

Principles for Responsible Institutional Investors
 «Japan’s Stewardship Code»

Summary of Comments on the English Translation of the Draft of the Revised Version of the Code and Our View

No.	Summary of Comments (excerpts from original texts)	Our View
● Principle 1 (Establishment of Basic Policy)		
1	<p>Under Principle 1, new guidance is included in relation to the role of asset owners when issuing mandates and monitoring their asset managers. In particular, asset owners are encouraged to consider their managers’ policies in areas such as voting. We welcome these improvements.</p> <hr style="border-top: 1px dashed black;"/> <p>We support the additional language on the interaction of stewardship activities between asset owners and asset managers in Principle 1, which requires institutional investors to have a clear policy on how they fulfill their stewardship responsibilities and publicly disclose it.</p> <hr style="border-top: 1px dashed black;"/> <p>We support the Code revisions which provide further impetus for asset owners to proactively engage their managers on stewardship policy and practice (1.3 -1.4).</p> <p>...A criticism that is sometimes levelled at initiatives which promote stewardship is that they can result in a “box ticking” or homogenous approach which restricts managers and investee companies.</p> <p>...Therefore, we are pleased with the inclusion of Section 1.5 which reinforces guidance to asset owners that they should place emphasis on the “quality of dialogue” between their asset managers and investee</p>	<p>We appreciate your support for the intent of the revision.</p>

	<p>companies rather than adopt a formulaic approach to assessing the number of votes / engagements.</p> <p>It is useful to elaborate on the relationship between asset owners and asset managers in Guidance sections 1-3, 1-4 and 1-5. The asset owner plays a critical role in shaping mandates for asset managers, and it is helpful to differentiate the asset owner’s responsibilities from those of the asset manager.</p>	
2	<p>We have made the experience that it is helpful to reduce the number of principles to a necessary minimum. Against this background, we would suggest to combine principle 1 and 2 because potential conflicts interests should be part of any such policy.</p>	<p>When institutional investors establish their policies, they could, at their own discretion, ingeniously combine a policy required in Principle 1 for fulfilling their stewardship responsibilities and a policy required in Principle 2 for managing conflicts of interest. However, proper management of conflicts of interest is considered to be particularly important in Japan. Therefore, Principle 2 was independently established.</p>
3	<p>We welcome the additional emphasis on asset owners’ responsibilities. While we welcome the market leading work of public pension funds such as the GPIF and the PFA in promoting stewardship activities across the investment chain, only a small number of Japanese corporate pension schemes have signed up to the Stewardship Code thus far.</p> <p>...The added emphasis on asset owners’ responsibilities will help place some pressure on them and raise awareness about stewardship, which will result in improving stewardship across the investment chain.</p> <p>However, we are concerned that the wording of the guidance may be overly prescriptive, drifting away from comply-or-explain towards</p>	<p>As stated in Guidance 1-3, we believe that asset owners should engage in stewardship activities themselves as much as possible in order to secure the interests of ultimate beneficiaries; and that when they do not directly engage in stewardship activities, including the exercise of their voting rights, they should instruct that their asset managers be engaged in effective stewardship activities on their behalf. Japan’s Stewardship Code (hereafter, “the Code”) adopts the “comply or explain” approach. If they find that some of the principles are not suitable for it, then by explaining a sufficient reason, they can choose not to comply with them.</p>

	<p>requirements. We fear this may further deter asset owners from taking up the code. We think it would benefit from being worded more along the lines of: “Asset owners should recognise their important role in the ownership chain and their duties towards their clients. In so doing, they should recognise that they have a responsibility to signal their wishes and beliefs to those whom they act on behalf of”. The guidance 1-3 to 1-5 could also be phrased more as “should consider doing...” rather than “should do” and recognise the scale and resource issues asset owners may face.</p>	
Guidance 1-3 (Asset Owners’ Stewardship Activities)		
4	<p>As a small drafting suggestion, we recommend that you consider changing the verb in section 1-3 to “instruct” from “request”, to clarify that it is the asset owner’s expectation for asset managers to be engaged in effective stewardship activities on behalf of the asset owner and its beneficiaries.</p>	<p>As you recommended, we will change the verb in Guidance 1-3 from “request” to “instruct”.</p>
Guidance 1-4 (Specifying Issues and Principles Which Asset Owners Require of Asset Managers in Conducting Stewardship Activities)		
5	<p>Clearer communication between asset owners and managers: Page 5 of the Code states: “The asset managers should aim to know the intention of the asset owners so that they can provide services as expected...” The language here could be more precise: there should be a clear mandate from asset owner to manager on what is expected.</p>	<p>In the Draft, Guidance 1-4 states that when selecting or issuing mandates to asset managers, asset owners should clearly specify issues and principles to be required in conducting stewardship activities, including the exercise of voting rights, in order to ensure effective stewardship activities. Accordingly, we believe that communication between asset managers and asset owners is essential.</p>

