

	Reference material	
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2nd survey report on the JIAA member companies to the questionnaire for the Japan Stewardship Code (At the end of August, 2015)

April 26, 2016

Chairman, Japan Investment Advisers Association

Yoichiro Iwama

* The Japanese version should be referred to for the accurate content of this material

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1. Survey Overview

Survey overview

Objective:

- To contribute to improving corporate governance in Japan by understanding the state of announcement by our members on their acceptance of Japan's Stewardship Code (hereinafter "Japan SSC") and the state of their system preparation, and disseminating and establishing effective Stewardship activities.

Target of survey:

- A total of 206 member companies, consisting of 197 member companies who are investment management companies (excluding members who handle only real estate related business) and 9 other member companies who have announced their acceptance of Japan SSC.

Number of respondent and response(companies):

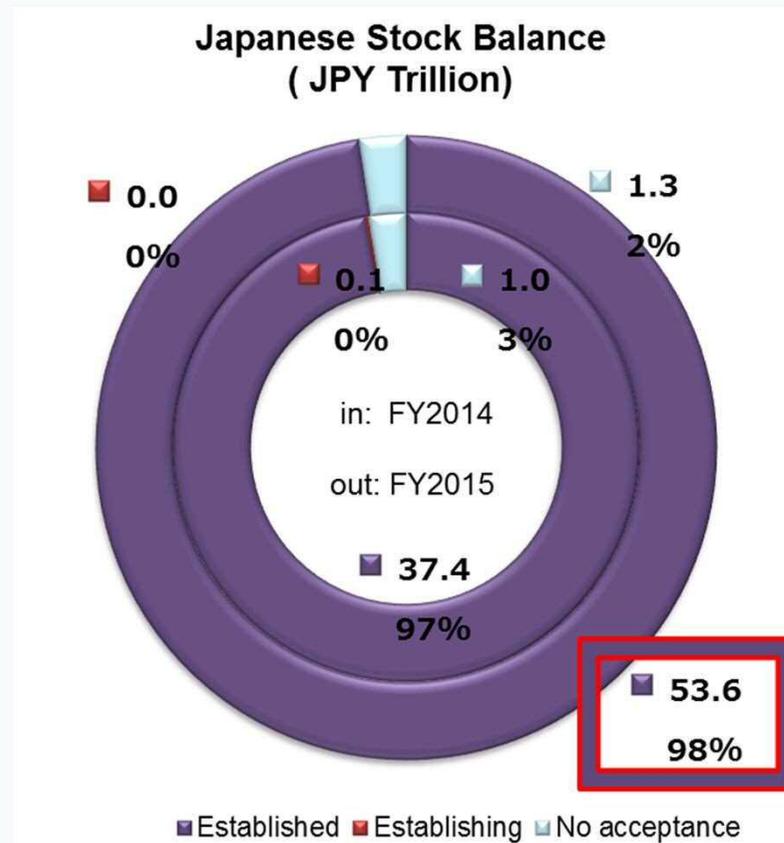
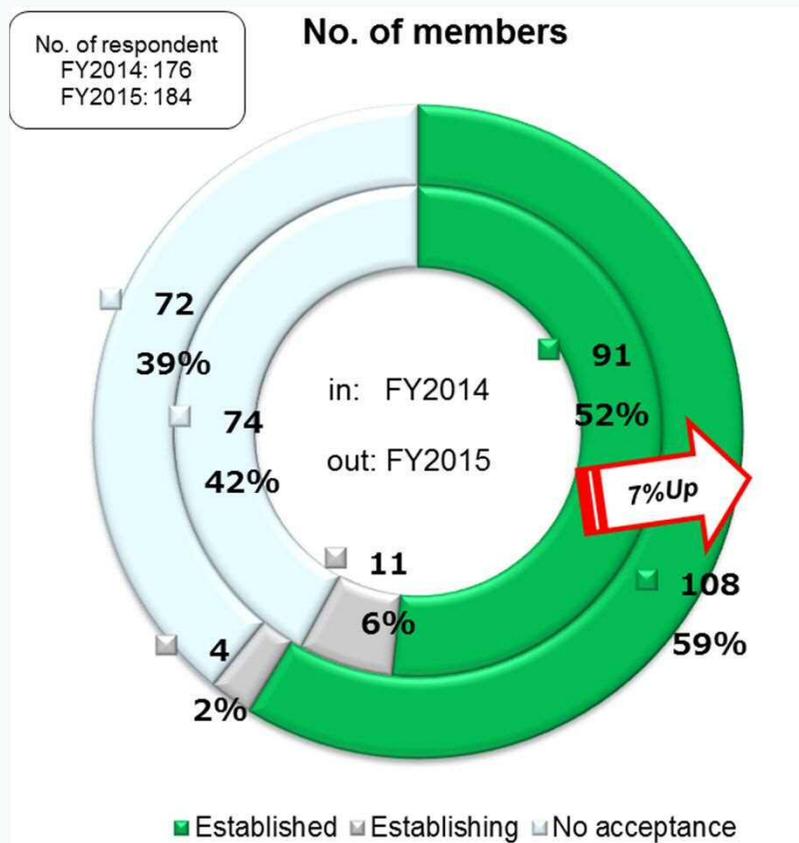
- 184 companies / 206 companies (89% response rate based on number of companies)

Survey contents:

- "Establishing a clear policy (principle 1, 2)"
- "Appropriate monitoring of conditions and constructive dialogue" (engagement)(principle 3, 4)"
- "Views on exercise of voting rights, state of voting activity and reporting system (principle 5, 6)"
- "Possession of in-depth knowledge (principle 7)"
- "Others"

State of establishment of Japan SSC (based on number of our members and Japanese stock balance)

- In terms of the number of member companies, approx. 60% have already established or are establishing, while in terms of the Japanese stock balance, the number of our companies that have already established is almost 100%.



* The figures reflect the Japanese stock balance of all responding companies (including listed/non-listed).

(Ref.) State of declaration of acceptance of Japan SSC (as of end of February, 2016)

	No. of institutional investors signing up											
	of which No. of our members											
				of which No. of our investment mgmt. members			of which No. of our investment advisory / agency members					
	Feb.	Aug.	Dif.	Feb.	Aug.	Dif.	Feb.	Aug.	Dif.	Feb.	Aug.	Dif.
Investment managers	144	139	+5	99	99	±0	95	95	±0	4	4	±0
Trust banks	7	7	±0	4	4	±0	4	4	±0	-	-	-
Insurance companies	22	21	+1	3	2	+1	-	-	-	3	2	+1
Others(Service providers etc.)	7	7	±0	3	3	±0	1	1	±0	2	2	±0
Pension funds	25	23	+2	-	-	-	-	-	-	-	-	-
Total	205	197	+8	109	108	+1	100	100	±0	9	8	+1

