

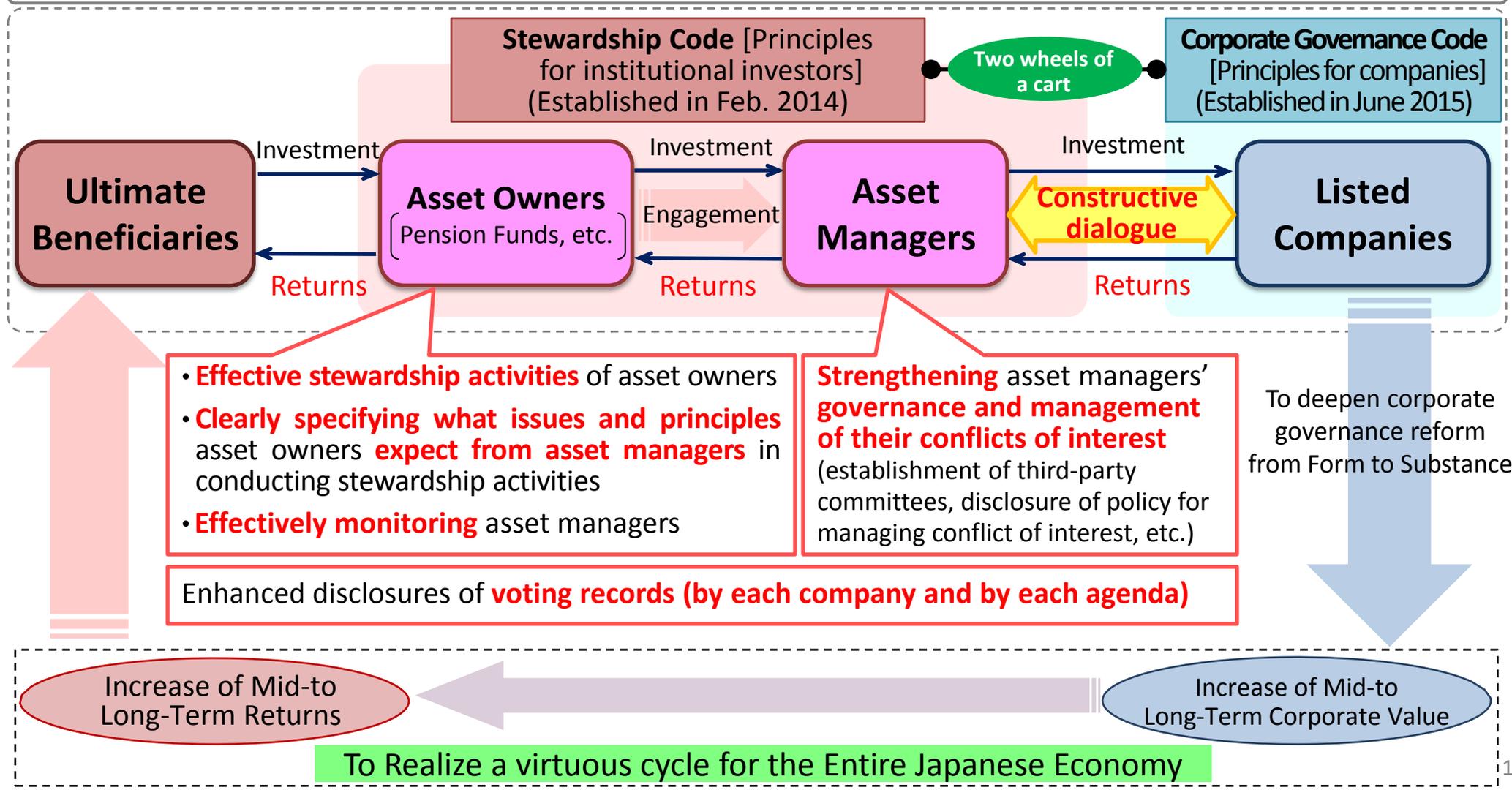
Responses to the Revised Stewardship Code

December 21, 2017
Financial Services Agency

Overview of Revisions to the Stewardship Code

(Revised on May 29, 2017)

- ❑ In order to **deepen corporate governance reform from “Form” to “Substance”**, it is important that **institutional investors have constructive dialogue with investee companies**.
- ❑ In this light, the Stewardship Code was revised in May 2017 to **clarify the roles of asset owners, including pension funds**, and to encourage **asset managers to strengthen their governance and management of their conflicts of interest**.



