

Material 3

Provisional  
Translation

# Reference Material for the Twenty Second Council

December 8, 2020  
Japan Financial Services Agency

## Table of Contents

---

(0) Discussions so far.....	P2
(1) Use of the Electronic Voting Platform.....	P3
(2) Virtual shareholder meetings.....	P6
(3) Early delivery and announcement of convening notice.....	P9
(4) Timing of general shareholder meeting.....	P16
(5) Dealing with proposals that have a high number of "against" votes.....	P20
(6) Other	

## (0) Discussions so far (Opinions from follow-up meetings)

- At the twentieth and twenty-first meetings of the Follow-up Council, members made the following remarks concerning general shareholder meetings in response to the pandemic.

### The Twentieth Council

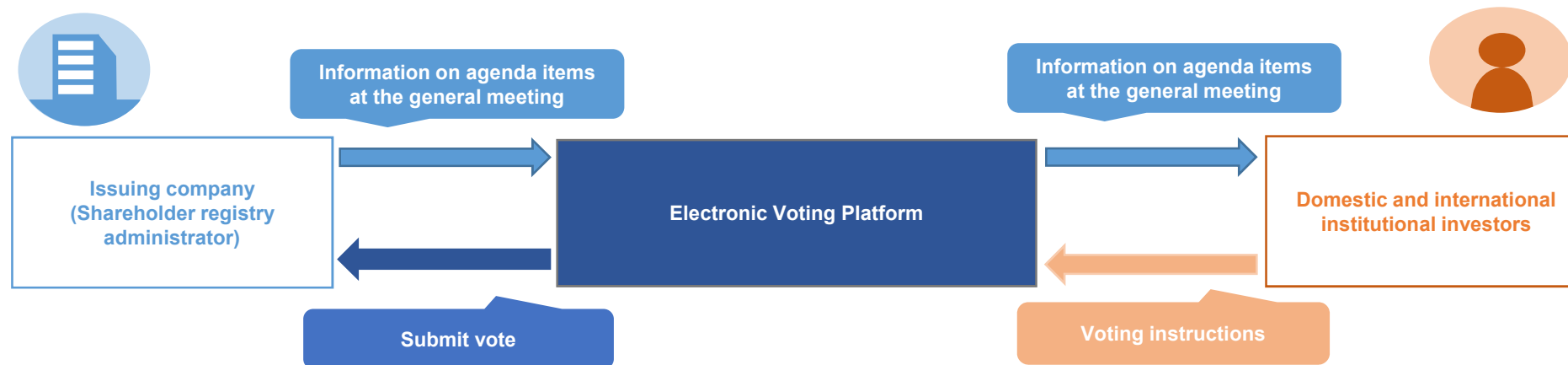
- Shareholder meetings should be held in a **digital, web-based format, and matters for disclosure should be available in an electronic format**. This is an ideal opportunity for **use of electronic voting platforms**.
- Given the situation with the pandemic, considering **the risk that the timetable for shareholder meetings will be concentrated over a short period next year and beyond, the possibility and significance of virtual general meetings should be discussed**.
- **The securities report should be published prior to the general meeting**. Companies on the “prime market” should make the **securities report and convening notice of the general shareholder meeting available in English**. It is also recommended that **the record date for meetings be moved to April and that meetings be held in July**.
- **With respect to hybrid or virtual-only general meetings**, it is recommended to encourage regulators to ensure that **shareholder rights are not infringed** so as not to restrict their ability to hold companies properly to account. (Measures should include advance notice of format of the meeting (1 month ahead), use of video technology ensuring that facial expressions are visible, opportunities for Q&A and for shareholders to express opinions, recording and responding to all questions/prompt disclosure of such responses, etc.)
- This year, the number of hybrid-type general meetings increased, but it is important to **ensure that shareholder rights are maintained in this format** (interactive Q&A, prompt responses and live streaming).
- **If dividends are determined by board resolution**, and if the record date for exercising voting rights at the general meeting is different from the record date of the dividend, this allows more flexibility in the scheduling of the general shareholder meeting.

### The Twenty-First Council

- In terms of a board’s response if the proportion of votes against a general meeting proposal is 20% or 30%, **disclosing how the company deals with such circumstances** would make directors have a keener sense of tension.
- To promote a dialogue with investors, **companies should disclose information** in English and provide information on the skills matrix of the directors.

# (1) Use of the Electronic Voting Platform ①

- ❑ For institutional investors to exercise their voting rights at the general meeting, there should be a process in place for information on meeting agenda items to be communicated by the company to investors and for the results of the votes to be communicated back to the company by the investors.
- ❑ The Electronic Voting Platform is **an infrastructure for electronically carrying out this process**. It is also mentioned in the current Supplementary Principles 1.2.4 of the Corporate Governance Code.



Source: FSA, compiled from data on the ICJ website

Corporate Governance Code  
Supplementary Principle 1.2.4

**Bearing in mind the number of institutional and foreign shareholders, companies should take steps for the creation of an infrastructure allowing electronic voting, including the use of the Electronic Voting Platform, and the provision of English translations of the convening notice of general shareholder meeting.**

Reference

Rule 446 of Securities Listing Regulations

(Framework Improvement to Facilitate Exercise of Voting Rights)

An issuer of a listed domestic stock shall endeavor to carry out matters prescribed by the Enforcement Rules as a framework improvement to facilitate the exercise of voting rights at general shareholders meetings.

Rule 437 of Enforcement Rules for Securities Listing Regulations

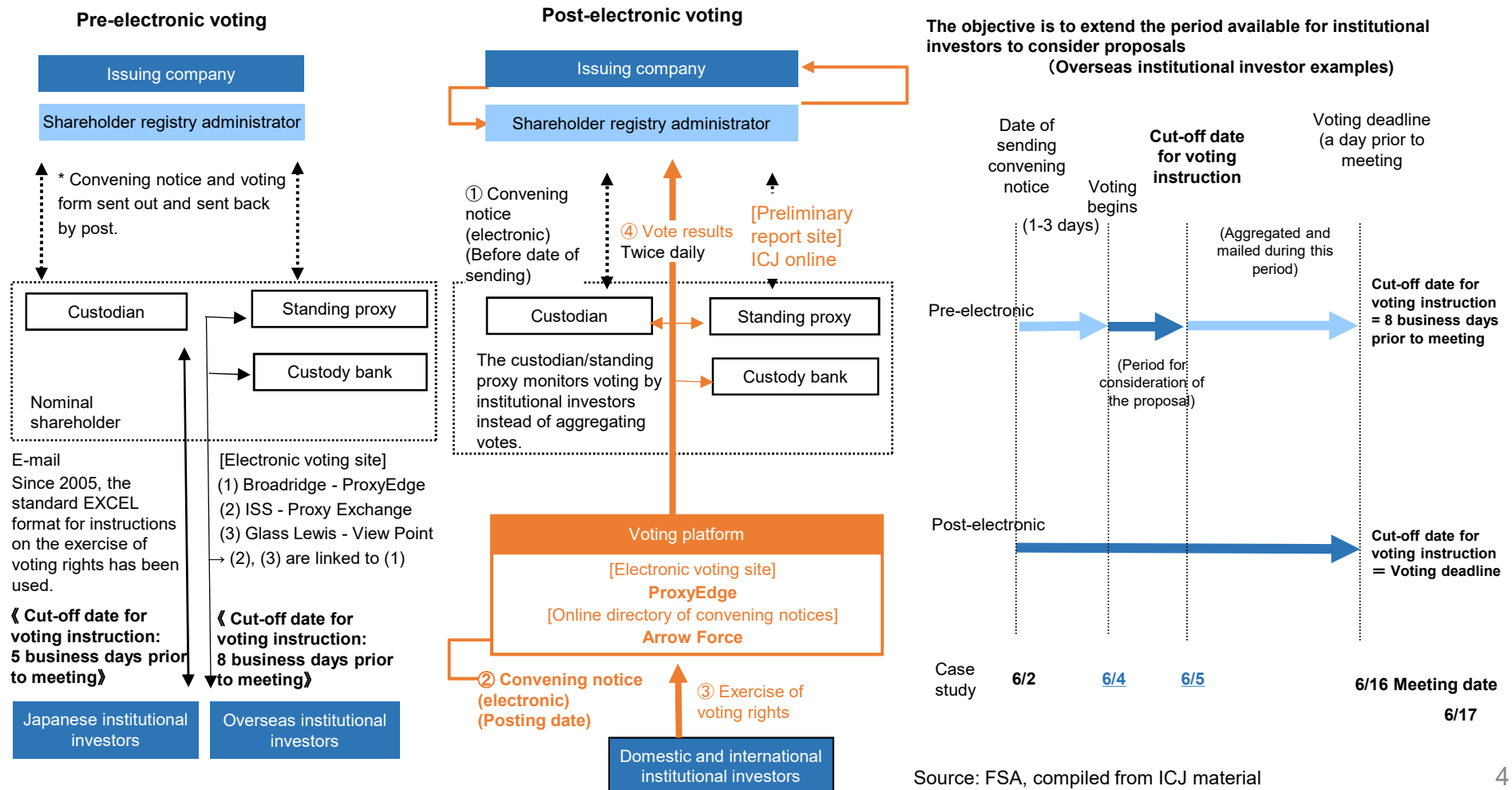
(Handling of Framework Improvement to Facilitate Exercise of Voting Rights)

Matters specified by the Enforcement Rules as prescribed in Rule 446 of the Regulations shall be the matters referred to in each of the following items:

(5) To provide an environment in which the **shareholders** (where such shareholder holds stocks for others, including beneficial shareholders having instructional rights pertaining to the exercise of voting rights and other rights equivalent thereto to the shareholders; the same shall apply in the following item.) **can exercise their voting rights by an electromagnetic method** (including instructional rights pertaining to the exercise of voting rights and other rights equivalent thereto; the same shall apply in the following item.)