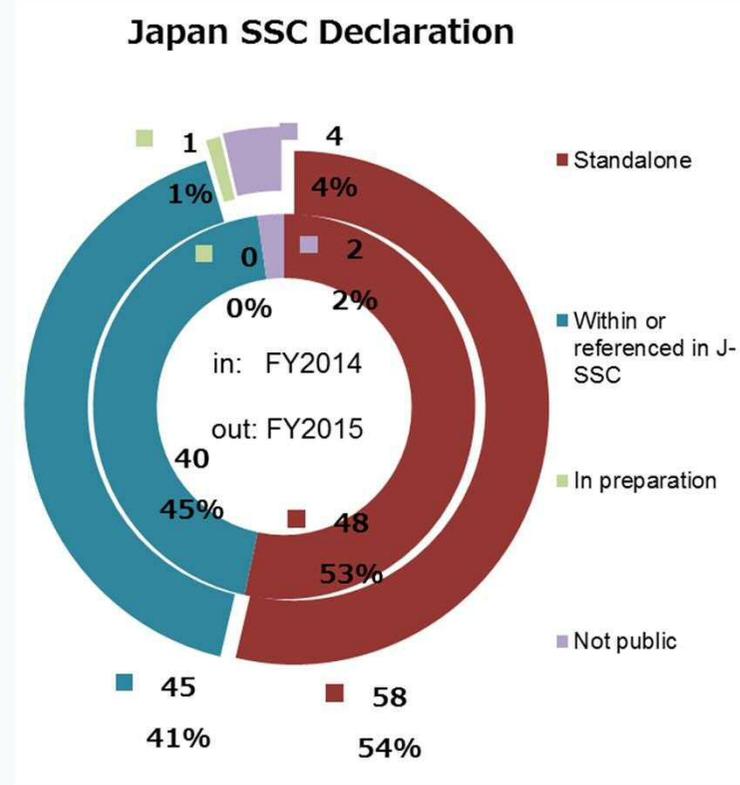
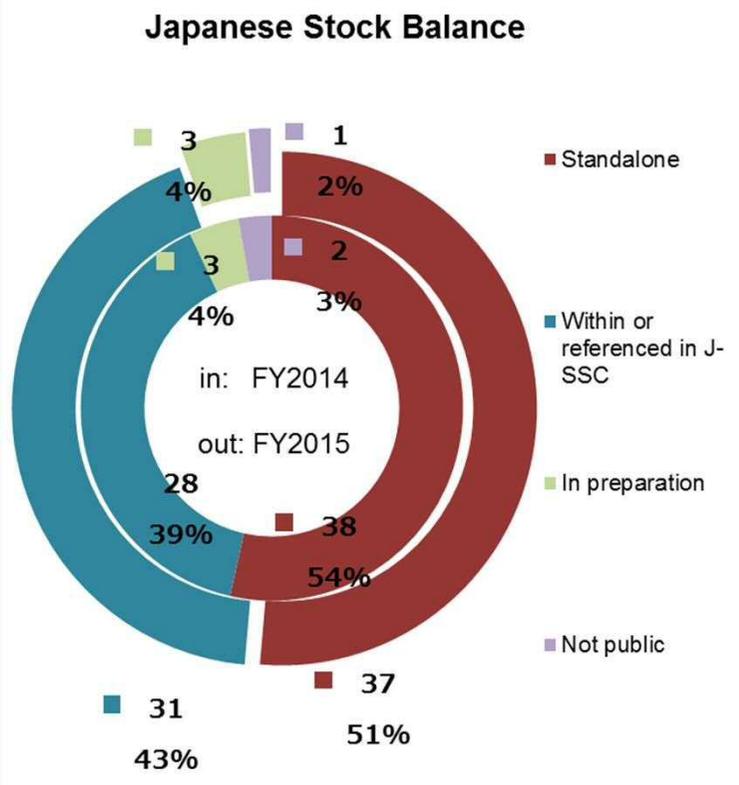
(Source) Compiled by JIAA from FSA materials

2. Main points of survey results

- With a focus on changes from the 2014 survey -

1. Establishment of a policy on prevention of conflicts of interest

- High level of awareness among members concerning prevention of conflicts of interest with their customers
 - For two consecutive years more than 90% of the members (based on Japanese stock balance and Japan SSC declaration) have already established a policy on prevention of conflicts of interest.

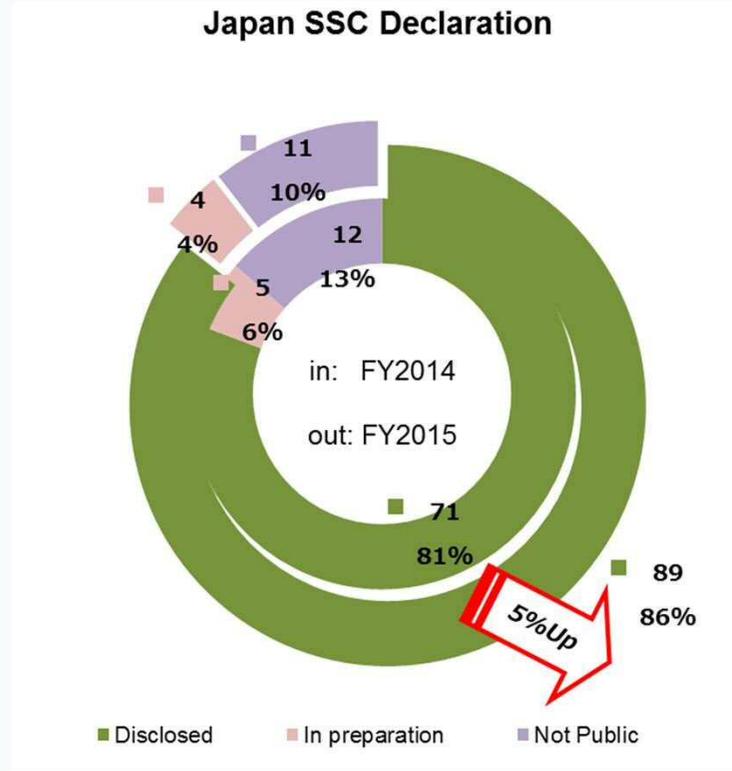
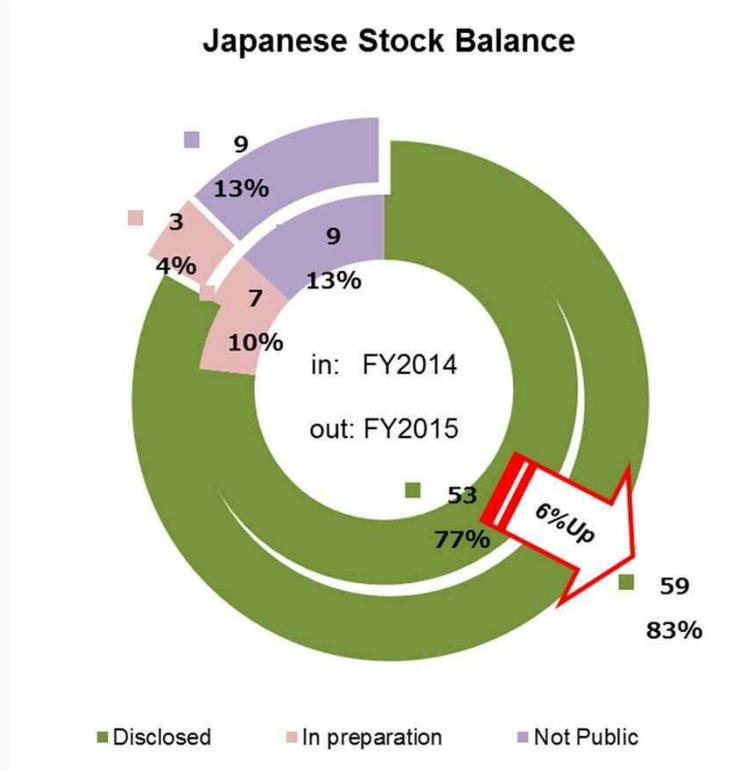


* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2014, end of August 2015)

* The figures are based on the members who have declared their acceptance of Japan SSC out of the companies that responded (as of end of August 2014, end of August 2015)

1. Disclosure of a policy on prevention of conflicts of interest

- High level of awareness among members concerning prevention of conflicts of interest with their customers
 - More than 80% of the members (based on Japanese stock balance and Japan SSC declaration) have already disclosed a policy concerning prevention of conflicts of interest, and the disclosure rates have increased in terms of both Japanese stock balance and Japan SSC declaration.



* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2014, end of August 2015)

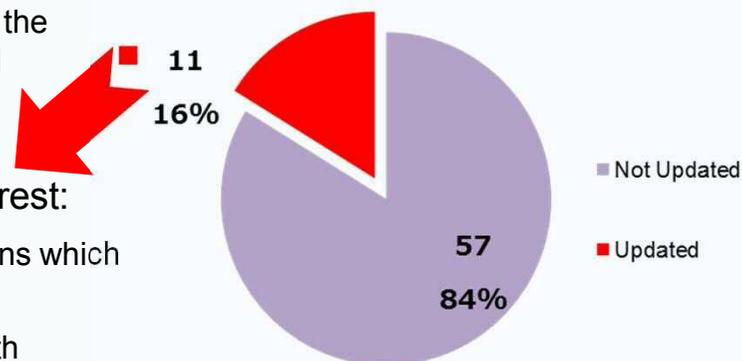
* The figures are based on the members who have declared their acceptance of Japan SSC out of the companies that responded (as of end of August 2014, end of August 2015)

1. Effectiveness of policy on prevention of conflicts of interest

➤ High level of awareness among members concerning prevention of conflicts of interest with their customers

- In this fiscal year, a survey was conducted on the state of revision of the policy on prevention of conflicts of interest in the past 12 months and concrete measures for the prevention of conflicts of interest.

