

Stewardship Code: Message from the FSA

[To institutional investors that have yet to accept the Code]

- ✓ 160 institutional investors have already announced their acceptance of Japan's Stewardship Code (hereinafter referred to as the "Code") by the end of August 2014.

The Financial Services Agency (FSA) would welcome the decision to accept the Code by those who have yet to do so. The Code allows its signatories to take into account their specific conditions and situations, as far as it is in line with the "aim and spirit" of the Code.

- ✓ The acceptance of the Code by asset owners is particularly important because they are expected to work as a "driver" for the implementation of the Code.

An announcement of acceptance of the Code and a stewardship policy should be publicly disclosed on a signatory's own website, in principle. However, institutional investors such as small private pension funds that do not have their own websites can send the abovementioned information to the email address designated by the FSA, and the FSA will publish such information on its website. The FSA would welcome the acceptance of the Code by these investors.

[To institutional investors that have accepted the Code]

- ✓ Unlike typical Japanese laws and regulations, the Code does not adopt the rules-based approach but rather the principles-based approach.

Now that all signatories have developed and published their stewardship policies, they will begin to fully engage in stewardship activities based on these policies. Upon such activities, however, please note that the investors are advised to focus not on the formal wording contained in the Code, but on whether their activities are truly appropriate in light of the "aim and spirit" of the Code.

For example, a "formalism," whereby institutional investors compete with each other in terms of the number of meetings they have with investee companies or

evaluate investee companies using only appearance-based, mechanical methods (i.e. adopting a box-ticking approach), is incompatible with the “aim and spirit” of the Code.

- ✓ In addition, the goal of the Code is not to have all institutional investors meet minimum standards uniformly, but to have each investor continuously endeavor, in light of its specific conditions and situations, to be *innovative* and to *differentiate itself* so that activities of signatories overall will exceed the minimum standards (“beyond minimum requirements”).

Each signatory is therefore advised to make continuous revisions on its stewardship policy in an effort to improve its stewardship activities, rather than to stick with its initial stewardship policy already published.

[To beneficiaries and clients]

- ✓ The Code does not require signatories to uniformly comply with all the content of the Code. For example, if a signatory concludes, in light of its investment policy, size and other factors, that it would not be appropriate to comply with certain recommendations of the Code, such conclusion is acceptable provided that the signatory would fully explain the reasons to its beneficiaries and/or clients. In such a case, it is needless to say that the signatory should avoid formalistic and superficial explanations, or boiler-plate explanations.

When the signatories are actually providing proper explanations for their non-compliance with some recommendations of the Code, the FSA would like to request beneficiaries and clients (including asset owners), not to provide negative evaluations automatically because of their non-compliance with the Code, but instead endeavor to evaluate them righteously in light of the “aim and spirit” of the Code.

(END)