

Material 2

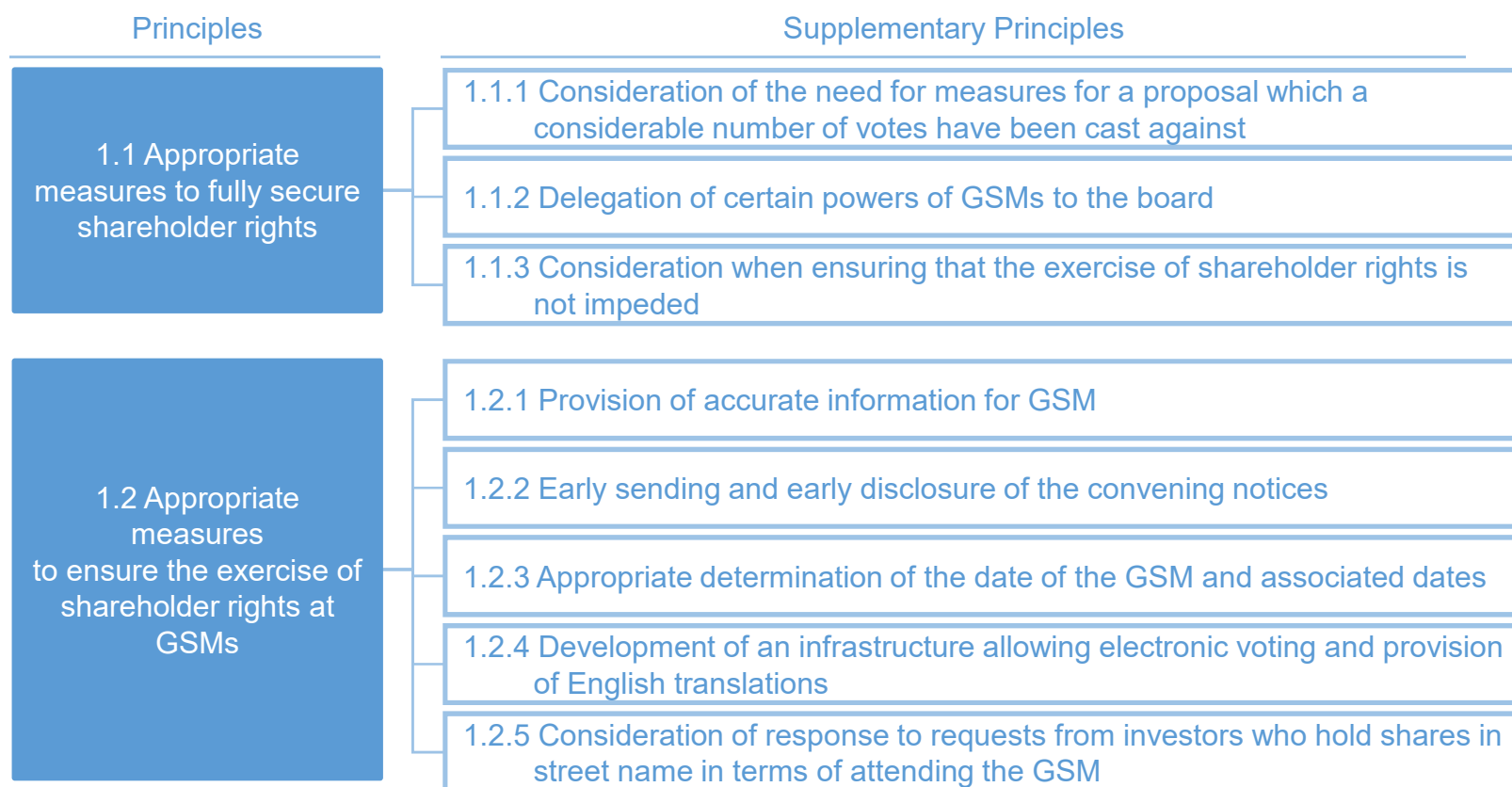
Provisional  
Translation

# **General shareholder meetings**

December 8, 2020  
Japan Financial Services Agency

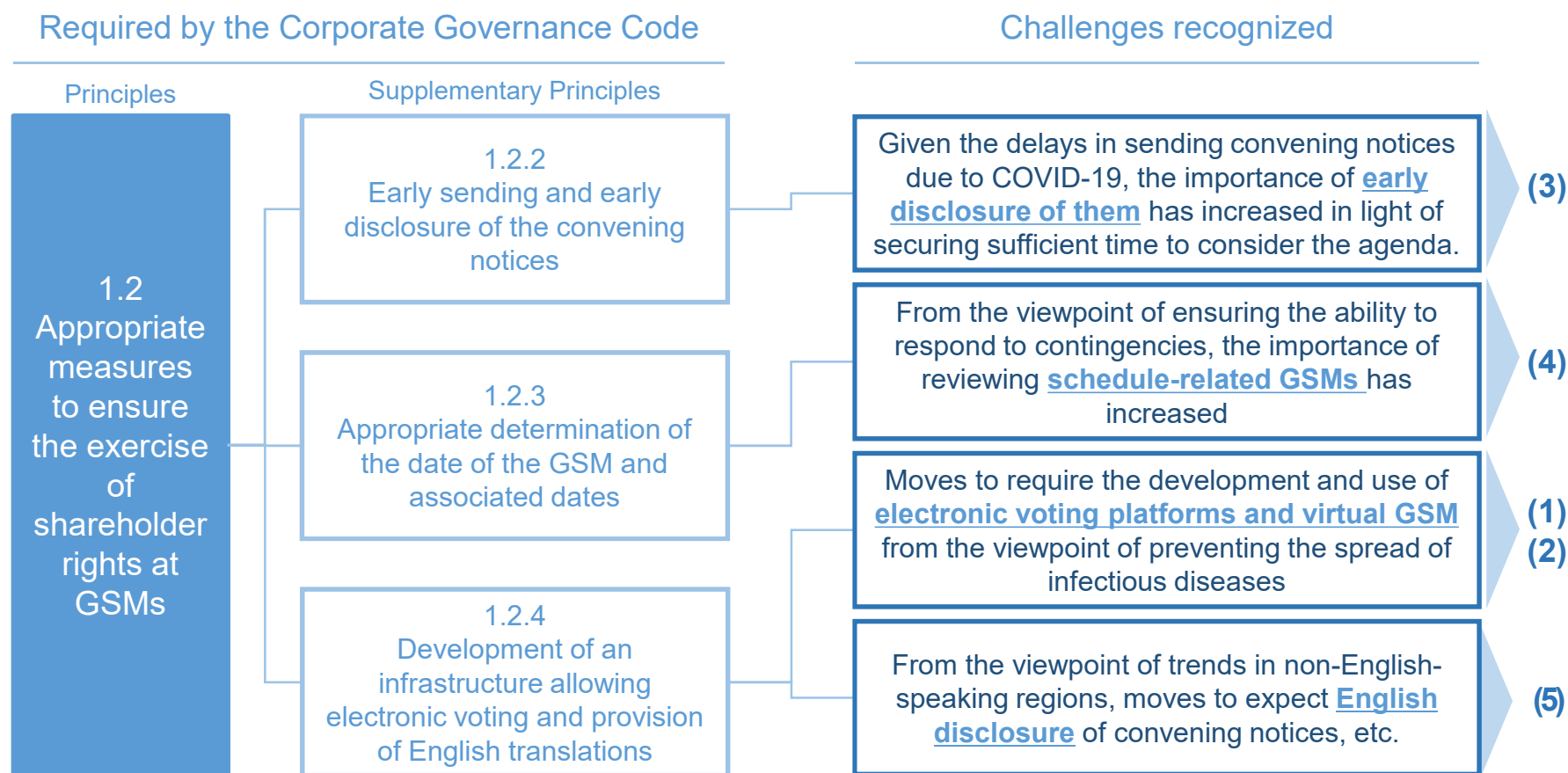
## Principles in Japan's corporate governance code and challenges related to general shareholder meetings

- ❑ In order to contribute to sustainable growth and increase corporate value over the mid- to long-term, it is crucial for companies to engage in constructive dialogue with shareholders throughout the year.
- ❑ General shareholder meetings are particularly important opportunities for dialogue with shareholders. Therefore, beyond the date of a general shareholder meetings, **the entire process for decision-making is required to be constructive and effective.**
- ❑ From this point of view, Japan's Corporate Governance Codes require **listed companies to take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively.**



