STATE STREET GLOBAL ADVISORS

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Financial Services Agency
Corporate Accounting and Disclosure Division
Policy and Markets Bureau
3-2-1 Kasumigaseki
Chiyoda-ku, Tokyo, 100-8967
Japan

Re: Japan's Corporate Governance Code and Guidelines for Investor and Company Engagement (Revision Draft)

Submitted via electronic submission: sccgfollowup1@fsa.go.jp

Dear Sir/Madam,

State Street Global Advisors, the investment management arm of State Street Corporation, appreciates the opportunity to comment on the collective draft revisions to *Japan's Corporate Governance Code* (the "Code") and Guidelines for Investors and Company Engagement ("Guidelines") in response to solicitation for public comment on behalf of the Council of Experts (the "Council").

We are active participants in the ongoing market dialogue that has informed the latest revisions to the Stewardship Code, submitting a comment letter on the previous round of changes in January 2020. We expressed our support for the revised draft, as it appropriately identified Environmental, Social and Governance ("ESG") factors as financially material drivers of long-term performance and encouraged asset managers to integrated ESG into the investment process. Additionally, it encouraged asset managers to effectively conduct their stewardship activities through voting, engagement and reporting. We welcome the opportunity to comment on the latest draft revisions to the Corporate Governance Code (the "Revision Draft") and will remain engaged in this conversation moving forward.

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a risk-aware approach built on research, analysis and market experience, we build from a breadth of active and index strategies to create cost-effective investment solutions for institutional investors. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can impact long-term performance. And, as pioneers in index, exchange traded funds, and ESG investing, we continue to explore new ways to invest. As a result, we have become the world's third largest asset manager with nearly US $3.47 trillion assets under management[1].

[1] This figure includes approximately $75.17 billion of asset with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated

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Board Composition: Enhancing Independence

We agree with the Revision Draft increasing the number of independent directors from at least two to at least one-third of the board for Prime Market listed companies.

Independent directors are crucial to robust corporate governance and help management establish sound corporate governance policies and practices. A sufficiently independent board will most effectively monitor management and perform oversight functions that are necessary to protect shareholder interests.

This is evidenced by our Stewardship team's long-standing focus on holding Japanese companies accountable for increasing their board independence through transparent, publicly communicated proxy voting guidelines.[2] We believe that boards of TOPIX 500 companies should have at least three independent directors or be at least one-third independent, whichever requires fewer independent directors. We apply similar independence expectations for controlled, non-TOPIX 500 companies (two independent directors) and non-controlled, non-TOPIX 500 companies (two outside directors) with a statutory auditor structure or hybrid structure. All of our voting guidelines and policies are publicly available on our website.

Most Japanese boards predominantly consist of executives and non-independent outsiders affiliated through commercial relationships or cross-shareholdings. However, Japanese companies are increasingly adding outside and independent directors to their boards, and we believe this change to the Revision Draft will further facilitate increased independent board oversight and representation. Achieving a critical mass of independent directors is vital to ensuring a constructive dialogue between the board and empowering directors to deliberate risks, opportunities, and long-term strategies.

Board Oversight: The ESG Opportunity for Corporate Directors

We acknowledge the Revision Draft's call for disclosure of a director skill matrix to help assess if board members possess the appropriate profile to add long-term value to the company. To this end, we believe achieving cognitive diversity and facilitating healthy debate on the board is critical. Directors with an independent voice, industry-relevant subject matter expertise and a track record of constructively challenging management in transformational areas including capital allocation and long-term strategy are particularly important for Japanese boards.

The Revision Draft's requirement that independent directors have relevant managerial experience will ensure that director's skills and expertise have been

[2] https://www.ssga.com/library-content/pdfs/ic/proxy-Voting-and-engagement-guidelines-ja.pdf

demonstrated in an applicable, robust manner.

As ESG issues evolve and potentially become more significant drivers of shareholder value, boards need to critically evaluate their collective skillset and oversight processes. State Street Corporation CEO Ron O'Hanley established a framework outlining the ESG Opportunity for Corporate Directors which includes five questions necessary to determine appropriate ESG board oversight.

One of these questions asks: "Does our Board have the appropriate skills and governance process for effective ESG oversight?" Companies and investors should want to accurately assess the skills of individual directors and determine if the aggregate-level matrix is appropriate for the industry the company operates in. For example, companies operating in industries more directly exposed to the physical impacts of climate change, such as Oil & Gas or Mining and Utilities, may want to consider adding directors with experience and expertise in navigating environmental risks or the technical details of climate risk reporting

An additional area the Council may consider for future revisions to the Corporate Governance Code includes boards disclosing their governance structure for ESG. This would ensure the responsible party is accountable to shareholders while reducing the risk that these issues be de-prioritized.

Board Structure: Independence on Key Committees

As a long-term investor in more than 10,000 public companies across the world, State Street Global Advisors believes that the single most important driver of long-term value is a strong, independent and effective board exercising high-quality oversight. Unsurprisingly, our stewardship team sees a range of board effectiveness and best practices across public companies in every jurisdiction around the world, and recognizing local governance traditions is central to our approach.

Hence, we support the proposed stipulation that the Nomination and Remuneration Committees be majority-independent at prime market companies. The role of these committees will be increasingly important as 41% of companies in the S&P 500[3] have assigned ESG oversight to the Nomination Committee, so ensuring this oversight is independent is critical.

