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Since the Corporate Governance Code came into effect in June 2015, about 80% of listed companies have complied and made disclosures in their governance reports. However, many of the disclosures are superficial and formulaic, and can hardly be seen as useful for purposeful dialogue between investors and companies. For dialogue to propel governance reform, we think companies need to provide disclosures and explanations that are distinctive and speak to the topics that are of greatest interest to investors, such as the board of directors, the nomination process, and cross-shareholdings.

Transition to a Company with Audit and Supervisory Committee and Reform of the Board .... *Hiroaki Takagi* 18

Companies making a transition to being a company with an audit and supervisory committee often refer to enhancement of the supervisory function of the Board and speeding up the Board's decision making as reasons for such transition. Other companies having the same purpose in mind, however, make transition to a company with three committees or remain as a company with statutory auditors. The ultimate goal is the same, regardless of what kind of governance system a company selects.

The Challenge to Deepen Dialogues to 'Engagement' .... *Hiroki Sampei* 25

A series of corporate governance reform initiatives are driving changes in the mindset of company management and institutional investors alike. There are, however, only dozens of examples that show that the change is moving in the right direction. Both companies and institutional investors should take advantage of the principles-based approach which enables them to differentiate themselves from peers and add value creatively. In other words, they face a real test of creativity and judicious decisions. The challenges for institutional investors would be to establish engagement strategy, including purpose, agenda and right person for both sides, and to provide various organizational resources to support professionals. At some stage in the future, institutional investors will need to act collectively with other investors to make engagement the most fruitful.

Roadmap for Successful Corporate Governance Reform in Japan
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Since the Abe administration took office, we have observed a major shift in policy regarding corporate governance and a lighting speed in its implementation. While these regulatory changes driven by this administration are to be commended, I can understand the disappointment from the markets, particularly from overseas investors, and observe its limitations. In this paper, I analyze what may be behind these limitations and offer a potential roadmap to overcome these impediments, adding some components that appear to have worked well in other markets but localizing into a Japanese context (similar to the Stewardship Code).

The implied goal behind the change in policy is to improve corporate profitability and ultimately 'move the mountain' (referring to the low ROE histogram of Japanese corporations and to shift the mode from low single digits to the mid-teens). However, the lack of proper governance and, in particular, positive accountability, disincentivized such improvements. While the government has provided the framework, it is now up to the investment chain to act, whether it be the asset owners (in Japan, this would largely be the public and corporate pension plans), asset managers (in this context, Japanese equity investors), or listed Japanese corporations.

Unfortunately, all three parties have, as a collective, lacked any serious change. The clear short-term cost of implementation vs the ambiguous long-term benefits can easily be understood. More subtle but equally important is the cultural uniqueness of Japan being constrained by a communal mindset, maintaining the status quo by avoiding new or unconventional methods, and a tendency to bandwagon once a consensus is formed. Furthermore, the framework encouraged risk-taking, a trait lacking in much of corporate Japan.

I posit a mesh approach to encourage the three important parties to take the initiative, using methods from preventive medicine. The first dimension uses a 'high-risk approach' which not only encourages and incentivizes the strong but penalizes the weak. The framework to date has been a 'population approach' attempting to blanket the universe with a catch-all solution. We should now move surgically to target two particular segments of the population. The second dimension sets milestones for effective implementation. Each milestone would strategically target certain segments within each party at differing stages of the implementation process, taking into account the Japanese mentality until, ultimately, the masses feel that the consensus has been formed and must jump on the bandwagon.

Corporate Japan was traditionally based on a debt-based culture led by the main bank of the respective *keiretsu*. Following the bursting of the bubble and banks retreating from their previous responsibilities, corporate Japan drifted through two decades without any governance and has now been thrust into equity-based governance. While it is easy to criticize the investment chain above, it is only natural that such massive reform will take time before it becomes truly accepted. My fear is that the movement ends with just the regulatory framework in place. The reform process has only just started and I hope that by offering such proposals it will continue toward its ultimate fruition.

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Article

Empirical Analysis on Volatility Timing of Active Japanese Equity Mutual Funds
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This paper examines whether ‘volatility timing’, or adjustments made by portfolio managers to their portfolio beta in accordance with increase in market volatility, exist in active Japanese equity mutual funds. It was found that most managers of active Japanese equity funds reduce their portfolio beta at the same timing as market volatility increases, but limited to a phase when volatility is significantly higher than usual. It was also confirmed that there are a few managers who project changes in market volatility and reduce betas before volatility increases.

These results suggest that managers with skills in timing volatility exist in the Japanese equity mutual funds industry.

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