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Gender Diversity on Company Boards

We refer to the *Open Letter on Gender Diversity in TSE Prime Market Board*, dated 19 October 2022,¹ by the Asian Corporate Governance Association (ACGA), of which we are a member. We would like to contribute our investor perspective on the issue of gender diversity in Japanese companies. We also note the recent consultation launched by the Financial Services Agency (FSA) about the inclusion of sustainability information in the Annual Securities Report.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with JPY14.7 trillion invested in Japan at the end of 2021. Of this total, JPY 8.7 trillion is invested in the shares of 1,515 Japanese companies. Japan is the second largest country exposure of the fund.

We recognise the importance of Japan's Corporate Governance Code and the supplementary Guidelines in promoting good corporate governance in the Japanese market. We provided feedback for the update of the Code and the Guidelines in 2018, and again in 2021, and we are pleased to see continued improvements towards higher corporate governance standards and better protection of shareholder interests in Japan.

NBIM's expectation document on Human Capital Management² and our position paper on Board Diversity³, provide a foundation for our ownership work and voting decisions on the topic of gender diversity. When it comes to company boards, we believe that a broader range of backgrounds and competences is likely to bring different experiences and perspectives on the board, resulting in more informed discussions. This is likely to improve the quality of the decision-making process. Moreover, a lack of board diversity may indicate that the board does not follow a rigorous nomination process, or that its search process only extends to a limited group of candidates. Finally, it is our strong conviction that boards whose composition reflects

¹ [Japan-gender-diversity-letter-en-2022 \(acga-asia.org\)](https://www.acga-asia.org/japan-gender-diversity-letter-en-2022)

² [Human capital management | Norges Bank Investment Management \(nbim.no\)](https://www.nbim.no/human-capital-management)

³ [Board diversity | Norges Bank Investment Management \(nbim.no\)](https://www.nbim.no/board-diversity)



society at large will enjoy greater legitimacy among a broader range of shareholders. The presence of women on boards tends to also improve the gender balance throughout the company.

Based on our experience engaging with companies across our portfolio and in Japan, we believe diverse boards tend to be more effective and conducive to the formulation of resilient long-term strategies. We note the increasing number of TSE Prime companies with at least one female director, while improvements in gender diversity ratios at the executive and management level have not been as widespread. We recognise there are many practical difficulties in effecting the system change needed to encourage and maintain a gender diverse business sector in Japan. Nonetheless, we remain concerned by the persistent under-representation of women in the higher levels of the management and boards of Japanese companies.

As a member of the ACGA, we wanted to highlight our support for the objectives of the ACGA letter which are to encourage regulatory and other measures for achieving faster and higher levels of gender diversity on the boards of Japanese companies. In keeping with our preference for empowering competent boards, we will increasingly expect the boards of Japanese companies in which we are invested to acknowledge the strategic importance of gender diversity and the need for board accountability. According to our Global Voting Guidelines, we will vote against the re-election of the chair of the nomination committee when boards do not have at least two members of each gender. Whilst we have not applied this guideline to Japanese companies at this stage, we might consider doing so in the future.

It has come to our attention that the FSA is proposing to require increased reporting on human capital management and on gender diversity. We welcome this proposal. We believe that companies that invest in their workers, both own employees and workers in the value chain, are most successful in the long run. We expect companies to report publicly on their human capital management strategies, policies, processes, risks and performance. We encourage companies to report in alignment with international standards, such as those of the Sustainability Accounting Standards Board (SASB) and the International Sustainability Standards Board (ISSB) in the future.

We appreciate your willingness to consider our perspective, and we remain at your disposal should you wish to discuss these matters further.

Yours faithfully,

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