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Feature Articles

This month's focus: **Reconsidering Management Remuneration**

In Japan, a shift from fixed to performance-based compensation has been recommended in the Corporate Governance Code and other official publications issued by the government. However, in order for performance-based compensation to appropriately function as an incentive to management for increasing mid- to long-term corporate value, it is essential that performance targets be properly determined and that performance be evaluated in a transparent and non-arbitrary manner. This article summarizes several types of performance-based compensation which are commonly adopted in Japan and offers certain perspectives which may be useful for shareholders and investors who intend to examine whether a company's performance-based compensation plan is properly structured and functions effectively.

In recent years, the introduction of performance-based compensation, especially share-based payment, has increased. In Japan, the tax system embraces share-based payments as does corporate law, but only share-based payments, transactions delivering a company's own stock to employees etc. through trusts, and transactions granting employees and others stock acquisition rights (which involve consideration) with vesting conditions, etc. enjoy clear accounting treatment. Other compensation systems are accounted for based on accounting practices. Under such circumstances, this report considers current accounting practice with respect to each compensation system.

The Financial Services Agency reviewed Securities Report regulations in 2019—disclosure with respect to directors' remuneration has been improved.

What are the views of users of security reports regarding this change, their expectations, and future issues?

Based on a user survey, this article discusses those views and analyses user satisfaction and usefulness of the newly disclosed information.

Since the introduction of Japan's Corporate Governance Code, 30% of listed companies have elected outside directors who worked for their own external statutory auditors—this study examines the reasons for this phenomenon. The results show that such outside directors are likely to be appointed when the CEO is older or when the board had fewer than two outside directors before introduction of the code. This finding indicates that managerial entrenchment and a lower opportunity cost could contribute to their election. In addition to the main text, this paper includes an appendix.