

Principles for Responsible Institutional Investors <Japan’s Stewardship Code>

**Summary of opinions received in Japanese concerning the re-revised draft and responses to them**

No.	Comment summary	Response
<b>Question 1-1 (Application of the Code to institutional investors that invest in assets other than Japanese listed shares)</b>		
1	I agree. Stewardship activities of investment in Japanese listed shares also lead to medium- to long-term increases in corporate value and the growth of companies.	We appreciate your support for the intent of the revision.
2	I agree, because institutional investors are expected to fulfill stewardship responsibilities even when investing in assets other than Japanese listed shares.  (6 other similar comments)	
3	According to the Code, the main assets subject to the Code are Japanese listed shares and the application of the Code to other assets emphasizes the autonomy of signatories, so I agree.  (2 other similar comments)	
4	I agree with expanding the assets covered to include other assets besides listed shares. I think it’s natural that the Code should be looking to encourage projects that are focused on solving societal problems relating to E and S.	
5	Because the investments covered are wide ranging and not limited to domestic listed shares, and because other assets could also affect governance as they are used by companies to procure funds, it’s appropriate to expand the scope beyond shares, so I agree.	

	(4 other similar opinions)	
6	I agree, because interest among institutional investors in investing in other assets is on the rise.	
7	Expanding the scope of application to other assets is a global trend, so I agree.	
8	I strongly agree with the direction of the draft with regard to application to other assets besides listed shares, as it reflects the view that companies should be encouraged to achieve sustainable growth in accordance with asset classes and investment management strategies.	
9	Given the purpose of stewardship responsibilities, I understand that it is not necessary to limit the assets covered to Japanese shares, but with corporate pensions being slower than expected to accept the Code, the top priority should be Japanese shares, and it is rational to employ the limited energy available to raising the value of Japanese companies, and this is also aligned with the government's growth strategy. So I think caution should be exercised in expanding the scope of assets covered by the Code to assets other than Japanese shares, and that an option to cover only Japanese shares should also be secured.	The Code will basically continue to focus on investment in Japanese listed shares. As for the application of the Code to other assets, "The Code may also apply to other asset classes as far as it contributes to fulfilling 'stewardship responsibilities' mentioned in the beginning of the Code." and it does not necessarily require explanations of the reasons for not doing so to be provided. However, when applying the Code to investments in other assets, it is likely that you would be expected to state that proactively in your policy for fulfilling stewardship responsibilities.
10	Given the objectives of stewardship, it is not inevitable that the assets covered be limited to Japanese shares. That being said, in the case of foreign assets, for example, the cost of conducting stewardship activities is higher than for domestic assets. And as for bonds, it is not possible to monitor asset managers through the results of exercise of voting rights. Going forward, if the scope of the Code is expanded, caution should be	Paragraph 10 of the preamble suggests that when investing in assets other than Japanese shares, from the standpoint of the cost burden, stewardship activities can also be conducted with the scope possible. As for the burden of monitoring, etc., we recognize that it is also important to consider a balance with the burden on asset owners, and corporate pensions in particular. In light of that, we have clearly stated

	exercised and adequate attention should be given to ensuring that the outsourcing costs and monitoring burden of asset owners does not increase.	that corporate pensions are expected to fulfill stewardship responsibilities in line with their size and capabilities, etc.
11	<p>The Code does not contain any specific principles/guidance for bonds, so I think it would be difficult to apply the Code to bonds. To deepen understanding of what is required under paragraph 10 of the preamble, I think it would be a good idea, for example, for the application of the Code to other assets to be stated in more concrete terms.</p> <p>(1 other similar comment)</p>	The Code will basically continue to contain principles/guidance that focus on investment in Japanese listed shares, and the principles/guidance include ones in which the application to other assets is not considered. So when investing in other assets, it is likely that the principles/guidance of the Code will be applied to these other assets within the scope possible.
12	<p>Regarding the approach to stewardship responsibilities, many points should similarly be considered with respect to investment in assets other than Japanese listed shares, and paragraph 10 of the preamble is effective for this purpose. However, it is vital to adequately consider the relationship with the Corporate Governance Code, and including a statement that assets other than listed shares are also supposed to be subject to compliance with each principle runs the risk of clouding the discussion.</p> <p>So after affirming that the primary purpose of the Code is to improve and foster corporate value and the sustainable growth of companies through constructive dialogue with Japanese listed companies, which are the investees, guidance should be provided that when institutional investors make decisions, the spirit of the Code ought also to be followed when investing in other asset classes.</p>	<p>The Code will basically continue to contain principles/guidance that focus on investment in Japanese listed shares. So regarding investment in other assets, the principles and guidance do not contain clear statements.</p> <p>Furthermore, in the case of investment in other assets, “as far as it contributes to fulfilling ‘stewardship responsibilities’ mentioned in the beginning of the Code,” the Code can be applied, and in cases where it does not contribute to fulfilling stewardship responsibilities, application of the Code is not anticipated, so we think this needs to be kept in mind.</p>
13	With regard to other assets, I have concerns when the intention is to	In the case of investment in other assets, “as far as it contributes to

	<p>apply the Code to them in the same way as Japanese shares in the future. As a shareholder, I would support corporate growth strategies that involve heavy investments as a means of contributing to increases in corporate value, but as a bondholder, I would adopt to the opposite stance as I would prioritize the retaining of earnings. For reasons such as this, in the case of bonds there could be instances of inconsistency with the promotion of medium- to long-term increases in corporate value and sustainable growth. If asset managers simultaneously hold both shares and bonds, it is difficult for them to conduct stewardship activities that balance both interests.</p> <p style="text-align: right;">(1 other similar comment)</p>	<p>fulfilling ‘stewardship responsibilities’ mentioned in the beginning of this Code,” the Code can be applied, and in cases where it does not contribute to fulfilling stewardship responsibilities, application of the Code is not anticipated.</p> <p>With Question 1-2 for public comment, we have received opinions concerning numerous points that should be kept in mind concerning stewardship activities when investing in assets other than listed shares, and our response to them is presented here. We believe that it would be worth considering the application of the Code to other assets in light of these points.</p>
14	<p>Other assets include assets that are purchased for speculative rather than investment purposes, so application should be limited to assets that are similar to listed shares.</p>	
15	<p>Regarding application to all assets, what is emphasized as fiduciary responsibility of investors likely differs depending on the country and the investment vehicle.</p>	
16	<p>I agree with the notion of applying the Code to assets that are publicly traded, but I think it would be difficult to implement.</p>	
17	<p>I understand, and agree with, the purpose of paragraph 10 of the preamble, but because the rights and responsibilities of investors who invest in listed shares and investors who invest in other assets differ greatly, factors such as prerequisites and differences in practices should be adequately taken into account, and regarding specific details of</p>	

	<p>stewardship activities in the case of investment in assets other than shares, I hope that deeper discussions concerning effective ways of fulfilling stewardship responsibilities will take place so as to prevent them becoming uniform.</p>	
18	<p>If the Code is to be applied to other assets, what level of stewardship responsibility will be required, and to what sorts of asset classes will it be possible to apply the Code? There are many differences in connection with corporate value in the case of listed shares, so the fact that various interpretations are possible should be stated more emphatically. If these cause-effect relationships had been investigated and researched in advance, I think the results of those studies should be made public.</p>	<p>As you point out, Japanese listed shares and other assets have different attributes, and the scope and degree of stewardship activities can obviously be expected to differ.</p> <p>With Question 1-2 for public comment, we have received opinions concerning numerous points that should be kept in mind concerning stewardship activities when investing in assets other than listed shares, and our response to them is presented here. We believe that it would be worth considering the application of the Code to other assets in light of these points.</p>
19	<p>Regarding the application of the Code to other assets, engagement without the power to force the dismissal of directors is not effective. (1 other similar comment)</p>	<p>In light of opinions such as that stewardship responsibilities do not seem to be limited to investment in Japanese listed shares, we have added the wording that “The Code may also apply to other asset classes” in the draft.</p>
20	<p>I think that the objective of the Code is to improve performance when holding Japanese shares for a medium to long period by encouraging, through dialogue, companies to achieve medium- to long-term earnings growth, medium- to long-term increases in ROE, increases in dividend payout ratios, and so on, so it shouldn’t be applied to other assets. If it is applied to other assets, it should be clearly stated that “as far as it contributes to fulfilling stewardship responsibilities with respect to</p>	<p>As you point out, engagement when investing in Japanese shares is the most efficient and effective way to improve the corporate governance of Japanese companies. In light of that, the Code will basically continue to focus on investment in Japanese listed shares.</p> <p>Furthermore, in the case of investment in other assets, “as far as it contributes to fulfilling ‘stewardship responsibilities’ mentioned in the</p>

	investment in Japanese shares, it can also be applied to investment in other assets.” Alternatively, the entire Code should be revised.	beginning of the Code,” the Code can be applied, and in cases where it does not contribute to fulfilling stewardship responsibilities, application of the Code is not anticipated, so we think this needs to be kept in mind.
21	Paragraph 10 of the preamble should state the following: “Stewardship responsibilities can be discharged regardless of the assets invested in, but under this Code, institutional investors that hold Japanese listed shares, in particular, should constructively engage and have discussions with investee companies concerning the gap with practices recommended under the Corporate Governance Code. Making it clear that Japanese listed shares take priority would spur Japanese companies to continue to improve their corporate governance and achieve sustainable growth. Furthermore, with respect to financial strategy, the interests of equity investors and bond investors differ, so engagement with regard to shares is most effective.	
22	A footnote should be attached to the expression “as far as it contributes to fulfilling ‘stewardship responsibilities’” in paragraph 10 of the preamble that makes the objectives of the Code clear. These days, consideration of sustainability is becoming widespread even in the area of debt finance, so when discussing corporate value, debate about not only listed shares but also corporate bonds and such is important as an engagement activity, so I’d like to express my agreement with expanding the coverage. However, in the case of public bonds, given that they are issued based on public policy, they aren’t suited to being covered by the Code.	The purpose of paragraph 10 of the preamble is to promote the expansion of the Code’s application to other assets as far as stewardship activities are conducted in accordance with the objectives of the Code, and by clearly stating “as far as it contributes to fulfilling ‘stewardship responsibilities’ mentioned in the beginning of the Code,” we believe that we have made that purpose clear. Furthermore, “stewardship responsibilities” assumes stewardship activities conducted with the objective of “increasing the corporate value and promoting the sustainable growth of companies,” so public bonds are not envisaged as being subject to the application of the Code.