## Principles in Japan's corporate governance code and challenges related to general shareholder meetings

- ❑ In terms of appropriate measures to secure the exercise of shareholders' rights required by the Corporate Governance Code, various challenges, including existing ones, have been recognized through the COVID-19 pandemic.
- ❑ It is expected for listed companies to accelerate their efforts to **develop appropriate measures for exercising shareholders' rights** and to **enhance the provision of information that contributes to appropriate decision-making by shareholders in relation to them**.

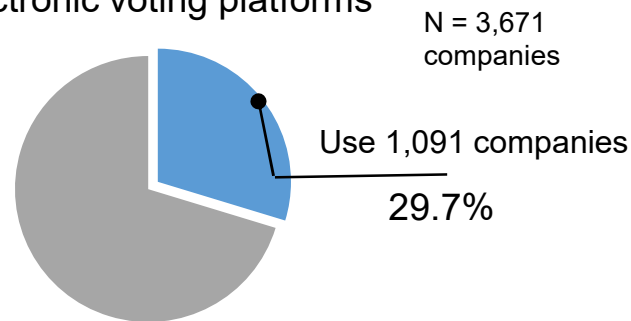


# (1) Use of electronic voting platforms

- ❑ The number of companies that use an electronic voting platform is gradually advancing, but **when looking at listed companies as a whole, the ratio of the use is only about 30%** and **that of domestic institutional investors remains at about 13%**.
- ❑ On the other hand, **in the U.S. and Europe, the electronic voting rate by institutional investors is significantly high.**

