foreign nationals and midcareer hires to middle management roles. Human resource policies should include diversity objectives and report on their implementation in the company. The current code requires companies to ensure their boards are diverse only with respect to nationality and gender.

Sustainability policy. Companies should develop a "basic policy" and publish their sustainability initiatives. Prime Market listed companies should improve the quality and quantity of their climate-related disclosures using the [Task Force on Climate-Related Financial Disclosures' framework](#) or other international guidelines. Companies "should

recognize” the importance of adopting sustainability policies that include human rights and the “fair and appropriate” treatment of their workforce.

Investor engagement. Prime Market listed companies should use electronic voting (at least for institutional investors) and publish disclosures in English.

Proposed changes to guidelines for investor and company engagement

The proposed revisions of the Guidelines for Investor and Company Engagement emphasize the importance of companies setting sustainability objectives and establishing the appropriate governance of sustainability initiatives across the entire organization. Other proposed changes concern the diversity of boards, the skills of directors, and the procedures for evaluating boards and individual board directors.

Related resource

- [Revisions of Japan’s Corporate Governance Code and Guidelines for Investor and Company Engagement](#) (Financial Services Agency, 6 Apr 2021)

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