23	I reject the application of the Code to foreign assets. The Code constitutes a norm that government departments have been involved in drafting, so it should be restrictive, in accordance with the concept of reciprocal state territorial sovereignty.	Because the Code was formulated as part of Japan’s Growth Strategy, it will basically continue to focus on investment in listed Japanese shares. However, it can also be applied to investment in foreign assets.
24	It should be limited to institutions based in Japan.	The Code assumes that investees are Japanese companies. So if the investees are Japanese companies, even institutional investors based in foreign countries can accept the Code, and already numerous overseas institutional investors have declared their acceptance of the Code.
25	Paragraph 10 of the preamble should be left to ongoing discussion, and removed from this revision. Japan needs to achieve progress with equity governance, as companies have viewed debt governance as the main issue in the past, so at this juncture, including the viewpoints of bond investors, etc., which could create a conflict of interest, poses the risk of a significant retreat for the framework. Expanding the scope of application after the sound development of equity governance in Japan has been observed will not be too late.	In this revision, we have reflected opinions such as that stewardship responsibilities should not be limited to investment in Japanese listed shares by adding the wording “may also apply to other asset classes.” As you point out, it is important to invigorate equity governance in Japan, and to also reflect issues like that, the Code will basically continue to focus on investment in Japanese listed shares. Furthermore, because of the differences in the attributes of shares and bonds, it is likely to be difficult for bondholders to engage in the same
26	Paragraph 10 of the preamble should continue to undergo consideration, and its adoption should be delayed for the time being. Investors in assets such as bonds generally receive a fixed return, and do not increase their investment returns through increases in the value of the company, nor do they have any means of encouraging the company to increase its value. Between equity investors, who are looking for growth, and investors in other assets, who emphasize stable cash flow, conflicts can arise in what they expect from the company. Given that such differences	sorts of stewardship activities as shareholders. However, it is also possible, for example, that over the medium to long term, the interests of holders of shares and holders of corporate bonds can be aligned, so we believe that there are situations in which the Code can be applied to investment in bonds such as corporate bonds.

	<p>exist, it isn't clear what meaning investors in assets other than shares will attach to the expression "as far as it contributes to fulfilling stewardship responsibilities," and this matter cannot be said to have been adequately discussed, so at this stage, a revision like paragraph 10 of the preamble would confuse investors.</p>	
27	<p>Given that in Japan the growth of unlisted companies should be encouraged to a greater extent than it is now, I propose that consideration be given to expanding the scope of application of the Code to unlisted shares. Because shares issued by unlisted companies are not publicly traded, the governance of the companies is fragile, and is still in the process of developing. I think that supporting management that can deliver sustainable growth even after listing through excellent equity governance prior to listing would contribute to achieving the purpose of the Code.</p>	<p>The Code basically focuses on investment in Japanese listed shares by institutional investors, and it states that as far as it contributes to fulfilling stewardship responsibilities, it can also be applied to investment in other assets. Therefore, we believe that as far as it contributes to fulfilling stewardship responsibilities, it can also be applied to investment in unlisted shares.</p> <p>If application of the Code is expanded to cover investment in unlisted shares, it is likely that you would be expected to state that proactively in your policy for fulfilling stewardship responsibilities.</p>
28	<p>I strongly recommend that the wording be changed to "should also be applied to investment in other assets." Stewardship is essentially the act of investors who invest in various securities, etc. issued in public markets managing those investments responsibly, and thereby safeguarding the value of their investments, so these principles should be applied to all types of assets.</p>	<p>The Code was formulated as part of Japan's Growth Strategy, and engagement when investing in shares is the most efficient and effective way to improve the corporate governance of companies. In light of that, the Code will basically continue to focus on investment in Japanese listed shares.</p> <p>However, when investing in other assets, an expansion in the breadth of stewardship activities should be welcomed, and we expect that proactive efforts will be made "as far as it contributes to fulfilling 'stewardship responsibilities' mentioned in the beginning of this Code."</p>



<b>Question 1-2 (Points to be noted when the Code is applied to institutional investors that invest in other assets)</b>		
29	<p>Not all the principles/guidance should require “comply or explain.” Not only do signatory institutions vary in terms of sector and size of portfolio, but a conflict of interests could occur between shareholders and creditors, and there are also principles that are irrelevant for creditors as they don’t have voting rights. In light of these realities, signatory institutions should be permitted to make disclosures based on their circumstances when expanding the range of assets covered.</p> <p style="text-align: right;">(1 other similar comment)</p>	<p>Regarding the application of the Code to investment in other assets, “The Code may also apply to other asset classes as far as it contributes to fulfilling ‘stewardship responsibilities’ mentioned in the beginning of this Code.” and it does not necessarily require explanations of the reasons for not doing so to be provided. However, when applying the Code to investments in other assets, it is likely that you would be expected to state that proactively in your policy for fulfilling stewardship responsibilities.</p>
30	<p>When you attempt to cover all assets, it becomes difficult to read, and many institutional investors in Japan would attempt to avoid criticism and comments about the fact that they haven’t covered them all. In the preamble, it should be made clear that application to all assets is not required, and that there is no problem with a stance of applying the Code to important assets.</p>	
31	<p>Shareholders could advise companies to pursue profit-making opportunities by taking on more debt, whereas bond investors could advise caution about taking on more debt as they want to ensure that funds for redeeming the bonds are secured. If the assets subject to application of the Code are expanded, the fact that this sort of conflict of interest could occur should be taken into account, and institutional investors should formulate and disclose a policy on managing conflicts of interest in accordance with Principle 2.</p>	<p>“As far as it contributes to fulfilling ‘stewardship responsibilities’ mentioned in the beginning of this Code,” the Code can be applied, and in cases where it does not contribute to fulfilling stewardship responsibilities, application of the Code is not anticipated, so we think this needs to be kept in mind.</p>

32	The conflict of interest between shares and corporate bonds should be kept in mind. Shareholders should play the primary role in governance as they have been conferred voting and other shareholder rights in exchange for providing the equity that serves as the final risk buffer.	
33	A contradiction could arise between the nature of the constructive “purposeful dialogue” of investors in Japanese listed shares and actual investment behavior. For example, even though they have engaged in dialogue aimed at encouraging a company to improve their financial standing by trimming debt, they could then purchase the company’s bonds.	
34	Shares and bonds could involve a conflict of interest. The value of shares generally rises when the company takes full advantage of debt and distributes surplus capital to shareholders, whereas the value of bonds rises when the company builds up its equity without paying returns to shareholders.  (2 other similar comments)	
35	The objectives and significance of and policies for stewardship activities should be made clear.	
36	Essential measures for the growth of listed companies as a whole should be taken.	We believe that sharing the objectives and significance of stewardship activities with investee companies is important from the standpoint of ensuring that stewardship activities are conducted in line with the underlying objective of the Code.
37	Attention should be given to the fact that this is a long-term perspective.	
38	It is difficult to determine the extent to which stewardship responsibilities can be applied overseas and to real-estate investment.	
39	Without voting rights, engagement is impossible.	The Code will basically continue to contain principles/guidance that focus on investment in Japanese listed shares, and the principles/guidance include ones in which the application to other assets

40	Investors in debt other than illiquid debt invest without engaging in dialogue with the issuer, so it's not appropriate to require that they engage in dialogue and achieve results.	<p>is not considered. So when investing in other assets, it is likely that the principles/guidance of the Code will be applied to these other assets within the scope possible.</p> <p>In the case of investment in other assets, "as far as it contributes to fulfilling 'stewardship responsibilities' mentioned in the beginning of this Code," the Code can be applied, and in cases where it does not contribute to fulfilling stewardship responsibilities, application of the Code is not anticipated, so we think this needs to be kept in mind.</p> <p>With Question 1-2 for public comment, we have received opinions concerning numerous points that should be kept in mind concerning stewardship activities when investing in assets other than listed shares, and our response to them is presented here. We believe that it would be worth considering the application of the Code to other assets in light of these points.</p>
41	Approaches to engagement could differ in the cases of bonds and private assets.	
42	Engagement in the case of bonds would require ingenuity such as accompanying an equity analyst.	
43	Investment in long-short funds could lead to a conflict with the interests of clients. The application of the Code depends on investors.	
44	Assets used for short-term investments differ in nature from other assets.	
45	Methods of approaching investees will naturally differ between shareholders, who possess rights of common interest, and other investors, who do not possess such rights.	
46	It should be clearly stated that it is reasonable to respond based on the attributes of the assets.	
47	In Japan, it should be clearly stated that discipline in equity governance should continue to be established in Japan.	
48	<p>I have doubts about effectiveness in the case of other assets. Compared with bonds, shares, which carry voting rights, have more influence on corporate governance.</p> <p>(1 other similar comment)</p>	<p>As you point out, engagement when investing in Japanese shares is the most efficient and effective way to improve the corporate governance of Japanese companies. In light of that, the Code will basically continue to focus on investment in Japanese listed shares.</p> <p>Furthermore, in the case of investment in other assets, "as far as it contributes to fulfilling 'stewardship responsibilities' mentioned in the beginning of the Code," the Code can be applied, and in cases where it</p>

		does not contribute to fulfilling stewardship responsibilities, application of the Code is not anticipated, so we think this needs to be kept in mind.
49	What should we do if conflicts arise with the regulations or codes of other countries?	The Code is basically focused on investment in Japanese listed shares, but if conflicts arise with the regulations or codes of other countries, we believe that explanations would be provided as necessary.
50	Investors should be cautious about the fact that disclosures can be inadequate and liquidity is low if the shares are not listed. (2 other similar comments)	Thank you for your valuable input.
51	If institutional investors apply the Code to other assets, in their stewardship policies, they should make it clear which assets they are focusing on in their descriptions, and endeavor to make statements based on the attributes of the assets concerned.	Thank you for your valuable input.