Listed companies

The number of listed companies that use electronic voting platforms

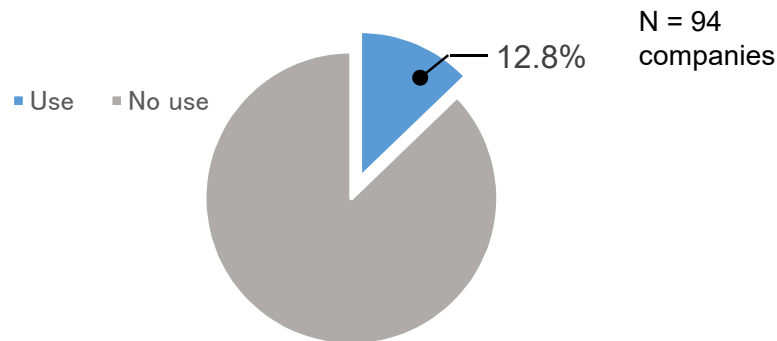


(Note) The figures are for issuers on the first and second sections of the Tokyo Stock Exchange, Mothers, and JASDAQ, excluding foreign-listed companies. Population is as of the end of June 2020.

Source: Prepared by JFSA from a survey by ICJ, Inc.

Institutional Investors

Use of electronic voting platforms



Source: Prepared by JFSA from the Japan Investment Advisers Association (JIAA), "6th survey report on the JIAA member companies to the questionnaire for the Japan Stewardship Code" (conducted in October 2019)

The ratio of electronic voting in the U.S. and Europe  
(Based on the number of voting rights)

U.S.	Institutional Investors	98%
	Individual shareholders	73%
U.K.	Institutional Investors	90% or more
Germany	Institutional Investors	70% or more

Source: Prepared by JFSA from

U.S.: Broadridge+PwC, "Proxy Plus, first edition 2014"

U.K./Germany: Material prepared by KPMG AZSA & Co. from interviews with Makinson Cowell (U.K.) and VIP (Germany) based on a survey in FY2016.

## (1) Use of electronic voting platforms

- ❑ Regarding the use of the electronic voting platform, it has been pointed out that it has the **advantage of reducing the time required to mail documents**, while **investors have pointed out challenges such as the overlapping of instructions flow**.
- ❑ After COVID-19, it has also been pointed out that the use of the electronic voting platform has been useful for preventing the spread of infectious diseases.

		+ Pros.	- Challenges
Discussion before COVID-19	Investors	<ul style="list-style-type: none"> <li>○ The time from sending to arrival of the convening notices from companies is no longer required and they are available immediately.</li> <li>○ Instruction rights can be exercised up to the day before the shareholder meeting (five business days before in Japan and eight business days before overseas are required without the electronic voting platform). In addition, it is possible to change instructions until the previous day.</li> </ul>	<ul style="list-style-type: none"> <li>○ <b>Overlapping of instructions flow can occur</b> (if the stocks held by domestic institutional investors consist of stocks on the platform as well as those not on it, the instructions flow will differ depending on whether or not)</li> </ul>
	Listed Companies	<ul style="list-style-type: none"> <li>○ Voting activity can be obtained early (additional or corrective information can be disseminated during the exercise period)</li> </ul>	<ul style="list-style-type: none"> <li>○ When the ratio of shares held by foreign shareholders and institutional investors is low, <b>the use of the electronic voting platform is not worth the cost of the usage fee.</b></li> </ul>
Opinions after COVID-19		<ul style="list-style-type: none"> <li>○ Use of the electronic voting platforms will lead to a decrease in operations, such as sending documents by mail, which will enable <b>the prevention of the spread of infectious diseases and human error.</b></li> <li>○ In order to further enhance the effectiveness of dialogue, it is important to make cross-industry efforts to <b>further promote the use of platforms in the future, particularly among institutional investors</b>, through the sharing of best practices.</li> <li>○ Electronic voting will significantly improve Japan's corporate governance and voting transparency.</li> </ul>	

## (2) Virtual shareholder meetings

- Thanks to the recent advances in IT, **general shareholder meetings are being organized in ways in which shareholders can virtually participate over the internet or through other telecommunications (so-called virtual shareholder meetings).**
- Virtual shareholder meetings can be broadly divided into hybrid virtual-type and virtual-only-type depending on whether they are held in both virtual and physical venues or only in virtual venues.