Revision of policy on prevention of conflicts of interest (past 12 months)



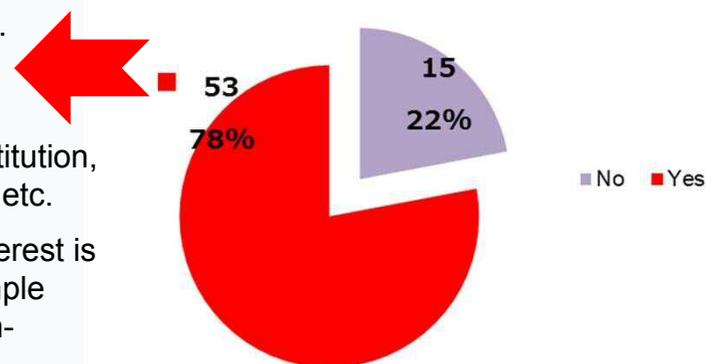
Examples of revision of policy on prevention of conflicts of interest:

- Sorting out and clarifying the connection between types of transactions which could involve conflicts of interest and representative examples.
- Describing details concerning a policy on exercise of voting rights with respect to companies with which one has business relations .

Examples of concrete measures on prevention of conflicts of interest:

- Development of a system for complying with guidelines/regulations etc. concerning exercise of voting rights (e.g., installing a department that specializes in handling matters related to exercise of voting rights).
- Delegating judgment to a third party institution such as an advisory institution, etc. when exercising voting rights on the shares of main shareholders, etc.
- Development of a management/reporting system when a conflict of interest is suspected or has occurred (e.g., reporting to a compliance officer, sample checks run by a compliance department). Regular implementation of in-house training.
- Establishment of regulations related to self-trading of officers, etc.

Concrete measures on prevention of conflicts of interest



* On both cases, the figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2015)

1. Concreteness of policy on prevention of conflicts of interest as seen from disclosures of individual companies

➤ We conducted a survey on the disclosure of a policy on prevention of conflicts of interest among the top 20 member companies in terms of Japanese stock balance, and the contents of policy disclosure can be broadly divided into the 3 types of cases below:

1. Cases in which the main types of conflicts of interest transactions are clearly indicated and a management policy has been disclosed for each type.

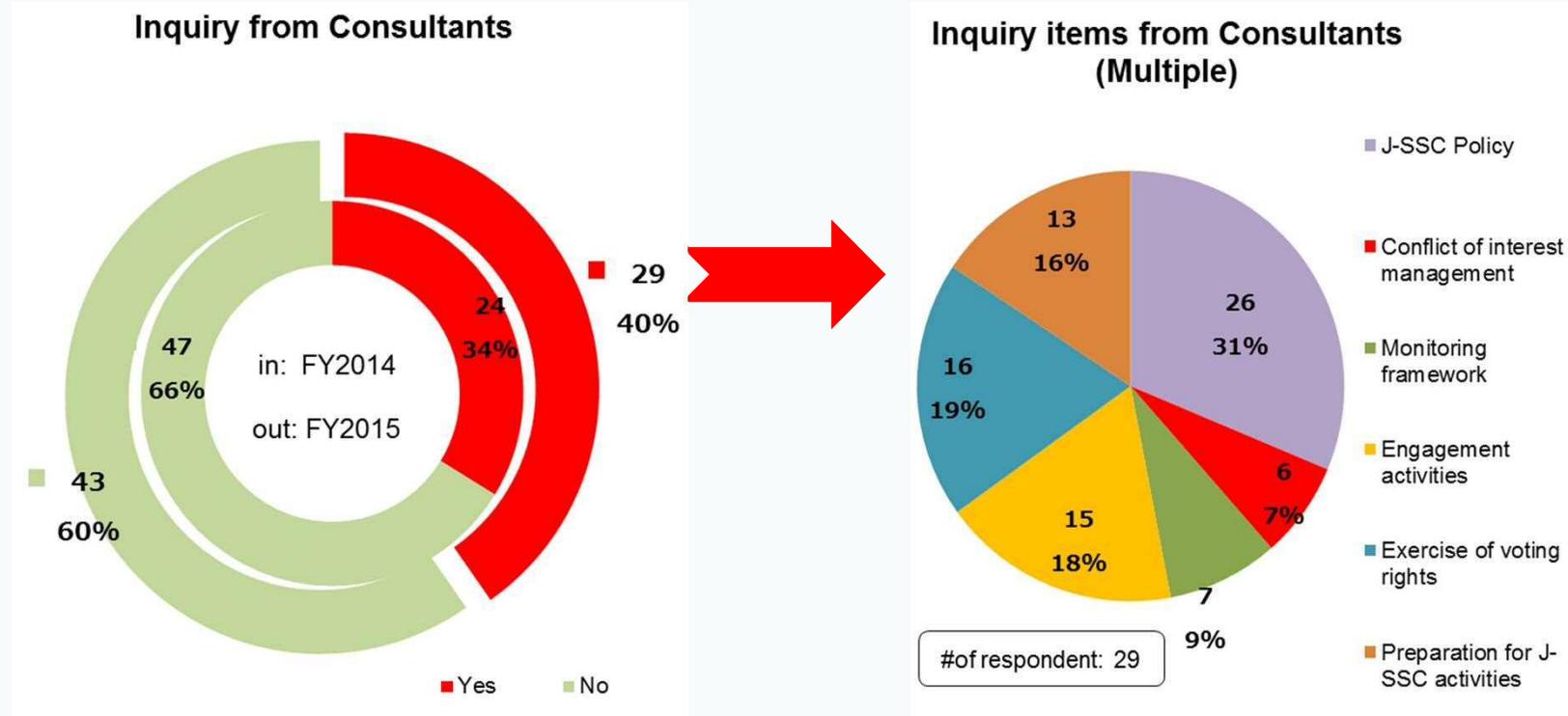
2. Cases in which mainly matters concerning the response to exercise of voting rights in related companies have been disclosed.

→ In many cases, policies and guidelines on directions for exercise of voting rights are separately disclosed, and a policy on prevention of conflicts of interest is included among them.

3. Cases in which a policy on prevention of conflicts of interest has been disclosed as a parent company group.

2. State of explanation of Japan SSC policy to investment consultants

- Hope for proactive evaluation by investment consultants
 - The state of inquiries from investment consultants remains at less than half of members (based on Japanese stock balance). According to a survey on specific questions that we conducted this year, it appears that the inquiries are general questions such as confirmation of the Japan SSC policy and state of exercise of voting rights, and so on.



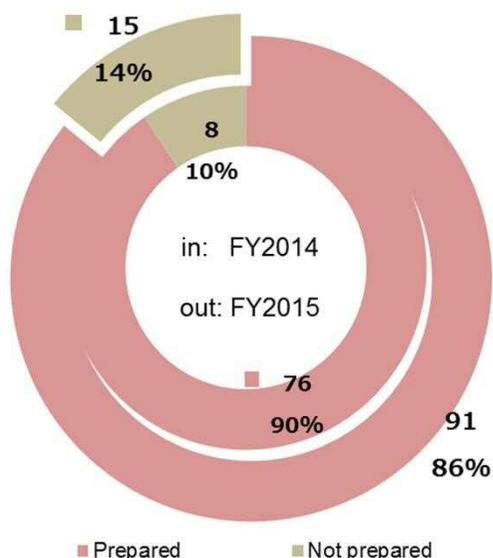
* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2014, end of August 2015)

* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2015)

3. State of preparation of evaluation criteria for exercise of voting rights

- Our members who have announced their acceptance of Japan SCC have appropriately prepared evaluation criteria for exercise of voting rights.
 - Among the our members who have announced their acceptance of the Japan SSC, 86% (91 companies) of the members have prepared a system of directions on exercise of voting rights, clarified the decision-making process, and set up evaluation criteria for exercise of voting rights (guidelines etc).
 - The remaining members have provided clear explanations of why they have not made preparations.