**Question 2 (Issues concerning sustainability (medium- to long-term sustainability including ESG factors))**

52	<p>I agree with the inclusion of sustainability in the Code, and support the expressions used in the draft. For the following reasons, I support the current expressions.</p> <ul style="list-style-type: none"> <li>▪ Globally, it’s becoming more widely recognized that sustainability is an important element in achieving medium- to long-term increases in corporate value, and in light of that background, I don’t feel there’s anything odd about incorporating that element into the Code.</li> <li>▪ However, initiatives in the area of sustainability differ depending on the size and stance of the entity and the circumstances it is in, so rather than establish a uniform set of rules, the key is to move forward step by step.</li> </ul> <p>Although this draft touches on the importance of sustainability, when taking it into account, attention has been given to ensuring that recommendations are not instantaneous and uniform. This can be seen in such expressions as “consistent with their investment management strategies.” So because they are based on the notion of independent thinking by various entities, and allow entities to move forward at their own pace, I think the expressions used in the draft are balanced, and that they shouldn’t be made any stronger.</p> <p style="text-align: right;">(21 other similar comments)</p>	We appreciate your support for the intent of the revision.
53	Regarding sustainability (medium- to long-term sustainability including ESG factors), major asset managers are already tackling it as an important element of engagement, so I think it’s reasonable to include	

	the issue in the draft of the Code.	
54	I agree as it's aimed at increasing corporate value.	
55	<p>Companies have diverse and wide-ranging requirements for achieving sustainable growth in corporate value, which is the primary objective of the Code, so constructive “purposeful dialogue” with companies should be conducted from multiple angles. If the Code clearly articulated specific elements such as ESG, the type of dialogue that investors engage in with companies could become homogenous (uniform), so I don't think they should be included.</p> <p>Furthermore, the expression “sustainability consistent with their investment management strategies” conflicts with traditional medium- to long-term (long only) equity investment in Japan, so I think it should be removed.</p> <p>(2 other similar comments)</p>	<p>Interest in sustainability has been growing rapidly among investors, companies, etc. recently, and in response to this, we have, in Guidance 1-2 of the draft, requested that institutional investors clearly specify how they take sustainability-related issues into consideration in their stewardship policies, consistent with their investment management strategies. When taking issues involving sustainability into account, we believe that it is important to be conscious of the need to ensure that measures are consistent with investment management strategy and that they lead to the medium- to long-term increase of corporate value and the sustainable growth of companies.</p> <p>Furthermore, because the Code employs a “comply or explain” approach, when it is considered inappropriate to take sustainability into account given the circumstances of each institutional investor, they could respond by proactively explaining the reasons for that.</p>
56	<p>I am against the inclusion of sustainability in the Code. The most important components of fiduciary responsibility are protection of the assets entrusted and maximizing returns as part of strategy, and it is unclear whether ESG factors would always contribute to achieving this most important objective.</p> <p>(1 other similar comment)</p>	

57	<p>Taking into account the specific elements of ESG could interfere with the freedom of investors to make investment decisions, and there are concerns that the draft could affect financial markets, which ought to be fair and just.</p> <p>Further, despite the fact that corporate social responsibility is essentially an issue to be tackled by companies independently and based on their own ideas, if the prescription is made in the draft that companies must consider ESG factors, which are specific elements, companies might start having to respond to requests from investors. This could weaken the decision-making capabilities and independence of companies.</p> <p>Furthermore, taking ESG into account would create a major burden for companies from the cost-benefit standpoints. Companies can only protect the environment and fulfill their social responsibilities to their employees, communities, etc. if they make profits.</p> <p>The statements concerning ESG should be revised to make it clear that ESG is something that companies tackle voluntarily, and that institutional investors play a supporting role in the actual initiatives undertaken by companies.</p> <p>(1 other similar comment)</p>	
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58	<p>I propose that the following three changes be made:</p> <ul style="list-style-type: none"> <li>▪ Restore the part in the beginning of the Code that defines “stewardship responsibilities” to the original wording, with the additions being removed.</li> <li>▪ Rewrite Guidance 1-1 as “through constructive ‘purposeful dialogue’ (engagement) based on a deep understanding of the business environment, etc. including investee companies and sustainability (Note)” and move the definition of sustainability to a footnote.</li> <li>▪ Make similar changes to paragraph 5 of the preamble, Principle 7, and Guidance 7-1.</li> </ul> <p>From the standpoint of companies/investors, “sustainability” is included in the “business environment (etc. of companies),” so it is seen as a medium- to long-term risk or as a new opportunity for their businesses. The expression “in-depth knowledge of the companies and their business environment and consideration of sustainability” gives the impression that in addition to having a responsibility to increase their corporate value through business and increase investment returns for their clients/beneficiaries, they also have a “responsibility to take sustainability into account,” so it could cause a misunderstanding of the purpose of the stewardship responsibilities.</p>	<p>Interest in sustainability has been growing rapidly among investors, companies, etc. recently, and in response to this, we have, in the preamble of the draft, inserted a statement calling for sustainability in the definition of “stewardship responsibilities.”</p> <p>On the other hand, the Council contends that stewardship responsibilities mean the responsibilities of institutional investors “to enhance the medium- to long-term investment return for their clients and beneficiaries (including ultimate beneficiaries) by improving and fostering investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies.” The Council therefore expects that proper communication will ensure that a misunderstanding of the interpretation of the like you point out will not occur.</p>
59	<p>The definition of “sustainability” should be made clear. Is it sustainability from the standpoint of “sustainable increases in corporate value” or of whether CSR elements are included? Depending on the answer, the response could be different. If it’s the former, asset managers</p>	<p>The preamble contains a definition of stewardship responsibilities that means the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries (including ultimate beneficiaries) by improving and</p>



	<p>can consider what to do in light of their investment strategy, but if it's the latter, this might not align with the strategy.</p> <p>(3 other similar comments)</p>	<p>fostering investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies.</p>
60	<p>“Sustainability (medium- to long-term sustainability including ESG factors)” in the preamble and Guidance 1-1 is an important element of stewardship that's expected of institutional investors, but on the flipside, there is no definition of ESG (matters concerning governance, social, and environment, so there's a risk of beneficiaries interpreting it in ways that suit them., and it's also difficult for beneficiaries to understand. I think that it would be easier for beneficiaries to understand if details were included in the preamble about the background to the adoption of ESG, such as the U.N.'s Principles for Responsible Investment, and explanations of it.</p> <p>(1 other similar comment)</p>	<p>In that sense, consideration of sustainability in the Code envisages consideration to promote increases in the corporate value and the sustainable growth of investee companies.</p> <p>At the same time, however, the Code calls on institutional investors to clearly specify how they take sustainability-related issues into account in their stewardship policies, consistent with their investment management strategies. When taking issues involving sustainability into account, we believe that it is important to be conscious of the need to</p>
61	<p>If references are made to sustainability and long-term corporate value without a focus on the value of shares, a concern is that the executives of listed companies could use these additional expressions as a means of justifying inadequate governance, and similarly, shareholders that are loyal to the company could use these additional expressions as a means of justifying inadequate stewardship.</p> <p>If the expressions “sustainability” and “medium- to long-term increases in corporate value” are going to be used, there should be a reference to the value of shares. For example, I think an expression like “sustainability reflected in the value of shares and long-term increases</p>	<p>ensure that measures are consistent with investment management strategy and that they lead to medium- to long-term increase of corporate value and the sustainable growth of companies.</p> <p>If detailed and separate definitions of ESG factors and sustainability, beyond the current wording, were provided, it might have the opposite effect from the one desired, by making institutional investors think that it is enough to just focus on the listed items. And as for sustainability, while interest in it has been growing rapidly among investors, companies, etc. worldwide recently, our perception is that a single, internationally-agreed-upon definition has not yet been established at the</p>

	<p>in corporate value” would be an appropriate way of ensuring that accountability to shareholders, which is essential for both corporate governance and stewardship, should be taken into account, while maintaining the tone of sustainability and growth promotion.</p>	<p>present time, so we would like to refrain from determining a more detailed definition.</p> <p>Regarding the background to the Code requiring that ESG factors be taken into account, we have provided information about it in the section about the “Second Revision of the Stewardship Code”, though it is not provided in the Code itself, so we expect that people will also refer to that.</p>
62	<p>Guidance 1-1 should be restated as “institutional investors should conduct constructive ‘purposeful dialogue’ based on a deep understanding of the business environment, etc. of investee companies and the consideration of sustainability (including ESG factors [and measures for achieving sustainable growth and medium- to long-term increases in corporate value as indicated in the Guidelines for Investor and Company Engagement]) in accordance with investment management strategy, to increase medium- to long-term investment returns for ‘clients/beneficiaries’ (including ultimate beneficiaries) by increasing the corporate value and promoting the sustainable growth of the companies.” The part contained in [ ] should be inserted for the following reasons:</p> <ul style="list-style-type: none"> <li>▪ There is a risk of other aspects of medium- to long-term sustainability besides ESG and SDGs being forgotten.</li> <li>▪ Regarding dialogue between institutional investors and companies for the purpose of achieving sustainable growth and medium- to</li> </ul>	<p>As you point out, there are likely to be other important elements besides ones classified as E, S, or G that would promote increases in the corporate value and the sustainable growth of companies, so that is why we have used the term “sustainability,” which also encompasses such elements. On the other hand, there are concerns that just saying sustainability might make it difficult to visualize specific elements that should be taken into account. Accordingly, as can be seen with the current draft, sustainability is defined as “medium- to long-term sustainability including ESG factors, so ESG factors are provided as an example. As for the question of what sorts of elements need to be taken into account, we believe that it is important for each institutional investor to consider the matter in accordance with their own investment management strategy and in light of their own circumstances.</p> <p>So referring to the Guidelines for Investor and Company Engagement that you mention could also be useful in that regard.</p>

	<p>long-term increases in corporate value, the Guidelines for Investor and Company Engagement (June 1, 2018) lists issues that should be the focus of discussions, and many of these issues are closely related to sustainability, e.g. 1-1, 2-1, 3-1, 3-5, and 3-6).</p>	
63	<p>The phrase “ESG factors” could be taken to mean that discussions should be limited to E (environment), S (social), and G (governance). How about removing the phrase “ESG factors” from the Code and including sustainability alone?</p>	
64	<p>Guidance 1-1 should be limited to “ESG factors” only, and sustainability and SDGs in Footnote 6 should be removed.</p> <p>ESG is already linked with sustainability, and from an investment standpoint, it would be easier to understand if it were made clear that we should encourage the growth of companies that are behaving favorably in terms of governance, environment, and social.</p>	
65	<p>Instead of using the term ESG, wouldn’t it be sufficient to include a statement about medium to long-term increases in corporate value?</p> <p>(1 other similar comment)</p>	
66	<p>The definition of the word “sustainability” is vague, so I think a clearer definition should be provided.</p> <p>Guidance 1-1, for example, states “sustainability (medium- to long-term sustainability including ESG factors),” which implies that ESG factors are included in the concept of sustainability. Generally, within ESG, the elements that relate to sustainability are E and S, with the element relating to the maximization of shareholder returns being governance.</p>	<p>The draft reflects the view that not only E and S, but also G (governance), are factors that lead to “medium- to long-term sustainability,” so with regard to sustainability, we have defined it as medium- to long-term sustainability including ESG factors. However, the Code calls on institutional investors to clearly specify how they take sustainability-related issues into consideration in their stewardship policies, consistent with their investment management strategies. When</p>