	Physically-conducted shareholder meetings	Hybrid virtual shareholder meetings		Virtual-only shareholder meetings
		Participation-type	Remote attendance-type	
Overview	Only physical venues (Conventional shareholder meetings)	Physical venues and virtual venues (the Companies Act provides that shareholders who participate in meetings via the Internet or other means are not regarded as "attendees.")	Physical venues and virtual venues (the Companies Act provides that shareholders who participate in meetings via the Internet or other means are regarded as "attendees.")	Only virtual venues
The way of voting on the meeting day(*)	Physical venues	Physical venues	Physical or online venues	Virtual venues
The way of asking questions or laying motions under the Companies Act	Physical venues	Physical venues	Physical or online venues	Virtual venues

(Note) It is also possible to exercise voting rights in advance in line with the votes in writing under the Companies Act, or to exercise voting rights by electromagnetic means.  
Source: Prepared by JFSA from the Ministry of Economy, Trade and Industry, "Guidelines on Approaches to Hybrid Virtual Shareholder Meetings Formulated" (formulated on February 26, 2020)

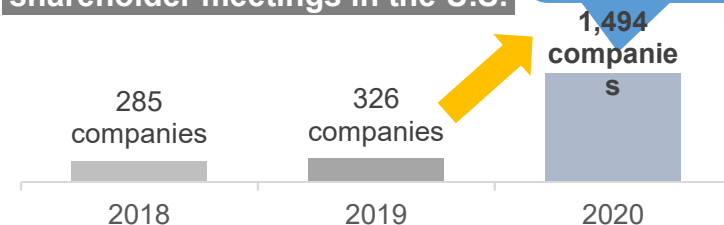
The trend of the virtual shareholder meetings in Japan



(Note) The survey covered 2,344 companies that held their general shareholder meetings in June 2020.

Source: Prepared by JFSA from a survey by Mitsubishi UFJ Trust and Banking

The trend of the virtual shareholder meetings in the U.S.






(Note) The number of general shareholder meetings held in the U.S. between January and June 2020 was approximately 4,000.

Source: Prepared by JFSA from a survey by Broadridge

## (2) Virtual shareholder meetings

- ❑ With regard to the virtual shareholder meetings, it has been pointed out that they have advantages to **ensure that there are both opportunities to participate in and attend general shareholder meetings and to prevent the spread of infectious diseases**.
- ❑ On the other hand, it has been pointed out that it is important to ensure **two-way and immediate Q&A**, and to ensure **transparency and fairness** in the exchange of questions and questions with shareholders.

	Pros.	Points to be noted
 Investors	<ul style="list-style-type: none"> <li>○ Will be able to participate and attend from remote locations, and will be able to participate in general shareholder meetings held on the same day in several countries, thereby <b>expanding opportunities to participate and attend the general shareholder meetings</b>.</li> <li>○ Reduce travel costs for participating in and attending the general shareholder meetings</li> </ul>	<ul style="list-style-type: none"> <li>○ Ensuring <b>transparency and fairness</b> in the exchange of questions and other questions between virtual attendees and shareholders is important.</li> <li>○ Ensuring <b>two-way and immediate</b> Q&amp;A is important.</li> </ul>
 Listed companies	<ul style="list-style-type: none"> <li>○ Expansion of the range of shareholders who participate and attend can be expected, which will lead to <b>activation of the exercise of voting rights</b>.</li> <li>○ Expansion of the way of questions, such as accepting questions from shareholders through chats can deepen discussions in the general shareholder meetings.</li> <li>○ Smaller general shareholder meetings venues can be expected to save venue fees.</li> </ul>	<ul style="list-style-type: none"> <li>○ If the interactivity and immediacy of virtual general shareholder meetings is impaired due to communication failures, there may be a risk of cancellation of the general shareholder meetings resolution.</li> <li>○ There is a risk that the sending of a large number of questions may interfere with the management of the proceedings</li> <li>○ It is necessary to improve the environment for smooth virtual participation and attendance by coordinating with related parties and utilizing the system.</li> </ul>
 Social	<ul style="list-style-type: none"> <li>○ In the COID-19 pandemic, <b>both social demands to prevent the spread of infectious diseases and opportunities to participate and attend the general shareholder meetings can be secured</b>.</li> <li>○ Heating and cooling of the venue and physical movement of shareholders will not be required to a certain extent, which can result in a low burden on the environment.</li> </ul>	

### (3) Early sending and early disclosure of convening notices

- ❑ The ratio of companies sending convening notices more than 3 weeks prior to the general shareholder meeting has tended to increase from 2015 in response to the introduction of the Corporate Governance Code. However, **in 2020, the ratio decreased due to the COVID-19 pandemic.**
- ❑ Some listed companies disclose convening notices on TDnet (Timely Disclosure network) after sending them, indicating that **there is a large gap between listed companies** in terms of early disclosure.