6	<p>In section 1-4, we recommend that you eliminate the word “large” from the second sentence, as there may not be clarity on what defines a “large” asset owner; indeed we believe that all asset owners should promote stewardship for their investment holdings.</p>	<p>Taking into account discussions at the Council of Experts on the Stewardship Code (hereafter, “this Council”), Guidance 1-4 states that “in particular,” large asset owners, who have a great role in the investment chain, should proactively consider and clearly specify issues and principles to be required in conducting stewardship activities, including the exercise of their voting rights, for the purpose of fulfilling stewardship responsibilities. As you pointed out, it is desirable that asset owners, which are not necessarily large, also take similar action as much as possible.</p>
● Principle 2 (Management of Conflict of Interest)		
7	<p>We are supportive of the revised language in sections 2-2, 2-3 and 2-4 that place emphasis on the institutional investor’s own internal governance. This is consistent with the spirit of ICGN’s first Global Stewardship Principle, which emphasises the importance of investor governance and avoiding or elimination conflicts of interest.</p>	<p>We appreciate your support for the intent of the revision.</p>
8	<p>Conflict of interests (2-2 to 2-4) We appreciate that the addition of the more detailed guidance on managing conflicts of interest may be helpful for some asset managers to put in place robust measures to manage these conflicts and provide assurance for their clients and ultimate beneficiaries. However, we feel that the wording of the guidance is rather prescriptive and some investors may find other approaches more effective than those listed in the guidance.</p>	<p>Specific measures described in each guidance section are just illustrative examples. Since the specific conditions and situations of institutional investors vary, each institutional investor should, at their own discretion, ingeniously develop specific measures for managing conflicts of interest. In any case, we believe that it is important to take measures in line with the intent of principles/guidance.</p>

9	<p>The current Guidance revisions as drafted mainly address the handling of conflicts by institutional investors as asset managers. We respectfully suggest that these same Guidance revisions be extended to institutional investors as asset owners as well.</p>	<p>Taking into account discussions at this Council, the second sentence of Guidance 2-2 as well as Guidance 2-3 and 2-4 states that “in particular,” asset managers should take the following measures: identifying specific circumstances that may give rise to conflicts of interest, establishing and disclosing policies for managing such conflicts; establishing a governance structure; and management taking action on such issues. Meanwhile, Principle 2, Guidance 2-1 and the first sentence of Guidance 2-2 apply to asset owners as well, and we believe that it is important for them to take measures in line with the intent of the principles/guidance.</p>
10	<p>We respectfully suggest that the FSA and the Council consider additional Guidance to increase transparency regarding conflicts of interest and how they are handled for both asset managers and asset owners. For example, institutional investors which are also large shareholders (>5%) of an investee company could be encouraged to disclose the nature and/or volume of their business dealings with such investee companies.</p>	<p>Increasing transparency regarding conflicts of interest is considered to be a key challenge. We appreciate your valuable input for our future consideration.</p>
Guidance 2-2 (Establishment and Disclosure of Clear Policy for Managing Conflicts of Interest)		
11	<p>In relation to Principle 2 we note the suggestion that asset managers should identify potential conflicts of interest when voting and disclose policies to “avoid such conflicts and effectively eliminate the influences”. We would question whether it is feasible to eliminate all conflicts. The key is to be transparent and to manage conflicts appropriately and hence we would suggest that the wording be amended to recognize this.</p>	<p>As you suggested, in order to clarify the intention, we will change the description of Guidance 2-2 as follows: “effectively eliminating the influence of such conflicts including avoiding such conflicts”.</p>

Guidance 2-3 (Establishment of the Governance Structure of Asset Managers)