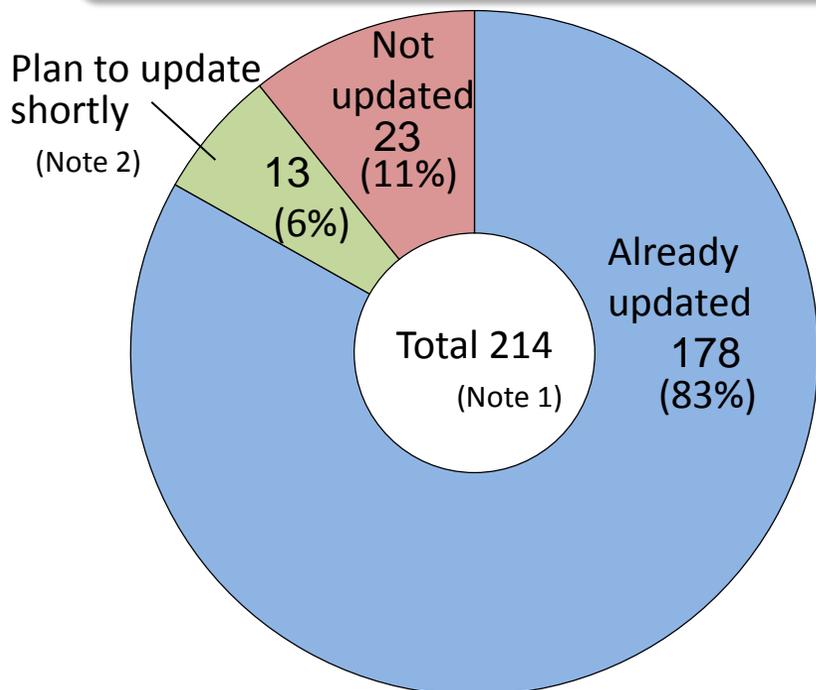
Institutional Investors' Responses to the Revised Stewardship Code

- █ The Stewardship Code revised in May 2017 expects institutional investors, who are signatories of the previous version of the Code, to update disclosure items in accordance with the revised Code by end-November 2017; and **more than 80% of them have completed necessary updates**. Furthermore, a considerable number of those who have not yet updated disclosure items at this point, are planning to update the items shortly.

(Reference) "Revision of the Stewardship Code" in the revised Code (The Council of Experts on the Stewardship Code; May 29, 2017) (excerpt)

7. The Council expects that institutional investors who are currently signatories of the Code will revise their published terms of compliance in accordance with the revised Code (along with disclosing and notifying the Financial Services Agency that they renewed the terms of compliance) within 6 months (November-end 2017) after the revision of the Code.

The status of updating disclosure items by signatories of the Code (as of Dec. 11, 2017)



<Reference: Update status by attribute of institutional investor>

	Total # of signatories	Already updated	Plan to update	Not updated
Investment managers	153	119	12	22
Trust banks	6	6	-	-
Insurance companies	22	22	-	-
Pension funds	26	25	-	1
Corporate pension	7	7	-	-
Others*	7	6	1	-
TOTAL	214	178	13	23
(foreign institutions)	(49)	(25)	(11)	(13)

* Proxy advisory firms, etc.

(Note 1) Among institutional investors who signed up for the Stewardship Code, those who reported to the FSA that they completed necessary updates in accordance with the revised Code are categorized into "Already updated", and those who reported that they are planning to update the items shortly are categorized into "Plan to update shortly". Out of 178 investors in "Already updated", 3 (2 corporate pension funds, and 1 foreign pension fund) have reported no need to make any updates, because their existing disclosure items already satisfy the revised Code.

(Note 2) Out of 13 institutional investors who "plan to update shortly", 12 plan to update the items within this fiscal year, and 1 by end-Jan. 2018.

Stewardship Activities of Asset Owners

- ❑ The Revised Stewardship Code requires asset owners to engage in the following:
 - (1) Effective stewardship activities of asset owners (Guidance 1-3)
 - (2) Clearly specifying what issues and principles asset owners expect from asset managers in conducting stewardship activities (Guidance 1-4)
 - (3) Effectively monitoring asset managers (Guidance 1-5)
- ❑ In response to the revision, **public pension funds**, etc. reviewed their **policies on stewardship activities** by end-November 2017

<Updates of disclosure items by public pension funds>

(1) Effective stewardship activities of asset owners (Guidance 1-3)

Government Pension Investment Fund (GPIF) established and published its **Stewardship Principles** and **Proxy Voting Principles**. National Pension Fund Association also established and disclosed similar principles. Pension Fund Association for Local Government Officials and others clarified their policies, under which they will effectively engage in stewardship activities through asset managers in accordance with their corporate governance principles and proxy voting guidelines that were established prior to the revision of the Code.

