Setting the global standard for investment professionals

5 March 2010

Corporate Accounting and Disclosure Division
Planning and Coordination Bureau
Financial Services Agency
3-2-1 Kasumigaseki, Chiyoda-ku
Tokyo 100-8967 Japan

Re: Disclosure Requirement on Remuneration of Directors and Statutory Auditors

Dear Sir/Madam

CFA Institute[1] thanks you for the opportunity to comment on the proposed amendments of current disclosure standards and welcomes this positive step taken by the Financial Services Agency of Japan ("FSA"). Respectfully, we submit this comment letter to express our views on the proposed item II – Remuneration of Directors and Statutory Auditors and to state our opinions with details on each of the proposed sub-items.

1. Disclosure of Individual Directors/Statutory Auditors Remuneration

> ***For each of those directors/statutory auditors whose remuneration for the relevant fiscal year is JPY 100 million or more, the amount of remuneration and his/her name, and a breakdown by the type of payments (e.g., salary, bonus, stock option, and retirement payment);***
>
> ***(Note) If a director/statutory auditor of a company is also a director/statutory auditor of any of the major subsidiaries of the company, the remuneration amount he/she has received from such subsidiaries should be added to the amount of the remuneration he/she has received from the company.***

CFA Institute applauds the FSA for taking this positive step to improve the transparency of directors' remuneration in Japan. CFA Institute's earlier study, It Pays to Disclose (the "Report"), indicated that the prevailing disclosure requirements in the major Asian markets, including Japan, leave much to be desired (the full report is attached in the appendices of this letter). Specifically, the study discovered that Asian markets, including Japan, fall short in reporting on directors' remuneration on an individual basis, compared to the US, the UK, and Australia. This proposed disclosure requirement will improve transparency and information disclosure that investors seek in analyzing companies.

[1] With headquarters in Charlottesville, VA and regional offices in New York, Hong Kong and London, CFA Institute, formerly the Association for Investment Management and Research®, is a global, non-profit professional association of more than 98,700 financial analysts, portfolio managers, and other investment professionals in 136 countries of which more than 86,700 are holders of the Chartered Financial Analyst® (CFA®) designation. CFA Institute membership also includes 137 Member Societies and Chapters in 58 countries and territories.

Suite 4905-08
One Exchange Square
8 Connaught Place
Central
Hong Kong SAR
+852 2868-2700 tel
+852 2868-9912 fax
info@cfainstitute.org
www.cfainstitute.org

CFA Institute encourages companies to disclose information on director's remuneration as follows:

(a) Individual Disclosure: director-compensation disclosure on an individual basis is a common practice in major markets globally. CFA Institute strongly encourages all companies to follow suit because the practice stresses individual accountability of management and directors.

(b) Share-based compensation terms: because share-based compensation lies at the heart of the alignment of management and shareholder interests, companies are encouraged to provide the terms of such compensation in the remuneration reports, along with the rest of the pay components. Share-based compensation should also take into consideration the long-term performance of the shares. CFA Institute believes that disclosure of details of stock option plans should include the amount of securities outstanding; the exercise prices and the expiration dates for each outstanding option; and the amounts individual executives realized by vesting their stock options in the last fiscal year. This information should be presented in a clear and easy to read tabular form.

(c) Remuneration policy: companies are encouraged to provide a discussion of the terms of their director remuneration programs, including parameters used in determining performance-based and share-based remuneration; the basis for the selection of these parameters; and how these metrics are calculated. The review should also include a statement of the role of the statutory auditors in setting compensation policy and whether the statutory auditor used consultants in setting the pay.

(d) Total Compensation: CFA Institute encourages companies to disclose total compensations in a clear, simple and easy to follow format.

We will provide further comments on (c) and (d) in the following sections.

2. Disclose the Total Amounts of Remunerations

The total amounts of remuneration paid respectively to inside directors, outside directors, inside statutory auditors, and outside statutory auditors, and a breakdown by the type of payments for each class;

> ***(Note) The total amounts of remuneration paid to directors and that for statutory auditors should be disclosed under the Japanese Company Law.***

CFA Institute agrees with this proposed change. As indicated in the Manual, we encourage companies to disclose the actual total compensation paid to top executives during the current and previous year in a tabular format, similar to current practice in the US. This should include a detailed breakdown of pay components in currency values as opposed to percentages. CFA Institute endorses the nine-column tabular format required by the US SEC as a good example of detailed reporting that allows shareholders to more accurately judge whether the company is receiving adequate returns for the investment it has made on the directors and executives.