State of preparation of evaluation criteria for exercise of voting rights



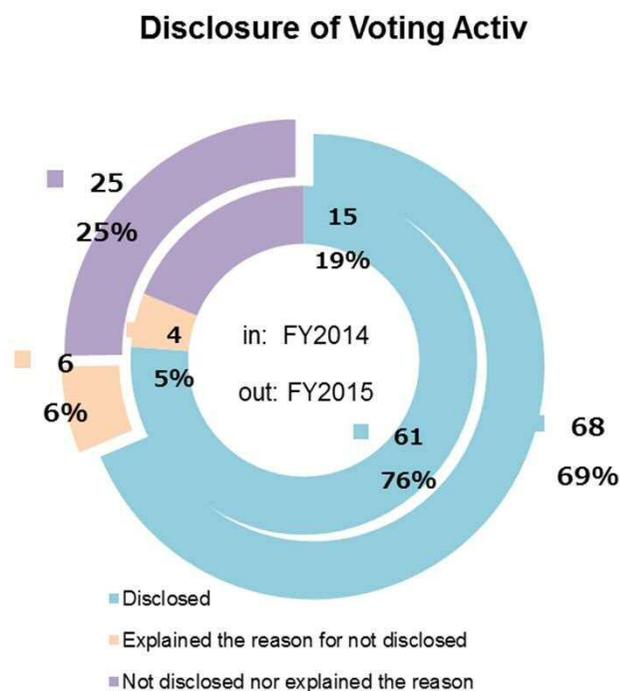
Breakdown of 15 members who replied that they have not prepared [evaluation criteria for exercise of voting rights]:

- 12 members: These are members who have announced their acceptance of the Japan SSC, but do not have any Japanese stock balance (mainly investment advisory members, pension consulting, gatekeeper businesses)
- 2 members: These are members who have announced their acceptance of the Japan SSC and have a Japanese stock balance, but their investee companies are non-listed shares or private equity.
- 1 member: This member has announced its acceptance of the Japan SSC and has a Japanese stock balance, but the investments are from wrap accounts without any voting rights.

* The figures are based on the members who have declared their acceptance of Japan SSC out of the companies that responded (as of end of August 2014, end of August 2015)

3. State of disclosure of voting activity

- Our members who have announced their acceptance of Japan SCC have appropriately made disclosures of their voting activity.
 - Among the our members who have announced their acceptance of the Japan SSC, 75% (74 companies) of the members have disclosed their voting activity or their reasons for not doing so.
 - The breakdown of the companies who have not disclosed their voting activity and their reasons for not doing so is as follows.



- 12 members: These are members who have announced their acceptance of the Japan SSC, but do not have any Japanese stock balance (mainly investment advisory members, pension consulting, gatekeeper businesses).
- 1 member: This member has announced its acceptance of the Japan SSC and has a Japanese stock balance, but has announced that it will not conform to Principle 6.
- 10 members: These are members who have announced their acceptance of the Japan SSC and have a Japanese stock balance, but they qualify for exemption from disclosure under the JIAA's self-regulatory rules (refer to the next page) (total asset management balance of Japanese stocks 25 billion yen or less (market value)).
- 2 members: These are members who have announced their acceptance of the Japan SSC and have a Japanese stock balance of more than 25 billion yen, but they qualify for exemption from disclosure under the JIAA's self-regulatory rules (refer to next page) (5 or less discretionary investment advisory contracts of Japanese stocks).

* The figures are based on the members who have declared their acceptance of Japan SSC out of the companies that responded (as of end of August 2014, end of August 2015)

3. (Ref.) JIAA's self-regulatory rules

- On the appropriate exercise of directions for the exercise of voting rights, etc. in relation to discretionary investment management contracts (excerpt)

As of April 24, 2002

(Omitted)

2. Establishment of guidelines on directions for exercise of voting rights

Members shall prepare a system concerning directions on exercise of voting rights, clarify the decision-making process, and set up evaluation criteria to give directions for exercise of voting rights (hereinafter "guidelines").

3. Disclosure of basic view on the guidelines

Members shall disclose their basic thinking concerning the guidelines on their homepage, etc.

(Middle section omitted)

6. Disclosure of aggregate results of directions for exercise of voting rights

- (1) Members shall in principle aggregate the results of directions for the exercise of voting rights at the general shareholder meetings held in May and June as shown in the appendix, and disclose such aggregate results on their homepage, etc. by the end of August.
- (2) Members may refrain from making disclosures provided for in (1) in cases where the number of discretionary investment management contracts with Japanese stocks as the target of management is 5 or less, or the total asset management balance of Japanese stocks is 25 billion yen or less (market value) as of end of March.

4. Possession of in-depth knowledge – Main points of the survey results

- The number of asset management members indicating that they “have new initiatives” with the aim of improving the effectiveness of engagement activities within the most recent 12 months is 41 (39%).※
- Question on the self-evaluation of members with respect to dialogue with investee companies. The following is an example to show that it was appropriate to conduct dialogue with companies and stewardship activities: improvement in performance that was expected in areas such as overall business, capital efficiency, capital policy among other things on the side of companies.
- On the other hand, following are examples to show that it was inappropriate: no progress in dialogue, the attitude towards dialogue on the part of investors, a tendency of the short-term oriented concerns, the management not showing a stance of incorporating the views of investors.
- There are also some members who disclosed on their HP a report of the state of their stewardship activities which reflected the results of their voting activity, but the number of such members is less than 10. We look forward to an expansion of similar initiatives in future.

※ The figures are based on the members who have declared their acceptance of Japan SSC out of the companies that responded (as of end of August 2015)

4. Possession of in-depth knowledge – Examples of new initiatives by members

Main views from members (examples of new initiatives):

【Accumulation of examples/information sharing/activity review】

- Preparing an in-house process for conducting constructive dialogue (creating individual reports concerning changes in efforts on the part of companies/sharing such information within investment management departments/making use of such information in reviewing dialogue policy, sharing best practices of dialogue examples, installing an exclusive governance officer who specializes in governance system/mid to long-term business strategies and carries out dialogue with companies)

【Implementation of study sessions and training】

- Implementing study sessions to which external experts and specialists were invited
- Organizing in-house workshops and bringing up examples of companies which serve as the bench mark in discussions on management reform that were targeted at corporate value creation

4. Possession of in-depth knowledge – Stewardship activities, self-evaluation concerning dialogue with companies (1)

Main views from members (self-evaluation):

➤ Appropriate examples

【Business in general】

- We have been conducting continuous discussions about a shareholder return policy with several companies, and they decided to implement increased dividend and purchase of own stocks within the last 12 months.
- We proposed the introduction and disclosure of Return on Invested Capital (ROIC) management by department, and in the mid-term business plan that was announced later, the company announced the ROIC target by department.

【Capital efficiency/capital policy】

- After going through a dialogue on the view of capital policy such as ROE, the company presented concrete information on ROE targets and business strategy at its briefing session on financial results.
- In a certain company, there was harsh criticism of the internal reserve allocation by short-term investors, and after we conveyed our view as a long-term investor, the company organized corporate briefing sessions and briefing sessions for individual investors, which it had never really done before, as part of an effort to create long-term shareholders.

4. Possession of in-depth knowledge – Stewardship activities, self-evaluation concerning dialogue with companies (2)

Main views from members (self-evaluation):

➤ Non-appropriate examples

【Progress was not seen in dialogue】

- Even though we made requests for dialogue with the management team, nothing materialized, and productive discussion could not be carried out.
- We carried out dialogue with the hope of achieving improvement, but the contents of the dialogue did not develop any further, and as a result, no improvement was achieved.

【Problems in contents of dialogue】

- There is a problem in that our in-house analysts still do not have sufficient competency to handle long-term continuous dialogue.

【Others】

- Regional companies and some medium-sized companies are showing a significant delay in making improvements in corporate governance.

5. Main points of survey results (others)

- The results indicated an overall trend where members are trying to achieve steady evolution with an appropriate awareness of the problems.

Main replies, view from members:

- With respect to companies that have chosen Explain for the Corporate Governance Code, there are many asset management members who adopt a policy of response in which they will strengthen dialogue, request for additional explanation and make decisions based on an evaluation of the contents of Explain.
- In cases where companies have chosen Explain with respect to various principles concerning independent directors, the evaluation of many asset management members is that they will confirm the supervision system, conduct dialogue based on a careful examination of the contents without defining specific criteria.
- Followings were raised as some of the factors that inhibit investments from a mid to long-term perspective (long termism): factors originating from the institutional investors themselves (problems in personnel affairs/ evaluation/remuneration, mismatches in timing between investors and companies), factors originating in investee companies (information disclosure of non-financial information that contribute to long term-ism/lack of a proactive attitude to dialogue), and factors originating in customers (final investors) (tendency to pursue short-term investment performance results).
- The number of asset management members that “think” collective engagement is required has increased to 49 members (53%) compared to the previous year (39 members, 43%).
- In the discussions at the Management Investor Forum (MIF), some of the items that were hoped for include a platform for giving advice to companies, a platform for exchange of opinions among investors and a platform for reviewing the ideal shape of dialogue among other things.

