



**California Public Employees' Retirement System  
Investment Office**  
P.O. Box 2749  
Sacramento, CA 95812-2749  
TTY: (877) 249-7442  
(916) 795-3400 phone • (916) 795-3365 fax  
[www.calpers.ca.gov](http://www.calpers.ca.gov)

April 27, 2018

**To:** Tokyo Stock Exchange (TSE), Japan

[Jojo-kikaku@jpx.co.jp](mailto:Jojo-kikaku@jpx.co.jp)

**Re: Proposed Revisions to the Japan Corporate Governance Code**

Dear Madam or Sir:

On behalf of the California Public Employees' Retirement System (CalPERS), thank you for the opportunity to provide comments on the proposed revisions to Japan's Corporate Governance Code (the Code).

CalPERS is the largest public pension fund in the United States with approximately \$350 billion in global assets. We are a long-term investor in the Japanese equity markets with over USD\$14 billion invested in approximately 1,200 companies. CalPERS is a signatory to Japan's Stewardship Code and supports Japan's Corporate Governance Code.

CalPERS believes that strong corporate governance serves as a foundation for promoting investor protections and strengthening the quality of, and public confidence in capital markets.

The CalPERS Investment Office is guided by ten Investment Beliefs<sup>1</sup> intended to provide a basis for the strategic management of our investment portfolio. Investment Belief 2 states, "A long time investment horizon is a responsibility and an advantage." As a significant institutional investor, that responsibility requires that CalPERS advocate for meaningful, high-quality governance standards which enhance the integrity and efficiency of capital markets and our ability to meet our commitments over the long-term.

---

<sup>1</sup> See, <https://www.calpers.ca.gov/docs/board-agendas/201702/pension/item7-01.pdf>, dated May 2015

Additionally, the CalPERS Governance and Sustainability Principles (Principles)<sup>2</sup> embrace the belief that a company's strategy and long-term sustainability are best influenced by strong, accountable corporate governance. So, we believe that fully accountable governance structures produce, over the long-term, the best returns to shareowners.

We recognize that governance best practices are constantly evolving. Therefore, we would like to thank the Council of Experts for their effort to enhance governance provisions and best practices within the Code. These efforts will encourage and provide meaningful guidance for good company behavior.

In summary, we support the revisions of the Code and appreciate the effort to improve the alignment of interests between companies and long-term investors such as CalPERS. We want to positively acknowledge the following revisions:

- Principle 1.4 – Suggests that companies examine whether the benefits and risks of each cross-shareholding covers the company's cost of capital;
- Supplementary Principle 1.4.2 – Asks companies to carefully examine the underlying economic rationale concerning transactions with cross-shareholdings;
- Supplementary Principle 4.1.3 – Reinforces the board's commitment to proactively manage the succession planning process for management; and
- Principle 5.2 – Asks companies to identify their cost of capital when developing business strategies and business plans.

#### **Board Independence (Principle 4.8)**

As stated in our Principles, "independence is the cornerstone of accountability." We are delighted to see that the Code has positively impacted board independence levels across the Japanese market in recent years by establishing two independent directors as the minimum threshold, with mention of one-third. Our Principles generally recommend a majority independence level for the board of directors. However, CalPERS current proxy voting practice for Japan applies a minimum threshold of one-third independence when voting for the board of directors. We believe that a one-third independence level for the board of directors for Japan is the minimum acceptable at this time as the market evolves.

Given the fundamental importance of independent directors and positive trend across the Japanese market, we would support language that encourages companies to achieve higher independence levels beyond two independent directors. For your consideration, we would welcome additional language that urges companies to develop and disclose a plan to increase the number of independent directors "well beyond" the minimum threshold.

---

<sup>2</sup> See, <https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf>, dated April 17, 2017

**Board Composition & Diversity (Principle 4.11)**

The Code suggests that board composition should be well balanced in experience and skills and should be constituted in a manner to achieve board diversity. As highlighted in the revised Code, “gender and international expertise” are essential components of diversity and we agree.

As outlined in our Principles, board diversity should be thought of in terms of skill sets, gender, age, nationality, race, sexual orientation, gender identity, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a broader range of experience, thoughts, perspectives, and competencies to help enable effective board leadership. In our view, companies should have a robust process for considering diversity when assessing board talent and skills necessary and most appropriate for the company.

As a suggestion, we believe that Supplementary Principle 4.11.3 could be further improved by specifically asking companies to evaluate “board diversity” in the board evaluation process.

Thank you for considering our comments. If you have any questions or comments you may contact Craig Rhines at +1 (916) 795-2873 or [INVO\\_GE\\_Corporate\\_Governance\\_Engagements@calpers.ca.gov](mailto:INVO_GE_Corporate_Governance_Engagements@calpers.ca.gov). Thank you for your consideration.

Sincerely,



SIMISO NZIMA  
Investment Director, Global Equity  
CalPERS Investment Office

Cc: Amane Fujimoto, Deputy Director, Corporate Accounting & Disclosure Division  
Financial Services Agency, Japan