# (1) Use of the Electronic Voting Platform ②

- There may be communication between parties concerned, such as asset managers and custodians (trust banks), in the process of exercise of voting rights by institutional investors. In addition, the nominal shareholder may contact the shareholder registry administrator, usually by mail.
- When the Electronic Voting Platform is used, the vote results are electronically and automatically sent to the shareholder registry administrator, and therefore, it is said that **the period for institutional investors to review proposals is extended by five to eight business days.**

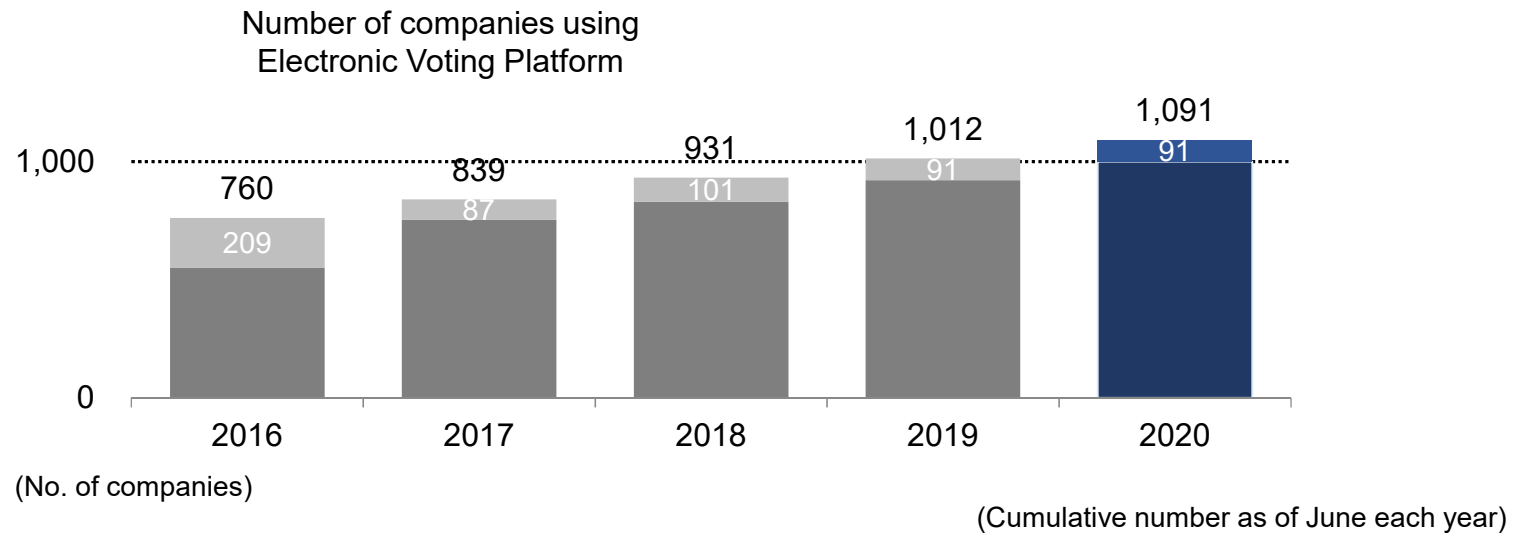


Source: FSA, compiled from ICJ material

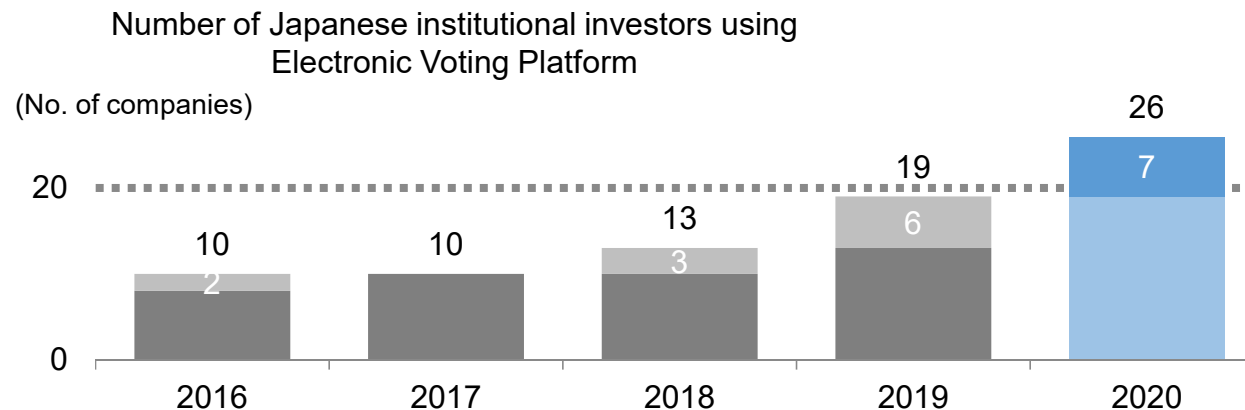
## (1) Use of the Electronic Voting Platform ③

- ❑ Although more and more listed companies are using the Electronic Voting Platform, **the proportion of companies using electronic voting is still only approx. 30%.**
- ❑ **The number of domestic institutional investors** exercising their votes electronically **has also been on a gradual uptrend, although only 26 companies do this currently.**

Listed companies



Institutional investors



Source: FSA, compiled from data from ICJ Survey

## (2) Virtual general shareholder meetings

### (Institutional investor feedback on current practices in Europe, USA, etc.)

- ❑ The International Corporate Governance Network (ICGN) and the Council of Institutional Investors (CII), representative bodies for international institutional investors, have published their viewpoints on emerging practices for virtual shareholders' meetings in Europe and the USA based on the 2020 AGM season. The summary is as follows.

#### ICGN Viewpoint Shareholder Meetings and Investor Dialogue: The New Normal

- The use of virtual shareholder meetings increased in all countries during the 2020 shareholder meeting season.
- The benefits of having virtual general meetings include the removal of geographical barriers, travel requirements and the reduction of other attendance costs, **thereby offering the potential for making shareholder meetings more accessible for both retail and institutional investors alike.** On the other hand, virtual meetings can be a problem, particularly for smaller companies, because they can be more expensive than organizing physical gatherings.
- To ensure high-quality interactive virtual shareholder meetings, there should be a framework in place, including the **publication of procedures for shareholders' participation in hybrid/virtual shareholder meetings** (including information on the format of the meeting, access procedures for the meeting, participant identity/verification procedures and the format of Q&A).
- ICGN believes that regulators and market participants in each country should develop and endorse a set of best practices for virtual or hybrid meetings and ensure that these are harmonized across countries.

#### CII Re: Virtual and Hybrid Meetings: Concerns from 2020 Proxy season (Notes)

- Based on the CII's experience of virtual shareholder meetings in the US and feedback from institutional investors, many shareholders faced obstacles in getting into general meetings this year. **Participation in shareholder meetings should be "easy, straightforward and reliable."**
- Concerning Q&As in shareholder meetings, company responsiveness and transparency in the US ranged from a transparent process of making the questions visible on a real-time basis, and attempting a good faith effort to answer them, to cherry picking of questions and the issuance of canned responses.
- The company **should make clear in proxy materials any limitations on shareholders asking questions** (including time limits, requirements to receive questions in advance in writing and the process for choosing questions).

Note: Letter about virtual general shareholder meetings sent to the U.S. Securities and Exchange Commission (SEC)

## (2) Virtual general shareholder meetings

### (Presentation of best practices by the UK Financial Reporting Council)

- ❑ The Financial Reporting Council has published a review of the 2020 AGM Season (Corporate Governance AGMs: An Opportunity for Change) to provide guidance on best practices for general shareholder meetings. The summary of the guidance is as follows.

