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Corporate Accounting and Disclosure Division
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28 January 2015

To the Council of Experts Concerning the Corporate Governance Code

Standard Life Investments, which is a subsidiary of Standard Life plc, is a major global investor, based in Edinburgh, with assets under management of £240.7bn as at 30 September 2014. In 2010 we formed a strategic alliance with Chuo Mitsui Asset Trust and Banking (now Sumitomo Mitsui Trust Bank Ltd.) giving our combined clients access to recognized global expertise in the management of global and Japanese equity funds and other products. Our clients are generally long term asset owners and savers who seek returns that will enable them to meet their liabilities or other investment objectives.

We welcome the opportunity to comment on the draft Japanese Corporate Governance Code. We also welcome the decision to adopt a principles based approach to the Code and the use of ‘comply or explain’. We have been long term supporters of the UK Corporate Governance Code. This Code has helped drive improved governance standards over a number of years and we believe there is an opportunity for the Japanese Code to have a similar positive impact.

Firstly, we would like to make some general comments before addressing one or two more specific issues.

We welcome the statement that the Code’s ‘primary purpose is to stimulate healthy corporate entrepreneurship, support sustainable corporate growth and increase corporate value over the mid- to long- term’. A significant proportion of our client base has long term liabilities and hence we have a strong interest in initiatives that help foster a similarly long term approach to investing by companies and their shareholders.

In terms of implementation, it is intended that the Code will be introduced on 1 June 2015. The Code recognises that some companies may find it difficult to fully implement certain principles from the implementation date while also suggesting such companies should still be able to ‘undertake serious investigations and preparations for the commencement of the Code’s applications’ and explain their plans and schedule for future compliance. Despite the Code recognising the challenges, given the timescale and the high level of expectation regarding its implementation, there is a risk that companies rush to introduce the Code and do not take enough time to consider the best way to implement the Principles in their own specific circumstances. They may, for example, wish to speak to shareholders about the implications of the Code but the timescale involved does not allow time for a considered dialogue. It may be better to encourage companies to present their initial plans and intentions and phase the implementation over a longer period, say to December 2015. If the existing timeline is followed, it is important that there is clarity about what is expected of companies who choose to explain their plans and schedule for compliance and some guidance from the FSA would be very helpful.

With regard to future review and possible revision of the Code, it would help set expectations if it was clear which body will be responsible for any review and how often this will happen. We would suggest reviewing the Code every three years and perhaps more often during the early years of its life.

Moving on to some of the detail of the Code, we comment below on the role of the advisory committee on audit, the quality of explanations, and the role of the Chairman.

The role of the advisory committee on audit

It is suggested that, for those companies with the *kansayaku* board structure, there is no need for an optional advisory committee on audit given the presence of the *kansayaku* and *kansayaku* board. The role of the *kansayaku* is to audit the performance of duties by directors and management. They also have investigative power by law and appoint and dismiss the external auditors. However, while, under the company with three committees system, the 'audit committee' would be involved in the appointment, monitoring and dismissal of the external auditors (as is the *kansayaku*), the audit committee's wider role is distinct from that of the *kansayaku*. The role of the 'audit committee' is also to: ensure a company's reporting presents a balanced and understandable assessment of the company's position and prospects, both financial and non-financial; and to review internal control and risk management systems. This oversight of reporting and control is of crucial importance to shareholders on whose behalf the auditors are employed. Hence we believe there is a role for the advisory audit committee to play even on *kansayaku* boards.

Indeed, the Code also states that the board should 'give adequate time to ensure high quality audits'. Establishing an advisory audit committee would seem an obvious means of achieving this aim. Even if our suggestion is not taken forward, the Code needs to be clear regarding the board's role in ensuring high quality reporting and not just high quality auditing.

The quality of explanations

Under a comply or explain regime, it is important that the explanations provided for non-compliance are clear and robust. This is an area that still causes concerns in the UK so it is possible that Japanese companies may also find this challenging. The FSA is encouraged to monitor closely how practice develops in this area and to consider more detailed guidance if appropriate.

The role of the chairman

We note there is nothing in the Code regarding the specific role of the Chairman of the board. Although most Japanese companies use the *kansayaku* board structure, we believe that all boards benefit from establishing clear responsibility for board leadership and effectiveness via the role of Chairman. The Chairman's role includes matters such as establishing the schedule of board meetings, overseeing the board agenda, ensuring appropriate information is available ahead of meetings, leading the board in its discussions, ensuring an appropriate contribution from all directors and leading the board evaluation. Crucially, this individual is responsible for addressing any concerns regarding the effectiveness of the board as a whole. This is a different and distinct role from leading the company (although we recognise in reality the roles may be combined). We feel the lack of comment on the role of Chairman is a notable omission and a missed opportunity. We would welcome some commentary on the role and responsibilities of the Chairman in a Japanese context.

In closing, we trust that the Council of Experts will find our comments helpful in its deliberations as the Code is finalised and would be happy to discuss any of these points in more detail if it would be helpful.

Yours sincerely

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Standard Life Investments