	<p>The use of the word “sustainability” in the draft differs from the typical concept, so there is a risk that it could cause confusion.</p> <p>(1 other similar comment)</p>	<p>taking issues involving sustainability into account, we believe that it is important to be conscious of the need to ensure that measures are consistent with investment management strategy and that they lead to medium- to long-term increase of corporate value and the sustainable growth of companies.</p> <p>If detailed and separate definitions of ESG factors and sustainability, beyond the current wording, were provided, it might have the opposite effect from the one desired, by making institutional investors think that it is enough to just focus on the listed items. And as for sustainability, while interest in it has been growing rapidly among investors, companies, etc. worldwide recently, our perception is that a single, internationally-agreed-upon definition has not yet been established at the present time, so we would like to refrain from determining a more detailed definition.</p>
67	<p>Footnote 5 concerning ESG in Guidance 1-1 should be restated in the order “environment, social, and governance.”</p>	<p>The footnote to Guidance 3-3 of the Code prior to this revision stated that matters relating to governance as well as social/environmental issues are referred to as “ESG factors.” Following this revision, the main body of the Code now includes a statement requesting that sustainability be taken into account, and definition has been rewritten as “medium- to long-term sustainability including ESG factors.” As a result, the above footnote in the previous version has been moved to the footnote to Guidance 1-1, which is the first place that “sustainability” appears in the main body. Because of this, the wording is that ESG factors refer to “governance, social and environment matters.” However, we have no</p>

		intention of implying that any of them are of superior or inferior importance depending on the order of listing.
68	<p>In the draft, the expression “Institutional investors should clearly specify how they take the issues of sustainability into consideration in their policy, consistent with their investment management strategies.” has been added to Principle 1-2, but at the time of the 3rd Meeting of the Council, the expression was “should clearly state whether they will take issues relating to sustainability into account, and if so, how they will take them into account, in their stewardship policies after giving the matter consideration, and in accordance with investment strategy.”</p> <p>The expression used at the 3rd Meeting of the Council made it clear that even if issues relating to sustainability are not taken account due to the investment strategy, all that is necessary is to disclose this as a policy, but can the same also be said for this draft.</p>	<p>The new wording is not intended to change to meaning.</p> <p>The Code adopts the “comply or explain” approach, so with regard to all the principles/guidance, if an institutional investor decides that it would be inappropriate to comply, they could handle this by proactively explaining the reasons. The draft that was presented at the 3rd Meeting of the Council just makes it clear that explain is an option with respect to Guidance 1-2.</p> <p>However, some are of the opinion that it is not necessary to clearly state that explain is an option in this guidance item only, and that leaving such a statement there could actually lead to the misunderstanding that explain is not an option in other principles and guidance. In light of that, we decided to remove the expression “whether they will take issues relating to sustainability into account.”</p> <p>Nevertheless, as stated in Principle 1-1, sustainability refers to medium-to long-term sustainability including ESG factors, so we believe that it is important for each institutional investor to clearly specify how they take sustainability-related issues into consideration in their stewardship policies, consistent with their investment management strategies.</p>
69	<p>As a response to “Institutional investors should clearly specify how they take the issues of sustainability into consideration in their policy, consistent with their investment management strategies.” in Guidance 1-2, my understanding is that, for example, a Japanese equity fund that</p>	<p>We believe that it is important, “in accordance with investment management strategy” for each institutional investor, after considering the matter, to clearly specify in their stewardship policy how they will</p>

	<p>invests actively could articulate its approach to the integration of ESG factors, and that this would be sufficient to adhere to the guidance. Would this understanding be correct?</p>	<p>take issues relating to sustainability into account, and the example response you mention would be one way of doing this.</p>
70	<p>Regarding Guidance 1-2, “sustainability” is also considered to be one of the various factors for fulfilling stewardship responsibilities, but when you say “clearly” state, there is a danger that this will be interpreted as details of the investment management strategy should be disclosed, so I think it would be better to remove the word “clearly.”</p>	<p>The purpose of Guidance 1-2 is not to demand detailed disclosure of investment management strategy, but instead envisages that institutional investors will consider how to take issues relating to sustainability into account, and then disclose information about this in their policies for fulfilling stewardship responsibilities. Regarding the concern you point out, the Council expects that also in light of your comment, appropriate interpretations will be shared by, for example, raising awareness of the revisions to the Code.</p>
71	<p>A definition of sustainability as “medium- to long-term sustainability including ESG factors” is contained in the box in the preamble and also in Guidance 1-2, but it is not contained in Principle 7, which is the most important and a widely-circulated part of the Code. I think the definition should also be included in Principle 7, and this would also serve to increase recognition of the word “sustainability.”</p>	<p>As you point out, we have included the definition of sustainability along with the first appearance of the word in both the preamble and the main body. So because it is defined in two locations, we would expect that people will understand that it is used with the same meaning in all instances, including the preamble and all instances in the main body.</p>
72	<p>I don’t think there is anything odd about the expression “ ‘stewardship responsibilities’ refers to ...” in terms of its purpose. So there’s also nothing off about including almost the same expression in Guidance 1-1, but I take this as meaning that when an entity declares acceptance of the Code, it is taken as a given that they will also “take sustainability into account.”</p> <p>As for Guidance 1-2, I take “consistent with their investment</p>	<p>Regarding the issue you point out, including superficial monitoring by asset owners such as corporate pension funds, the Council expects that an appropriate shared interpretation will be achieved through the broad communication of the background, significance, and nature of the revisions to the Code.</p>

	<p>management strategies” as meaning that asset managers and asset owners have freedom of discretion within the scope considered to be consistent with their own investment philosophy and policy on responsible investment. However, “how they take the issues of sustainability into consideration” gives the impression that explanations could be extremely detailed in some cases. Principle 1 requires that a policy be formulated and disclosed, so I don’t think the level of detail expected to be provided in the “policy” should be excessive. Among those involved, there could be huge gaps in perceptions of what is expected, and if asset owners make overly detailed and specific demands on asset managers, the scope of their discretion could be narrowed.</p> <p>Asset managers that invest actively based on fundamentals, in particular, are there to deliver excess returns on an ongoing basis, and to that end, they need to search flexibly, not rigidly, for market inefficiencies by considering a wide range of investments and broad definitions. It is therefore preferable for there to be a shared interpretation of the guidance that does not restrict investment behavior in this way.</p>	
73	<p>In the preamble, Guidance 1-1, Principle 7, Guidance 7-1, etc., the writing gives the impression that taking issues relating to sustainability into account is perfectly obvious, which I feel could be a bit slapdash. In the case of Japan, I would surmise that the number of institutional investors and companies that are able to respond (or are already responding) appropriately cannot be said to be all that high. So I’m still really concerned that even if you force the Code on them, all you’ll be</p>	<p>The draft calls on institutional investors clearly specify how they take sustainability-related issues into consideration in their stewardship policies, consistent with their investment management strategies, and when taking issues involving sustainability into account, we believe that it is important to be conscious of the need to ensure that measures are consistent with investment management strategy and that they lead to</p>

	<p>doing is encouraging them to take surface-level measures.</p> <p>The latter part of Guidance 1-2 contains the expression “Institutional investors should clearly specify how they take the issues of sustainability into consideration in their policy, consistent with their investment management strategies.” and this is sufficient as a direction.</p>	<p>medium- to long-term increase of corporate value and the sustainable growth of companies.</p> <p>Regarding the concern about interpretation that you raise, in light of your comment, the Council expects that an appropriate shared interpretation will be achieved through the broad communication of the nature of the Code.</p>
74	<p>Because an attempt has been made to insert consideration for sustainability in an unnatural fashion, the Japanese is difficult to read, so I strongly recommend that it be revised. For example, I would like the following wordings to be considered:</p> <p>Proposal (1): Revision of wording in box in preamble heading</p> <p>In this Code, “stewardship responsibilities” refers to the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries (including ultimate beneficiaries; the same shall apply hereafter) by improving and fostering the investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment[(remove the following) and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies].</p> <p>[(Add the following) Depending on the investment management strategy of the institutional investor, this could include giving consideration to</p>	<p>Interest in sustainability has been growing rapidly among investors, companies, etc. recently, and in response to this, we have included in the draft a statement about giving consideration to sustainability in accordance with investment management strategies. Regarding your comment about the preamble and Guidance 1-1, the Council expects that an appropriate shared interpretation will be achieved through the broad communication of the nature of the Code.</p> <p>Regarding your proposal to state the background to including the consideration of sustainability in the Code, we have done so in the section about the “Second Revision of the Stewardship Code”, so we expects that people will also refer to that.</p>



	<p>sustainability (medium- to long-term sustainability including ESG factors) or engaging in dialogue with investees concerning issues relating to sustainability.(*)</p> <p>(*) Society increasingly expects sustainability to be properly taken into account in order to solve societal problems, and recently the number of institutional investors taking sustainability into account in their investment management strategies is rising, particularly overseas.]</p> <p>Proposal (2): Revision of wording in latter part of Guidance 1-1 (underlined part)</p> <p>1-1. Institutional investors should, through constructive “purposeful dialogue” (engagement) based on a deep understanding of investee companies and their business environment, etc., increase medium- to long-term investment returns for clients/beneficiaries by increasing the corporate value and promoting the sustainable growth of the companies. [(Add the following) Institutional investors should properly take into account a sustainability (medium- to long-term sustainability including ESG factors) in accordance with their investment management strategies during dialogue with investee companies.]</p>	
75	<p>The investment strategies of asset managers differ depending on the product, and integration methods are altered for each product, so I had concerns about the wording, but I agree with the change from <i>toushi senryaku</i> to <i>unyou senryaku</i> [Japanese terms that refer to investment</p>	<p>Regarding the term <i>unyou senryaku</i>, we decided to use the term as it indicates strategy at the level of the signatory of the Code in order to make it clear that each institution should not perform uniform</p>