#### Best Practice Guidance for AGMs – Learning from the 2020 AGM season

<b>Prior to the meeting</b>	<ul style="list-style-type: none"><li>• If a company decides to proceed with a digital element to the meeting, clear and timely instructions on how to join a meeting should be published in the notice of the meeting.</li><li>• Webcasts are preferred to audiocasts.</li></ul>
<b>Questions at the AGM</b>	<ul style="list-style-type: none"><li>• Questions should be facilitated in real-time, whether shareholders are attending in person or remotely.</li><li>• Sufficient time should be allowed for shareholders to submit questions. Best practice companies allowed emailed in questions up to the morning of the AGM.</li><li>• There should be no unreasonable limitations on the length of a question (e.g. number of words).</li><li>• If possible, all questions submitted at the AGM along with answers should be visible to all who attend the AGM.</li><li>• Opportunities for shareholders to follow up on the given answer, particularly in a virtual format could be enabled to ensure that matters raised at the AGM have been properly addressed.</li></ul>
<b>Webcast</b>	<ul style="list-style-type: none"><li>• Audiocasts and webcasts should be supported with other materials with clear links to additional material, such as materials for the shareholders' meeting.</li><li>• Explanations on how to vote should be provided to shareholders prior to the meeting. Links to FAQs and instructions on how to use this facility should be provided within the notice of meeting.</li></ul>

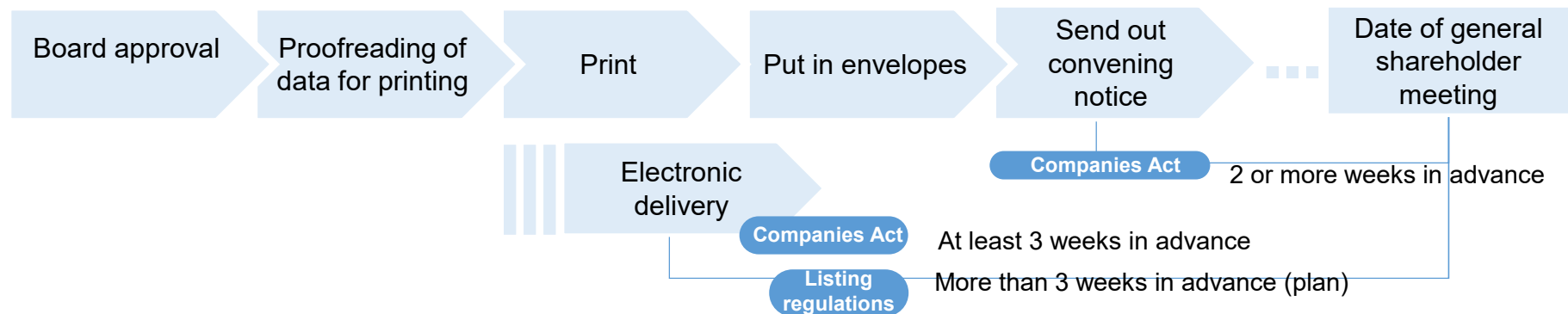
\* Reference is also made to the exercise of voting rights by proxy.



### (3) Early delivery and disclosure of convening notice ①

- ❑ Listed companies are expected to send out a convening notice **at least 2 weeks before** the date of the shareholder meeting.
- ❑ The 2019 revision of the Companies Act requires that listed companies make material for shareholder meetings available in electronic format **at least 3 weeks before** the date of the shareholder meeting.
- ❑ A supplementary resolution was made at the Legislative Council that Stock Exchange rules should stipulate that listed companies **should make material available in electronic format more than 3 weeks before the meeting**.

Flow from confirmation of details of convening notice to sending out of notice



Supplementary resolution at the 19<sup>th</sup> meeting of the Companies Act Subcommittee (related to Corporate Governance, etc.) of the Legislative Council

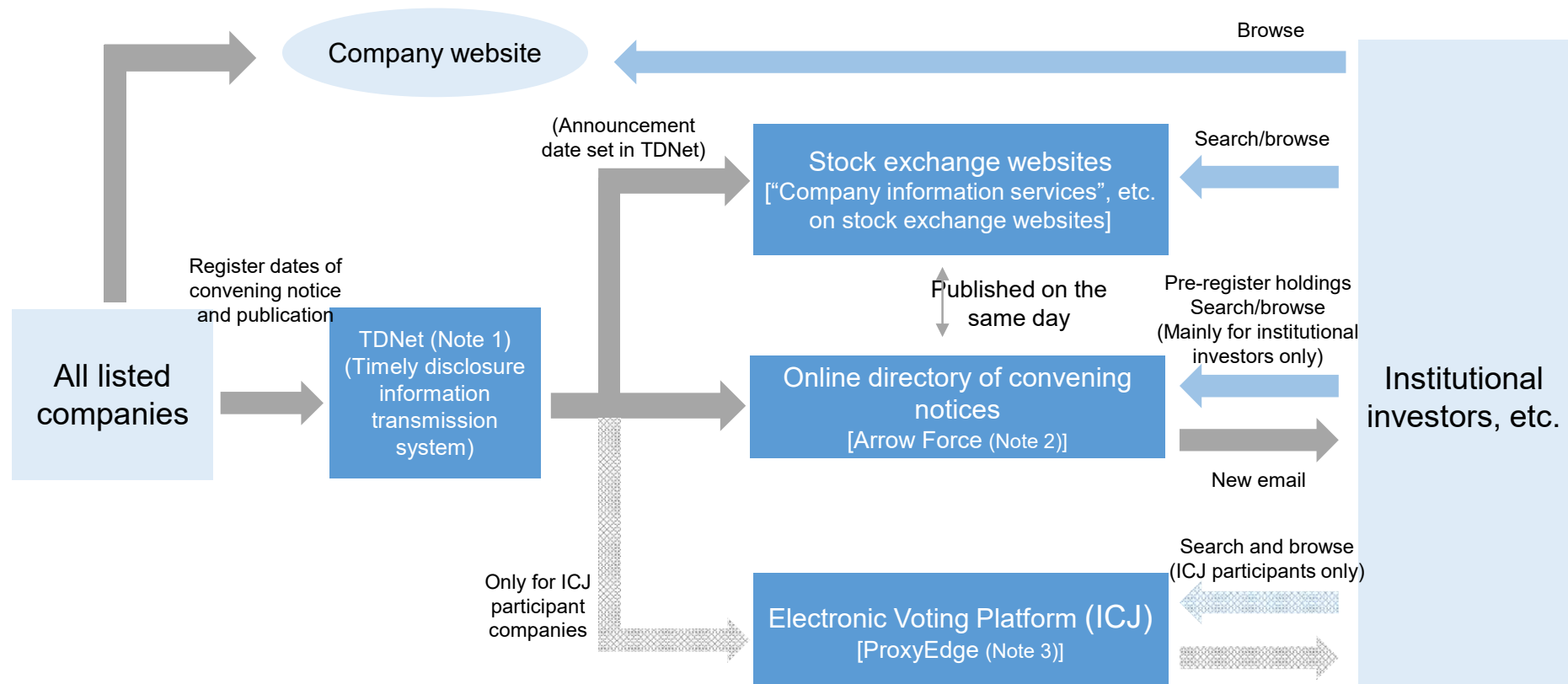
In addition to the rules concerning the electronic provision of materials for shareholder meetings, given discussions so far and current procedures for convening shareholder meetings, as an additional response to what is stipulated in the summary, **the rules of the financial instruments exchange should ensure that listed companies commence electronic provision of materials earlier than three weeks before the date of the meeting to allow shareholders a sufficient period of time to consider the meeting proposals.**  
(Excerpt)

Planned date for implementation of system of provision of electronic materials

Date specified by Cabinet Order **within a period of 3 years and 6 months from the date of issue (December 11, 2019)**

### (3) Early delivery and disclosure of convening notice ②

- It is pointed out that institutional investors, who hold diversified investments in a wide range of stocks, find it easier to keep track of convening notices, when they are posted on TDNet (timely disclosure information transmission system) and appear in online directories of convening notices.
- However, investors, who focus on only a limited number of stocks or who do not use online directories for convening notices, find it useful for this information to be published on the websites of listed companies.



Note 1: Convening notices also automatically distributed from TDNet to news vendors (Bloomberg, Nikkei, etc.).

Note 2: Directory of convening notices for all listed companies on the ICJ platform. Institutional investors can view a certain number of company IDs free of charge (not for private investors; news vendors pay a fee.)

Note 3: Electronic voting site for institutional investors operated by ICJ/Broadridge. Used by more than 5,000 institutional investors worldwide.