12	<p>We urge the Council of Experts to revisit the guidance on establishing an independent board for decision making or oversight of voting. It is our opinion that this suggestion is more suited to larger firms and in particular could deter smaller overseas managers.</p> <p>...As an alternative we suggest the Code continues to recommend that asset managers should establish governance structures but that managers should also explain how their framework confronts conflicts of interest with respect to voting and engagement.</p> <hr/> <p>We have some concerns about the specificity of the recommendation regarding the appropriate governance structures for achieving these objectives. Guidance 2-3 states that such structures could include an independent board of directors or third-party committees. Yet some asset managers might conclude that such structures are required or the only options acceptable. At this stage, it may be sensible to allow greater latitude for asset managers to develop their own systems for managing conflicts and then disclose the rationale in their policies. There is also some scepticism that asset managers facing significant conflicts of interest would be incentivised to nominate genuinely independent people to a board of directors. The end result may be window-dressing.</p>	<p>The Guidance refers to “independent board of directors or third-party committees for decision-making or oversight of voting” just as illustrative examples. Since specific conditions and situations of asset managers vary, each asset manager should use their ingenuity and judgement to tailor their governance structure. In any case, we believe that it is important that asset managers take action in line with the intent of this Guidance for securing the interests of clients and beneficiaries, and preventing conflicts of interest. As you pointed out, we consider it is desirable that each asset manager proactively explains the effectiveness of their governance structure, etc.</p> <p>Furthermore, in selecting members of a “third-party committee,” for instance, the nominees need to be properly independent for the purposes of securing the interests of clients and beneficiaries, and preventing conflicts of interest. Accordingly, we believe it is important that each asset manager takes measures in line with the intent of this Guidance – for instance, establishing a nomination process serving the above-mentioned purposes.</p>
----	--	--

● Principle 3 (Monitoring Investee Companies)		
Guidance 3-3 (Factors to Be Monitored)		
13	<p>We strongly support the reference to environmental, social and governance (ESG) factors in section 3-3 as an area of focus for both investors and companies.</p> <p>... While it is positive to see reference to ESG in this latest revision, we believe there may be scope for further exploration of ESG when the Japanese Stewardship Code comes up for revision the next time.</p>	<p>We appreciate your support for the intent of the revision. We will keep in mind your suggestion for the next revision.</p>
14	<p>We suggest expansion of Principle 3 to include language which requires institutional investors to consider material ESG issues in their investment and decision-making processes with an orientation towards the sustainable growth of the companies.</p>	<p>We assume that factors which institutional investors should monitor in order to fulfill their stewardship responsibilities may vary, depending on their investment policies, and business risks and opportunities associated with ESG issues may be included in such factors. Therefore we believe that it is important that deeper understanding of business risks and opportunities, including those associated with ESG issues, is developed.</p>
● Principle 4 (Constructive Engagement with Investee Companies)		
Guidance 4-2 (Engagement, etc. of Passive Managers)		
15	<p>We support the addition of section 4-2, which focuses on the importance of passive investment funds to ensure robust engagement and voting, given their limited options to sell shares of companies that are included in market indices.</p>	<p>We appreciate your support for the intent of the revision.</p>
16	<p>We welcome new guidance to encourage index investors to play active roles in engagement and voting.</p> <p>... On the other hand, we should not downplay the importance of</p>	<p>Guidance 4-1 states that institutional investors, regardless of whether they are active or passive managers, should endeavor to arrive at an understanding in common with investee companies through</p>