(2) Clearly specifying what asset owners expect from asset managers (Guidance 1-4)

For example, Pension Fund Association for Local Government Officials revised its policy in such a way that it will **clearly specify** that asset managers are expected to **conduct stewardship activities according to the corporate governance principles and proxy voting guidelines**, when issuing mandates to asset managers. Other public pension funds also made similar revisions.

(3) Effectively monitoring asset managers (Guidance 1-5)

For example, Federation of National Public Service Personnel Mutual Aid Associations revised its policy to require its asset managers to comply with its corporate governance principles and proxy voting guidelines in conducting stewardship activities, and to **monitor asset managers through dialogue, etc.** Other public pension funds also made similar revisions.

Managing Conflicts of Interest (1): Identifying circumstances that may give rise to conflicts of interest

- ❑ In their policies on stewardship activities, some asset managers **identify specific circumstances that may give rise to conflicts of interest** as follows:

(1) Case where priority is given to the parent company's interest

First of all, there may be possible conflicts of interest between our parent Company A with which our company has a capital relation and our customers/beneficiaries. For example, it can be considered that a person in charge exercises voting rights by giving priority to the interest of Company A: he/she might vote 'for' a proposal, where we should cast an 'against' vote. To address such circumstances, our company, in principle, does not exercise our voting rights with regard to shares of our parent company, etc. as the circumstances are highly likely to give rise to conflicts of interest.

(2) Undue influence from Corporate Business Division

Next, as an example of possible conflicts of interest for Trust Asset Business Division of the Trust Bank, undue influence from Corporate Business Division (e.g. Corporate Business Division wants to increase lending to a certain client company, and exerts undue influence on Trust Asset Business Division to cast 'for' votes on a proposal of the client company, even though it should cast 'against' votes) results in such investments/exercise of voting rights that are against the interests of our clients/beneficiaries.

Source: Website of Mitsubishi UFJ Trust and Banking Corporation

As specific circumstances that may give rise to significant conflicts of interest in conducting stewardship activities, we have identified the exercise of voting rights for the following proposals:

- **Proposals for general shareholders meetings of our group companies as well as other subsidiaries/affiliates of our parent company B**
- **Proposals pertaining to matters involving our group companies (for example, an M&A where our group company assumes the role of financial advisor; and solicitation/offering of securities when our group company is a leading managing underwriter)**

"Group companies" refers to Japanese and foreign companies (other than our company) which belong to Company B/Group B and engage in financial services, including banking and financial instruments businesses, and for which a Chief Conflict Officer judges necessary to be included in the targets of management for the purpose of managing conflicts of interest.

Source: Website of Nomura Asset Management Co., Ltd.

(1) Circumstances that are highly likely to give rise to conflicts of interest

Exercise of voting rights to or dialogue with companies, where directors/officers of our stakeholders (subsidiaries/affiliates of our company and our parent company C), our company and Company C assume the roles of directors/corporate auditors (including candidates)

(2) Circumstances that may highly give rise to conflicts of interest

Exercise of voting rights to or dialogue with companies, which are our large clients, or in which Company C has a significant stake.

Source: Website of Nissay Asset Management Co., Ltd.

Managing Conflicts of Interest (2): Measures for Preventing Conflicts of Interest

- ❑ As measures to prevent possible conflicts of interest, many institutional investors established **third-party committees, the majority of whose members are outside directors, to oversee proxy voting results.**
- ❑ Some **limit personnel transfers** from corporate business division to asset management division.

(1) Establishment of a third-party committee (Stewardship Committee)

We set up the Stewardship Committee to check the sufficiency and adequacy of the exercise of voting rights and engagement activities conducted by Trust Asset Management Division, in order to maximize interests of our clients and beneficiaries. This Committee is under the Board of Directors, and the majority of its members are external third-parties to secure its independence and neutrality. (The Committee consists of 3 members appointed by the Board of Directors: Chairman who is an independent outside director, an external expert, and executive officer in charge of compliance.) Specifically, the Committee examines results of monitoring by the internal compliance department concerning voting and engagement activities, and investigates/deliberates the following matters:

- (a) appropriateness of policies and rules related to the exercise of voting rights, etc.; and
- (b) initiatives related to the exercise of voting rights, etc. based on the policies and rules.

The Committee reports results of its verification to the Board of Directors; and if it finds the necessity of improvements, the Committee makes recommendations to the Board of Directors.

