



California State Teachers'  
Retirement System  
Corporate Governance  
100 Waterfront Place, MS-04  
West Sacramento, CA 95605-2807

April 30, 2018

Via email: [jojo-kikaku@jpx.co.jp](mailto:jojo-kikaku@jpx.co.jp)

Kazuhito Ikeo, Chairman  
Members of Japan's Council of Experts  
Tokyo Stock Exchange  
Japan Exchange Group, Inc.  
2-1 Nihombashi Kabuto-cho Chuo-ku, Tokyo 103-8220

Nobuchika Mori, Commissioner  
Financial Services Agency  
3-2-1 Kaumigaseki Chiyodaku Tokyo, 100-8967 Japan

Re: [Revision of Japan's Corporate Governance Code based on the proposal of the Council And Guidelines for Investor and Company Engagement, March 26, 2018](#)

Dear Mr. Kazuhito Ikeo, Mr. Nobuchika Mori and Members of Japan's Council of Experts:

We are writing on behalf of the California State Teachers' Retirement System (CalSTRS) in response to the revision of Japan's Corporate Governance Code and Guidelines for Investor and Company Engagement as outlined in the March 30, 2018 consultation.

CalSTRS is the largest educator only pension fund in the world, with a global investment portfolio valued at approximately \$222.5 Billion as of March 31, 2018.<sup>1</sup> We serve the investment and retirement interests of more than 914,454 plan participants and their beneficiaries.<sup>2</sup> CalSTRS believes an essential part of managing the portfolio is promoting good corporate governance and stewardship at companies held in our investment portfolio.<sup>3</sup> Therefore, we appreciate the opportunity to respond to this consultation not only for the revision of Japan's Corporate Governance Code, but also the establishment of guidelines for Investor and Company Engagement.

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<sup>1</sup> CalSTRS Current Investment Portfolio for the period ending February 28, 2018  
<https://www.calstrs.com/current-investment-portfolio>

<sup>2</sup> CalSTRS at a Glance, Fact Sheet: <http://www.calstrs.com/sites/main/files/file-attachments/calstrsataglance.pdf>

<sup>3</sup> CalSTRS, "Our Fiduciary Responsibility Comes First", April 2, 2010. <http://www.calstrs.com/blog-entry/our-fiduciary-responsibility-comes-first>

CalSTRS is an active shareholder and invests in more than 8,000 global equity securities valued at over \$119 billion as of March 31, 2018. Our ownership in Japan valued at \$9.1 billion market value as of March 31, 2018 represents CalSTRS second-largest equity market. As a long-term steward of capital, we are keenly interested in how corporate governance and stewardship is approached in Japan.

In 2017, CalSTRS wrote comment letters to the FSA regarding [Principles for Responsible Institutional Investors, Japan Stewardship Code](#), and [Japanese Disclosure System Questionnaire](#). As we did in those letters, CalSTRS advocates the importance of investor and company engagement and reemphasizes principle 1.2 of Japan's Corporate Governance Code, stating that Companies should recognize that general shareholder meetings are an opportunity for constructive dialogue with shareholders, and should therefore take appropriate measures to ensure the exercise of shareholder's rights at such meetings. We are very supportive of the five General Principles that include (1) Securing the Rights and Equal Treatment of Shareholders, (2) Appropriate Cooperation with Stakeholders Other Than Shareholders, (3) Ensuring Appropriate Information Disclosure and Transparency, (4) Responsibilities of the Board and (5) Dialogue with Shareholders.

With regards to other amendments outlined in the March 30, 2018 revisions, our comments are as follows:

#### Principle 1.4 Cross-Shareholdings

We agree that it is important for companies to annually assess whether the company should continue to hold individual cross-shareholdings from a business and risk perspective, providing justification and in-depth disclosures on the economic rationale.

#### Principle 2.6 Roles of Corporate Pension Funds as Asset Owners

We recommend this principle be reworded to read:

Corporate pension funds not only have the important role of stable asset formation for the companies' employees and its own financial standing, they also play an important indirect role in boosting the efficiency of the financial systems by influencing the structure of securities markets. Therefore, it is important to disclose how the company is ensuring the recruitment and retention of qualified investment staff in their active investment role, as well as their oversight role of any external managers used in managing the fund. Corporate pension funds must be mindful of their roles as an asset owner and stewards, ensuring their accountability to their beneficiaries, the employees of the companies. It is also very critical that corporate pension funds manage the potential conflict of interests that may arise between the pension fund beneficiaries and the company. The corporate pension fund should establish and disclose its investment policies/practices, its corporate governance principles and its overall stewardship on behalf of its beneficiaries.