	<p>stewardships activities by active investors. While some of them may have shorter investment cycles than most passive investors, it is important that active investors conduct engagements with a long-term view. In other words, all investors irrespective of whether they be active or passive owe a responsibility to the company as engaged owners.</p> <p>We also support the additional language in Principle 4, but feel further clarifying language to be more inclusive of active asset managers and institutional investors with limited resources for engagement would be beneficial in Guidance 4-2 and 4-4.</p> <p>Active asset manager’s more concentrated positions and focus on a subset of the market allows them to justify the dedication of resources to extensively research and develop deeper relationships with their portfolio companies. This approach is complimentary to the approach of passive funds who are more concerned about long-term risks such as governance structures and regulation.</p>	<p>constructive dialogue with the aim of enhancing the companies’ medium- to long-term value and capital efficiency, and promoting their sustainable growth. To that end, we believe it is important that active managers also engage in dialogue and exercise voting rights from the mid- to long-term perspective. On that premise, Guidance 4-2 refers to the fact that because passive management provides limited options to sell investee companies’ shares and needs to promote their medium- to long-term increase of corporate value, institutional investors should actively take charge of engagement and voting from the medium- to long-term perspective.</p>
Guidance 4-4 (Collective Engagement)		
17	<p>We are very pleased to see the introduction of section 4-4 relating to investor collaboration and collective engagement.</p> <p>...This is a positive development, but believe that the FSA can go even further; perhaps when the Japan Stewardship Code is next up for revision there can be further consideration given to introducing more explicitly investor collaboration in the overarching Principle and not only in the Guidance.</p>	<p>We appreciate your support for the intent of the revision. During discussion at this Council, as written in the section titled “Revision of the Stewardship Code”, it was pointed out that, in carrying out collective engagement, it may be necessary to give attention that the engagement is not mechanical. Specific manners of collective engagement may vary. Taking such matters into account, we included collective engagement as one option of engagement. As shown in</p>

	<p>We think the wording of guidance 4-4 in the Japanese version of the Code sounds rather weak, which may not be seen as an encouragement for collective engagement. We therefore suggest that the Japanese version should be re-worded to more clearly and explicitly encourage collective engagement by investors.</p>	<p>Guidance 4-4, we consider that collective engagement would be beneficial, as necessary, including the case where an institutional investor alone does not have sufficient management resources.</p>
	<p>We also support the additional language in Principle 4, but feel further clarifying language to be more inclusive of active asset managers and institutional investors with limited resources for engagement would be beneficial in Guidance 4-2 and 4-4.</p> <p>...adding language that further encourages organizations with limited resources or experience to carry out their own engagement programs to collaborate with other institutions and organizations to pool resources and familiarize themselves with global best practices may lead to increased adoption of the Code as well as increased company responsiveness to these engagements.</p>	
18	<p>With regard to Principle 4, we welcome the recognition that collective engagement has a role to play in stewardship although we would also note that, in spite of the Clarification note published by the FSA in February 2014, many asset managers remain concerned about how the rules would work in practice. It may be that there is scope for further clarification on this issue. Perhaps it would be useful to hold a workshop involving asset owners, asset managers and the FSA at which various practical scenarios could be debated.</p>	<p>Concerning the points you raised, the Financial Services Agency (hereinafter, “the FSA”)’s “Clarification of Legal Issues Related to the Development of the Japan’s Stewardship Code” (published on February 26, 2014) (hereinafter, “Clarification of Legal Issues”) clarified the legal interpretation pertaining to collective engagement under the large shareholding reporting system. Specifically, concerning (1) Under what circumstances an investor is deemed as a “Joint Holder”; and</p>

<p>We note that the Code references the 2014 document “Clarification of Legal Issues Related to the Development of the Japan’s Stewardship Code”, which may be intended to assist investors to understand legal issues related to collective engagement. However, this document has been considered insufficient in giving investors assurance that collective engagement can be carried out without infringing regulations.</p> <p>...We therefore strongly encourage the FSA to provide further clarification in the Stewardship Code in writing.</p>	<p>(2) What actions are considered as an “Act of Making Important Suggestions”, the following clarification was provided:</p> <p>(1) Whether to be considered as “Joint Holder”</p> <p>As a point at issue in conducting collective engagement, an investor is deemed as “Joint Holder” if the investor “agrees” with another investor to “execute voting rights and other shareholder rights jointly.” The “voting rights and other shareholder rights” most likely include the legal rights of shareholders; and the agreement referred hereto means an agreement containing the element of a mutual or unilateral promise to act in future, and differs from a mere exchange of views. Such an interpretation is provided in the Clarification of Legal Issues with specific examples.</p>
<p>We respectfully suggest that the FSA and Council consider whether further clarification is necessary to allow institutional investors to feel comfortable that they can engage in dialogue with other institutional investors without automatically triggering either a “joint holder” or “a person in a special relationship” status, and whether perceived uncertainty in this area currently poses a practical hurdle to effective dialogue.</p> <p>Related Guidance point 7-3 could at the same time be enhanced to encourage institutional investors to develop policies and procedures to enable them to engage in effective dialogue with other investors about investee companies without inadvertently triggering “joint holder” or “a person in a special relationship” status.</p>	<p>(2) Whether to be considered as “Act of Making Important Suggestions”</p> <p>“The act of sharing knowledge with the investee company” is not considered as “suggestion”, and is basically highly unlikely to be considered as “Act of Making Important Suggestions”. Also, among acts which are considered to be “suggestions”, there may be some cases which are less likely to be regarded as “Act of Making Important Suggestions”, depending on the individual situation. Such an interpretation is provided in the Clarification of Legal Issues with specific examples.</p>
<p>We believe that some form of regulatory reform is needed to remove the undue restrictions placed on investors in this regard. Without such changes, collective engagement will continue to be limited.</p>	

