



December 5, 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 Mr. Prime Minister:

I am writing on behalf of the Council of Institutional Investors (CII), a U.S.-based nonprofit, nonpartisan association of corporate, union, and public employee benefit plans, foundations, and endowments with combined assets exceeding \$3 trillion. CII's mission is to educate our members and the public about effective corporate governance, shareowner rights, and related investment issues and to advocate on our members' behalf.¹

CII would like to reiterate its enthusiastic support for the adoption of a comply-or-explain corporate governance code that we understand is now being drafted by Japan's Financial Services Agency and the Tokyo Stock Exchange (Code).² As, however, we indicated to you in our letter of July 9, 2014 (July Letter), if you are going to achieve your well-stated targets that the Code be internationally respected and also serve to enhance productivity, we believe it is critical that consideration be given to incorporating relevant provisions of CII's membership approved Corporate Governance Policies into the Code before it is finalized (CII Policies).³

CII Policies, which are attached to this letter and publicly available from our website,⁴ are the result of an extensive due process that solicits and carefully considers input from a broad range of interested parties, including member public, corporate, and union employee benefit plans.⁵

¹ Council of Institutional Investors, About Us, http://www.cii.org/about_us.

² Letter from Ann Yerger, Executive Director, to His Excellency Shinzo Abe, Prime Minister of Japan 1 (July 9, 2014), http://www.cii.org/files/issues_and_advocacy/correspondence/2014/07_09_14_CII_letter_to_GOJ-English.pdf.

³ See *id.* (“[CII] policies illuminate many of the key elements that Japan’s new corporate governance code should include to achieve global acceptance.”).

⁴ Council of Institutional Investors, Corporate Governance Policies (last updated Oct. 1, 2014), [http://www.cii.org/files/policies/10_01_14_corp_gov_policies\(1\).pdf](http://www.cii.org/files/policies/10_01_14_corp_gov_policies(1).pdf).

⁵ Council of Institutional Investors, CII Policies, <http://www.cii.org/policies>.

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Given our understanding of the corporate governance issues confronting Japanese companies and their shareowners,⁶ perhaps the most important provisions of CII Policies that should be carefully evaluated for adoption in the Code are the provisions on independent directors.⁷ Those provisions explicitly reflect the broadly held view that independent external directors are “critical to a proper functioning of the board.”⁸

More specifically, as indicated in the July Letter, key elements of the independent external director provisions of CII Policies can be summarized as follows:

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.⁹

Thank you for your consideration of our views on this matter of great importance to global long-term institutional investors. Please feel free to contact me if you, or any of your staff, have any questions or comments regarding the contents of this letter or CII Policies.

Sincerely,



Jeff Mahoney
General Counsel

Attachment

⁶ See, e.g., Nicholas Benes, Op-Ed, *The Real Referendum on Abenomics*, Wall St. J., Dec. 1, 2014, at 3, <http://online.wsj.com/articles/the-real-referendum-on-abenomics-1417458119>.

⁷ § 7 **Independent Director Definition.**

⁸ § 7.1 **Introduction.**

⁹ Letter from Ann Yerger at 1.

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cc: His Excellency Taro Aso
Deputy Prime Minister
Minister of Finance
Minister of State for Financial Services
Minister in Charge of Overcoming Deflation

His Excellency Yuichi Ikeda
Director-General of the Planning and Coordination Bureau
Financial Services Agency (via email)

His Excellency Motoyuki Yufu
Director
Corporate Accounting and Disclosure Division
Financial Services Agency (via email)