(2) Blocking the influence on Trust Asset Management Division

In order to block the influence from other divisions with regard to its voting and investment decisions, we ensure that such decision-making is completed with Trust Asset Management Division, thus preventing any conflicts of interest. [...] In order to increase the effectiveness of the above-mentioned policy for preventing conflicts of interest, and to block the influence on Trust Asset Management Division from other divisions, we adopted the following 3 measures:

- (a) Restriction on personnel transfer

To block risks of any influence from Corporate Business Division on Trust Asset Management Division, it is prohibited to transfer any individual, who belonged to sales department that had direct contacts with corporate customers in the past 5 years, to Trust Asset Management Division.

- (b) Clarification of rules to block the influence and information [*details omitted*]
- (c) Enhanced monitoring of asset management process [*details omitted*]

Company-specific voting disclosure (1): Asset managers who have made company-specific disclosures

Some institutional investors have made **disclosures of company-specific voting records on an individual agenda item basis** (“company-specific disclosure”) prior to annual general shareholders meetings this year. Currently, **more than 70 institutional investors**, including almost all large Japanese asset managers, have made company-specific voting disclosures (some of them disclosed reasons why they cast ‘for’ or ‘against’ votes). There are other investors who **plan to make such disclosures in the future**.

[Investment managers]

ASAHI LIFE ASSET MANAGEMENT CO., LTD.
 Astmax Asset Management, Inc.*
 Asset Management One Co., Ltd.
 Amundi Japan Ltd.
 AllianceBernstein Japan Ltd.
 Allianz Global Investors Japan Co., Ltd.*
 Senshu Ikeda Investment Management Co., Ltd.
 Eastspring Investments Limited
 Invesco Asset Management (Japan) Limited*
 Ichigo Asset Management, Ltd. [already published companies only]
 Ichiyoshi Asset Management Co., Ltd
 Effissimo Capital Management Pte. Ltd. [already published companies only]
 Okasan Asset Management Co., Ltd.
 Carrera Asset Management Co., Ltd.*
 Capital International K.K.
 Commons Asset Management, Inc.* [‘against’ votes only]
 Goldman Sachs Asset Management
 Sawakami Asset Management Inc. *
 Shinkin Asset Management Co., Ltd.
 Simplex Asset Management Co., Ltd.* [‘against’ votes only]
 SPARX Asset Management Co., Ltd. [‘against’ votes only]
 Strategic Capital, Inc.
 State Street Global Advisors (Japan) Co., Ltd.
 SAISON ASSET MANAGEMENT CO., LTD. [checking with investee funds]
 Sampo Japan Nipponkoa Asset Management Co., Ltd.
 Daiwa Asset Management Co., Ltd.
 Daiwa SB Investments Ltd.
 Chibagin Asset Management Co., Ltd.
 Chugin Asset Management Co., Ltd.

Deutsche Asset Management (Japan) Limited*
 Tokio Marine Asset Management Co., Ltd.
 Natixis Investment Managers Japan Co., Ltd.
 Nikko Asset Management Co., Ltd.
 Nissay Asset Management Co., Ltd.
 Neuberger Berman
 Norinchukin Zenkyoren Asset Management Co., Ltd.
 Nomura Asset Management Co., Ltd.
 PineBridge Investments Japan Co., Ltd.
 Pictet Asset Management (Japan) Ltd.
 FIL Investments (Japan) Limited
 Fukoku Capital Management, Inc.
 BlackRock Japan Co., Ltd.
 Portfolia Inc.
 Manulife Asset Management (Japan) Limited
 Misaki Capital Inc.* [already published companies only]
 Sumitomo Mitsui Asset Management Company, Limited
 Sumitomo Mitsui Trust Asset Management Co., Ltd.
 Mitsubishi UFJ Kokusai Asset Management Co., Ltd.
 Meiji Yasuda Asset Management Company, Ltd.
 Russell Investments Japan Co., Ltd.
 Resona Asset Management Co., Ltd.
 Rheos Caital Works Inc.* [‘against’ votes only]
 Robeco Japan Company Limited
 Baillie Gifford & Co
 BNP Paribas Asset Management Japan Limited
 BNY Mellon Asset Management Japan Limited*
 Dimensional Fund Advisors
 GMO
 JP Morgan Asset Management (Japan) Limited
 Martin Currie Investment Management

MFS Investment Management K.K.
 MU Investments Co., Ltd.
 SBI Asset Management Co., Ltd.*
 TORANOTEC ASSET MANAGEMENT LTD.
 T&D Asset Management Co., Ltd.
 T. Rowe Prince International Limited
 UBS Asset Management (Japan) Ltd.

