

Featured Discussion

# The IIRC visits Edge International in Tokyo during its “Japan Week.”



**1**  
International Integrated Reporting Council (IIRC)  
Chief Executive Officer

**Richard Howitt**

From 1994 to 2016, Mr. Howitt was a Member of the European Parliament (MEP). During the last years of his tenure as an MEP, he also acted as an IIRC Ambassador. After five years in this role, Mr. Howitt was appointed CEO of the IIRC in 2016.

**2**  
International Integrated Reporting Council (IIRC)  
Chief Strategy Officer

**Jonathan Labrey**

Mr. Labrey served as head of government relations for the Royal Institute of British Architects from 2000 to 2004. From 2004 to 2010, he led the public affairs and policy team at the Institute of Chartered Accountants in England and Wales. From 2010 to 2012, he was head of communications at the U.K.’s Financial Reporting Council. In 2012, Mr. Labrey joined the IIRC and currently leads its global policy work.

**3**  
International Integrated Reporting Council (IIRC)  
Region Lead: Japan

**Hiroko Ozawa (Moderator)**

After working at the consulting arm of an accounting firm, Ms. Ozawa joined Ernst & Young ShinNihon LLC. Since 2012, she has also served as Region Lead in Japan of the IIRC.

**4**  
Nomura Asset Management Co., Ltd.  
Managing Director, Responsible Investment Department

**Toshiyuki Imamura**

Since 1994, Mr. Imamura has worked at Nomura Asset Management. He began his career as a portfolio manager in Tokyo and moved to New York City in 2003 to work as an equity analyst for the company. Since 2008, he has headed the London office for an affiliate company. In 2016, Mr. Imamura was appointed head of Nomura Asset Management’s Responsible Investment Department.

**5**  
Goldman Sachs Asset Management Co., Ltd. (GSAM)  
Vice President, Head of Stewardship Responsibility Group, Portfolio Management

**Emi Onozuka**

After working at JPMorgan Chase & Co., Ms. Onozuka joined GSAM in 2000. She has experience working in a number of areas within the company, including sales, infrastructure, and portfolio management, where she was the team’s chief operating officer. Currently, Ms. Onozuka is in charge of ESG research and engagement with Japanese companies.

**6**  
Edge International, Inc. (EDGE)  
Chief Executive Officer

**Nobuhiro Kajiwara**

Building on his vast experience in the investor relations industry, Mr. Kajiwara established Edge International, Inc. in 1990, which supports Japanese companies in their efforts to communicate effectively with investors and ensure the transparent disclosure of information.

**Ozawa** Thank you very much for your time today. We are honored to be with you and to be able to interview you here at Edge International. Today, we would like to talk about integrated reporting (<IR>) and what is happening with regard to it around the world and in Japan. To begin, we would like Mr. Howitt to explain what the current situation is with regard to <IR> worldwide and gain some insight.

**Howitt** First, thank you for hosting us here, Mr. Kajiwara, as well as for your support with regard to <IR>. I am the new CEO of the IIRC. In my role, I travel the world and meet many people from our priority markets and various organizations and at international meetings and conferences. Among our priority markets, I often call Japan the world leader in terms of <IR>. The 300 companies and organizations here that publish integrated reports represent the largest number of such entities in the world, which makes it exciting for me to be in Japan.

Also, the championing of the stewardship code by investors is an essential part of the philosophy of <IR> worldwide. The change that is taking place within the investor community highlights the recognition by niche investors as well as by mainstream investors of the fact that there are non-financial risks and

opportunities in business with the ability to materially affect value over the long term. Although the current financial filings and level of compliance are important, the <IR> approach entails creating a better dialogue between businesses and investors. This is what Japanese companies wanted in order to get increased access to international capital markets, where the <IR> approach is accepted and acknowledged to become the global norm for corporate reporting in the future.

Japanese companies and those around the world are embracing <IR> as it is providing a bridge between businesses and investors for discussing strategy and the impact of the six capitals, which represent the wider resources and relationships that have an impact on businesses worldwide, and for recognizing that the whole concept of stewardship is about active business–investor engagement and the creation of long-term business value. Based on what I learned during my visit to Japan, such objectives seem deeply rooted in Japanese corporate culture. <IR> is linking traditional Japanese values of contributing to society for long-termism with the opening up of more and more swathes of Japanese business to international capital markets and Western market capitalism. It is very, very interesting.



**Labrey** I have been with the IIRC for five years and in that time I have been leading our market engagement efforts in Asia. As Mr. Howitt said, Japan is really leading the way when it comes to <IR> adoption, and that has really translated in the last two or three years in terms of the levels of <IR> adoption and interest across Asia, including Singapore, China, and South Korea. For example, in South Korea, a stewardship code similar to the code here in Japan has just been introduced. Adoption of <IR> in South Korea is relatively low; we have identified only nine companies in that market that have taken up <IR>. Nonetheless, we believe that the regulatory innovation of the country's stewardship code will increase dialogue between businesses and investors. I hope that what I have said has provided you with some insight with regard to developments in <IR> in Japan as well as across Asia.

“In the case of Japan, the country is still in the process of reforming its corporate information disclosure practices.”

**Ozawa** Thank you very much for your comments. Secondly, I would like to ask your opinions regarding <IR> in Japan.

**Imamura** Japan is still in the process of reforming its corporate information disclosure practices. My company has plenty of opportunities to communicate with Japanese companies; we have over 5,000 meetings with our investee companies each year. When engaging with companies, we consider integrated reports to be key information disclosure tools. But currently only 300 out of more than 2,000 Japanese companies in our portfolio are adopting or have adopted <IR>, and it is clear that more needs to be done because the goal of such engagement



is realizing corporate value creation and sustainable growth of investee companies.

