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Outline of Japan's Corporate Governance Code

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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.

My Hopes and Concerns Regarding Japan's Corporate Governance Code

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“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

and institutional investors are jointly responsible for increased corporate value over the mid- to long-term.

Round Table Discussion: Towards Truly Effective Corporate Governance Code

..... Coordinator: *Sadakazu Ohsaki, CMA*
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Characteristics of Market Structure of Corporate Financing and Investing

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When Japanese companies increase debt financing and capital expenditures, analysts initially forecast optimistic earnings and then revise downward, having a negative impact on subsequent stock returns. On the other hand, with increased equity financing, M&A, and intangible investment etc, analysts initially forecast pessimistic earnings and then revise upward, not having a negative impact on subsequent stock returns. In the US market, the former is more often seen, but in the Japanese market both phenomena are observed.

Empirical Analysis of Trading Costs in Japanese Equity Markets

..... *Hideaki Kudoh, CMA / Kiminori Sano, CMA* 77

In recent years, it has widely been said that equity trading costs have decreased due to dramatic changes in the trading environment surrounding equity markets occasioned by institutional reforms and technological developments. However, trading costs for institutional investors in Japanese equity markets have never been investigated empirically due to insufficient data availability. In this paper, we analyze the actual trading costs for an institutional investor over a period of 10 years. We found that trading costs have traced a steady decrease in recent years, and identified the primary factors which dictate trading costs.

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