Principle 4.1.3 Roles and Responsibilities of the Board – Succession Planning

We agree that one of the primary roles of the board is to hire and fire management. As part of its governing of management, the board should be responsible for the CEO evaluation and CEO succession planning. We agree with the wording of this principle as outlined.

However, in reviewing this document we did not find a principle that outlines board refreshment and succession planning. [CalSTRS Corporate Governance Principles](#) recommends that the board should implement and disclose a board succession plan that addresses future board retirements, committee rotations, committee chair nominations, skills and experience relevant to the company's strategic direction and operating environment. CalSTRS believes boards should annually evaluate their composition to determine how effective its members are in complementing the different skill-sets needed for the board in ensuring long-term value creation for shareholders.

Principle 4.2.1 Management Remuneration

CalSTRS believes it is the board's role to oversee and ensure that the compensation plan is structured around financial and qualitative metrics that drive sustainable long-term value in the business. Companies should describe and disclose the types of metrics that are used in the short-term and long-term, and articulate how those metrics link to the strategy of the company. We suggest amending this principle to clearly state the linkage of clear performance metrics and targets to the overall payout of executive remuneration.

Principles 4.3.1, 4.3.2, and 4.3.3 Evaluation and dismissal procedures and disclosures of management and the CEO

We support these amendments to the supplementary principles.

Principle 4.3.4 – Effective internal control and proactive risk management

We believe the board has a significant role in ensuring effective internal control and risk management. The board should disclose its risk oversight process and responsibilities to ensure that the company is effectively managing, evaluating and mitigating its risk profile and risk management plan. The board should regularly review and approve the risk management plan that management will implement.

Principle 4.8 Use of Independent Directors

CalSTRS supports the incremental changes to board independence in Japan and appreciates Japan's Corporate Governance Code outlining that companies should appoint at least two independent directors with some companies appointing at least one-third independent directors. In support and recognition of these changes, in 2017, CalSTRS amended its voting practices to vote for independent directors even if a board does not meet our recommended 2/3 independence. If a company adopts the three committee structure, audit, nominating and compensation committees, we recommend companies work toward a majority of these directors serving on these committees be independent.

Principle 4.11 Preconditions for Board and Kansayaku Board Effectiveness

CalSTRS appreciates the amendments in adding gender and international experience, as well as the amendments adding appropriate experience and skills to include the necessary knowledge of finance, accounting and law. We recommend that board diversity should be considered by the board or the nominating committee. The director nomination process and policy should consider a diverse mix of skills, background, experience, age, gender, sexual orientation and identification, cultural and ethnic composition that are most appropriate to the company's long-term business needs. The board should disclose the policies or procedures used to ensure board diversity.

With regards to Principles not amended in this consultation:

Principle 2.4 Ensuring Diversity, Including Active Participation of Women

Although not amended, CalSTRS recommends the code provide more substantive and robust language on ensuring policies, practices and initiatives to encourage the development of a diverse pipeline of staff and executives which includes diversity of gender, race and ethnicity.

Principle 3.2 External Auditors

We suggest amending this principle to include the importance of the independence of the auditor and ensuring this by limiting the non-audit services provided by the external auditor. Additionally, CalSTRS suggests adding language that encourages boards to periodically review the external auditor's tenure and any possible impact on the independence of the auditor. Companies should have a policy on audit firm rotation which promotes change to ensure a fresh perspective and review of the financial reporting framework.

CalSTRS supports the additional guidelines for investor and company engagement and supports this supplemental document to Japan's Corporate Governance Code and Stewardship Code to facilitate robust, effective dialogue, disclosures and the journey to implementing best practices.

Thank you for the opportunity to respond. If you would like to discuss this letter further, please feel free to contact either one of us or Mary Hartman Morris, Investment Officer at 916-414-7412 or [Mmorris@calstrs.com](mailto:Mmorris@calstrs.com).

Sincerely,



Aeisha Mastagni, Interim Co-Director  
[Amastagni@calstrs.com](mailto:Amastagni@calstrs.com)



Brian Rice, Interim Co-Director  
[Brice@calstrs.com](mailto:Brice@calstrs.com)