Notify stocks with eligible voting rights (Date of sending convening notice)

### (3) Early delivery and disclosure of convening notice ③

- Corporate Governance Codes in many countries stipulate that convening notices should be sent out or electronically published **between 20 business days and a month or more before the date of the general meeting of shareholders.**

Corporate Governance Code, etc.	ICGN	<ul style="list-style-type: none"> <li>The board should ensure that the agenda of the meeting is published on the company's website <b>at least one month</b> before the date of the meeting.</li> </ul>
	UK	<ul style="list-style-type: none"> <li>In order to allow shareholders sufficient time to consider proposals, convening notices of the annual general meeting and all related materials should be sent out <b>at least 20 business days</b> prior to the date of the meeting.</li> </ul>
	Hong Kong	<ul style="list-style-type: none"> <li>Issuers should ensure that convening notices for the annual shareholder meeting are sent out to shareholders <b>at least 20 business days</b> prior to the meeting and for all other shareholder meetings at least 10 business days before.</li> </ul>
Legal system	USA	<ul style="list-style-type: none"> <li>In principle, between 10 and 60 days before the date of the general shareholder meeting. However, if the so-called Notice &amp; Access system (Note) is used, at least 40 days before.</li> </ul>
	Germany	<ul style="list-style-type: none"> <li>Announcement of general shareholder meeting 30 days beforehand (convening notice 21 days before the meeting)</li> </ul>
	France	<ul style="list-style-type: none"> <li>Publication of notice of meeting at least 35 days before the date of the general shareholder meeting (convening notice 15 days before the meeting)</li> </ul>

(Note) A system enabling electronic provision of documents related to the general shareholder meeting without the individual consent of shareholders

### (3) Early delivery and disclosure of convening notice ④

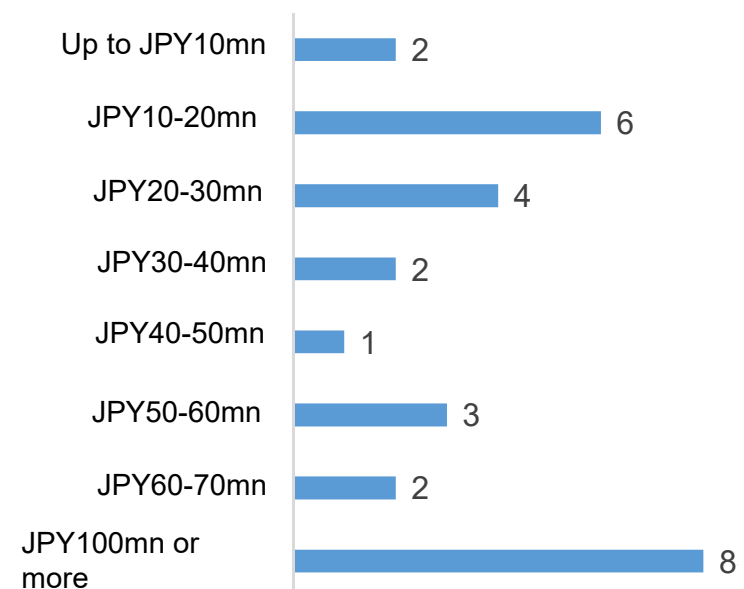
- It takes **at least 10-12 business days** to print and put convening notices, etc. in envelopes.
- In case convening notices, etc. are electronically published after approval of the financial statements and before the start of printing and putting convening notices, etc. in envelopes, companies can bring forward the announcement date of the meetings.

Period for printing and preparing the convening notice

Number of copies of convening notice printed	No. of companies	① Average no. of days for printing	② Average no. of days for preparing (putting in envelopes)	Total ①+②
300,000 or more	9	5.1 business days	6.9 business days	12.0 business days
100,000~300,000	9	5.1 business days	5.6 business days	10.7 business days
Less than 100,000	10	4.6 business days	5.4 business days	10.0 business days

Cost of printing and preparing documents related to the convening notice

N=28



Source: FSA, compiled from the METI survey, "Questionnaire on the time and cost of printing and preparing convening notices" (carried out December 2015)

### (3) Early delivery and disclosure of convening notice (Proxy advisors ①)

- ❑ When the Stewardship Code was revised for the second time, a new Guidance was introduced to ensure that, when requested by the company, proxy advisors provide the company with an opportunity to confirm the accuracy of information that is the basis for proxy recommendations. (Principle 8-3).
- ❑ The proxy advisors expressed their view on this Guidance that **it is difficult to conduct dialogue and exchange views with companies during the peak period of shareholder meetings.**

#### Proxy advisors' policies concerning Stewardship Code, Guidance

##### 【ISS】

- (...) This principle also allows companies to confirm the accuracy of information and to submit their opinion to their institutional investor clients together with their recommendations. However, given that the dates of general shareholder meetings in Japan tend to be concentrated together, providing this opportunity to companies delays the submission of reports to clients and is not in the best interests of the shareholders.
- (...) If, after the report is published, the ISS becomes aware of significant factual inaccuracies or errors that require correction, it will promptly alert the client (for example, with an updated report) ahead of the client's voting deadline.

##### 【 Glass Lewis】

- Based on its policy of engaging with companies, Glass Lewis holds meetings with company managements outside the peak meeting period (June in Japan).
- Glass Lewis provides an Issuer Data Report (IDR) to companies detailing the key facts underlying its report to enable the report to be reviewed before it is finalized. (...)
- Glass Lewis has launched a service (Report Feedback Statement Service: RFS) enabling survey respondents to give feedback on the results of the analysis and pass these comments on directly to Glass Lewis clients via the platform.

#### Preface to revision of the Stewardship Code (excerpt)

- In order for proxy advisors to carry out initiatives in accordance with the Guidance 8-2 and 8-3, companies should disperse the timing of General Shareholders Meetings, disclose materials for General Shareholders Meetings at an earlier stage and enhance such disclosures.

### (3) Early delivery and disclosure of convening notice (Proxy advisors ②)

- ❑ On July 22, 2020, the U.S. Securities and Exchange Commission (SEC) adopted an amendment of its proxy rules regarding advice and recommendations to institutional investors on the exercise of voting rights.
- ❑ **Proxy advisors are required to act in accordance with the proxy solicitation rules only for proposals disclosed by companies or other entities at least 40 days before the general shareholder meeting, provided that certain disclosure requirements are met.**

#### Outline of amendments to SEC rules

- The definition of “solicitation” in the proxy solicitation rules has been amended so that **advice on the exercise of voting rights by advisory companies** (“proxy voting advice businesses”) is also included under proxy solicitation rules, with certain exceptions.
  - ✓ When proxy solicitation regulations apply, a proxy statement in the format specified by SEC regulations should be attached to the documents sent to shareholders and this proxy statement should be notified to the SEC.
  - ✓ Prior to the amendment, proxy advisors were generally exempt from proxy regulations (other than for provisions prohibiting false or misleading statements).
- Proxy voting advice businesses **are exempt from the proxy solicitation regulations if they meet the following two requirements:**
  - ① They must disclose details on potential conflicts of interest between them and their clients
  - ② They must adopt “policies and procedures” reasonably designed to ensure i and ii as follows:
    - i. Companies that are the subject of proxy voting advice have such advice made available to them at or prior to the time when such advice is disseminated to clients of the proxy voting advice business.
    - ii. The proxy voting advice business enables its clients to be aware of any written statements regarding its proxy voting advice by companies that are the subject of such advice before general shareholder meeting.
- The new rules include the following **safe harbors** so that the aforementioned policies and procedures satisfy the requirements in ② above.
  - They include cases concerning **voting advice on proposals disclosed by companies more than 40 days before the general shareholder meeting.**
  - It is assumed that the voting advice is for the exclusive use of the client, and that it shall not be communicated to anyone else other than the employees or advisers of the company that is the subject of the advice.
  - Any opinions given by companies on the proxy voting advice are made available on an electronic client platform of the proxy voting advice business.

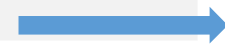
### (3) Early delivery and disclosure of convening notice

(Expansion of scope of Internet disclosure and deemed provision of meeting materials)

- ❑ Under the Companies Act, there is a system (so-called “Internet disclosure and deemed provision of meeting materials”) for items that must be disclosed in business reports and financial statements, whereby such items are deemed to have been provided to shareholders by posting them on the website and notifying shareholders of the URL, rather than providing the information in writing.
- ❑ In light of the pandemic, the relevant ministerial ordinance was revised on May 15, 2020, so that **non-consolidated balance sheets and income statements** were also included in the scope of Internet disclosure and deemed provision of meeting materials, only if convocation proceedings of ordinary general shareholder meetings start within 6 months of the above-mentioned date.
- ❑ Measures will also be taken to expand the scope of Internet disclosure and deemed provision of meeting materials for shareholder meetings to be held in March and June 2021, subject to required procedures.

