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Title	*Foreign Cos Urge Japan To Bolster Corporate Governance*

Lobbies representing U.S. and European firms in Japan Wednesday warned that the country's flagging efforts to improve corporate governance threatened to hurt confidence and undermine investment in the country.

In joint news conference after Japan passed sweeping changes to its corporate legal framework, the groups said the new law lacks crucial elements to protect the interests of shareholders against the potential dangers posed by takeover defense measures being adopted by many Japanese companies.

Representatives from the American Chamber of Commerce in Japan and the European Business Council in Japan also voiced concern about “emotionalism about a so-called 'foreign capital threat',” generated in part by local media reports that they say have fanned unwarranted fears of a torrent of hostile takeovers of Japanese firms.

“We are becoming very concerned and nervous about the present direction of policy, and would like to add our voice to the domestic debates now underway,” said Debbie Howard, president of the ACCJ.

Howard said the Corporations Law, which cleared the upper house of the Diet Wednesday, does little to improve corporate governance and transparency. Without such safeguards, there's a growing danger that managers may entrench themselves at the expense of shareholders through the use of takeover defenses the new law allows them to tap, she said.

The ACCJ advised Japan to “urgently” consider creating an independent Security and Exchange Commission tasked with protecting the interests of investors. It also recommended Japan adopt a timeframe for legally binding requirements toward assuring a majority of independent outside directors on corporate boards, now a rarity in Japan.

“To protect the Japanese investing public, these changes have become urgent matters,” ACCJ chairman Robert Grondine said in a statement.

The foreign business lobbies said that if doubts grow about Japan's commitment to improving corporate governance, transparency and market mechanisms, foreign investment could flow to China and other countries and Japanese stock prices could fall, hurting Japan's economy.

The stance taken by the ACCJ and the ECB could spur more debate in Japan, where foreign executives and lawyers say the infrastructure for domestic and cross-boarded mergers and acquisitions is deficient. Tax issues related to certain kinds of M&A transactions still create a barrier to foreign investment, and that area of debate will likely become the next “big battleground,” said one observer.

The groups held their news conference on what was the busiest day this year for annual shareholder meetings in Japan. Nearly 60% of listed firms held meetings Wednesday, with “poison pills” and other anti-takeover steps on the agenda of many.

A survey in the Nihon Keizai Shimbun last weekend showed that 32.2% of major firms planned to revise their charters at shareholders meetings this year to allow for defense steps. It also showed that 48.3% of the companies were considering or planned to consider defenses involving issuance of equity warrants.

Nippon Oil said Wednesday it received a go-ahead from its shareholders to implement steps to ward off hostile takeover threats. It's now allowed to more than double the size of its authorized share capital to up to 5 billion shares from 1.95 billion.

Yet there are clear indications that investors are wary of the flood of anti-takeover initiatives: Japan's Pension Fund Association has voted against 90% of all corporate defense proposals made this year, according to the ACCJ.

Shareholders in Fanuc Ltd., a maker of industrial robots with a high rate of ownership by foreign investors, Wednesday shot down a proposal to boost the number of shares the firm could issue - a step that would have made it more expensive for a hostile buyer to succeed but also would have diluted existing shareholders if implemented.

“We think this rejection underscores the fact that many overseas investors are concerned” about a potential share dilution, said a Fanuc spokesman.

The ACCJ and the EBC said they're not against defense measures themselves, but rather to the adoption of such defenses in the absence of strong steps to ensure corporate governance and transparency.

Other signals emanating from Japan are also upsetting foreign investors. A one-year delay in the implementation of legislation to allow triangular mergers, a tool that can only work for “friendly” deals, due to unfounded fears of a wave of hostile takeovers by foreign firms damages Japan's efforts to spur foreign direct investment into Japan, the business lobbies said.

“Japan is sending the wrong message, saying we don't want foreign direct investment, when countries like China say we want more foreign direct investment,” said Richard Collasse, chairman of the EBC.

Prime Minister Junichiro Koizumi has pledged to double the amount of inward foreign direct investment by 2008 to over Y13 trillion.

“We're in the middle of the road, and I don't think we're even close to this number,” said Collasse.