3. Disclose a Detailed Remuneration Policies

The explanation of the company's remuneration policies for its directors/statutory auditors and the way they are decided if such policies are put in place.

CFA Institute agrees with the FSA's recommendation. We regard disclosure of remuneration policy a particularly important aspect to investors. Unfortunately, information disclosed under the current disclosure environment is weak and insufficient. As illustrated in the Report, an example of a typical remuneration policy statement commonly seen in Asia is included herewith for your quick reference.

The following is an amalgam of three different remuneration-policy statements taken from randomly selected annual reports. It represents the extent of what is typically disclosed by listed companies in Hong Kong, Singapore, and Japan:

"The basis of determining the emoluments payable to directors and senior management is by reference to the level of emoluments normally granted by a listed company to directors and senior executives of comparable caliber and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The remuneration policy for executive directors and senior management staff consists of both a fixed and variable component. The fixed component includes salary, pension fund contributions, and other allowances. The variable component comprises a performance-based bonus that is payable on achievement of individual and corporate performance targets. The remuneration of directors is thus generally fixed, but the performance-linked bonus for executive officers is decided based on the company's and an individual's personal performance."

With no other sources to turn to, investors under the current disclosure environment rely mainly on this section from the annual report to analyze how, or if, the company link directors'/statutory auditors' compensation to performance. The proposed change will fill this gap. In addition, with the proposed requirement, companies who adopt the traditional statutory auditor system must implement this policy to the same level as those that adopt the committee-style board system.

CFA Institute recommends that a thoughtful remuneration policy should:

- explain the importance of variable and non-variable components of directors remuneration;
- state the performance criteria that form the basis of entitlement to share options and other variable pay components;
- identify the parameters for bonus schemes and noncash benefits; and
- clarify the rationale for these parameters.

To ensure that the policies were set independently, the remuneration statement should also discuss the mandate and composition of the remuneration committee or the statutory auditors, as well as include the names of external consultants whose services were used to determine the remuneration policies.

Company should also disclose whether they have a mechanism to recapture incentive pay that is triggered by a company's financial results and which ultimately is restated or changed in a manner that would have negated the original award.

The current corporate governance code of the Tokyo Stock Exchange gives companies the option to report remuneration under the Securities Report, Earnings Digest or Sales Report sections of the annual report. To better communicate the information to investors, we suggest a separate section designated to remuneration of directors/statutory auditors, in a similar manner to the current US requirement, where companies are required to add a Compensation Disclosure and Analysis (CD&A) section in the annual reports, or to the UK practice, where a Directors' Remuneration Report is required in the note to annual accounts section.

4. Closing Remark

Scrutinizing compensation practices and spotting red flags largely depend on the quality of available information in financial reporting. However, better disclosure can occur only with greater vigilance by shareholders and investors, an initiative by companies to follow global best practices and more importantly, improved regulatory environment. We commend the FSA for the initiatives taken, and are hopeful that the FSA will continue to adopt measures to enhance transparency of remuneration of directors and statutory auditors.

We appreciate your consideration of our comments. If you feel we can provide additional information, please do not hesitate to contact either Kha Loon Lee, CFA, at (603) 8023-4413 or khaloon.lee@cfainstitute.org, or Katrina Tai at (852) 3103-9307 or katrina.tai@cfainstitute.org.

Sincerely,

/s/ Lee Kha Loon
Kha Loon Lee, CFA
Head, Standards and Financial Market Integrity
Asia Pacific
CFA Institute

/s/ Katrina Tai
Katrina Tai
Director, Standards and Financial Market Integrity
Asia Pacific
CFA Institute

Enclosures:

- It Pays to Disclose; Bridging the Information Gap in Executive Compensation Disclosures in Asia-2008
- The Compensation of Senior Executive at Listed Companies; a Manual for Investors - 2007