

**The Seventh Council of Experts Concerning the Follow-up of  
Japan's Stewardship Code and Japan's Corporate Governance Code**  
**<Constructive Dialogue between Companies and Institutional Investors (2)>**

[Problem Awareness]

- Through the implementation of the Corporate Governance Code and the Stewardship Code, as well as the publication of the Follow-up Council's opinion statement concerning the board of directors, the basic framework for companies' governance reforms has already been established.
- The future challenge would be acceleration of their governance reforms in an effective sense, fueled by investors' efforts to enhance 'constructive dialogue' with the companies.

[Opinions expressed in the past meetings of the Follow-up Council]

- Institutional investors are expected to have effective dialogues with companies to raise the latter's 'awareness.' In the meantime, dialogues just for the sake of formality have been increasing in number, and some institutional investors do not have sufficient understanding of business principles, etc. Furthermore, some companies do not show positive attitudes toward dialogue.
- There seem to be some cases where asset managers do not have good governance. Especially, some asset managers have not clearly explained how they manage conflicts of interests, if any, with their parent financial institutions.
- One of effective ways to dispel doubts about conflict of interests would be disclosed the voting results. In the insurance industry, a small percentage of the companies has disclosed specific policies for exercising their voting rights, and voting results by agenda.
- In case of passive management, unlike active management, there is no such alternative as selling off their shares. Therefore, it is more necessary for passive managers to increase corporate value over the mid- to long-term through their engagement. On the other hand, since it is difficult to have dialogue with all investee companies, passive managers need to be creative about how they engage with the companies.
- Asset owners are expected to evaluate asset managers in accordance with the intention of the Stewardship Code, not placing a disproportionate emphasis on short-term perspectives.
- There are only few corporate pension funds which declared their acceptance of the Stewardship Code, so it is necessary to create an environment which facilitates their acceptance.
- Proxy advisor companies should strive for making effective judgments, ensuring that they do not consequently encourage companies to make mere formal responses. Institutional investors should not rely formally on advice from proxy advisors, but need to make their own effective judgments, for instance, by specifically examining the quality of advisors, etc. prior to the use of advisory services.

Taking into account our previous discussions, disclosures of corporate policies for promoting dialogue in the Corporate Governance Reports, and results of the survey by the Japan Investment Advisers Association, what do we think about 'constructive dialogue' between companies and institutional investors?