

# Corporate Governance Agenda At the time of Global Financial Crisis

*(Institutional Investor's Perspective)*

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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