Japan's Corporate Governance Code

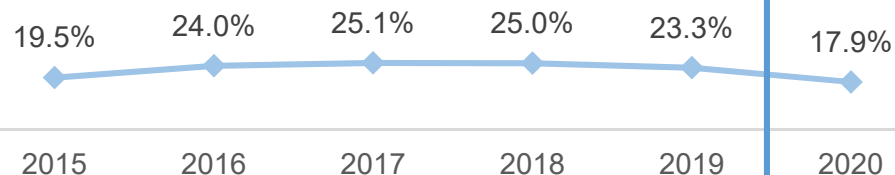
Supplementary Principles 1.2.2

✓ While ensuring the accuracy of content, companies should strive to send convening notices for general shareholder meetings early enough to give shareholders sufficient time to consider the agenda.(\*1)

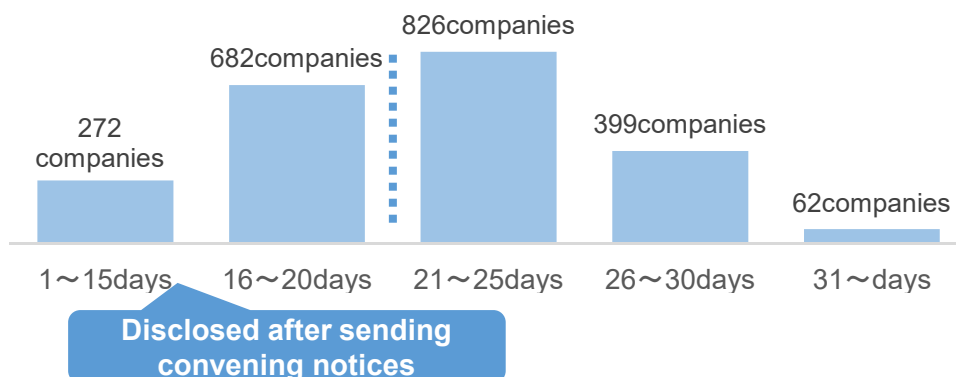
✓ During the period between the board approval of convening the general shareholder meeting and sending the convening notice, information included in the convening notice should be disclosed by electronic means, such as through TDnet or on the company's website.

The ratio of compliance  
**96.8%**(\*2)

The ratio of the companies that send convening notices more than 3 weeks prior to the general shareholder meetings (\*3)



The days between disclosing on TDnet and the general shareholder meeting (\*4)



(\*1) The Supplementary Principle 1.2.2 of the Code only obligates the making of effort toward early sending.

(\*2) Corporate governance reports as of August 14, 2020

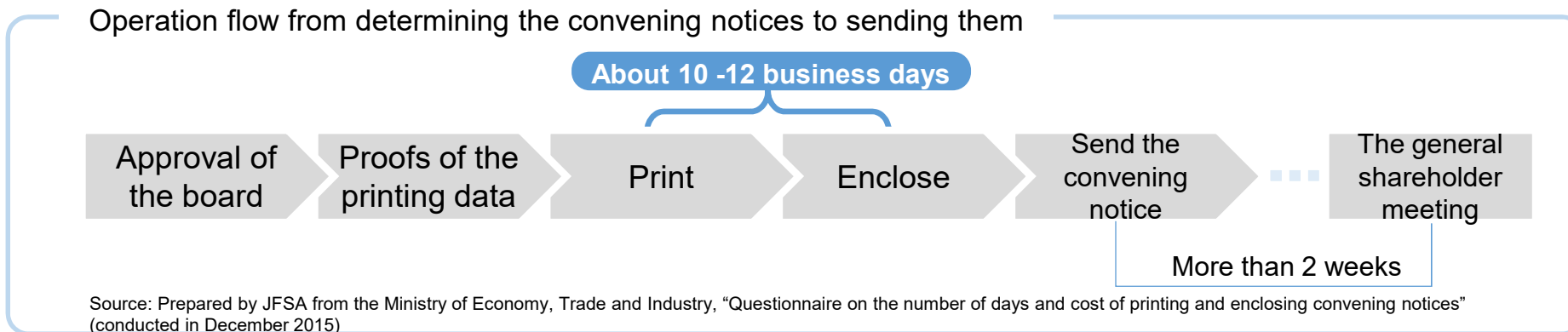
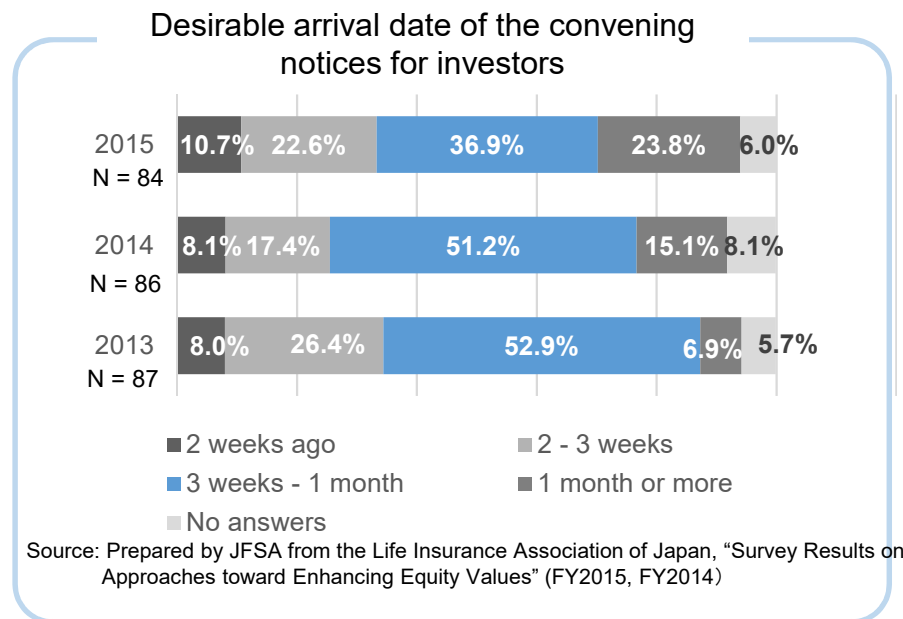
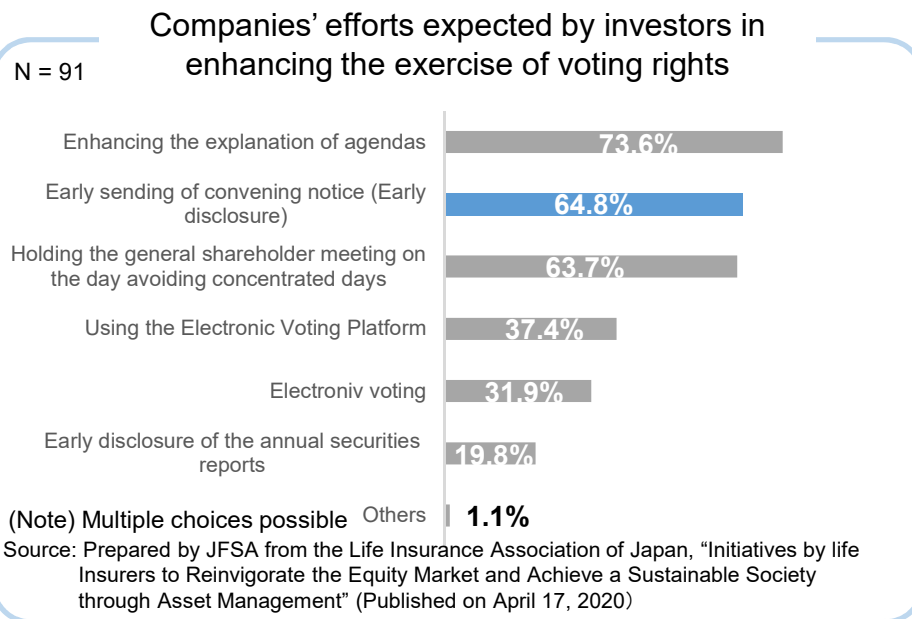
(\*3) As of June 7, 2020