3. Remaining concerns

- Reflection in the next survey -

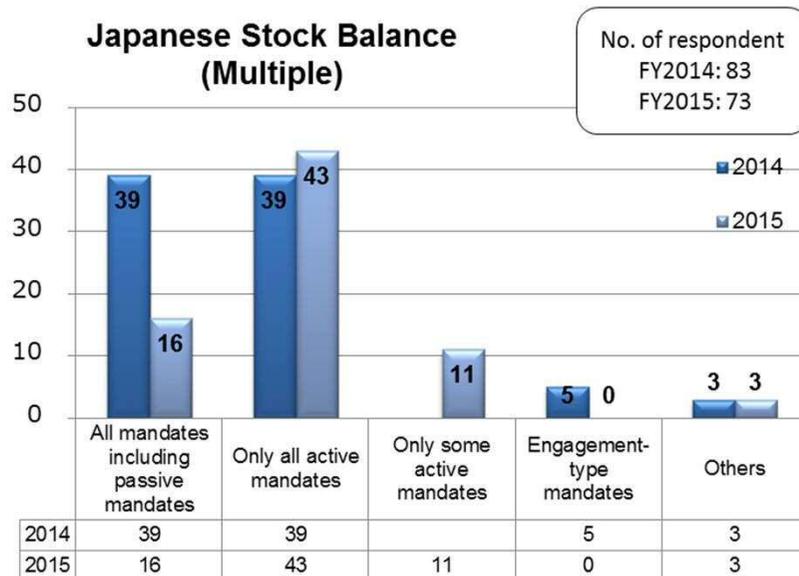
1. Penetration into passive management (engagement target)

Current:

- The penetration of engagement activities into passive management is going to take place from now on.
 - There are 43 asset management members (59%) that try to reflect the results of engagement in “all active products only,” but there are only 16 asset management members (22%) that do so for “all products including index investment products.”

Concern:

- Need to review together with customers (asset owners) whether it is necessary to have engagement activities in passive management.



Examples of initiative in Japan and overseas concerning engagement in passive management:

GPIF: In the “Summary Report of GPIF’s Stewardship Activities in 2015” that was released in Jan 28, 2016, it is stated that “For passive management, engagement with companies considered to have some problems is required to promote a sustainable improvement of corporate value of those companies, so that the level of equity markets can be raised on a long-term basis.”
http://www.gpif.go.jp/en/topics/pdf/20160129_stewardship_code_voting.pdf

➤ According to newspaper reports, in overseas countries, mainly the US and Europe, there are cases whereby institutional investors such as asset owners and asset managers actively carry out engagement for passive management (such as securing an engagement budget).

* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2014, end of August 2015)

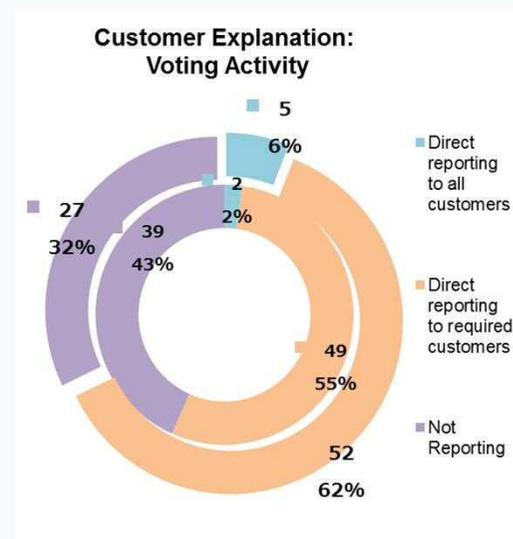
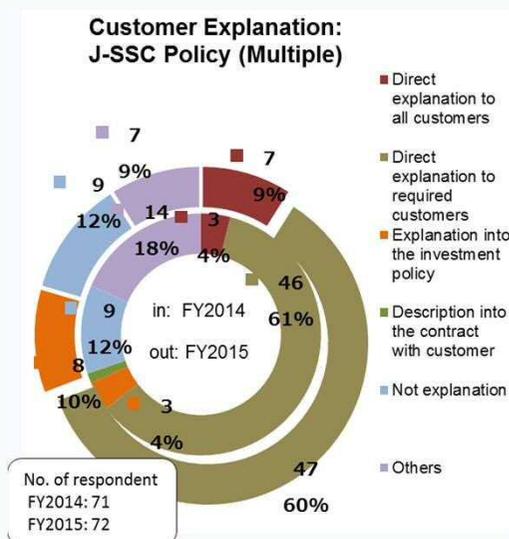
2. State of explanation to customers

Current:

- Only a limited number of asset management members adopt an active approach to providing explanations of their policy towards the Japan SCC and their voting activity to all their customers.
 - Cases in which explanations were provided directly only to customers who request to do so compose more than half (Japan SSC policy: 43 members (60%), voting activity result: 52 members (62%))
 - In the background to this, factors such as the constraint of costs involved in providing explanations, the degree of asset owner awareness and interest could perhaps be raised.

Concern:

- Understand the ratio of customers who requested such explanations and promote further improvement in the quality of reports on stewardship activities.



* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2014, end of August 2015)

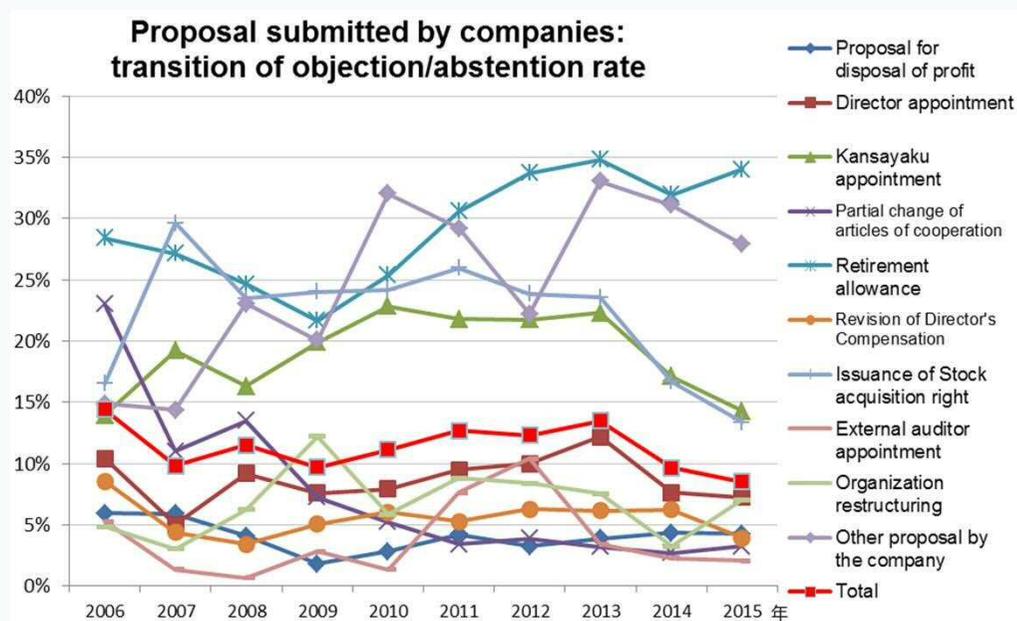
3. General shareholder meeting: Change in approval/disapproval of proposals submitted by company

Current:

- The objection/abstention rate of proposals submitted by companies shows a declining trend in the last 10 years, but recently there is a high rate of objection/abstention concerning retirement allowances (more than 30%)

Concern:

- Confirm the depth of dialogue with investee companies such as whether there were any proposals on which the decision to approve/disapprove was changed after receiving explanations in advance from the investee company.