	<p>strategy and asset-management or investment management strategy]. I would also like consideration to be given to changing the expression to “investment philosophy.”</p> <p>Furthermore, Guidance 1-1 refers to the fact that 17 Sustainable Development Goals (SDGs) were adopted at the U.N. Summit in September 2015, and it seems the expression has been chosen to align with government policy. Is my understanding correct?</p>	<p>stewardship activities, but rather stewardship activities that are consistent with their own strategy.</p> <p>Furthermore, in light of points such as the one you have made, we have added Footnote 6.</p>
76	<p>There’s no need to make an addition to Guidance 1-2. Not only does it repeat what’s said in the first half of the same guidance, but depending on how it is read, there’s also a risk that it could be interpreted as meaning that it’s sufficient to just state how issues relating to sustainability will be approached.</p>	<p>Interest in sustainability has been growing rapidly among investors, companies, etc. recently, and in response to this, the Council feels that the question of how issues relating to sustainability will be taken into account is also important when formulating a policy for fulfilling stewardship activities, and should therefore be presented in the policy after consideration. We have therefore added this to Guidance 1-2.</p> <p>Regarding the concern about interpretation that you raise, in light of your comment, the Council expects that an appropriate shared interpretation will be achieved through the broad communication of the nature of the Code.</p>
77	<p>The following footnote should be added after the second line of Guidance 1-1 (consideration of sustainability (medium- to long-term sustainability including ESG factors) as a means of encouraging ESG investment:</p> <p>“Properly consideration of this is regarded as one of the responsibilities of fiduciaries.”</p> <p>Making it clear that consideration of sustainability is a responsibility of</p>	<p>Interest in sustainability has been growing rapidly among investors, companies, etc. recently, and in response to this, we have inserted a statement about consideration of sustainability within the definition of “stewardship responsibilities” in the preamble.</p> <p>However, given the background to the Code, whereby it was formulated and has developed as part of Japan’s growth strategy, and in light of the fact that Council meetings saw comments from several members to the</p>

	<p>institutional investors is timely, so I would like to express my agreement. However, asset management by pension funds is “solely for the benefit of enrollees, etc.), and that benefit is defined as economic benefit, and it is generally prohibited to take any other matters into account. I think it therefore needs to be stated that the consideration of sustainability not conflict with fiduciary responsibilities.</p>	<p>effect that it is important to take sustainability into account in such a way as to increase the corporate value and the sustainable growth of investee companies, in the preamble to the Code, we have defined stewardship responsibilities to mean ”the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries (including ultimate beneficiaries) by improving and fostering the investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies.”</p> <p>We have also made it clear with these revisions that the revisions are not intended to include in the stewardship responsibilities of institutional investors the consideration of sustainability itself, separate from the investment management strategy of each institutional investor.</p> <p>Regarding the relationship between stewardship responsibilities and fiduciary duties, please refer to the answer to Question 3 No.100.</p>
78	<p>I’m not opposed to including issues relating to sustainability in the Code, but I would like you continue to investigate what sort of investment effects there are as a result of taking sustainability into account. If, as a result of these investigations, it is determined that there is no impact on investment, I think it would be harsh to impose this as a requirement on institutional investors.</p>	<p>Thank you for your valuable input.</p>

79	<p>ESG investment needs to be “investment that reflects circumstances in Japan, and tackles issues that Japan is facing,” so that point should be included.</p> <p>Because Japan is experiencing a falling birthrate and aging society of the like not seen anywhere else in the world, and because economic growth and the sustainability of pensions needs to be ensured even in an era in which the population is declining, so investment that helps to encourage people to work should be promoted.</p>	
80	<p>The Financial Instruments and Exchange Act should be amended to require Japanese listed companies to (1) report ESG (environment, social, governance) factors that affect their business and their action to address important ESG issues and (2) perform ESG-related risk management to shareholders once a year. And stricter measures to ensure this should be introduced in phases. For example, Japan Exchange Group could publish the names of companies that fail to make adequate reports.</p>	

**Question 3 (Promotion of stewardship activities by asset owners such as corporate pensions)**

81	I support the expression used in the draft. The draft contains the wording “in line with their size and capabilities, etc.,” which doesn’t demand that asset owners such as corporate pensions respond immediately/uniformly when participating in stewardship activities, so flexibility is permitted to some degree.	We appreciate your support for the intent of the revision.
82	I agree with the draft. Apart from certain exceptions, asset owners outsource asset management to external asset managers, and so all that is required of asset owners is that they conduct monitoring as to whether the asset managers they have outsourced to are conducting stewardship activities in accordance with investment management strategy. Enhancing the quality of that monitoring will ensure the effectiveness of the investment chain. To that end, asset managers should be innovative in disclosing their stewardship activities, and provide plenty of information that makes it easy for outsourcers to determine what they are doing.	
83	The draft can be expected to promote acceptance of the Code by corporate pensions. As an asset manager, I will be doing my best to support the use of smart formats to facilitate cooperation with promoting acceptance by asset owners.	
84	The provisions of Guidance 1-3, 1-4, and 1-5 are good.	
85	I praise the fact that the draft prescribes that participation by asset owners in stewardship activities be promoted. Going forward, and	We appreciate your support for the intent of the revision. We expect that the people involved will continue to take proactive steps to achieve

	though it will be one-sided, I intend to continue to support initiatives by corporate pensions to engage in stewardship activities.	progress in understanding the significance of stewardship activities by corporate pensions.
86	Independent awareness among asset owners, who stand at the starting point of the investment chain, is also important for spurring action by asset managers.  (3 other similar comments)	To ensure that the investment chain functions as a whole, we believe that it is important for asset owners to engage in stewardship activities. For example, asset owners such as corporate pensions, which are positioned the closest to the ultimate beneficiaries, should urge asset managers to conduct effective stewardship activities.
87	Because asset owners outsource asset management to institutional investors rather than conducting it themselves, they have responsibilities as outsourcers. And because they have been entrusted with the assets of others, it is natural that asset owners also participate in stewardship activities.  (4 other similar comments)	
88	Participation by asset owners that hold voting rights is particularly important.	
89	The view that contract-type defined-benefit corporate pensions form part of the welfare services of the personnel department of companies should be changed, as it is important for asset owners to participate in stewardship activities.	
90	Asset owners should participate to a substantial degree in stewardship activities in principle, so as to increase returns for pension beneficiaries. How to conduct stewardship activities may depend on their size.	
91	I think that popularization activities aimed at getting asset owners to better understand the main purpose and advantages of participation in stewardship activities are necessary. One way to do that would be to ask	
		We expect that relevant parties such as the Financial Services Agency and the Ministry of Health, Labour and Welfare will continue to take

	for cooperation from relevant government department such as the Ministry of Health, Labour and Welfare.	action to popularize and raise awareness of the Code among corporate pensions and other asset owners.
92	In the Guidelines on the Roles and Responsibilities of Asset Managers of Defined-Benefit Corporate Pension Funds from the Ministry of Health, Labour and Welfare, it states that “it would be desirable when selecting and assessing asset managers to consider including acceptance of the Stewardship Code, initiatives, and approach to ESG as qualitative evaluation criteria.” But I think active approach is required to persuade them to revise the expression to make this compulsory.	
93	Support for asset owners is necessary.	
94	Under the Code, it is expected that asset owners such as corporate pensions will spontaneously understand the importance of stewardship activities, and that their sponsor companies will support them. However, many sponsor companies are concerned that the penetration of stewardship activities could lead to pressure on them to, for example, strengthen their governance, and the tendency for corporate pensions under their purview is to align with that view. For corporate pensions, which form part of the balance sheet of the sponsor, systems-related and financial support from the sponsor company is essential, and I think that there are a lot of people at corporate pensions who are not confident that they are able to “behave for the sole benefit of the pension fund.” Issues like this are specific to corporate pensions, so an even more flexible and realistic approach needs to be adopted.	<p>As you point out, particularly when establishing systems for corporate pensions, sponsor companies need to ensure that they understand the significance of stewardship activities, and to then provide support, so we have added Footnote 10.</p> <p>And as you point out, there could be circumstances where the interests of corporate pensions conflict with the interests of the sponsor companies, as stated in Principle 2.6 of the Corporate Governance Code, we believe that the proper management of conflicts of interests by companies can also serve to support effective stewardship activities by corporate pensions. Regarding your comment, in light of future circumstances, it is expected that further investigations will take place at “The Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code” (below</p>

95	Wouldn't the addition of text urging the independence of funds from sponsor companies, such as a reference to the significance of corporate pensions accepting the Code, be more effective in promoting stewardship activities?	"the Follow-up Council") and by relevant parties, including the Financial Services Agency.
96	Principle 2.6 of the Corporate Governance Code only advises efforts to be made to manage conflicts of interests, and does not specifically require that clear policies be formulated or disclosed, so Footnote 10 should be removed, as it lacks balance to add such a footnote to the Code, which strictly demands that structures to manage conflicts of interest be established and disclosed.	To expand stewardship activities by corporate pensions, we believe that understanding on the part of sponsor companies is important. From that viewpoint, we think that Principle 2.6 of the Corporate Governance Code is an extremely important principle, so we will be maintaining the statement in the draft as it stands.
97	In the case of contract-type defined-benefit corporate pensions, effective decision-making authority tends to reside with the sponsor company, so I think it is necessary to show examples of who, from what sort of position, will make the decisions.	Decision making in the case of contract-type defined-benefit corporate pensions should take place from the standpoint of the contract-type defined-benefit corporate pensions, but the persons with decision-making authority are likely to differ depending on the circumstances of each company. Going forward, we expect that relevant parties such as the Financial Services Agency and the Ministry of Health, Labour and Welfare provide support.
98	I think that if contract-type defined-benefit corporate pensions are going to be signing the Code, it needs to make clear that only the corporate-pension component of the company is subject to the Code. Furthermore, concrete explanations are needed of, for example, which entities will sign the Code and how to disclose the fact that only the contract-type defined-benefit corporate-pensions component is the signatory.	As stated in Footnote 9, in the case of contract-type defined-benefit corporate pensions, the corporate status of the entity that accepts the Stewardship Code is that of the sponsor company, but it is not the sponsor company itself, but rather the corporate pension. Regarding methods of presentation, each institution is free to determine them by themselves. Among contract-type defined benefit corporate pensions, one institution has already declared acceptance, so that