(\*4) Excludes listed companies with a fiscal year ending in March that chose to hold postponed or adjourned meetings (89 companies).



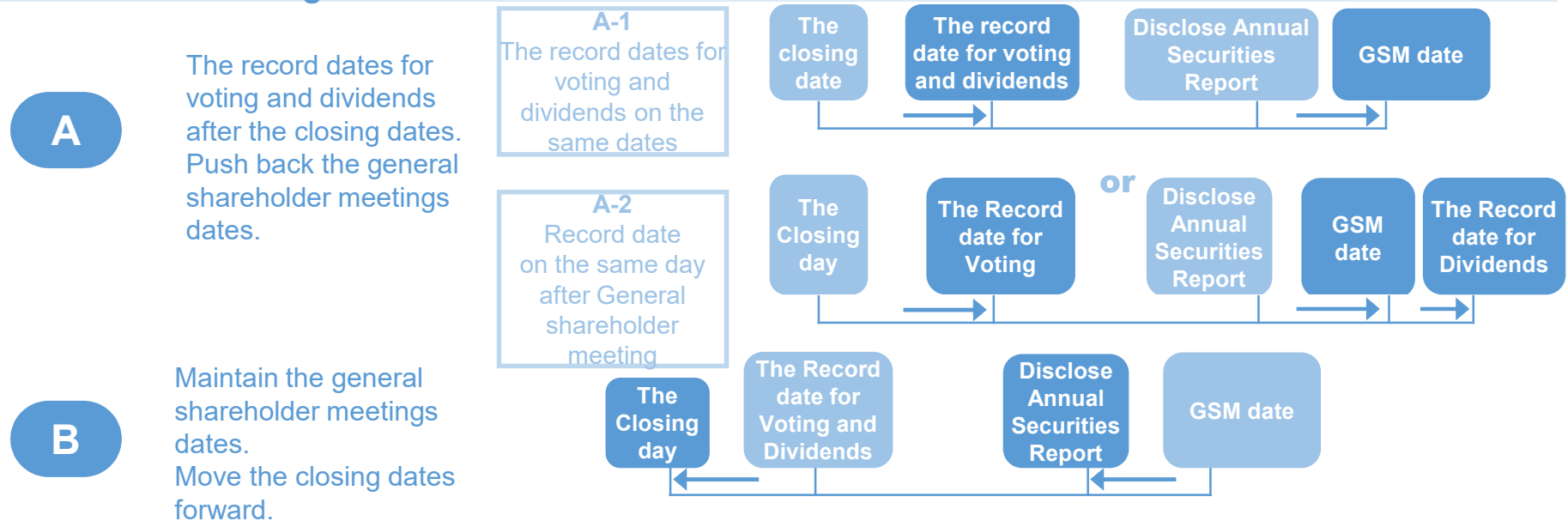
### (3) Early sending and early disclosure of convening notices