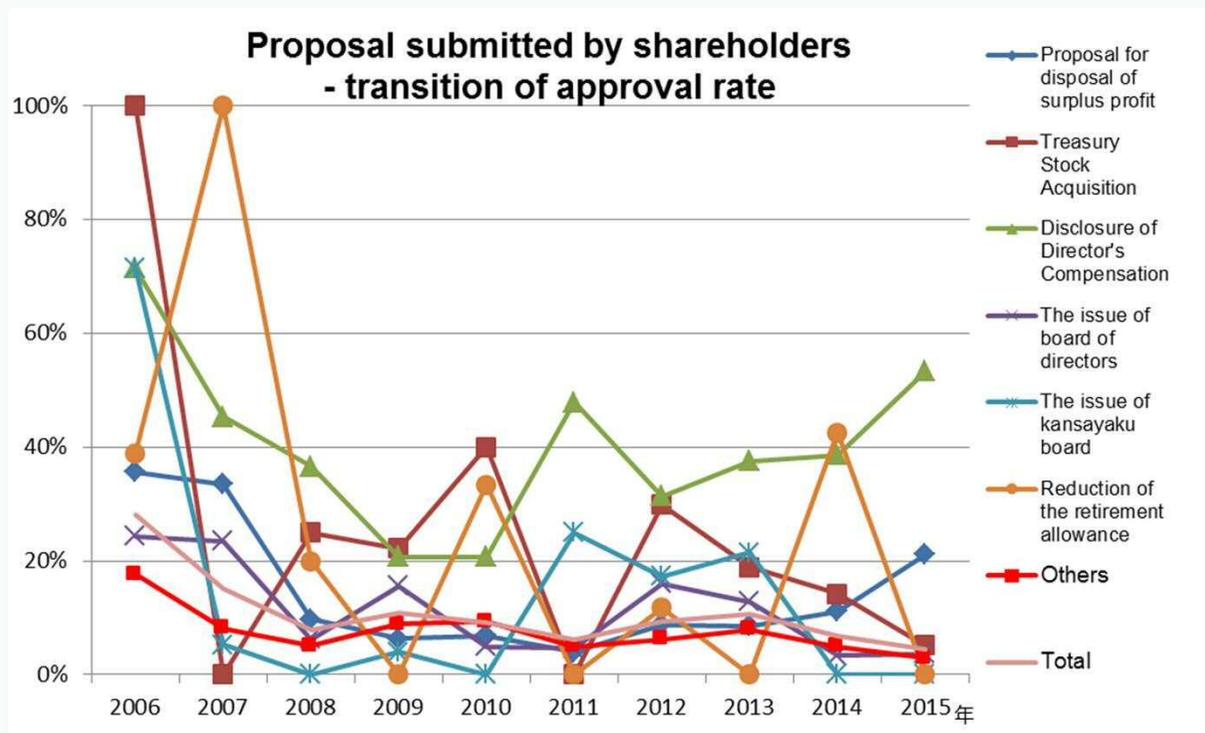
State of voting in general shareholder meetings held in May, June 2015

- The number of companies in which a vote to object/abstain was cast is on average 135 companies per member company (37% with respect to the average total number of 362 companies that were subject to voting by each member company)
- The number of proposals that were objected to/abstained from is on average 267 proposals per member company (8% with respect to the average total number of 3,213 proposals that were subject to voting by each member company)

3. (Ref.) General shareholder meetings: Change in approval/disapproval of proposals submitted by shareholders

Current state:

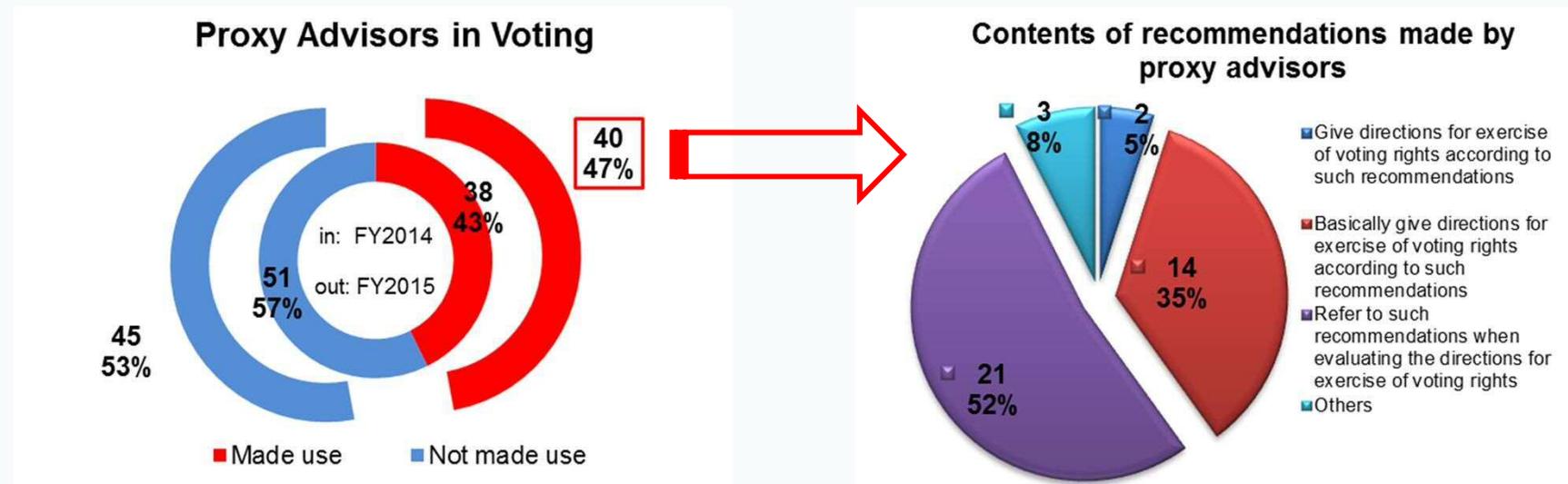
- The approval rate of shareholder proposals shows a declining trend in the last 10 years in the same way as the objection/abstention rate of proposals submitted by companies
- Recently, the approval rate concerning disclosure of director's remuneration is high (more than 50%)



4. State of usage of proxy advisors in voting

Current:

- Asset management members that “made use of” proxy advisors compose approx. half at 40 members (47%).
- With regard to the contents of recommendations made by proxy advisors, the number of asset management members who indicated that they “refer to such recommendations when evaluating the directions for exercise of voting rights” is the highest at 21 (53%), followed by 14 companies (35%) who indicated that they “basically give directions for exercise of voting rights according to such recommendations although there may be rare occasions when they act differently.”



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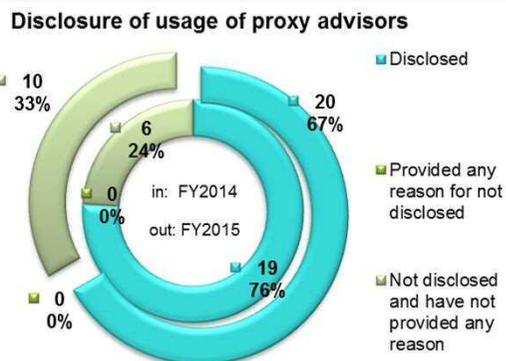
4. State of usage of proxy advisors in voting

Current:

- With regard to the disclosure of the state of usage of proxy advisors, the majority of the asset management members have already made disclosures, but 10 members (33%) “have not made any disclosures and have not provided any reason for not doing so.”

Concern:

- With regard to member companies who make use of proxy advisors, check the reasons for not making disclosures, and for those members who conform to Principle 5 of the Japan SSC, check the consistency between conformity to the said principle and non-disclosure of usage of proxy advisors.
- Carefully examine the state of concrete efforts by understanding the intensity of disclosures by asset management members that have made disclosures.
- Confirm initiatives by member companies concerning evaluation of proxy advisors.



