EU-Asia Corporate Governance Dialogue

Corporate Governance and the Role of the Exchanges

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As you know, a stock exchange plays an important role in corporate governance rule making. Because both listed companies and investors bring a constant and varied stream of requests to the exchange, the exchange is often forced to take the helm in difficult circumstances.

Of course, we value these requests. However, in order to make proper decision on each request, it would be of great help for us to learn from discussions, like today's, which are at the foundation of the ideas behind corporate governance.

I assume the purpose of this dialogue is to bring together academia and practitioners while also connecting Asia and Europe. As a practitioner with an Asian view, I hope to contribute in some small way to this dialogue with an introduction of how Tokyo Stock Exchange engages in day-to-day rule making.

The exchange's role in the context of corporate governance is, in essence, to mediate between listed companies and investors, listening to their opinions, and establishing well-balanced rules according to current circumstances.

I know it is somewhat easy to misunderstand our recent efforts, but I would like to emphasize that the exchange's position is neutral. At times the exchange calls for deregulation for listed companies, whereas at other times it also attempts to tighten regulations on behalf of investors.

Speaking as a practitioner, I would like to underline the significance of investor diversity. Market functions of price discovery and fund raising would not be properly performed without it and hence, we are naturally conscious of the importance of investors.

However, because the market exists ultimately to serve for the function of creating corporate value, it has no meaning unless it is properly utilized by listed companies. And such, listed companies are also of primary importance.

In other words, it is counterproductive to unnecessarily increase the burden on listed companies under the guise of investor protection and thereby incur their wrath. On the other hand, kowtowing solely to listed companies' demands while neglecting investors will certainly exacerbate investor dissatisfaction. Within this context, it is our mission to reach well-balanced solutions as we earnestly listen to the opinions on both sides.

In the past few years, we have tightened our listing rules pertaining to private placements, and have implemented the independent director/auditor requirement. We have also introduced additional disclosure requirements after reviewing the existing independent

director/auditor system in the past few months, which can be attributed to the Olympus and Daio Paper scandals.

To answer the question "why has no such regulation tightening occurred recently?" we must first shift our focus to the unique characteristics of Asia or Japan.

As exchanges attempt to fulfill their roles as balancers, it results in tightening of regulations in many circumstances. This means in an environment without balancer, there is a stronger tendency to seek deregulation.

More specifically speaking, the cross-shareholdings and commingling of debt and equity created this environment, in which the opinion of pure equity-holders is diminished.

Due to these circumstances, exchanges have no other choice as a balancer to continue pressing for stronger regulation. This is simply due to the fact that exchanges are not expected to stand on the

forefront of deregulation, and this may result in the impression that exchanges are always tightening the rules.

Indeed, in areas where we feel deregulation is appropriate, we definitely voice our opinion, and there are areas that we have actually deregulated.

For example, the JOBS Act, currently enacted in the United States, adopted an approach of relaxing regulations in order to support start-up companies. I believe changing governance rules in accordance with a company's developmental stage is an idea worth considering.

With the same intent, Tokyo Stock Exchange has just relaxed its listing standards for its emerging companies' market, implementing a set of reforms for start-up companies to have greater access to fund raising, and is continuing to make progress on other fronts, such as creating a dedicated market for professionals which does not require quarterly disclosures and internal control report from companies.

If I may bring up another instance of regulations suited to the uniqueness of Japan’s business environment, I believe “parent-subsidiary listing” is worthy of mention.

Japan’s working environment possesses a number of unique features, including lifetime employment, seniority system, and preferential hiring of new graduates. This poses daunting hurdles to entrepreneurs when leaving a company to start a new venture. Thus, intra-company ventures play an important role in such situations.

This is evident from the historical fact that many Japanese companies with the highest market capitalization began as intra-company ventures.

Therefore, because intra-company ventures are virtually the most effective method for entrepreneurship, guaranteeing parent-subsidiary listing as an exit strategy becomes very important.

Simply changing the listing system to harmonize with other foreign markets without considering the entire system may result in adversely affecting the life-cycles of industries. If it is changed, other systems must be changed as well. The difficulty lies herein.

Notwithstanding, the most significant trend, whether in corporate governance rules or accounting standards, is certainly the broad topic of how to implement global standards.

As Professor Yanagawa has been asserting for some time, we are now required to provide a system's design which would be chosen by both money capital and companies.

History has shown that forced adherence to a philosophy or system that is unacceptable in the world will eventually fail as companies will eventually abandon that system and the outflow of capital will increase.

This could also be expressed by saying 150 years after Japan decided to open its doors of diplomacy, we now need to open up our doors in terms of systems.

The difference from 150 years ago is that today the relationship is no longer one of Asia learning solely from Europe, but is one in which Asia communicates with Europe as an equal and jointly seek a better system.

Needless to say, from Europe's perspective, Asian systems are grand social experiments, and the reverse is also true. As capital continues to flow across national borders, the importance of international endeavors, such as this EU-Asia Corporate Governance Dialogue, definitely becomes even more important.

As a person entrusted with the care of capital markets, I hope that all of us here today will continue to consider the state of better systems from a global perspective.

Thank you very much.