- ❑ In enhancing the exercise of voting rights, **investors have great expectations for the early sending and early disclosure of convening notices.**
- ❑ While it will get difficult to send it early under unforeseen circumstances such as the COVID-19 pandemic, it is considered that the contents of the convening notices can be electronically disclosed 10-12 business days before their sending, and there is plenty of room for early disclosure.



## (4) Dates related to the general shareholder meetings

- Regarding the general shareholder meetings, it has been pointed out that in order to enhance constructive dialogue with shareholders and to provide accurate information for this purpose, **the record dates for voting and dividends should be moved to a later date than the closing dates, or the closing dates should be moved to earlier dates than the record dates if companies prefer not to change the general shareholder meetings dates or the record dates for dividends.**



### The opinion about dates associated with general shareholder meetings

- AGM (Annual General Meetings) notices should be issued at least 30 days in advance of the AGM. Companies should move their respective record dates from March to April to allow AGMs to be held in July.
- From the standpoint of promotion of dialogues between investors and companies and more effective exercise of voting rights, each company is expected to disclose its Annual Securities Report before the general shareholders meeting, taking into account the dialogues with investors and other factors.
- Will continually discuss with related parties about practical response to medium-long term challenges, such as promotion of digitalization regarding year-end closing and auditing, and supporting companies in changing their record date if necessary.
- In order for proxy advisors to carry out initiatives in accordance with Guidance 8-2 and 8-3, companies should disperse the timing of General Shareholder Meetings, disclose materials for General Shareholder Meetings at an earlier stage and enhance its disclosure.

## (4) Dates related to the general shareholder meetings

- ❑ The pros/cons of setting general shareholder meetings dates as three months or more from the closing dates by postponing the record dates for voting and dividends or advancing the closing date are as follows.
- ❑ In order to ensure the high-quality of exercising voting rights even in the event of contingencies such as the COVID-19 pandemic, it is a prevailing option to review the dates related to general shareholder meetings.



### Investors

- + Early sending of convening notices and diversifying of the dates of general shareholder meetings will be promoted. These will make it possible to **smooth out voting-related operations, thereby ensuring high-quality exercise of voting rights.**
- + Annual securities reports are disclosed prior to the general shareholder meetings and **the provision of information** for exercising voting rights are **enhanced**.
- + **The risk** that dividend resolutions will not be made as scheduled and **expected dividends will not be paid** to shareholders as of the record date **can be eliminated**.
- It is needed to develop a structure for managing the record dates apart from the closing dates



### Companies

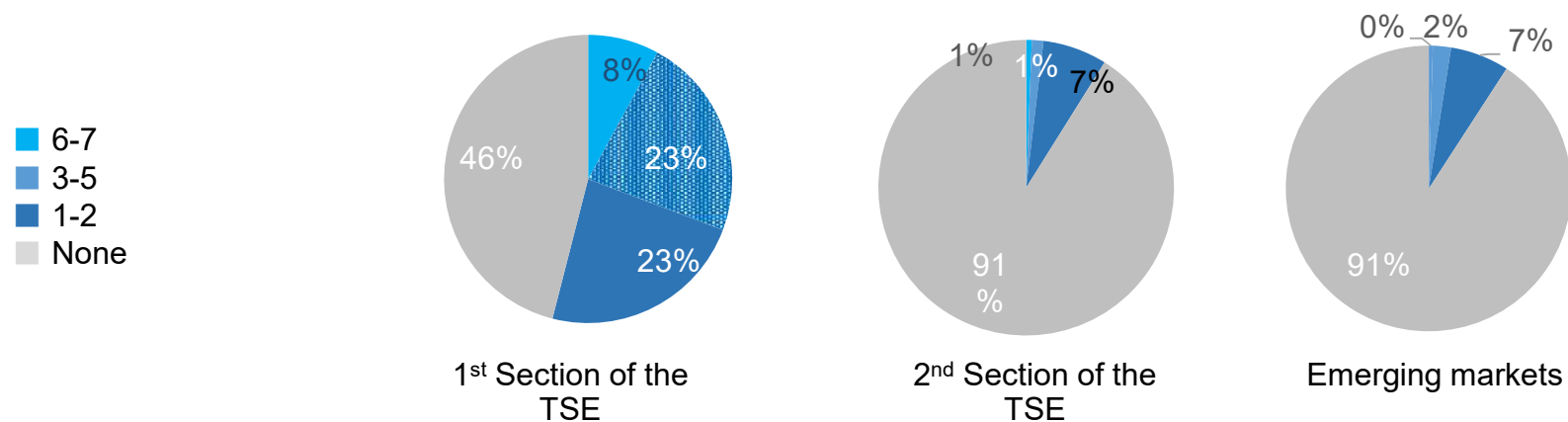
- + Maintain the quality of financial results and audits and **improve the ability to respond to contingencies such as the COVID-19** pandemic by securing sufficient time to respond if financial results and audits are not completed as scheduled.
- + **Reduce the risk of correcting** documents related to general shareholder meetings related **after being disclosed/sent.**
- + There is more time for companies to confirm the information that proxy advisors use for providing advice and exchange views with advisory firms.
- Due to a change in the general shareholder meetings dates or the closing dates, **the related schedule needs to be reviewed**, including the dates of the board and *kansayaku* board, the audit schedule of the independent auditor. Changing the dividends record date will inevitably result in a **a burden of explanations to investors.**
- **The timing of executive transfer is affected.**
- **The change of the record dates for dividends requires an explanation to investors.**
- If companies with a fiscal year ending in March hold the general shareholder meeting between July and August, they **should take measures against the risk of fever epidemics** and will have an impact on summer holidays.

