

Corporate Governance Agenda

At the time of Global Financial Crisis

(Institutional Investor's Perspective)

March 3, 2009

OECD-ADB 10th Roundtable on
Capital Market Reform in Asia
(Session 6)

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Introduction

Experience of Japan

⌘ Revitalization of Banking System is Essential for Recovery of Economy, but---

⊡ For Banks :

May take longer to recover adequate capital base

⊗ after recognition of all losses on their F/S, and injection of sufficient capital to make up such losses

⊡ For Borrowers, e.g., Individual Sector :

May take longer to resume active borrowing

⊗ after sufficient reduction of debt in line with the decline of asset value

⊡ Depends on the Recovery of Housing Market

Experience of Japan -2



⌘ How to avoid “Collective Action Dilemma”?

- ☑ When everybody heads for Downsizing
- ☑ Needs of Continuous Government Spending and Patience of Tax payers

⌘ At the time of Depression

- ☑ Needs strong Optimism and Encouragement
- ☑ Needs Deregulation rather than Regulation

How Poor Corporate Governance Contributed to Financial Crisis ?

- ⌘ **Insufficient Corporate Governance function would be one of the important Cause of Financial Crisis**
- ⌘ **Board of many Financial Institutions**
 - ☑ **Failed to Understand and Manage Risk**
 - ☑ **Overlooked Inappropriate Incentive System**
- ⌘ **Shareholders failed to hold boards to account**
 - ☑ **Sometimes focus short-term return**

ICGN Agenda



- ⌘ **Strengthening Shareholders Right**
- ⌘ **Strengthening Board**
- ⌘ **Fair and Transparent Market**
- ⌘ **Accounting Standard**
- ⌘ **Remuneration**
- ⌘ **Credit Rating Agencies**

Japan Perspective



⌘ Reconsider the contents of “Long-term Value Creation”

- ☑ Appropriate Balance of “Long-term” and “Short-term” objective
- ☑ Risk Management
- ☑ Appropriate Care about other Stakeholders
- ☑ CSR, Sustainability Issues

Corporate Governance Agenda in Japan



⌘ How to Survive at Crisis ?

- ⊞ How to Respond to Stronger Market Pressure ?
- ⊞ Enhance Risk Management
 - ⊞ Higher ROE vs. Liquidity

⌘ Other Major Issues from Investors' Perspective

- ⊞ Rigorous Review of Business Portfolio
- ⊞ M&A Strategy
- ⊞ Enhance Effective Board Monitoring Function
 - ⊞ Outside Directors
- ⊞ Timely Effective Disclosure

⌘ Enhancing Market Mechanism through M&A

- ⊞ Cross Shareholding