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TOKYO
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GROUP

16th April, 2009

Ms. Lya Villasuso
Corporate Affairs Division
OECD
2, rue André-Pascal
75775 Paris CEDEX 16
France

Re: Online OECD Consultation on Corporate Governance and Financial Crisis

Dear Ms. Villasuso,

Thank you very much for your invitation to participate in the OECD's Global Consultation on Corporate Governance and the Financial Crisis.

We are pleased to be given this opportunity to provide our views on these critical issues after the Financial Crisis last year. Based on our thorough review on the draft paper, we would like to send our views and comments by the Tokyo Stock Exchange Group.

Sincerely yours,

Atsushi Saito

cc., Mr. Mats Isaksson, Head, Corporate Affairs Division, OECD

Atsushi Saito
President and CEO

Comments on the Report on Corporate Governance Lessons from the Financial Crisis

1. Non-executive board members

The fact that most directors of banks had no financial experience (paragraph 43), and that the supervisory boards of state-owned banks did not have the ability to cope with changes in the business model (paragraph 45) are problems in terms of corporate governance. It seems that during this financial crisis many American financial institutions failed without the supervisory functions of independent directors ever having worked properly.

However, in view of the OECD Principles of Corporate Governance VI.E., the significance of the role of an independent director should not be disregarded because an independent director on the board who has no conflict of interest is able to exercise objective judgment and is in a position to fulfill a role different from a director who has financial knowledge and experience.

As such, the activities taken by independent directors in this financial crisis should be examined, such as how they went about monitoring financial institutions, and how related parties blamed them when a company failed. Based on the examination, it should be discussed what roles they should fulfill and what qualifications they should have.

2. Rating agencies

We concur on the issue as indicated in paragraph 50 of the report with respect to the OECD Principles of Corporate Governance V.F., of rating agencies meeting the needs of their clients and facing commercial pressure to undertake ratings quickly. While many rating agencies have published higher ratings for riskier assets, we believe that there are some that accurately evaluate risk and provide appropriate ratings. However, we think such rating agencies have lost out to the competition.

Under these circumstances, it would appear that there is some difficulty applying market mechanisms to rating operations, and the question of why they are even commercial comes to mind. Therefore, measures to maintain the independence and neutrality of rating operations should be considered in order to ensure fair competition and fair valuation.

3. Accounting

From the perspective of OECD Principles of Corporate Governance V.B., while moves by the FASB and IASB to modify accounting standards for fair value of assets (paragraph 56) to make them more appropriate in the current conditions will prove useful, we think the real issue should be the pros and cons of mark-to-market accounting. While mark-to-market accounting may serve well as an equivalent to a conservative lower-of-cost-or-market valuation in deflationary conditions, we are however inclined to think that it was abused during inflation. In other words, highly arbitrary off-market prices were incorporated into the balance sheet, and such acts were passively condoned by myopic investors seeking short-term profit. As a result, companies leveraged their finances, and this became a key factor to increasing risk during the financial crisis.

It should be discussed, based on the above perspective, what assets fair value measurement should or should not be applied to.