The shifting responsibilities of these committees will of course have implications for the *Kansayaku* and their own training and understanding of the ESG oversight role. This may be an area of future consideration for the Council when considering potential draft revisions, and we would welcome the opportunity to share insights

[3] https://www.statestreet.com/content/dam/statestreet/documents/Articles/ron-ohanley-esg-opportunity-for-corporate-directors.pdf

from our company engagements to inform these efforts.

Workforce Diversity: Promoting Accountability Through Measurable Targets

We welcome the proposed inclusion of new language that encourages disclosure of policies and measurable targets relating to gender diversity among senior management and mid-career professionals. This also includes enhanced disclosure requirements regarding human resource development policies which seek to facilitate gender diversity and equal opportunities for career development.

The positive correlation between diversity amongst the workforce and board levels, effective boards and oversight as well as sustainable long-term financial performance is something that we have endorsed for some time. In 2018, we brought our "Fearless Girl" campaign to Japan to encourage the promotion of women in corporate leadership and raise awareness about the importance of gender diversity. We continuously engage with investee companies on these issues and, through our proxy voting, hold companies accountable for improving diversity practices. Since our initial call to action, 140 TOPIX 500 companies have added a woman to their board, and in 2020 we voted against 106 Japanese companies due to a lack of board gender diversity.[4]

The inclusion of measurable targets in the Revision Draft is encouraging, as we have learned the effectiveness of such metrics first-hand through our engagement with Japanese companies. During our conversations, many companies explained that they could not identify qualified, internal female candidates to appoint to their board in the next three-to-five years. However, we helped companies to establish a pathway to improve gender diversity levels within their organizations.

This pathway included establishing goals, improving hiring practices, and enhancing disclosure related to each company's position on gender diversity. Coupled with this ongoing dialogue, we will further enhance our voting guidelines in 2021 to encourage further diversifying of Japanese company boards.

Company Transparency: Sustainability & Climate-Related Disclosures

There is growing support across investors, companies, policymakers and other stakeholders for the Taskforce on Climate-Related Financial Disclosures ("TCFD") framework as an effective means of integrating climate risk into companies' governance, business strategy and risk management. Since 2018, State Street Global Advisors has asked portfolio companies to make use of the TCFD framework and we have since engaged with boards on their climate risk oversight, including the development of business transition plans in line with national commitments to a 'lower-carbon world' under the Paris Climate Accord. Some of

[4] https://www.ssga.com/library-content/pdfs/asset-stewardship/asset-stewardship-report-2020.pdf

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our highest quality engagements on this topic are with Japanese companies, who represent more TCFD signatories than any other nation.

We therefore fully support the Revision Draft explicitly specifying the TCFD framework and calling for Prime Market companies to enhance the quality and quantity of their TCFD-aligned climate-related disclosures.

Increasingly, as those national commitments become more ambitious and shift towards 'net-zero', investors are also turning their attention to net-zero carbon emissions goals and want to understand how companies are managing their transition risks. The Japanese government's announcement of their 2050 net zero greenhouse gas ("GHG") emissions served as a catalyst for many companies across industries to set their own targets, ranging in timelines from 2030 to 2050.

Preparing for and addressing the threat posed by climate change requires that companies across all sectors take a strategic, long-term approach — and provide robust disclosure to investors about these efforts. Our team's research and engagements have found[5] that many companies, even in high-impact sectors such as Oil & Gas, are taking a short-term, tactical approach to climate risk and failing to identify long-term threats and opportunities created by a shift to a low-carbon economy and to incorporate this thinking into their boards' strategic planning.

Moving forward, we intend to share our experience and insights on climate stewardship, providing guidance to companies on best practices for developing net-zero transition plans and ensuring accountability mechanisms are in place at the board and management level. In addition to sharing our own thought leadership in this area, we will continue to serve as a leading voice for asset managers, owners and companies on this topic, recently joining both the Sustainable Markets Initiative[6] and Net Zero Asset Managers Initiative[7]. Our active leadership in these groups reflects our longtime commitment to considering material risks and opportunities related to climate risk in client portfolios, and to using our position as large shareholders to help companies understand the implications of climate change and develop their decarbonization efforts.

Conclusion

As long-term shareholders of the companies that comprise the world's primary indices, we have a fiduciary responsibility to promote sustainable returns for clients. We have therefore designed a stewardship program focused on long-term value creation. We welcome the Revision Draft as it facilitates enhanced board independence, promotes greater gender diversity among corporate leadership and encourages companies to strengthen their disclosure regarding climate change

[5] https://www.ssga.com/library-content/products/esg/climate-disclosure-assesment.pdf
[6] https://www.sustainable-markets.org/
[7] https://www.ssga.com/us/en/institutional/ic/insights/thoughts-from-our-asset-stewardship-team

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and their preparedness for a net-zero world.

We appreciate the efforts of the Council and its willingness to consider our perspective. Thank you again for providing the opportunity to comment on the important matters you have addressed in the Revision Draft. We hope that the Council finds our feedback useful. If you would like to discuss any of these topics in further detail please contact Ryan Nowicki, Assistant Vice President, Asset Stewardship covering APAC via email at ryan_nowicki@ssga.com or the Asset Stewardship team via email at GovernanceTeam@ssga.com.

Respectfully,

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