		institution could probably be referred to as an example. Going forward, we expect that relevant parties such as the Financial Services Agency and the Ministry of Health, Labour and Welfare provide support.
99	In Footnote 10, it should be clearly stated that contract-type defined-benefit corporate pensions are expected to separate shares, etc. that are held by the sponsor company for the objective of control, investing surplus funds, and other objectives, from shares, etc. invested in as assets of the corporate pensions, and conduct stewardship activities for the benefit of enrollees, etc. This would increase interest in stewardship activities by contract-type defined-benefit corporate pensions and promote acceptance of the Code.	As stated in Footnote 9, in the case of contract-type defined-benefit corporate pensions, the corporate status of the entity that accepts the Stewardship Code is that of the sponsor company, but it is not the sponsor company itself, but rather the corporate pension. Regarding cross shareholdings, the sponsor company must proceed based on the Corporate Governance Code (Principle 1.4 of the Corporate Governance Code).
100	To promote stewardship activities, how about clearly stating that enthusiastic stewardship activities by asset owners such as corporate pensions are consistent with the discharge of fiduciary responsibilities such as achieving the target rate of return?	Conducting stewardship activities does not conflict with fiduciary responsibilities, and can actually be expected to contribute to the further fulfillment of fiduciary responsibilities by promoting increases in corporate value and sustainable growth through purposeful dialogue (engagement). And in “Corporate Pension Funds and the Japanese Stewardship Code” (published by the Stewardship Council (Ministry of Health, Labour and Welfare and the Pension Fund Association) on March 17, 2017), it was stated that “from the viewpoint of increasing medium- to long-term investment returns, and securing income for enrollees, etc. in their old age, conducting stewardship activities does not conflict with fiduciary responsibilities, and can actually be expected to contribute to the further fulfillment of fiduciary responsibilities by

		promoting increases in corporate value and sustainable growth through purposeful dialogue (engagement),” so please also refer to that.
101	I think that it’s important to restate the significance of asset owners such as small corporate pensions fulfilling stewardship responsibilities and to promote the raising of awareness among them.	We believe that regardless of their size, having corporate pensions encourage asset managers to conduct effective stewardship activities will contribute to improving the function of the investment chain as a whole.
102	Large asset owners should participate in stewardship activities. Asset owners play a major role in the investment chain.  (1 other similar comment)	Ultimately, acceptance of the Code is optional, but we believe that compared with small and medium-sized corporate pensions, large corporate pensions are in an environment in which it is easier to establish structures for stewardship activities.  We believe that regardless of their size, having corporate pensions encourage asset managers to conduct effective stewardship activities will contribute to improving the function of the investment chain as a whole.
103	I believe that it is necessary, in light of the circumstances of equity investment by corporate pensions, to clarify the stewardship-activity processes and procedures that corporate pensions should follow, and demand that corporate pensions understand the Code.	We recognize, as you point out, that it is currently normal practice for the exercise of voting rights of corporate pensions, etc. to be entrusted to asset managers, but in such cases, as is stated in Footnote 11, they are not necessarily expected to engage in dialogue, exercise of voting rights, etc. Rather, it is likely that they will start by taking steps based on their size and capabilities, such as confirming what asset managers are doing to abide by the Code.
104	Even though each asset owner needs to have the ability to assess/select asset managers in order to fulfill its fiduciary responsibilities, it should not be made to require the level of investment ability to conduct stewardship activities itself. I strongly agree with the purpose of Code, but I hope that asset owners will not be subject to an excessive burden that is beyond their capabilities.	In light of that point, Guidance 1-3 clearly states that they are basically required to monitor asset managers, but that if they manage their money

		directly, they must conduct the same level of stewardship activities as demanded of asset managers.
105	<p>Measures to encourage asset owners such as corporate pensions, etc. to participate in stewardship activities should be considered based on their size, and each corporate pensions make independent judgments concerning acceptance of the Code.</p> <p>Inadequate understanding of stewardship responsibilities is one of the reasons that little progress is seen with stewardship activities, even at large corporate pensions, so the first thing that needs to be done is to increase understanding through communication activities. Next, it should be defined which parts of the Code have a broad scope of application and could be unclear, and discussions on what to do about them should take place. At the same time, penetration of the “comply or explain” principle should be promoted.</p>	<p>As you point out, based on the “comply or explain” approach, acceptance of the Code is optional for each institution.</p> <p>From the standpoint of encouraging asset owners to conduct stewardship activities, the draft provides clarity with regard to areas that caused a lot of misunderstandings and doubts, particularly among corporate pensions.</p> <p>Guidance 1-3, for example, clearly states that they are basically required to monitor asset managers, but that if they manage their money directly, they must conduct the same level of stewardship activities as demanded of asset managers.</p> <p>We expect that relevant parties such as the Financial Services Agency and the Ministry of Health, Labour and Welfare will continue to conduct communication activities concerning matters such as the significance of stewardship activities.</p>
106	<p>I think that many small and medium-sized corporate pensions are hesitant to conduct stewardship activities due to concerns about human resources, costs, etc., so it would be useful to define ways that collective activities could be conducted through the Pension Fund Association, relevant associations, etc., or that cooperative action could be achieved with other small and medium-sized corporate pensions, and to also refer to such approaches in the Code.</p>	<p>We expect that relevant parties such as the Financial Services Agency and the Ministry of Health, Labour and Welfare will continue to take action to promote stewardship activities by small and medium-sized corporate pensions.</p>

107	<p>To raise interest in stewardship activities among small corporate pensions, contract-type defined-benefit corporate pensions, etc., and achieve broad understanding of specific activities they could pursue, highlighting the activities of relevant bodies and indicating that the Council is also prepared to provide the necessary support will be important for increasing penetration of the Code.</p>	<p>We expect that not only relevant government departments such as the Financial Services Agency, but also private-sector bodies will continue to take action to promote stewardship activities by small and medium-sized corporate pensions, etc.</p> <p>To that end, we expect that the relevant parties such as the Financial Services Agency and the Ministry of Health, Labour and Welfare will continue to take whatever steps are necessary in the area of communication, such as organizing lectures.</p>
108	<p>I think that clarification of the scope of stewardship activities and provisions concerning, for example, specific methods and common formats for monitoring are necessary.</p>	<p>We understand that “Corporate Pension Fund and the Japanese Stewardship Code” (published by the Stewardship Council (Ministry of Health, Labour and Welfare and the Pension Fund Association) on March 17, 2017) provides examples of checklists and questions for meetings when receiving reports from asset managers concerning their stewardship activities.</p> <p>We believe that private-sector bodies are taking steps to ensure common formats are used when asset owners receive reports from asset managers about their stewardship activities. And alongside such initiatives by private-sector bodies, we expect that that effective stewardship activities by asset owners will be promoted.</p>
109	<p>It is also important to deepen understanding of stewardship activities among the beneficiaries of corporate pensions, namely the general public, and to take action to raise awareness of these activities. By taking such steps, I think that activities can be expected to be improved from</p>	<p>We expect that the relevant parties such as the Financial Services Agency and the Ministry of Health, Labour and Welfare will continue to conduct communication activities such as organizing lectures.</p>

	the bottom up, and that constructive dialogue based on the consideration of sustainability will be promoted.	
110	Asset owners are strongly required to conduct effective activities, which are not just superficially increase reporting obligations for asset managers and the number of documents they are supposed to submit. I think it is important for asset owners themselves to deepen their understanding of the Code, so how about altering the text to “In order to ensure benefits for ultimate beneficiaries, asset owners should deepen their real understanding of stewardship activities, and in line with their size ...?”	As you point out, regarding Guidance 1-5, asset owners should conduct monitoring with a focus on the “quality” of stewardship activities, and should not just confirm things at a superficial level.
111	Regarding the involvement of asset owners such as corporate pensions in stewardship activities, I’m concerned about the possibility of such participation being superficial and the possibility that asset owners will demand an excessive level of reporting from asset managers to give the impression that they have done something.  (3 other similar comments)	
112	Regarding stewardship activities, compared with the level of independent effort required of asset managers, it seems as though asset owners are only expected to conduct activities “in line with their size and capabilities, etc.,” so I feel that the message being sent to asset owners is weak. I think it would be enough for each asset owner to explain, without referring to size, capabilities, etc.	This revision concerning asset owners has been made for the purpose of encouraging corporate pensions and other asset owners to conduct stewardship activities, so we have made it clear that we expect stewardship activities to be conducted “in line with their size and capabilities, etc.”  However, to ensure that corporate pensions or asset owners conduct effective monitoring, we believe that the support from sponsor companies and increasing their capabilities are important factors.

113	<p>Given that private-sector corporate pensions do not hold a significantly large proportion of their assets in the form of shares, there should not be excessive expectations concerning their acceptance of the Code.</p> <p>(2 other similar comments)</p>	<p>We believe that if corporate pensions encourage asset managers to conduct effective stewardship activities, effective stewardship activities on the asset management side will be promoted.</p>
114	<p>The expression concerning size and capabilities in Guidance 1-3 to 1-5 of the draft should be removed.</p>	<p>The expression “in line with their size and capabilities, etc.” is aimed at asset owners.</p>
115	<p>Footnote 9 should be revised to “The Code essentially applies to public pensions, corporate pensions, insurance companies, financial institutions such as banks, nonfinancial companies, investment funds that conduct investment activities, etc.” There is no need to limit the Code to corporate pensions, etc. Public pensions, etc., and insurance companies, which are a prime example of institutional investors, have already accepted the Code and should naturally be included.</p>	<p>In light of your comment, we have altered the text to make it clear that asset owners encompass a wide range of entities, not just corporate pensions.</p>

**Question 4: (Public disclosure of reasons for voting for or against specific agenda items)**

116	<p>The draft makes it possible to learn more details about voting decisions, so will enhance the visibility of stewardship responsibilities by asset managers more visible.</p> <p>(1 other similar comment)</p>	<p>We appreciate your support for the intent of the revision.</p>
117	<p>Voting is the only decision that is visible, so publicly disclosing it will help to ensure transparency. It will also facilitate investment decision making.</p> <p>(1 other similar comment)</p>	
118	<p>I agree with publicly disclosing the reasons for voting for or against, as it can form the cornerstone of dialogue between investors and companies.</p>	
119	<p>The draft will contribute to fulfilling stewardship responsibilities by asset managers.</p> <p>(1 other similar comment)</p>	
120	<p>Making it obligatory to uniformly make specific/detailed disclosures that can lead to the disclosure of the actual content of dialogue could have an adverse impact on future dialogue activities as it might harm mutual trust with companies, but the draft contains expressions like agenda items “which need explanation in light of the investors’ voting policy” and agenda items “which are considered important from the standpoint of constructive dialogue with the investee companies,” so the subject of specific disclosure is not uniform, but rather left to the judgment of institutional investors, so I agree with the draft.</p>	