Key materials to be provided to shareholders prior to general shareholder meeting		Falling under deemed provision via Internet disclosure
Convening notice and voting form		×
Reference documents (proposal, reason for proposal, etc.) for the general shareholder meeting		△ (Partial)
Business report		△ (Partial)
Financial statements (non-consolidated)	Balance sheet/income statement	×
	Statements of shareholders' equity/Notes to non-consolidated financial statements	○
	Audit report	○
Consolidated financial statements		○

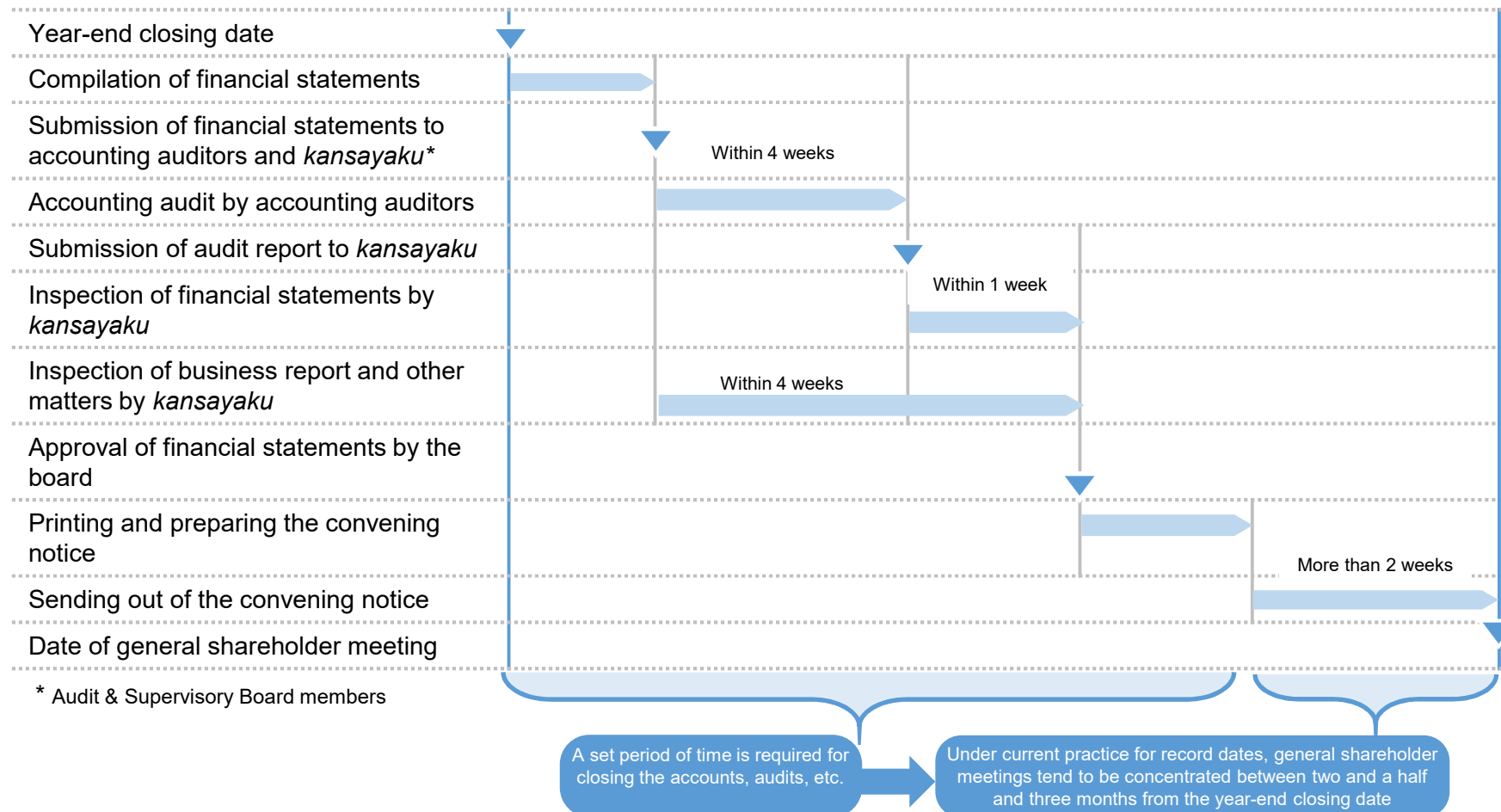
Included in deemed provision due to revision of ministerial ordinance for the limited period of time



Source: Compiled by the FSA, based on Ministry of Justice materials for the “9th Growth Strategy Working Group” (April 23, 2020) and “3rd Growth Strategy Working Group” (November 9, 2020)

## (4) Timing of general shareholder meetings ①

- ❑ In Japan, the date on which shareholders may exercise rights (voting at the shareholder meeting/receiving a dividend) must be within three months of the record date of such rights (voting and dividends). Also, the convening notice of a general shareholder meeting must be sent out at least two weeks before the date of the meeting.
- ❑ Although there is no legal requirement that the record date for voting and for dividends should be the year-end closing date, **most listed companies in Japan use the year-end closing date as the record date for voting and the dividend.**
- ❑ In this case, the general shareholder meeting should be held within three months of the year-end closing date. However, due to the time required for approval of accounts and audits, **shareholder meetings tend to be concentrated in a period two and a half to three months from the year-end closing date.**





## (4) Timing of general shareholder meetings ②

- ❑ If shareholder meetings were held more than three months after the year-end closing date, with either the record dates for voting and dividends pushed back or the year-end closing date brought forward, the benefits for investors and companies would be as follows.



### Institutional investor side

- + Earlier sending out of convening notices and a broader spread of dates of shareholder meetings **would mean that investors could level the amount of voting-related work, thereby improving the quality of the voting process overall.**
- + Disclosure of securities reports prior to the date of the general shareholder meeting **would lead to the provision of enhanced information for voting**
- + Proxy advisors would have more time available for the exchange of opinions, in response to requests from listed companies.
- + The risk of failure to pay a scheduled dividend to shareholders as of the record date if a resolution to pay the dividend is not passed as expected, is reduced.

- + The risk of failure to pay a scheduled dividend to shareholders as of the record date if a resolution to pay the dividend is not passed as expected, is eliminated.