In order to achieve this goal, companies should realize high-quality corporate governance. Strengthening corporate information disclosure can improve the accountability of companies by improving transparency, which can lead to corporate governance reform. Therefore, we have to try and convince all of those companies in our portfolio to produce integrated reports and improve the quality of their reports.

**Onozuka** What I have found with regard to the value of an integrated report is that it is a very good way of giving investors an overview of a company's business, its main strategies, and its corporate governance structure. However, the most important aspect of an integrated report, and something I always look for, is senior management's commitment to ESG, which means a commitment to the sustainability of the world as well as the sustainability and growth of its business. The integrated report is very helpful for investors who need to quickly gather such information.

The observation that I have made as an outsider is that a year ago, the discussion was focused more on having more Japanese companies produce integrated reports to reach the current number of around 300 and on getting more and more companies and investors with varying motivations to engage in discussions about integrated reports. However, in the last six months or so, we have seen more mainstream investors starting to read integrated reports.



“There is confusion in the market place between the different voluntary frameworks.”

**Imamura** On the other hand, a problem that we have faced with <IR> in Japan is the lack of comprehensiveness and comparability. Some companies focus on their business model while others mainly discuss ESG, among other related topics.

**Howitt** I think that is a good point and it is something that we plan to raise in this meeting. We know that there is confusion in the market place between the different voluntary frameworks. And, of course, <IR> has been set up as a global movement drawing on those frameworks but also trying to integrate non-financial and financial information within <IR>. The IIRC is the convener and <IR> is the umbrella. Various sustainability and financial standard setters have all agreed to work with us to align all of the different frameworks with the overall aim of promoting integration within reporting. We have done some really valuable work together, including creating common landscape mapping that makes it very easy for companies to check and compare the different frameworks.



We are also working together this year on SDGs, on the benefits of reporting, and on the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

We are doing this to try and eliminate this confusion in the market place. We hope that, on behalf of <IR>, the alignment that is taking place will allow companies to feel more confident to move forward and not be held back by this confusion.

**“This confusion helps us determine Japanese companies’ understanding of <IR> by assessing their current reports.”**

**Onozuka** For the sake of argument, I will take the opposite stance. I think that this confusion is in a way good for Japanese companies as it gives them the chance, or perhaps forces them, to think. We have a very compliant-oriented culture in Japan, so if there is a framework, all Japanese companies will feel that they have to comply, as is happening with the corporate governance code. Therefore, they are going through this journey of

improvement to try and understand what the true expectations of <IR> are. So, if they understand the spirit, they will be able to translate that very well in their integrated reports. Any confusion in terms of what to discuss in the reports helps us determine Japanese companies’ understanding of <IR> by assessing their current reports.

Another reason why this confusion is good is that while certain frameworks for securities filing frameworks require companies to report in a certain, highly comparable format, <IR> is a voluntary framework that encourages creativity, creates opportunities for dialogue, and allows investors to have their opinions and suggestions reflected.

**Howitt** I do not view those points as contradictory. And I agree with your earlier point about a bit of confusion being good. You probably mean more reports than some people, so I would keep that in mind. But what you are doing that we would advocate is that this goes beyond <IR> to integrated thinking. It is about changing mind-sets and what you said highlights that brilliantly. It is about long-term value creation and developing a wider view on what such value constitutes. And you cannot do that under rule-based systems. So I really welcome what you said.

“If there is an environment in which the government is encouraging such experimentation and dialogue, then we will be able to overcome the regulations and arrive at where the market needs to be.”

**Labrey** I just wanted to add that what else we really welcome in Japan is the Corporate Reporting Lab under the Ministry of Economy, Trade and Industry (METI), and we have seen that happen in other markets as well, including the U.K., where the regulator or the relevant government department has brought companies and investors to begin a process of experimentation and do so in a safe environment as they have the support of the government or the regulator. Such a development is happening in different markets, and we really encourage it because one of the barriers to innovation is if companies think, “Will regulators or the government allow us to do this?” or “Will we be punished if we go outside the regulatory boundaries?” Therefore, if there is an environment in which the government is encouraging such experimentation and dialogue, then we will be

able to overcome the regulations and arrive at where the market needs to be in terms of information disclosure.

“Materiality and KPIs represent big challenges in terms of <IR> for Japanese companies.”

**Ozawa** Could we turn to the practical world? So, Mr. Kajiwara, what is the opinion of those Japanese companies practicing <IR> and what are the kinds of challenges, and benefits, facing them in doing so?

**Kajiwara** My company is working with Japanese companies on their <IR> practices. Today, there are some 300 companies in Japan producing integrated reports, which constitutes about half of the over 600 Japanese companies releasing reports. In the short term, we expect the number of Japanese companies producing integrated reports to reach 400. Furthermore, as EDGE is working with many of the aforementioned 300 Japanese companies with regard to <IR>, we are making a great contribution to <IR>.



As you may know, materiality and KPIs represent big challenges in terms of <IR> for Japanese companies. And lots of investors are saying that it is hard for them to incorporate materiality and KPIs into their <IR> decision-making. In addition, many Japanese companies are saying that investors should be educated on <IR> and non-financial information, including ESG. In my opinion, integrated reports are becoming an important bridge between companies and investors, and the quality of <IR> will improve in the future if materiality and KPIs are incorporated.



**Ozawa** In conclusion, Japan is currently on a long journey from a rule-based world to a principle-based one. This is a big challenge because we need to have a change of mind-set, which will not be easy. I think that the confusion of corporate reporting in terms of <IR> is a good opportunity for companies and investors to think about what issues are material to them. This is the future of corporate reporting, and I hope that <IR> becomes an amazing engagement tool for businesses and investors. Thank you very much.



Held at Edge International, Inc. on September 14, 2017