[Trust banks]

Sumitomo Mitsui Trust Bank, Limited
 Mitsubishi UFJ Trust and Banking Corporation
 Mizuho Trust & Banking Co., Ltd.
 Resona Bank, Limited
 The Norinchukin Trust and Banking Co., Ltd. [Requested asset managers for such disclosures]

Life insurance companies

AXA Life Insurance Co., Ltd.*
 Asahi Mutual Life Insurance Company [‘against’ votes only]
 Aflac (American Family Life Assurance Company of Columbus)
 Japan Post Insurance Co., Ltd.
 The Gibraltar Life Insurance Co., Ltd.*
 SUMITOMO LIFE INSURANCE COMPAY
 Sony Life Insurance Co., Ltd.
 The Dai-ichi Life Insurance Company, Limited
 DAIDO LIFE INSURANCE COMPANY
 Taiyo Life Insurance Company
 Fukoku Mutual Life Insurance Company [general accounts (important investee companies) and segregated accounts]
 Fukokushinrai Life Insurance Company Limited
 The Prudential Life Insurance Company, Ltd.*
 Manulife Life Insurance Company
 Meiji Yasuda Life Insurance Company [segregated accounts only]
 MetLife Insurance K.K.

(Note 1) Institutions with * have not yet made company-specific disclosures, but publicly announced their intention to do so in the future.

(Note 2) In case of institutions with overseas group companies, those which have made company-specific disclosures on their global websites are included (unless otherwise specified by their Japanese entities).

Company-specific voting disclosure (2): Reasons for not making company-specific disclosure

Company D

With regard to disclosure of voting records for each investee company on an individual agenda item basis as specified in Guidance 5-3, we have postponed company-specific disclosures for policyholders' interests though we are aware that it is one of the effective ways to increase the transparency of activities and dispel doubts about conflicts of interest. As a company that assumes the principle of stably managing insurance premiums received from policyholders over the long-term through long-term shareholdings, we believe that **we need to determine influences caused by such company-specific disclosures: for example, whether they adversely affect dialogue with investee companies, whether they impede long-term corporate growth, and whether share prices of companies, whose proposal we voted against, may drop due to the speculation that we will sell their shares.** In the meantime, to increase the visibility of our exercise of voting rights, that is adequately done in accordance with our stewardship policy, we take the following initiatives. [snip]

Company E

We postpone company-specific disclosures this time, but will continue the consideration, though we recognize that disclosures of company-specific voting records have certain significance in terms of enhanced disclosures and increased transparency. We, however, consider that **such disclosures may affect our stewardship activities, depending on the depth of shared recognition with investee companies through dialogue from the long-term perspective, and thus may not lead to benefits for our customers.**

Company F

We **report to beneficiaries or trustors** about our voting records along with reasons **for each investee company on an individual agenda item basis.**

We believe that thorough implementation of the above will **sufficiently secure interests of beneficiaries,** and therefore, refrain from making company-specific voting disclosures at this point.

(Reference) Asset owners' responses to company-specific disclosure of voting records

- Many asset owners requested their asset managers to make company-specific disclosures of voting records.

<Asset owners who announced their response to company-specific disclosure of voting records>

Pension Fund Association (Note 1)

Japan Police Personnel Mutual Aid Association

Japan Mutual Aid Association of Public School Teachers

National Pension Fund Association

Federation of National Public Service Personnel Mutual Aid Associations

National Federation of Mutual Aid Associations for Municipal Personnel

Pension Fund Association for Local Government Officials

The Mutual Aid Association of Prefectural Government Personnel

Mutual Benefit Association for Tokyo Metropolitan Government Employees

Organization for Workers' Retirement Allowance Mutual Aid

Farmers Pension Fund

The Promotion and Mutual Aid Corporation for Private Schools of Japan

Government Pension Investment Fund (GPIF)

Sumitomo Mitsui Trust Bank Pension Fund

California Public Employees' Retirement System (CalPERS) [US] (Note 2)

Fourth Swedish National Pension Fund (AP4) [Sweden] (Note 2)

Railway Pension Trustee Company [UK] (Note 2)

In response to the revision of the Code, these asset owners requested their asset managers to make company-specific disclosures

(Note 1) Pension Fund Association manages assets through asset managers as well as by itself. In response to the revision of the Code, it decided to make company-specific disclosure of voting records where it exercised voting rights by itself.

(Note 2) They disclose their own voting records by investee company.

Source: Prepared by the FSA based on websites of 178 institutional investors which reported their updates of disclosure items in response to the revised Code (as of Dec. 11, 2017)