121	<p>By investigating how institutional investors voted, it is possible, in the case of most institutional investors, to find out why they opposed the agenda item in question, but with some investors, the reasons are unclear, so clear disclosures should be made about each agenda item.</p> <p>Regarding Guidance 5-3, I think it would be good if the opinions of institutional investors were periodically disclosed in their stewardship reports.</p>	<p>We appreciate your support for the intent of the revision.</p> <p>Regarding public disclosure of reasons for voting for or against, we believe that it is important for each institutional investor to make their own decisions based on their own circumstances, and the method you point out would be one way of doing it.</p>
122	<p>The definitions of agenda items perceived to have conflicts of interest and of important agenda items are unclear. In the case of important agenda items, there is generally dialogue with the issuing company, and the issuing company also fully understands this, and in both cases, detailed disclosures are made to clients, so the disadvantages of “public disclosure” to a large number of unspecified people should also be considered. I therefore think that decisions on public disclosure should be left to each asset manager, and that perhaps only public disclosure of the criteria for disclosure should be required.</p> <p style="text-align: center;">(5 other similar comments)</p>	<p>The draft is aimed at enhancing visibility as to whether voting is appropriate in light of the policy for fulfilling stewardship responsibilities, and it therefore states that in the case of agenda items deemed to be important, entities should publicly disclose their voting rational with respect to either for or against vote.</p> <p>Regarding agenda items for which the reasons for voting for or against would be publicly disclosed, including under the circumstances you point out, we believe that it is important for each institutional investor to consider whether an item is deemed important from the standpoint of contributing to constructive dialogue with investee companies, and to then make their own judgments after taking into account their individual circumstances.</p>
123	<p>Voting is an act that accompanies investment decision making, and disclosure to the general public, i.e. to a broader spectrum of people than just the parties to contract, should be considered with caution. For the following reasons, clearly stating that public disclosure is best practice, in the manner of the expression “should disclose their voting rational” should be avoided:</p>	<p>Furthermore, the Code follows the “comply or explain” approach, so if an institutional investor decides, in light of its particular circumstances, that it would be inappropriate to publicly disclose how it voted in the</p>



	<ul style="list-style-type: none"> <li>▪ I am opposed to expressions calling for public disclosure from the standpoint of the protection of client information by asset managers that also have client overseas, because in other markets they do not publicly disclose their voting rational.</li> <li>▪ In the case of active management, I consider voting to be a component of investment decision making, so I am uncomfortable with public disclosure to persons other than the clients of the asset management services.</li> <li>▪ The criteria for “agenda items which are considered important from the standpoint of constructive dialogue with the investee companies” is unclear.</li> </ul> <p style="text-align: right;">(2 other similar comments)</p>	<p>case of specific investee companies and for each agenda item, it could handle this by proactively explaining the reasons.</p>
124	<p>There are some institutional investors who publicly disclose how they voted on their websites, and then later proactively engage in dialogue with investee companies about the reasons for voting the way they did. On the other hand, I think there are also occasions where the reasons for voting are not publicly disclosed, on the grounds that doing so could reduce the significance of dialogue with investee companies. It would therefore be preferable if the Code did not require institutional investors to publicly disclose their reasons for voting for or against.</p> <p style="text-align: right;">(1 other similar comment)</p>	
125	<p>Requiring asset managers to disclose detailed reasons with respect to large numbers of proposals without making any mistakes would impose an excessive burden on them, so I am against the public disclosure of</p>	

	<p>reasons for voting for or against.</p> <p>(1 other similar comment)</p>	
126	<p>If asset managers that only invest actively and use few strategies were to disclose whether they voted for or against every agenda item, this would equate them periodically disclosing a list of the issues they are invested. If that information were used for short-term trading or investment methods, it could, from the standpoint of fiduciary duty to clients, prove disadvantageous to the performance of clients' assets under management. I don't think this possibility can be ruled out. So I'd like asset managers to be permitted to respond in a flexible fashion.</p>	<p>Contrary to your comment, the draft does not require that the reasons for voting for or against be disclosed for every agenda item. Regarding agenda items for which the reasons for voting for or against would be publicly disclosed, including under the circumstances you describe, we believe that it is important for each institutional investor to consider whether an item is deemed important from the standpoint of constructive dialogue with investee companies, and to then make their own judgments after taking into account their individual circumstances.</p> <p>Furthermore, the Code follows the "comply or explain" approach, so if an institutional investor decides, in light of its particular circumstances, that it would be inappropriate to publicly disclose how it voted in the case of specific investee companies and for each agenda item, it could handle this by proactively explaining the reasons.</p>
127	<p>I agree that the disclosure and explanation of reasons for voting for or against should be left to the judgment of each company, and I strongly support the change in wording from "those voted contrary to their voting policy," which was in the draft presented at the 3rd Meeting of the Council of Experts, to "which need explanation in light of the investors' voting policy." Decisions that "contrary to" may actually be aligned with the long-term policy of the asset manager, and just appear to differ externally, so I thought that it would be extremely difficult to gauge</p>	<p>We appreciate your support for the intent of the revision.</p> <p>Regarding agenda items for which the reasons for voting for or against would be publicly disclosed, including whether it is deemed to be "an agenda item particularly perceived to have conflicts of interest," we believe that it is important for each institutional investor to consider whether an item is deemed important from the standpoint of constructive dialogue with investee companies, and to then make their own judgments after taking into account their individual circumstances.</p>

	<p>externally whether a decision truly “contrary to” and to formulate objective criteria, so I agree with the alteration.</p> <p>And where it mentions “perceived,” I hope that public disclosure will occur in accordance with the draft, and not be limited to a list of items. Alternatively, there could be differences in interpretation, so I would like the removal of the text to also be considered.</p>	
128	<p>I partially agree. Public disclosure should only occur when a proposal from a company’s management has been opposed or when a shareholder proposal has been supported. Otherwise, it’s just support for a proposal from the company’s management, so I don’t think there’s any need to publicly disclose the reasons.</p>	<p>It has been pointed out that saying, as you suggest, that entities “should” publicly disclose rational in limited situations, such as when they oppose proposals from the company’s management, raises the risk of encouraging entities to automatically support agenda items so as to avoid having to publicly disclose reasons for opposition.</p>
129	<p>Regarding the part in Guidance 5-3 that says “In particular, institutional investors should disclose their voting rationale ..., including those perceived to have conflicts of interest,” I feel that this wording gives personnel at asset managers a lot of freedom to make decisions and is open to a wide range of interpretations. So I think changing it to “at least in cases where an agenda item proposed by the management of an investee company has been opposed, the rationale should be publicly disclosed” would not only reduce arbitrariness in terms of which agenda items to disclose voting reasons for, but would also make companies aware of reasons for opposition from shareholders, which would lead to constructive dialogue with investors.</p> <p>Then, the part that says “In particular, institutional investors should disclose their voting rationale ..., including those perceived to have</p>	<p>Furthermore, regarding agenda items deemed to be important, such as those referred to in the draft, it has also been argued that reasons for supporting them ought also to be publicly disclosed, as a means, for example, of enhancing the visibility of voting.</p> <p>In light of such views, we will be maintaining the draft in its current form. In either case, regarding agenda items for which the reasons for voting for or against would be publicly disclosed, we believe that it is important for each institutional investor to consider whether an item is deemed important from the standpoint of constructive dialogue with investee companies, and to then make their own judgments after taking into account their individual circumstances.</p>

	<p>conflicts of interest,” which gives personnel at asset managers a lot of freedom to make decisions and is open to a wide range of interpretations, should be presented as a footnote. I think this would be better as it would also encourage the disclosure of the reasons for voting for or against the agenda item concerned.</p>	
130	<p>I agree with public disclosure. Institutional investors already publicly disclose whether they voted for or against.</p> <p>And by also having the reasons for voting for or against public disclosed, it becomes possible to confirm that the institutional investor is truly fulfilling its stewardship responsibilities. Moreover, if their reasons are publicly disclosed, institutional investors can be expected to consider how they will vote more seriously.</p> <p>Regarding the question of which agenda items should be covered, I propose the following selection criteria, in order to ensure that institutional investors do not need to assess the importance of each agenda item and decide whether public disclosure is necessary, but instead are encouraged to adopt simplified selection processes and be highly transparent in their disclosures:</p> <ul style="list-style-type: none"> <li>• Among reasons for supporting, do not publicly disclose reasons with respect to agenda items for which votes were cast mechanically (i.e. without close scrutiny) based on voting guidelines. Among reasons for supporting, publicly disclose reasons with respect to agenda items for which votes were cast following close scrutiny.</li> <li>• Publicly disclose reasons for opposing.</li> </ul>	

131	<p>It is important that the reasons for voting for or against are made clear, but I think that if voting guidelines have been publicly disclosed, it is enough to only publicly disclose reasons when a decision (regardless of whether it's a vote for or against) is made that conflicts with the voting guidelines. Because it's likely that if the workload is beyond what's necessary, it could lead to a decline in quality in other operations (e.g. service).</p>	<p>It has been pointed out that saying, as you suggest, that entities "should" publicly disclose rational in limited situations, raises the risk of encouraging entities to vote superficially in accordance with policies so as to avoid having to publicly disclose reasons.</p> <p>In light of such views, we will be maintaining the draft in its current form. In either case, regarding agenda items for which the reasons for voting for or against would be publicly disclosed, we believe that it is important for each institutional investor to consider whether an item is deemed important from the standpoint of contributing to constructive dialogue with investee companies, and to then make their own judgments after taking into account their individual circumstances.</p>
132	<p>Following the approach in the draft, my interpretation is that each institutional investor is free to decide which agenda items to add explanations to. As an approach, I think that going forward one possible way would be to add reasons for making voting decisions to all agenda items. I'd like to confirm whether my understanding is correct.</p>	<p>As you point out, regarding agenda items for which the reasons for voting for or against would be publicly disclosed, we believe that it is important for each institutional investor to consider whether an item is deemed important from the standpoint of constructive dialogue with investee companies, and to then make their own judgments after taking into account their individual circumstances.</p>
133	<p>The most effective form of dialogue for conveying how and why votes were cast is to explain the reasons directly to investee companies, but in the case of investee companies for which various restrictive conditions make direct dialogue impossible, publicly disclosing reasons separately would be an effective alternative. However, before publicly disclosing reasons separately, a decision on whether public disclosure is appropriate should be made after considering whether public disclosure</p>	<p>Contrary to your comment, the draft is not intended to induce rigid voting based on formal judgment criteria. The Council expects that the significance and content of the revisions will be appropriately communicated, and that relevant parties will make appropriate decisions in light of them.</p>

