

Publication	The Financial Times
Date	October 27 th , 2011
Title	<i>Business governance proposals criticised</i>

By Michiyo Nakamoto in Tokyo

Foreign business representatives in Japan warn that planned legal changes to improve supervision of company management could be counter-productive in terms of raising the standard of corporate governance.

Representatives of the US, European, Canadian, Australian and New Zealand chambers of commerce raised concerns on Thursday that ministry of justice proposals to amend company law are not only ineffective but could “hinder future, more positive changes”. TOKYO—Narita International Airport has long been the scourge of frequent fliers and business travelers because of its distance from Japan's capital, but now Tokyo is offering an alternative after decades of delay.

The government is poised to decide on changes to company law by December, when it is expected to publish a report outlining the amendments that would come into effect about a year later.

While the stated aim of the amendments is to improve governance, the chambers expressed particular concern that the proposals do not include a requirement for listed companies to appoint a meaningful number of independent outside directors.

“We are dismayed, even shocked that the ministry of justice is only considering what amount to ineffective, insufficient attempts to improve corporate governance in Japan, after all the lapses that have occurred this year,” said Nicholas Benes, governor of the American Chamber of Commerce in Japan.

“The possibility that the new system will make a difference is remote,” said James Lawden, chairman of the European Business Council’s legal services committee.

In addition to requiring listed companies to appoint independent outside directors, Mr Benes said, it is important to ensure a system of legally valid committees is present so that such directors can be effective.

The public criticism of the government’s failure effectively to rectify a weak governance system comes amid a widening scandal at Olympus, the camera group, involving exceptionally large payments to financial advisers.

Masaki Shizuka, senior executive officer of the Tokyo Stock Exchange, told a Diet committee on Wednesday he was deeply concerned that the situation at Olympus could lead to a loss of trust among global investors in the Japanese stock market.

“There is no doubt that [the Olympus affair] will strengthen calls from domestic and foreign investors alike to improve corporate governance in Japan,” Mr Masaki told the Diet.

At the same hearing, Yoichi Kaneko, an upper house member of the Diet, called for an investigation by the financial watchdog.

Foreign investors and business leaders alike say the weak governance infrastructure is made worse by an apparent lack of regulatory action against breaches.

“One of the most glaring deficiencies in the policy-making system is the lack of political guidance by the DPJ [the ruling Democratic Party of Japan] to the Financial Services Agency to take a vastly greater leadership role in corporate governance policy-making to protect investors,” Mr Benes said.