		<p>In this way, we believe that the Clarification of Legal Issues sufficiently clarified the interpretation.</p> <p>Even in the case of being considered “Joint Holder” or “Act of Making Important Suggestions”, it will not prohibit the collective engagement itself, although an applicable investor is required to take into account the ownership of other investors in complying with the large shareholding reporting system, or is not eligible for using the special reporting system.</p> <p>In discussions on collective engagement at this Council, it was pointed out that the absence of the term “collective engagement” in the Code may have created a general perception that collective engagement is not allowed, and thus the Code should describe the fact that collective engagement is one of the options for engagement. We don’t think that they cannot conduct collective engagement under the current Code or legal system in the first place, but taking such a suggestion into account, we decided to include descriptions of collective engagement for confirmation in the revised Code.</p>
19	<p>There are also concerns that the language of the Japanese and English versions of the Code differ in a material way, namely that the former is less encouraging than the latter. The Japanese version in effect says (underlining added):</p> <p>“In addition to institutional investors engaging with investee companies independently, <u>there could be cases where it is beneficial</u></p>	<p>We endeavored to prepare the English translation in a way that expresses the intention of the Code as accurately as possible.</p>

	for them to engage with investee companies in collaboration with other institutional investors (collective engagement) as necessary.”	
20	We have found in Canada that the Canadian Coalition for Good Governance has worked effectively as a collaborative tool of shareholder engagement. You might wish to consider a similar organization in Japan given that direct shareholder engagement by large number of institutional shareholders can impose significant burdens on corporations and their boards. Ultimately an approach which combines collaborative engagement and some direct engagement may be ideal.	Thank you for your valuable input.
Guidance 4-5 (Receiving Information on Undisclosed Facts)		
21	Recommendation for inclusion of clauses highlighting prohibitions against insider trading. This would be in line with the OECD corporate governance principle III.E that “Insider trading and market manipulation should be prohibited and the applicable rules enforced.”	As stated in Guidance 4-5, we consider that, in principle, institutional investors can well have constructive dialogue with investee companies based on public information, without receiving information on undisclosed material facts, and should in essence be discreet in receiving information on undisclosed material facts through dialogue with investee companies. Concerning the point you raised, footnote 13 for Guidance 4-5 states as follows: “When an institutional investor needs to receive information on undisclosed material facts due to a special relationship with an investee company, it should first take necessary steps to secure compliance with insider trading regulations, such as the suspension of trade of the company’s stocks, before having a dialogue with the company.”

● Principle 5 (Voting)

Guidance 5-3 (Disclosure of Voting Records)

22	<p>We are also supportive of the new language inserted in section 5-3 that elaborates on investor vote disclosure on an individual company/individual agenda item basis. We believe this represents best practice in stewardship.</p> <p>We welcome the stronger encouragement for the disclosure of voting decisions which we believe will enhance investors' accountability and help ensure that their voting policies are upheld.</p> <p>Revisions to Guidance point 5-3 to encourage disclosure of voting records on individual agenda items and the reasoning behind such voting is a valuable transparency point. We hope that this revision is retained in its current form in the final draft.</p> <p>In relation to Principle 5, as stated in the "Aims of the Code", voting is an essential element of stewardship activities and we strongly support the public disclosure of voting records for each investee company on the basis of individual agenda items. As asset managers, we are accountable to our clients, many of whom are individuals who invest in pension schemes or savings vehicles which we manage. We also have a wider role to play in terms of our accountability to society as a whole, particularly at a time when there is a need to rebuild trust in business. Being open about our voting decisions is an important way we can demonstrate this accountability. Voting disclosure also has an impact on engagement and makes it clearer when shareholders have</p>	<p>We appreciate your support for the intent of the revision.</p>
----	---	---

