July 9, 2014

His Excellency Shinzo Abe
Prime Minister of Japan
Cabinet Secretariat Communication Office
1-6-1 Nagata-cho
Chiyoda-ku
Tokyo 100-8968
Japan

Dear Prime Minister Abe:

I am writing on behalf of the Council of Institutional Investors (CII), a U.S.-based nonprofit, nonpartisan association of pension funds and other employee benefit funds, foundations and endowments with combined assets of over $3 trillion. CII’s mission is to educate its members, policymakers and the general public about corporate governance, shareowner rights and related investment issues and to advocate on our members’ behalf.¹

CII would like to express its enthusiastic support of the centerpiece section of the Revision of the Japan Revitalization Strategy which places high priority on sustainable growth in corporate value and profitability, and explicitly commits to the goal of adopting an internationally respected corporate governance code within the next year.

We applaud your leadership in this effort. If the Financial Services Agency and the Tokyo Stock Exchange formulate a robust corporate governance code that meets global expectations, it will create a “virtuous circle” of stewardship and governance and strengthen investor confidence in Japan’s capital markets.

CII’s membership, which includes some of the world’s largest institutional investors, have approved a comprehensive set of Corporate Governance Policies² that CII believes provide best-practice guidelines appropriate in most situations. These policies illuminate many of the key elements that Japan’s new corporate governance code should include to achieve global acceptance. Examples of CII policies on some of the most vital issues include the following:

**Disclosed Governance Policies and Ethics Code:** The Council believes every company should have written, disclosed governance procedures and policies, an ethics code that applies to all employees and directors, and provisions for its strict enforcement.

**Independent Board:** At least two-thirds of the directors should be independent; their seat on the board should be their only non-trivial professional, familial or financial connection to the corporation, its chairman, CEO or any other executive officer. The company should disclose information necessary for shareowners to determine whether directors qualify as independent. This information should include all of the company’s financial or business relationships with and payments to directors and their families and all significant payments to companies, non-profits, foundations and other organizations where company directors serve as employees, officers or directors.

**Executive Sessions:** The independent directors should hold regularly scheduled executive sessions without any of the management team or its staff present.

¹ For more information about the Council of Institutional Investors, including its members, please visit CII’s website at [http://www.cii.org/about_us](http://www.cii.org/about_us).
² Council of Institutional Investors, Corporate Governance Policies § 2.3 (updated May 9, 2014), [http://www.cii.org/corp_gov_policies#BOD](http://www.cii.org/corp_gov_policies#BOD).
**Informed Directors:** Directors should receive training from independent sources on their fiduciary responsibilities and liabilities. Directors have an affirmative obligation to become and remain independently familiar with company operations; they should not rely exclusively on information provided to them by the CEO to do their jobs. Directors should be provided meaningful information in a timely manner prior to board meetings and should be allowed reasonable access to management to discuss board issues.

**Evaluation of Directors:** Boards should review their own performance periodically. That evaluation should include a review of the performance and qualifications of any director who received “against” votes from a significant number of shareowners or for whom a significant number of shareowners withheld votes.

**Board Size and Service:** Absent compelling, unusual circumstances, a board should have no fewer than five and no more than 15 members (not too small to maintain the needed expertise and independence, and not too large to function efficiently). Shareowners should be allowed to vote on any major change in board size.

Companies should establish and publish guidelines specifying on how many other boards their directors may serve. Absent unusual, specified circumstances, directors with full-time jobs should not serve on more than two other boards. Currently serving CEOs should not serve as a director of more than one other company, and then only if the CEO’s own company is in the top half of its peer group. No other director should serve on more than five for-profit company boards.

As you can see from these examples and the attached CII Corporate Governance Policies, CII members believe that having a sufficient number of truly independent board directors is essential to good governance. Companies should have board committees that determine executive compensation and nominate directors, and all of the members of these committees should be independent.

I hope that the views expressed here and in the attached CII Corporate Governance Policies are useful references as the Japanese government begins the worthy task of creating Japan’s first corporate governance code. We are encouraged by the priorities and goals that you have set, and wish you the best of luck in ensuring that “Japan is Back”.

Sincerely,

Ann Yerger
Executive Director

CC:
His Excellency Taro Aso
Deputy Prime Minister
Minister of Finance
Minister of State for Financial Services

His Excellency Akira Amari
Minister in charge of Economic Revitalization
Minister of State for Economic and Fiscal Policy