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## Feature Articles

This month's focus: **Japan's Corporate Governance Code**



Pursuant to Japan Revitalization Strategy (Revised 2014) approved by the Cabinet, the Council of Experts Concerning the Corporate Governance Code (joint secretariat: the Financial Services Agency and the Tokyo Stock Exchange) finalized and published "Japan's Corporate Governance Code [Final Proposal]— Seeking Sustainable Corporate Growth and Increased Corporate Value over the Mid- to Long-Term" on 5 March 2015. Subsequently, the "Corporate Governance Code" was finalized by the Tokyo Stock Exchange and other stock exchanges based on this final proposal, and came into force on 1 June 2015.

The Code aims to realize "growth-oriented governance" which may contribute to the accountability of the board when a company aims to increase its profitability and capital efficiency as well as seek sustainable growth of its corporate value through appropriate risk-taking.

In addition, the Code does not adopt a rule-based approach, an approach that can be seen typically in laws and regulations. Instead, it adopts a principles-based one and "comply or explain" approach (either comply with a principle or, if not, give reasons for not doing so) in order to ensure effective implementation of the Code.

In this article, the author briefly reviews the main points of the Code in the hope it can help a wide range of parties concerned to get a better understanding of the aim and spirit of the Code.



"Growth-oriented governance" is inextricably linked to "protection-oriented governance" which originated from Adam Smith's concerns. Japan's Corporate Governance Code will give listed companies an environment where risk-taking is supported without undue worry and a means by which the trust of shareholders with mid- to long-term holdings can be earned. The Code will be synchronized with Japan's Stewardship Code, and, together with the Ito Review, will provide a framework of "three arrows for a corporate governance revolution". However, in the final analysis, companies