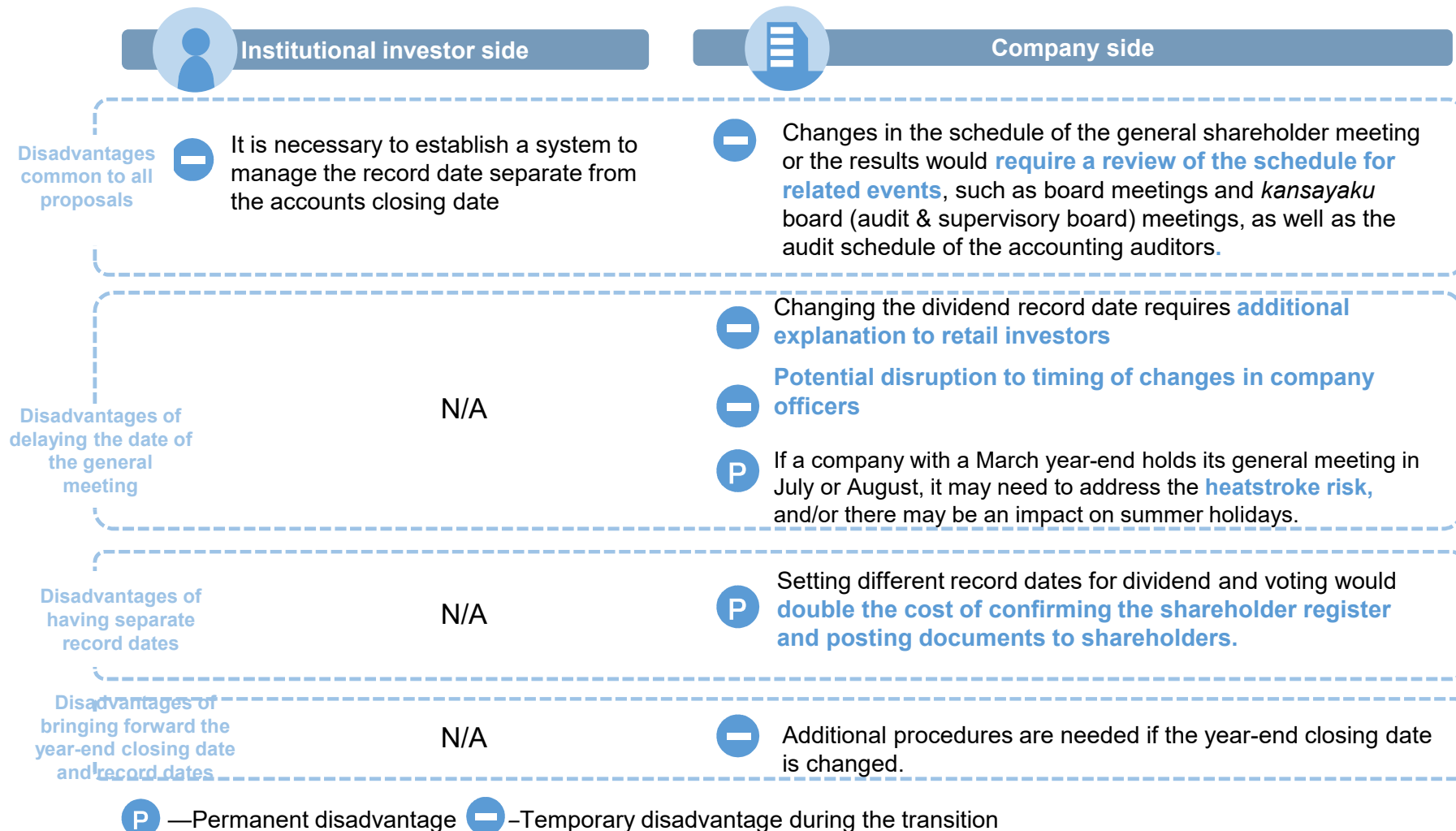
### Company side

- + Even if the accounts are not closed or the audit is not completed as planned, there still is time available to deal with this, **so there is a greater ability to respond to unforeseen circumstances such as the COVID-19 situation**, while still maintaining high standards for the accounts closing/audit process.
- + The risk of having to make corrections **after publication or sending out of documents related to the general shareholder meeting is reduced.**
- + If meeting dates are more spread out, **it is easier to secure meeting venues, ensuring that a broad range of shareholders can attend the meetings.**
- + There is more time available to shareholders to review the information on which advice from proxy advisors is premised and to exchange opinions with the advisors.
- + If the voting record date and date of the general shareholder meeting were closer together, this would **reduce the problem of empty votes.**

- If the dividend record date is after the date of the shareholder meeting

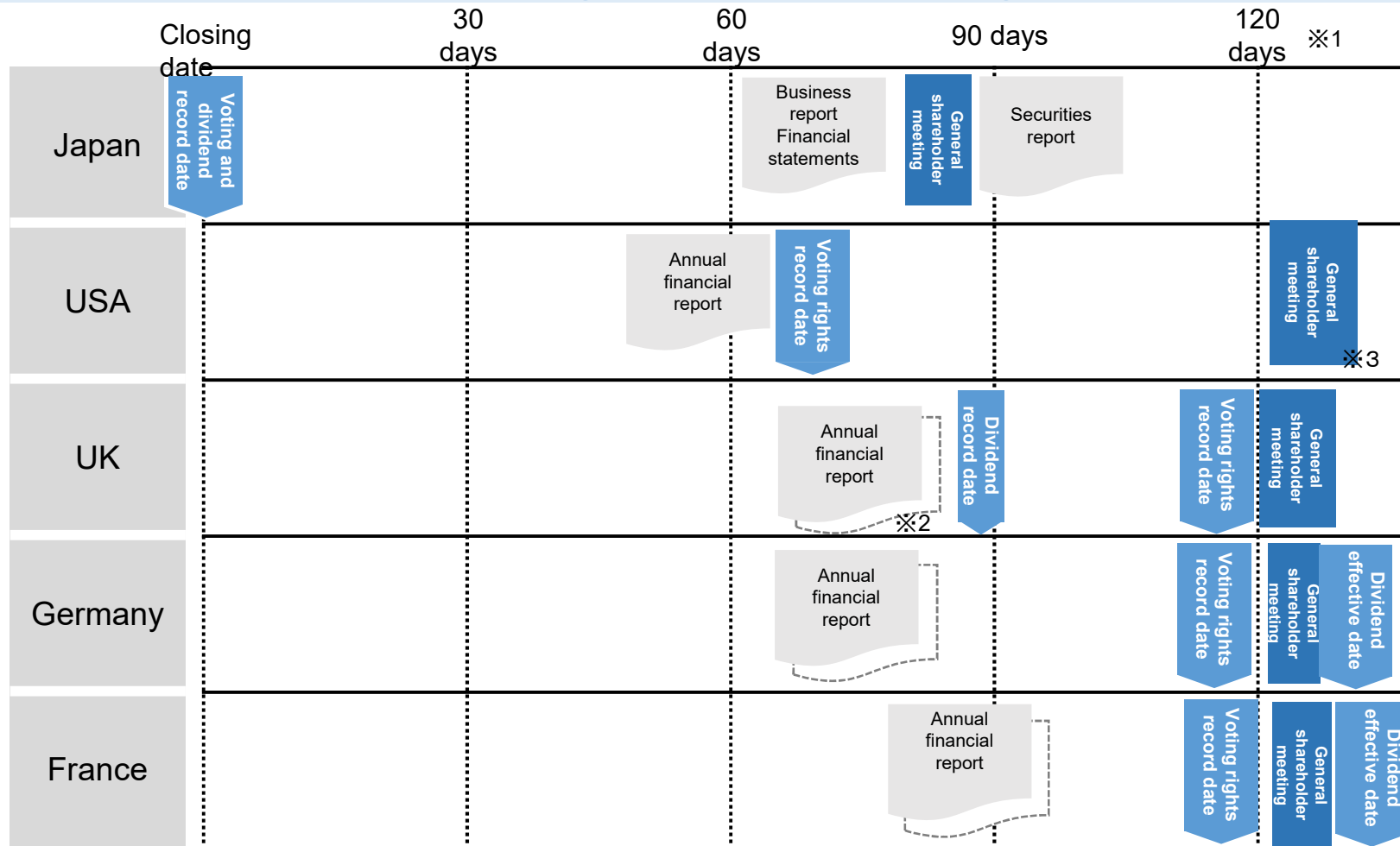
## (4) Timing of general shareholder meetings ③

- If shareholder meetings were held more than three months after the year-end closing date, with either the record dates for voting and dividends pushed back or the year-end closing date brought forward, the disadvantages for investors and companies would be as follows.



## (4) Timing of general shareholder meetings ④

- ❑ The period of time between the year-end closing date and the general shareholder meeting is shorter in Japan than overseas.
- ❑ As a result, **the period for closing the accounts, audits and dialogue is limited**, and most **financial reports are not published before the general shareholder meeting**.



\*1 Number of days of disclosure is based on the average of 10 major corporations.

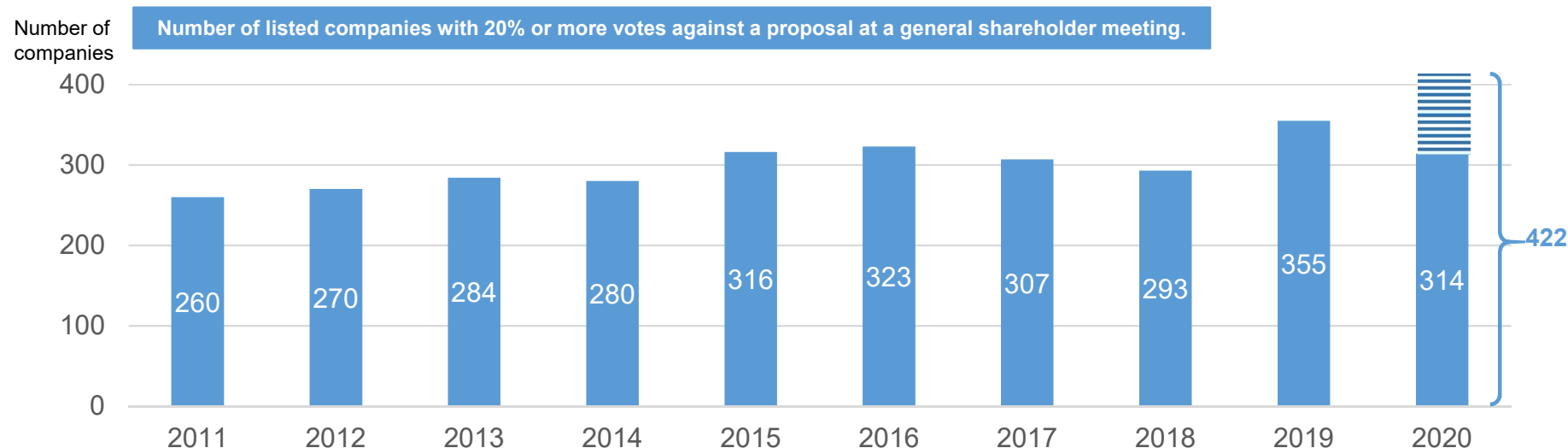
\*2 Documents should be submitted in accordance with two separate laws; in practice they can be submitted together.