	<p>concerns about specific issues or specific companies. ... We already disclose all our voting globally and this is not difficult to do.</p> <p>We also reinforce the need to enhance the visibility of consistency in line with stewardship policies and support the additional language in Principle 5.3 requiring disclosure of voting records for each investee company on an individual agenda item basis.</p>	
Guidance 5-5 (Proxy Advisors)		
23	<p>We also support the introduction of section 5-5 that expands the scope of the Code to include proxy advisors, both with regard to resourcing, quality control and disclosures.</p>	<p>We appreciate your support for the intent of the revision.</p>
24	<p>We believe that a prescriptive regulatory approach to the oversight of proxy advisors is not the appropriate approach to address concerns regarding proxy advisors and that the quality of proxy research and services is kept high by client expectations and demands, not by regulators. Instead, we believe that a global code of best practice is more suitable to address such issues.</p>	<p>Thank you for your valuable input. Preamble 8 of the Code specifies that the Code also applies to proxy advisors. Guidance 5-5 clarifies this point once again, and reflects important points raised by this Council: proxy advisors should dedicate sufficient management resources to ensure sound judgment in the evaluation of companies, and disclose their approach in this regard.</p>
25	<p>The Code imposes certain responsibilities on proxy advisors commissioned by institutional investors. It should broadly cover other governance-related advisors working for investors as well.</p>	<p>With regard to your point, in the Code, Preamble 8 states that the Code applies to not only institutional investors, but also proxy advisors, etc. commissioned by the institutional investors. In the latter, the target is not limited to proxy advisors (although “etc.” is not clearly stated in the English translation). In fact, multiple service providers already disclose their intention to accept the Code. Taking your comment into account, we will change the wording of Preamble 8 in the English translation to “proxy advisors and other service providers” for clarification.</p>

● Principle 7 (Skills and Resources Necessary for Appropriate Engagement and Judgment)		
26	<p>While we agree with the added emphasis on expectations for asset managers to evaluate their implementation of the code and report on it, we believe that the roles of asset owners in this respect are equally important. They should have the resources to hold asset managers accountable on all matters, including stewardship. They should have the ability to evaluate the quality of the stewardship activities carried out by asset managers and reflect it in their dialogue with the asset managers and the selection process for asset managers.</p>	<p>As stated in Principle 7, we believe that asset owners should have skills and resources needed to make proper judgments in fulfilling their stewardship activities. Furthermore, Guidance 7-2 states that the management of institutional investors, including asset owners, should have appropriate capability and experience to effectively fulfill their stewardship responsibilities, and recognize that they themselves have important roles and responsibilities to carry out stewardship activities such as enhancing dialogue, structure their organizations and develop human resources, and take action on such issues.</p>
● Other		
27	<p>We very much support the work of the FSA and the Expert Council in relation to the Stewardship Code and the strides that have been made in Japan around both the Corporate Governance Code and the Stewardship Code.</p> <p>...As part of the evolution of governance, corporations and investors can move towards a more fruitful engagement relationship which becomes a “win-win” for investors looking for investment opportunities, shareholders of corporations who wish to see their investments prosper, along with employees and other stakeholders of these businesses. More effective engagement will come through a broader understanding and acceptance of the interrelationship between corporate governance and stewardship.</p>	<p>We appreciate your support for the intent of the revision.</p>

<p>As an overarching comment we think the proposed revisions to the Code are sensible, and we applaud the FSA for continuing to focus on stewardship and to propose refinements to the very good Code that was first introduced in 2014.</p>	
<p>We largely welcome the proposed amendments to the Code as we believe they will assist in promoting more effective stewardship activities among institutional investors. We think that the additional guidance on asset owners' responsibilities as well as how asset managers should manage conflicts of interest will be helpful particularly for those investors who may be new to the idea of stewardship.</p>	
<p>We appreciate the ongoing efforts of the FSA, the Council of Experts and the Tokyo Stock Exchange to improve dialogue between Japanese companies and their investors. We fully support the robust statement on the first priority to move corporate governance reform from "superficial" to "substantive" as stated in the 2016 Japan Revitalization Strategy, as a top priority of Abenomics.</p>	
<p>We applaud the Council and FSA for its work on the Code and believe that it will encourage greater stewardship efforts, and, in some cases, will codify existing stewardship practices by asset managers and asset owners alike. The proposed changes to the Code also reflect Japan's dedication in improving its corporate governance practices to reflect global trends, developments and investor expectations. We generally agree with the proposed changes to the Code.</p>	