(Reference) Japan SSC Guidance 5-4

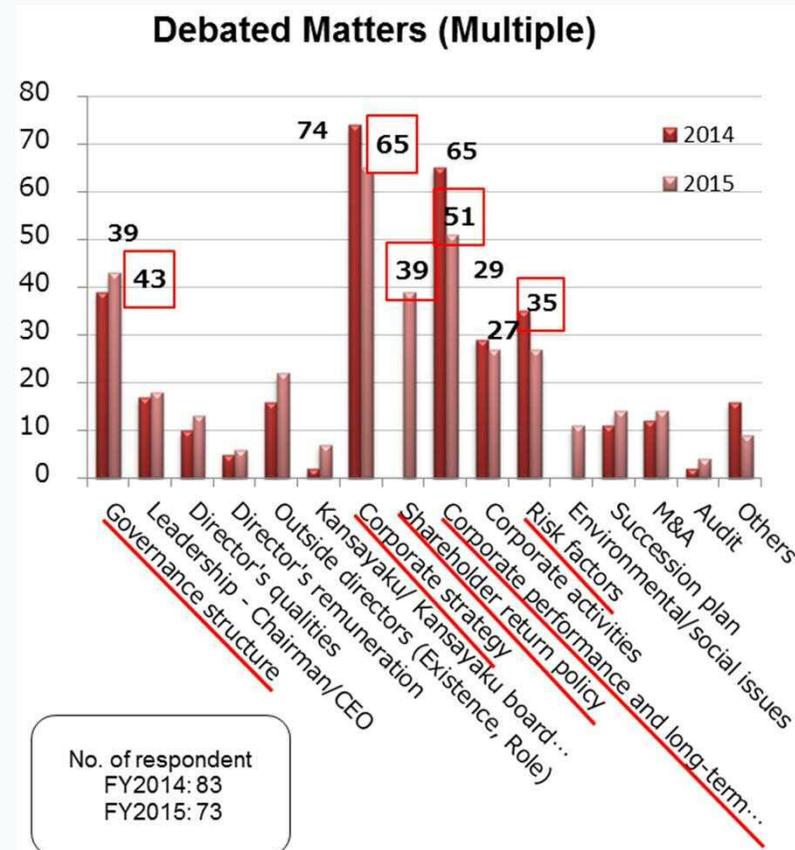
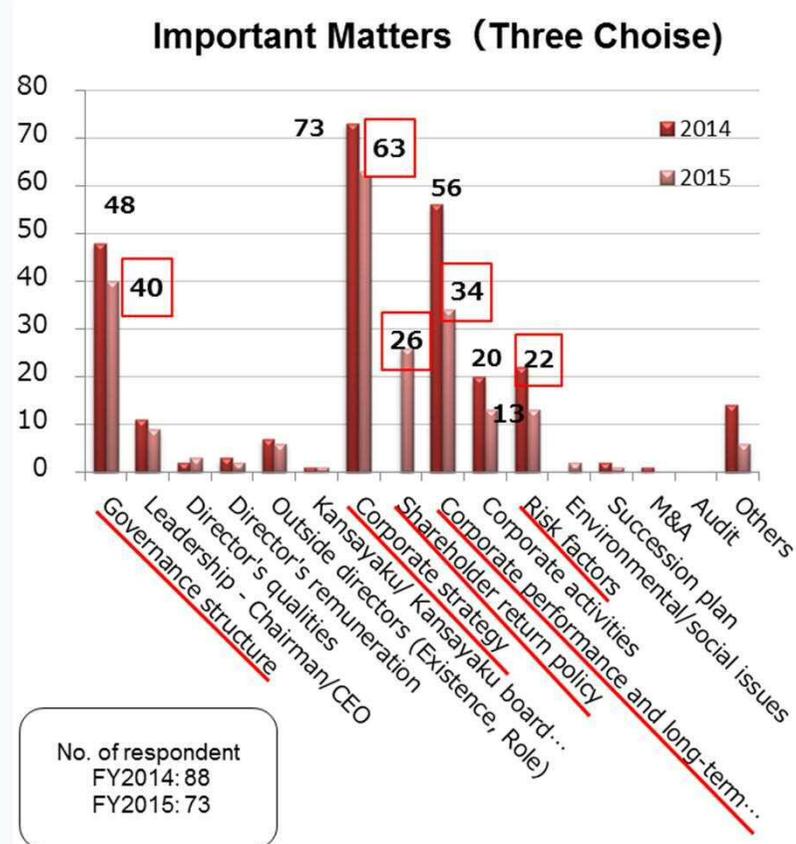
When institutional investors use the service of proxy advisors, they should not mechanically depend on the advisors' recommendations but should exercise their voting rights at their own responsibility and judgment and based on the results of the monitoring of the investee companies and dialogue with them. When disclosing their voting activities, institutional investors using the service of proxy advisors should publicly disclose the fact and how they utilize the service in making voting judgments.

* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2014, end of August 2015)

4. Requests to investee companies

1. Matters that are considered important and matters that have been debated during engagement

- Matters that are considered important and matters that have been debated during engagement with investee companies
 - Governance structure, corporate strategy, shareholder return policy, corporate performance and long-term prospect, risk factors are considered important.



* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2014, end of August 2015)

1. Good examples in which the company's response during engagement activities is considered to be beneficial and effective

【Examples of companies that were considered to be good examples and the reasons】

Company A:

- Has disclosed an action policy with respect to all 73 items of the Corporate Governance Code (CGC) at the stage of enforcement of the code. Has already elected 3 independent directors.
- Has clearly indicated a high shareholder return target with a total return ratio of 80%, and the president is actively conducting dialogue with the market.

Company B:

- Has actively explained to investors the company's response to CGC. This is a company with kansayaku board, but it has installed an (optional) nomination committee with an independent director as the committee chairperson.
- Various means have been designed in integration reports such as providing illustrations of the business model in a form in which the state of initiatives is organically linked.

Company C:

- Has clear business strategy/capital policy. Has built a flexible governance system.

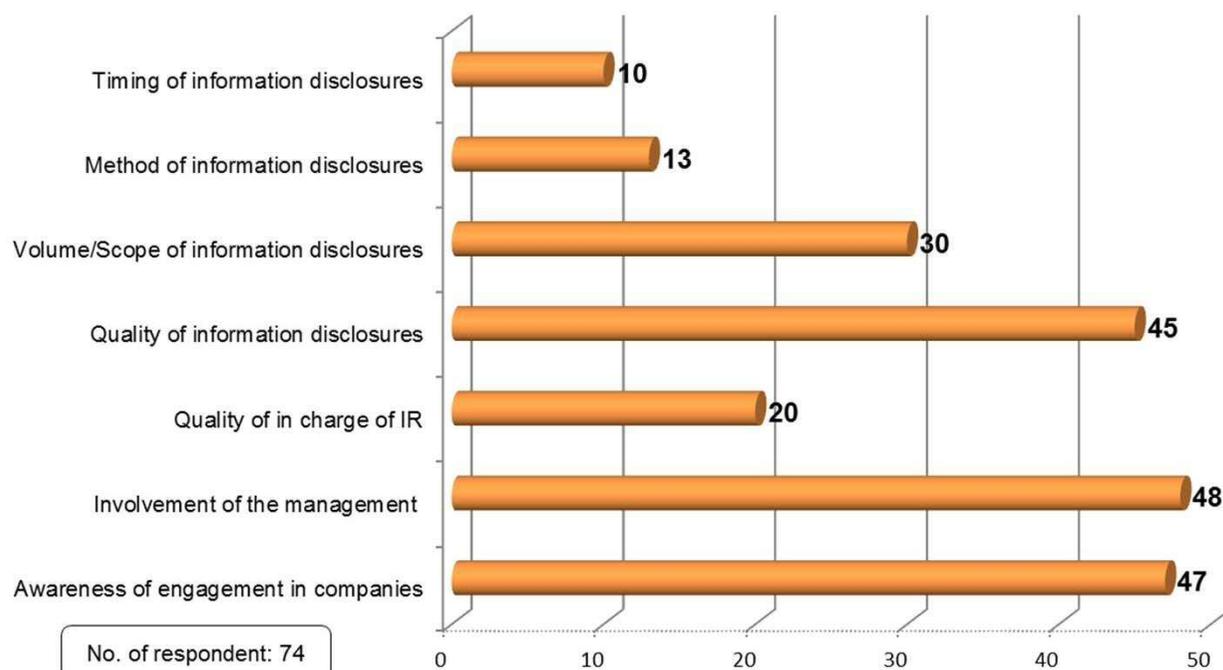
【Examples that require efforts for improvement】

- There is not a single outside director, but on the other hand, there is an increase in the number of directors holding concurrent positions in the parent company.
 - Do not organize any interviews with investors or hold any company briefing sessions.
-

1. Requests for improvement to companies with respect to engagement

- Further improvement is expected in effectiveness of engagement between companies and investors.
 - Based on the items that are considered important in the previous page, we would like to ask companies to make improvement efforts concerning involvement of the management in investee companies, awareness of engagement in companies, greater level of appropriateness in the contents of information disclosures.