\*3 Not stated because the dividend record date needs to be approved by the board.

Source: FSA, based on the Summary Report of the METI Study Group on Promoting Dialogue between Companies and Investors for Sustainable Growth.

## (5) Dealing with proposals with a large number of “against” votes ①

- The number of listed companies who have had 20% or more votes against a proposal at a general shareholder meeting is increasing.



Note: If the ISS's ROE criteria are applied for 2020 under the same conditions as 2019, the number of companies would increase by 108, making 422 in total.

	2016	2017	2018	2019	2020	2020 IF (Note)
The number of companies with 10% or more "against" votes	817 companies (33.6%)	750 companies (31.2%)	779 companies (32.4%)	911 companies (38.0%)	852 companies (36.4%)	1056 companies (44.5%)
The number of companies with 20% or more "against" votes	323 companies (13.3%)	307 companies (12.8%)	293 companies (12.2%)	355 companies (14.9%)	314 companies (13.4%)	422 companies (18.0%)
The number of companies with 30% or more "against" votes	108 companies (4.5%)	94 companies (3.9%)	96 companies (4.0%)	107 companies (4.5%)	84 companies (3.6%)	128 companies (5.5%)

(Note) 2020 IF: Assuming the ISS ROE criteria for company performance are applied, 70% of foreign companies with contested votes count the proportion of votes against a proposal based on opposition to the appointment of an inside director (representative director).

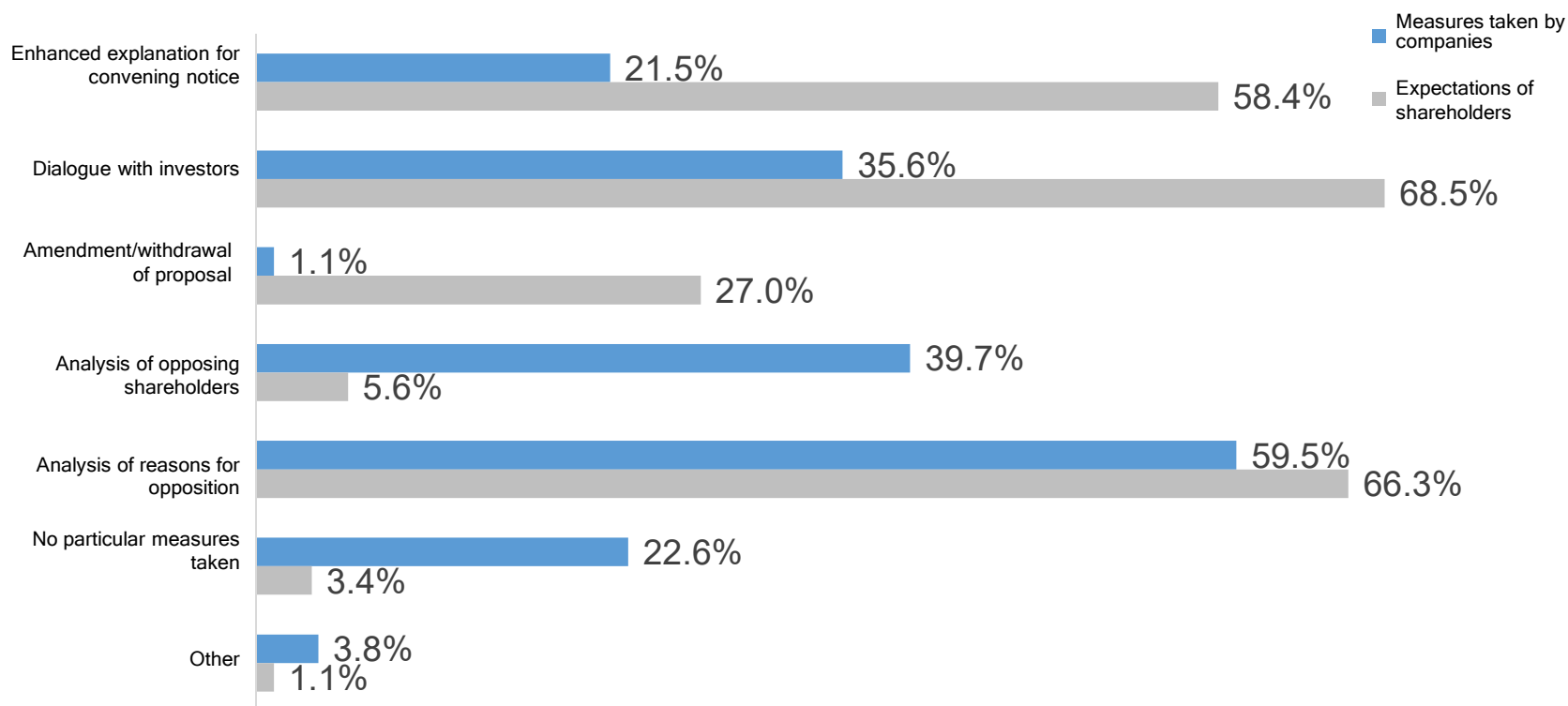
Source: Compiled by FSA based on IR Japan Survey data

## (5) Dealing with proposals with a large number of "against" votes ②

- It was suggested that there is a gap between the measures actually taken by companies and the measures expected by investors concerning proposals which had a high number of "against" votes at shareholder meetings.

(Many investors expect more in terms of fuller explanations and revisions of proposals, but companies are slow to respond.)

What is expected of companies in terms of measures in response to proposals with a high proportion of "against" votes during the year (Investors) / What measures are actually being taken (Companies)



(Note) Companies can select multiple responses; investors can select up to three responses.

Source: FSA, based upon the Life Insurance Society of Japan's (LIAJ) Initiatives by Life Insurers to Reinvigorate the Equity Market and Achieve a Sustainable Society through Asset Management (April 2020).

## (5) Dealing with proposals with a large number of "against" votes ③

- ❑ Prior to its revision in 2018, the UK Corporate Governance Code contained a provision that companies should take action if a significant proportion of votes are cast against a resolution at a general meeting of shareholders.
- ❑ However, **in view of the fact that the definition of “significant proportion” was unclear prior to the revision and that there were a number of cases where votes were cast against proposals but no further information was provided in line with the code, the 2018 revision of the Code changed “significant” to “20% or more” and clarified the threshold for applying this provision.**

### UK Corporate Governance Code (Revised April 2016)

#### PROVISIONS E2.2

When, in the opinion of the board, a significant proportion of votes have been cast against a resolution at any general meeting, the company should explain when announcing the results of voting what actions it intends to take to understand the reasons behind the vote result.

### UK Corporate Governance Code (Revised July 2018)

New  
clarification of  
numerical  
criterion

#### PROVISIONS 4

**When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting.**

The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed.

## (5) Dealing with proposals with a large number of "against" votes ④

- The Stewardship Code, revised in March 2020, states that institutional investors who were not previously covered by the “comply or explain” principle **should disclose their rationale for decisions to vote for or against** important proposals regardless of which way they voted in order to **enhance accountability**.

The second revision of the Stewardship Code (03/24/2020) (Underlined part was revised)

### [Principle 5-3]

**Institutional investors should at a minimum aggregate the voting records into each major kind of proposal, and publicly disclose them.**

**Furthermore, to enhance visibility of the consistency of their voting activities with their stewardship policy, institutional investors should disclose voting records for each investee company on an individual agenda item basis. If there is a reason to believe it inappropriate to disclose such company-specific voting records on an individual agenda item basis due to the specific circumstances of an investor, the investor should proactively explain the reason.**

**At the time of their voting records disclosures, it is also considered beneficial in enhancing visibility for institutional investors, to explicitly explain the reasons why they voted “for” or “against” an agenda item. In particular, institutional investors should disclose their voting rationale with respect to either “for” or “against” vote, which are considered important from the standpoint of constructive dialogue with the investee companies, including those perceived to have conflicts of interest or those which need explanation in light of the investors' voting policy.**

## (6) Other

### (Attendance at general shareholder meetings by institutional investors with indirect holdings ①)

- On November 13, 2015, the National Kabukon (National Association of Shareholder Affairs) published the “Guideline on Attendance at the General Shareholders Meetings by Global Institutional Investors.” The four ways in which global institutional investors can attend shareholder meetings are as follows:

#### Four ways in which global institutional investors can attend shareholder meetings

Method	Overview	Benefits/Considerations
Route A	Global institutional investor owns one share unit or more as of the record date of the general meeting of shareholders, <b>and is granted proxy rights per 100 units of shares to attend the general shareholder meeting.</b>	<ul style="list-style-type: none"> <li>+ Clear that the global institutional investor can be a proxy even under the provisions in the articles of incorporation limiting the qualifications to serve as proxy to nominal shareholders. Legally stable.</li> <li>- The investor needs to be a nominal shareholder who holds at least one unit at the record date for the exercise of voting rights.</li> </ul>
Route B	Global institutional investor attends the general shareholder meeting <b>as an observer</b> , at reasonable discretion of the company.	<ul style="list-style-type: none"> <li>+ No conflict with the provisions in the articles of incorporation. No risk of the double exercise of voting rights.</li> <li>- An observer cannot exercise voting rights or ask any questions at the general shareholder meeting. The company has reasonable discretion in deciding whether to allow an observer to attend the general shareholder meeting.</li> </ul>
Route C	<p><b>Global institutional investor attends the general shareholder meeting as a proxy for a nominal shareholder by demonstrating there are “special circumstances.”</b></p> <p>(Note) Special circumstances: Proxies should be allowed to vote for global institutional investors in “special circumstances” where (i) there is no possibility of the general shareholder meeting being disturbed by the attendance of the proxy and there is no harm to the company’s interests and (ii) where the shareholder’s right to vote will be substantially inhibited by not allowing the exercise of voting rights via proxy.</p>	<ul style="list-style-type: none"> <li>+ No need to hold more than 1 unit of shares at the record date for the general shareholder meeting. No need to amend the articles of incorporation.</li> <li>- The definition or range of “Special Circumstances” needs to be clarified from the perspective of legal stability.</li> </ul>
Route D	The company amends its articles of incorporation, for example, to allow the global institutional investor to attend the shareholder meeting as a proxy for the nominal shareholder	<ul style="list-style-type: none"> <li>+ Since the exception to the articles of incorporation is expressly stipulated, the scope of eligibility for attendance of the general shareholder meeting is clear and legally stable. This allows greater scope for attendance of the general shareholder meeting compared to Route C.</li> <li>- Need a resolution of the general shareholder meeting to amend the articles of incorporation. The scope of “institutional investor” and necessary documents need to be described in the share handling regulations. Specific regulations need to be considered by the company.</li> </ul>

Source: FSA based on data from the National Kabukon (National Association of Shareholder Affairs) “Guideline on Attendance at the General Shareholders Meetings by Global Institutional Investors” (published on November 13, 2015)



## (6) Other

### (Attendance of institutional investors with indirect holdings at general shareholder meetings ②)

- ❑ The Supplementary Principle 1.2.5 of the Corporate Governance Code states that, in order to prepare for cases where the so-called beneficial owners express an interest, in advance of the general shareholder meeting, in exercising their voting rights at the general shareholder meeting, companies should work with trust banks and/or custodial institutions to consider such possibility. 94.2% of respondents complied with this Supplementary Principle (as of January 2020).
- ❑ Listed companies' efforts in this regard are as follows:

#### Whether a proxy, who is not a shareholder, can attend the general meeting

N=1694 companies



#### Compliance with requests from substantial shareholders to attend a general meeting

N=583 companies



Source: FSA, based on Japan Institute of Business Law, "White Paper on General Shareholder Meetings" (December 5, 2019)

## (6) Other

### (Networking Group on the Corporate Disclosure, Financial Reporting and Audit of Listed companies in Consideration of the Impact of the COVID-19 (Novel Coronavirus) Infection; Main points①)

---

Responses to financial reporting and audits of listed companies based on the impact of the coronavirus infection (Main points)

July 2, 2020

Networking Group on the corporate disclosure,  
financial reporting and audit of listed companies in consideration of  
the impact of the COVID-19 (Novel Coronavirus) infection

- Uniform extension of deadline for submission of annual securities reports (until the end of September 2020) [FSA]
- Publication of summary of the discussions for incorporating the effects of the novel coronavirus pandemic when making accounting estimates under Japanese GAAP [Accounting Standards Board of Japan (ASBJ)]
- Publication of audit considerations related to COVID-19 to address the following matters and others.
  1. Accounting estimates
  2. Accounting treatment of fixed costs
  3. Considerations for banks and other financial institutions regarding allowance for credit losses [Japanese Institute of Certified Public Accountants (JICPA)]
- Annual general meeting of shareholders
  - Published a statement suggesting companies consider a more flexible schedule and procedures such as postponing annual general meetings of shareholders or holding “following meetings.” [Networking Group on the corporate disclosure, financial reporting and audit of listed companies in consideration of the impact of the COVID-19 (Novel Coronavirus) infection]
  - Clarified consideration points for holding “following meetings.” [FSA, Ministry of Justice, Ministry of Economy, Trade and Industry]
- Disclosure of corporate information regarding the impact of the COVID-19 infection
  - Published a request document which shows a strong expectation for companies to disclose concrete and enhanced corporate information regarding the impact of the COVID-19 infection. [FSA, ASBJ, JICPA, Securities Analysts Association of Japan]
  - Showed expectation for their continual timely and appropriate disclosure including quarterly securities reports. [FSA, ASBJ, JICPA]

## (6) Other

### (Networking Group on the corporate disclosure, financial reporting and audit of listed companies in consideration of the impact of the COVID-19 (Novel Coronavirus) Infection; Outline②)

Responses to financial reporting and audits based on the impact of the coronavirus infection (Main points) (cont.)

- Other major initiatives conducted by Networking Group members regarding year-end closing and auditing in response to the impact of the COVID-19 infection
  - Requested listed companies to reconsider the schedule for earnings releases. [Tokyo Stock Exchange]
  - Published a sample of convening notice for an annual general meeting of shareholders in response to the impact of the COVID-19 infection. [Japan Business Federation]
- Many companies were able to complete their year-end closing and auditing without major disruption, avoiding the occurrence of clusters during the peak of infection spread.
- Will continually discuss with related parties 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.
- Closed this Networking Group at the meeting held on July 2 but will open it again if there are changes in circumstances.

Reference: Summary of earnings releases dates and shareholder meetings dates of companies with March year-end <Earnings releases (as of October 29)>

Date of announcement	Number of companies
Already announced (by May 15) (within 45 days)	1,732 companies (74.2%)
Already announced (May 16 - end of May)	519 companies (22.2%)
Already announced (June 1 - end of June)	66 companies (2.8%)
Already announced (July 1 - end of July)	12 companies (0.5%)
Already announced (August 1 - end of August)	3 companies (0.1%)
Already announced (September 1 - end of September)	3 companies (0.1%)
<b>Total</b>	<b>2,335 companies (100.0%)</b>

Shareholder meeting dates of companies with March year-end (disclosure up to October)

Item	No. of companies
Change of record date	57 companies (Of which 55 companies held a general meeting of shareholders) 1 company delisted 1 scheduled to hold a separate extraordinary general meeting
Will hold a following meeting	30 companies (Of which 30 companies held a following meeting)
Will hold an extraordinary shareholders meeting (Note)	4 companies (Of which 4 companies held an extraordinary general meeting)

Note: Extraordinary general meeting at a later date for the announcement of financial statements

## (6) Other (Postponed meeting, following meeting)

- ❑ Under the current practice of setting the dividend record date as the year-end closing date, it is necessary to pass a resolution on the dividend within 3 months of the year-end closing date in order to pay dividends to shareholders as of the record date as scheduled.
- ❑ For this reason, under the current practice, if companies have difficulty in reporting financial statements at their general shareholder meetings within 3 months of the year-end closing date because of COVID-19 and the dividend requires approval at the shareholder meeting, they can hold a general meeting to approve the dividend first, and then hold a following meeting later (“following meeting method”).

	Overview	Key points	Number of cases in the current year
Following meeting method	<ul style="list-style-type: none"> <li>✓ The general shareholder meeting should be held within 3 months of the year-end closing date to approve the dividend.</li> <li>✓ After that, once the financial statements are finalized, a following meeting is held for the reporting of the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Some investors have criticized the fact that the company is requesting the approval of the dividend and other proposals when the annual financial results have not been finalized.</li> <li>✓ Holding the annual general meeting in two separate meetings entails an increase in costs</li> </ul>	30 companies
Postponed meeting method	<ul style="list-style-type: none"> <li>✓ The record date for voting rights is reset to a different date from the year-end closing date, and the general shareholder meeting is held on a postponed date.</li> </ul>	<ul style="list-style-type: none"> <li>✓ If dividends are paid to shareholders as of the dividend record date, one of the following must apply               <ul style="list-style-type: none"> <li>- The dividend needs to be approved by the board</li> <li>- The dividend record date is after the date of the shareholders' meeting</li> </ul>               (- Forecast of non-payment of dividend)             </li> </ul>	57 companies