<p>We believe that the Draft Principles are well formulated and suitable for adoption “as is” in their current form should Japan’s Financial Services Authority and the Council of Experts on the Stewardship Code choose to do so.</p>	
<p>Our overall view of the revised Code is positive and we appreciate, in particular, the following additions and clarifications:</p> <ul style="list-style-type: none"> ▪ Greater clarity on the role of asset owners in stewardship and their approach to managing asset managers. ▪ Additional explanation as to how asset managers should manage conflicts of interest. ▪ An explicit reference to the involvement of passive investors in stewardship. ▪ Inclusion of the concept of collective engagement in the code and recognition that it can be beneficial. ▪ A strong recommendation that investors should disclose their voting records for each investee company and on an individual resolution basis. ▪ The importance of sufficient experience and capacity in the management teams of institutional investors to undertake stewardship properly, and to operate independently of “affiliated financial groups”. ▪ The value of self-evaluation with regard to how an asset manager is implementing the Code. 	

28	<p>Whilst we are not signatories to the Japan Stewardship Code, we are signatories to the UK Stewardship Code which has many similarities, particularly in terms of the principles, and we seek to apply the spirit of these principles to our investments on a global basis. We believe that, although the purpose of the two Codes is expressed in slightly different language, the aims are basically the same. We also would make the general observation that, for both Codes, the Principles and Guidance should be seen as a “floor” of acceptable practice and individual signatories should consider how higher standards can be achieved.</p>	<p>Thank you for your valuable input.</p>
29	<p>We encourage the FSA to monitor the global stewardship efforts going forward. We believe these activities will help inform and accelerate the adoption of Corporate Governance best practices in Japan and globally.</p>	<p>Thank you for your valuable input.</p>
30	<p>Differentiating asset owners and asset managers: While the language of the Code starts off drawing clear distinctions between these two groups of investors, it is inconsistently applied in the draft and the more generic “institutional investor” is often used.</p>	<p>Throughout the Code, when a principle or guidance applies both to asset owners and asset managers, the term "institutional investors" is used; and when a principle or guidance applies specifically to asset owners or asset managers, the term "asset owners" or "asset managers" is used respectively.</p>
31	<p>We support reevaluating current legal requirements which prevent Japanese asset owners – pension funds – from direct engagement with Japanese investee companies.</p>	<p>The issue you raised is under the jurisdiction of ministries/agencies of pension funds, etc. Nonetheless, we appreciate your valuable input.</p>

32	<p>We are particularly concerned that cross-shareholdings (or strategic holdings) by companies continue to account for a significant part of the Japanese equity market and that these shareholders are not held accountable in the same way as institutional investors who sign up to the Stewardship Code.</p>	<p>With regard to issues around cross-shareholdings, the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code has been discussing the issues. We believe that these issues, including the points you raised, need to be discussed further in the future.</p>
33	<p>We expect companies to fully respect investors' willingness to engage and do their best to facilitate stewardship activities.</p>	<p>With regard to your comment, General Principle 5 of the Corporate Governance Code states that companies should engage in constructive dialogue with shareholders in order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, and, during such dialogue, that senior management and directors should listen to the views of shareholders, and pay due attention to their interests and concerns. Listed companies are expected to respond to investors in accordance with the above-mentioned General Principle.</p>
34	<p>Ongoing review: We believe that a review of the Code every three years is sensible.</p>	<p>As shown in Preamble 14 of the Code, this Council expects the FSA to take appropriate steps so that the Code will be reviewed periodically, about once every 3 years. Reviewing the Code periodically is supposed to enable institutional investors and their clients and beneficiaries to be better versed in the stewardship responsibilities, and help the Code to become more widely accepted.</p>