

Opinion Statement for the 16th Meeting of the Follow-up Council

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The Stewardship Code and the Corporate Governance Code have gradually penetrated the entire investment chain, and engagement activities have been conducted in line with the intent of the Codes. I believe such progress deserves appreciation.

Today, I'd like to share my opinions concerning future challenges, specifically, the increased involvement of asset owners, effective collective (or collaborative) engagement, and more active use of the infrastructure for supporting the exercise of voting rights.

Furthermore, I believe that promoting investor education for individual investors and defined contribution (DC) scheme members, who should be the beneficiaries of efforts under the Codes, would lead to facilitating functions of the investment chain, and thus be effective for "enhancing people's welfare through sustainable growth of corporations and economy".

I'd like to express my opinions on the following 4 points:

1. Encouraging asset owners to sign up to the Stewardship Code
2. Promoting active use of electronic voting platform
3. Measures for promoting collective engagement
4. Education for individual investors

1. Encouraging asset owners to sign up to the Stewardship Code

Although an increasing number of corporate pension funds and other asset owners have signed up to the Code, the aggregate number of such signatories is not yet sufficient. Besides, it seems that asset owners just require asset managers to provide reports on stewardship activities, and do not sufficiently evaluate or make use of such reports.

Asset owners should recognize that it is their responsibility to work on effective stewardship activities, and that asset managers perform stewardship functions according to instructions of the asset owners.

I expect the Council to have more in-depth discussion concerning ways to enable more active participation of asset owners.

2. Promoting active use of electronic voting platform

In response to higher demand from asset owners, asset managers have increasingly disclosed their voting records for each investee companies on an individual agenda basis.

It is expected that this move would contribute to the development of effective engagement activities. Nonetheless, complicated tasks associated with the exercise of voting rights pose impediments to asset managers and trust banks, in terms of work

volume and time constraints.

Especially, passive managers need to deal with a large number of investee companies, face time constraints, and cannot always incorporate the results of their engagement activities into voting practices.

One of effective ways to solve such problems would be the promotion of active use of a voting platform – for example, the electronic voting platform offered by ICJ (Investor Communications Japan), which has not yet been widely used possibly because cost burden has not been reduced due to a slow increase in users.

I believe it would be important to promote the use of the platform so that it promptly achieves economy of scale.

3. Measures for promoting collective engagement

Realizing effective collective engagement by forming a collective view of minority shareholders is considered effective for sustainable growth of shareholder value.

Since the legislation was developed in February 2014, there have been several attempts for collective engagement, but I'm afraid not much progress has been made to this end.

For instance, I suggest that we should consider the hub and spoke model adopted by the UK's Investment Forum: asset owners and asset managers could work together to try this model.

4. Education for individual investors

It will be inevitable that the growth of defined contribution (DC), individual-type defined contribution pension (iDeCo), Nippon Individual Savings Account (NISA) and other similar plans further increase the importance of education for individual investors.

It is good news that the mechanism for providing individuals with easy access to necessary information is being established: for example, effective from July 2019, asset managers of corporate DC plans will be required to disclose to their participants various types of information related to financial products they invest in, in a way where their plan participants can browse comprehensive information at a glance. It is a natural consequence that companies are required to make efforts to continuously educate their employees, and we can expect positive effects.

Improving investor literacy at the individual level is expected to result in increased awareness of governance, understanding the importance of ESG or SDGs, and thus increased understanding of the effectiveness and importance of these two Codes.

I believe it will also become more important that individuals understand and recognize the significance of improving the function of the investment chain.

I expect the Follow-up Council to further discuss such matters as fulfilling the board's responsibilities, cross-shareholdings and effective use of capital, and improved disclosures for investors and other stakeholders.

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