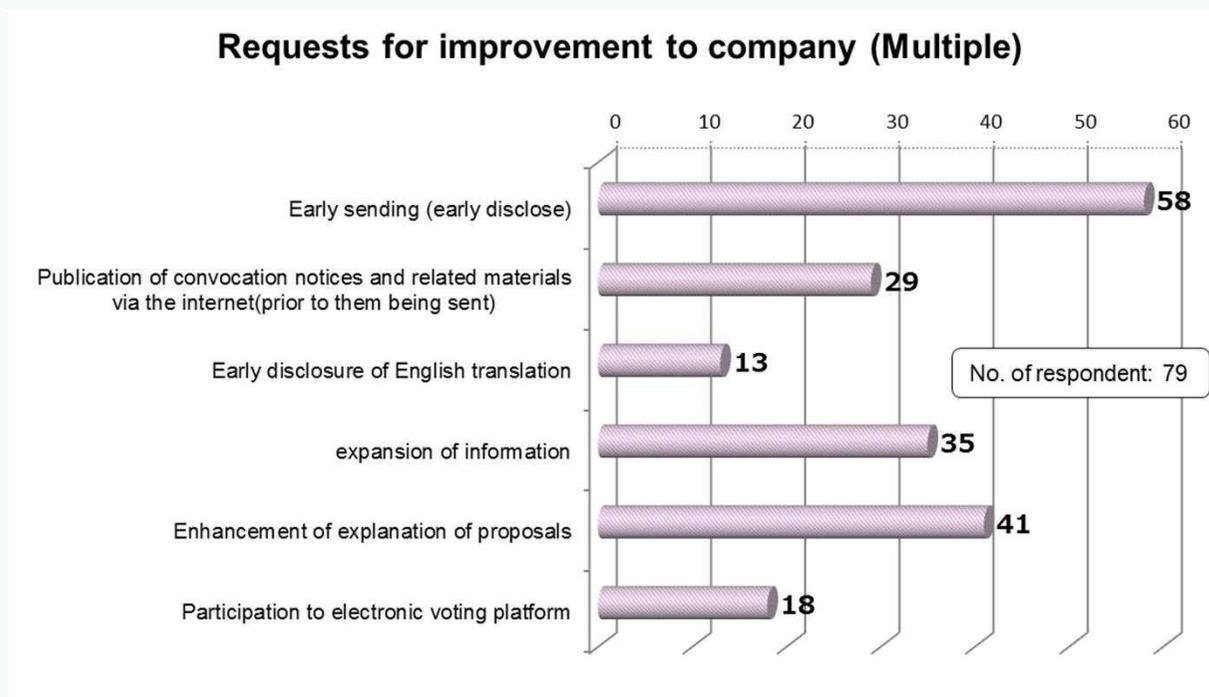
Requests for improvement to companies (Multiple)



* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2015)

1. Requests for improvement to companies with respect to convocation notice of general shareholder meeting

- Further improvement is expected in effectiveness of engagement between companies and investors.
 - Among the requests for improvement to companies with respect to convocation notice of general shareholder meeting, the number of asset management members that indicated “early sending (early disclosure)” is the highest at 58 (73%), followed by 41 companies (52%) who indicated “enhancement of explanation of proposals,” and 35 companies (44%) who asked for expansion of information.



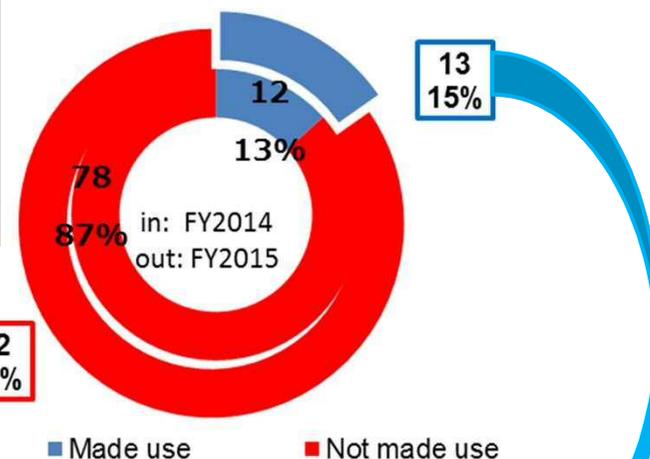
* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2015)

2. State of usage of electronic voting platform (PF)

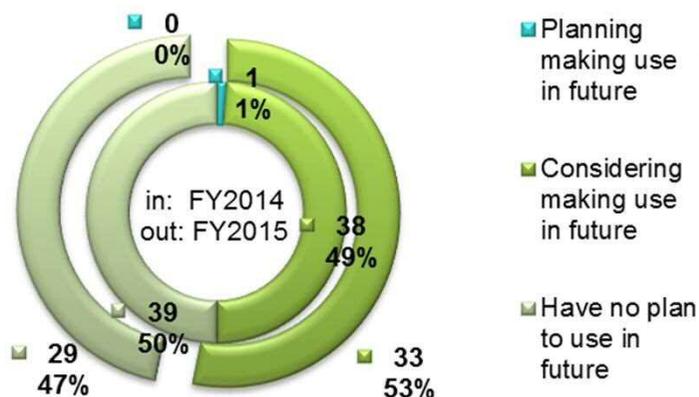
➤ Recognition of current state:

- The number of asset management members that are making use of electronic voting PF is 13 (15%).
- Approx. half of the asset management members are considering making use of electronic voting PF in future.

Current usage of electronic votion PF



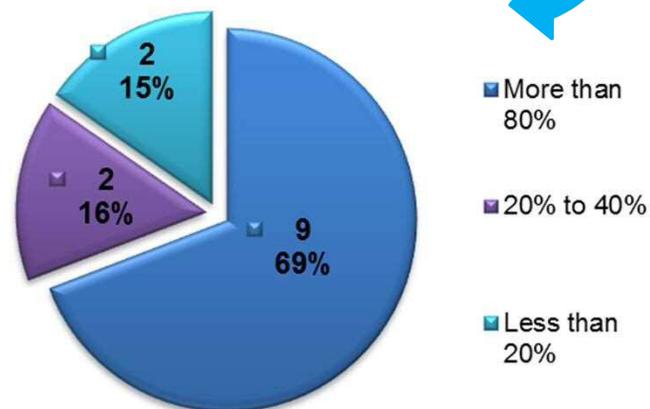
Future usage of electronic votion PF



<Main reasons for “have no plans to use in future”>

- Exercise of voting rights is carried out through other means (through trustee banks, in-house or broker systems, etc.)
- To avoid the co-existence of different operating flow as there are companies that are not participating.

% of usage of electronic votion PF

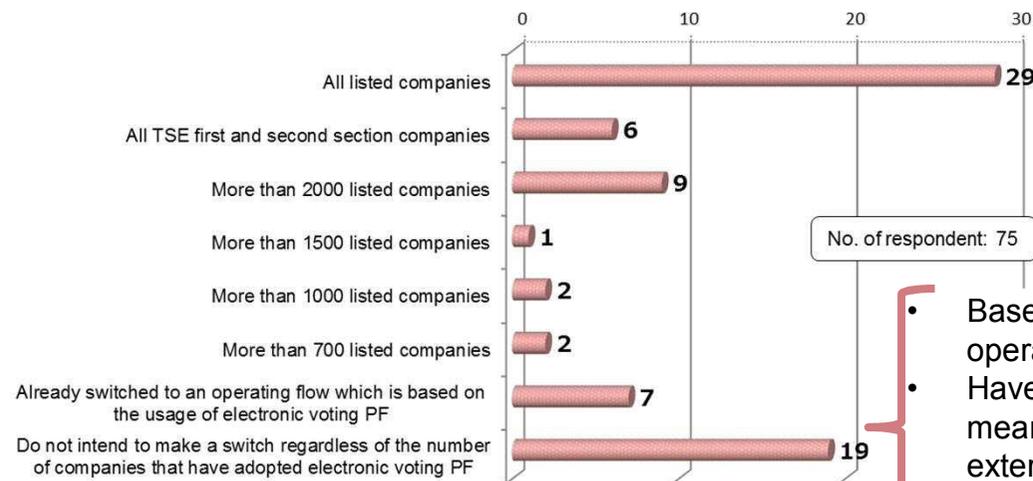


* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2014, end of August 2015)

2. Request for wider usage of electronic voting PF

- Expectation of greater adoption by listed companies
 - This year, we conducted a survey on the extent to which member companies will switch to an operating flow for directions on the exercise of voting rights which is based on the usage of electronic voting PF according to the rate of adoption of electronic voting PF by listed companies.
 - As for the rate of adoption of electronic voting PF by listed companies, the number of asset management members who indicated “all listed companies” is the highest at 29 (39%), followed by 19 companies (25%) who indicated that they “do not intend to make a switch regardless of the number of companies that have adopted electronic voting PF.”

Switch criteria for electronic voting PF



No. of respondent: 75

- Based on the assumption of an operating flow by trustee banks
- Have already developed other means (through internal and external systems)
- Investee companies are limited

* The figures are based on the members who have a Japanese stock investment balance out of the companies that responded (as of end of August 2015)