permanent

## (5) Provision of English translation

- ❑ Supplementary Principles 1.2.4 and 3.1.2 of the Corporate Governance Code stipulate that companies should “take steps” for English disclosures.
- ❑ **More than half** of companies listed on the 1st Section of the TSE **disclose a part of their disclosure documents in English**. On the other hand, **only a small number of companies disclose their annual securities reports in English**.

The number of disclosure documents that listed companies translate into English.



The ratio of English translations of each disclosure document

	Financial Result	Timely disclosure of material information	Convening notices/Proxy materials	Business report/Financial statements	Corporate Governance Report	Annual Securities Report	IR material
1 <sup>st</sup> Section of the TSE	43.1%	23.9%	40.0%	13.7%	13.8%	3.0%	35.5%
2 <sup>nd</sup> Section of the TSE	6.4%	1.9%	4.1%	0.8%	1.0%	0.2%	2.9%
Emerging markets	7.5%	2.4%	1.9%	0.6%	0.8%	0.3%	4.7%
All markets	28.4%	15.0%	24.7%	8.4%	8.5%	1.9%	22.7%

Source: Japan Exchange Group, “Availability of English Disclosure Information by Listed Companies”

## (5) Provision of English translation

- ❑ Foreign investors have **asked for companies to make disclosures in English** in order to realize constructive dialogue.
- ❑ **Efforts for English disclosure in non-English speaking regions overseas are expanding**, such as Taiwan Stock Exchange's requirement for all listed companies to make disclosures in English by 2024.

### Opinions related to English Disclosure

- **English disclosure should be mandatory.** It is necessary to disclose more high-quality information in English for foreign investors.
- **If high-quality information is disclosed in English** before the general shareholder meetings, **the discussion there will be deepened.**
- In the Prime Market, disclosure at a level that deepens communication with domestic and foreign investors, such as **information disclosure in English**, is required.
- The Yuho should therefore be published pre-AGM, not post. Companies listed in the **TSE prime market** should make **English translations of both Securities Report and Notice of AGM.**

### Movements related to disclosure in English in non-English-speaking regions

#### Taiwan

In January 2020, Taiwan Stock Exchange Corporation (TWSE) revised its listing rules and announced that listed companies on TWSE would be required to disclose in English important information in stages, depending on the amount of paid-in capital and the overseas investor ratio (including investment from mainland China; the same hereafter). (In 2024, all companies listed on the TWSE market will be required to disclose them in English.)

#### Germany

Frankfurt Stock Exchanges requires listed companies on the Prime Standard Market to provide financial and timely disclosures in both German and English.

#### Korea

The Corporate Governance Code encourages English disclosure.

## (6) Subjects to be discussed at the 22nd Council

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- The listed companies are required to develop appropriate measures for shareholders to exercise their rights and to enhance the provision of information.
- In light of the COVID-19 pandemic, it is pointed out that general shareholder meetings should be reviewed from the following perspectives, with a view to further enhancing the entire process for the entire decision-making process at general shareholder meetings.
  - Digitization of general shareholder meetings and voting process based on IT development
  - Disclosure to support the enhancement of constructive dialogue
  - Dates related to general shareholder meetings to respond to contingencies and ensure the high-quality exercise of voting rights
- In light of the viewpoints above, how should the following issues about general shareholder meetings be considered?
  - Use of the electronic voting platform
  - Use of virtual shareholder meeting
  - Early sending and early disclosure of convening notices
  - Necessity of reviewing dates related to general shareholder meetings
  - Provision of English translation
- Is there any other issue to be reviewed in relation to Principle 1.1 (Appropriate measures to fully secure shareholder rights) and 1.2 (Appropriate measures to ensure the exercise of shareholder rights at general shareholder meetings)?