<p>would contribute to the sustainable growth of the investee company as well as shareholder returns.</p> <p>Furthermore, regarding voting policy, it should not just be based on formal judgment criteria, but should also contribute to the sustainable growth of investee companies. With that in mind, the following points should be kept in mind when analyzing and assessing publicly-disclosed votes cast and reasons for them:</p> <p>In situations where a conflict of interest could exist, such as where the asset manager is part of a financial group, even if, as a result of constructive dialogue, it is determined that voting in a different way from the voting policy would better contribute to the sustainable growth of the investee company, it is likely to be extremely difficult, no matter what reasons are put forward, to eliminate suspicions that the voting in conflict with policy was conducted for one's own interest. As a result, not only should voting not deviate from voting policy, but the voting policy itself should be easy to understand externally. This creates an inducement to vote in such a way that does not deviate from the easy-to-understand voting policy (judgment criteria). Due to the presence of this inducement, there is a possibility that voting will not contribute to sustainable growth of investee companies or to shareholder returns.</p> <p>Furthermore, even if public disclosure of the reasons for voting for or against is required, there is a possibility of this reinforcing the inducement to vote in a rigid fashion based on formal judgment criteria.</p>	
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134	<p>I would like Guidance 5-3 to be altered as follows:</p> <p>“In particular, institutional investors should disclose their voting rationale with respect to either “for” or “against” vote, which is perceived to have conflicts of interest or need explanation in light of the investors’ voting policy, at an appropriate time.”</p> <p>I understand that the reasons for voting in the case of agenda items “perceived to have conflicts of interest” or agenda items “which need explanation in light of the investors’ voting policy” should be publicly disclosed, but “agenda items considered important from the standpoint of constructive dialogue with investee companies” are not necessarily limited to the forms presented in the previous line. In the case of such agenda items, I think that providing explanations to investee companies would be meaningful, but not only is disclosure to the general public unnecessary, but risks limiting the engagement methods of investors, so I think it is inappropriate to uniformly say “should disclose.”</p> <p>Furthermore, even when disclosure is necessary, a reasonable degree of freedom as to the timing should be permitted. For example, it should be possible to disclose the reasons after directly communicating them to the company concerned as part of the engagement process.</p>	<p>The draft is aimed at enhancing visibility as to whether voting is appropriate in light of the policy for fulfilling stewardship responsibilities, and it therefore states that in the case of agenda items deemed to be important, institutional investors should publicly disclose their reasons for voting for or against.</p> <p>Furthermore, contrary to your comment, the draft is not intended to limit the engagement methods of investors. Rather, through the disclosure of “agenda items considered important from the standpoint of constructive dialogue with the investee companies,” we expect that it will further encourage engagement between institutional investors and investee companies.</p> <p>The Council expects that the significance and content of the revisions will be appropriately communicated, and that relevant parties will make appropriate decisions in light of them.</p>
135	<p>Regarding reasons for voting for or against, it is first necessary to clarify the differences in the objectives of voting “for” and voting “against.”</p> <p>Notices of convocation for shareholders meetings state the agenda items, the reasons for their inclusion, and recommendations from the issuing company’s board of directors on whether to vote for or against each</p>	<p>To prevent, as you point out, complexity incentivizing restraint, such that imposing an obligation to publicly disclose reasons for voting for or against could also impede linkages between dialogue and voting, the Council expects that the significance and content of the revisions will be</p>

<p>agenda item. So whether a proposal has been put forward by the company or by a shareholder, if you vote for it, it indicates agreement with the reasons that it was put forward. Taking into account cost effectiveness in terms of both time and money, the need for additional explanations can be said to be low. However, in the case of a shareholder proposal, the reason the shareholder has put the proposal forward and issuing company's board of directors' explanation for recommending that it be rejected are presented, so by looking at how someone has voted, it's possible to more or less infer which explanation they supported, and this is true regardless of whether they voted for or against. Having said that, it cannot be denied that there is a lot of variation in the adequacy of explanations from boards of directors' for recommending rejection. And when voting to reject proposal from the company, it is also undeniable that there could be reasons for wanting to know why, i.e. wanting to know what the decision was based on.</p> <p>Regarding agenda items "perceived to have conflicts of interest," conflicts of interest can be managed by, for example, having a third-party committee examine them and make the final decision, abstaining from voting, or following recommendations from a third-party proxy advisor. Such methods are widely known, and I think that in such circumstances it is meaningful to publicly disclose that measures for avoiding conflicts of interest have been taken.</p> <p>As for agenda items "which need explanation in light of the investors' voting policy," in connection with Principle 4, it is reasonable to regard voting decisions made following "purposeful dialogue" as essentially</p>	<p>appropriately communicated, and that relevant parties will make appropriate decisions in light of them.</p>
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	<p>“constructive.” However, it is impossible to predict the degree to which costs, in terms of both time and money, would increase when responding to such cases, and the likely complexity would incentivize restraint, so imposing an obligation to publicly disclose reasons for voting for or against could also have negative effects by impeding linkages between dialogue and voting.</p>	
136	<p>Regarding the expression “institutional investors should disclose their voting rational with respect to either “for” or “against” vote” in connection with voting, if institutional investors were required to provide detailed disclosures of the content of dialogue, this could reduce the likelihood of them being provided with useful information for dialogue by issuing companies. So I would like to confirm that the intention is not to demand that details of dialogue between companies and investors be disclosed.</p> <p>I would also like to confirm what exactly you are envisaging when you say “agenda items perceived to have conflicts of interest.”</p>	<p>Contrary to your comment, the draft is not intended to demand that details of dialogue between companies and investors be disclosed. The Council expects that the significance and content of the revisions will be appropriately communicated, and that relevant parties will make appropriate decisions in light of them.</p> <p>Furthermore, agenda items “perceived to have conflicts of interest” could refer, for example, to agenda items of group companies such as parent companies, but is not limited to these. We believe that it is important for institutional investors to make their own decisions based on their own circumstances in light of the policies for managing conflicts of interest that they have formulated.</p>
137	<p>I agree with the disclosure of reasons for voting for or against, but I have doubts about what is a major limitation that could render the revision meaningless.</p> <p>I agree with the addition of the last sentence to Guidance 5-3, which requires that reasons for voting for or against be disclosed in the case of important agenda items. However, if reasons only need to be disclosed in the case of “important” agenda items, there is a risk of certain</p>	<p>Regarding agenda items for which the reasons for voting for or against would be publicly disclosed, we believe that it is important for each institutional investor to consider whether an item is deemed important from the standpoint of contributing to constructive dialogue with investee companies, and to then make their own judgments after taking into account their individual circumstances.</p>

	<p>institutional investors using spurious excuses such as the fact that they hold only a small proportion of the voting rights to justify not explaining their own behavior. I also have similar concerns about the expression agenda items “perceived to have conflicts of interest.” What does this mean? Would a current or former employee being a member of the board of directors be considered to have conflicts of interest? Would cross-shareholdings or relationships with clients or suppliers create the external appearance of a conflict of interest?</p> <p>Furthermore, I have similar doubts about the expression “need explanation in light of the investors’ voting policy.” Does this mean situations in which voting differs from their policy? And how would that be determined? I’m concerned that unless examples or more clarity is provided, the additional text won’t have the intended effect of encouraging such disclosures, or won’t even have any effect at all.</p>	<p>So if detailed and separate definitions, beyond the current wording, were provided, it might invite misunderstanding, by making entities think that it is enough to just focus on the listed items, so we would like to refrain from determining a more detailed definition.</p> <p>Furthermore, regarding methods of disclosing the reasons for voting for or against, we believe that it is important for each institutional investor to be inventive, and employ methods that are appropriate in light of their circumstances, and the example response you mention would be one way of doing this. Regarding agenda items other than ones deemed important from the standpoint of constructive dialogue with investee companies, the draft does not seek to prevent the public disclosure of reasons for voting for or against them, and as Guidance 5-3 states, we believe that publicly announcing how they have voted, if institutional investors provide explanations to external parties of their reasons for voting for or against, this would also contribute to enhancing visibility.</p>
138	<p>Regarding cases in which it can be typically said that the demand “should disclose” is high, and specifically, cases such as those described in the draft, I think it is rational to directly require that reasons for voting for or against should be publicly disclosed. However, uniformly demanding that reasons for voting for or against could invite criticism that this is taking things too far, and in cases where institutional investors ought to be required to go as far as publicly disclosing reasons in order to fulfill their own stewardship responsibilities, they could consider the approach of including that in their policies, which would be in line with the spirit of the Code. So regarding cases in which disclosure should</p>	

	<p>occur, I think that the Code should perhaps give examples, and also state that institutional investors should also disclose their policy on disclosure along with their policy on voting.</p> <p>I also think that consideration should be given to rephrasing the expression “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 the Code so as to ensure consistency with the above changes.</p>	
139	<p>At present, there are investment advisors that belong to corporate groups and do not articulate their voting policies or disclose voting records (i.e. that haven’t accepted the Stewardship Code), so I’d like you to work things in such a way as to encourage such investment advisors to accept the Code.</p>	<p>The Council expects that the current revisions and communication of them will encourage more entities to accept the Code.</p>
140	<p>I would like independent third-party organizations based with asset managers to explore ways of making disclosures effective through a “select and focus” approach, identifying problematic companies each year and compiling information on how each institutional investor voted and detailed reasons for the votes.</p>	<p>Thank you for your valuable input.</p>

**Question 5 (New establishment of Principle 8 concerning “service providers for institutional investors” and points to keep in mind, etc.)**

141	<p>I have no objections. This is necessary to ensure the fairness, neutrality, and organizational longevity of proxy advisors.</p> <p>(1 other similar comment)</p>	<p>We appreciate your support for the intent of the revision.</p>
142	<p>Service providers for institutional investors have come to play a major role in fulfilling stewardship responsibilities, so I agree with the establishment of this new principle.</p> <p>(2 other similar comments)</p>	
143	<p>I agree with the draft. I hope that instead of superficial recommendations based on external standards, they will provide effective recommendations based on constructive dialogue with companies. I also hope that asset managers will disclose their grounds for using specific service providers for institutional investors, so that it will be possible for asset owners to compare and assess service providers.</p>	
144	<p>I agree with the draft, which encourages proxy advisors to develop appropriate structures and provide appropriate services.</p>	
145	<p>I agree with Principle 8. Regarding Guidance 8-2, they have been cases of certain proxy advisors providing recommendations using inaccurate data, and correcting the data after the companies pointed out the errors. And as for Guidance 8-3, as someone on the corporate side, I am extremely grateful that companies will be given the opportunity to confirm in advance the accuracy of the information to be used when giving recommendations.</p>	

146	<p>I support the new establishment of both Principle 8 and all the related guidance.</p> <p>I strongly agree with the content of the draft, as it comprehensively reflects the remarks made in Opinion Statement by the Follow-up Council which includes the development of human and operational resources by proxy advisors, public disclosure of specific processes for developing voting recommendations, including the aforementioned resources, and matters concerning active exchanges of views with companies.</p> <p>I hope that the development of human and operational resources by proxy advisors, public disclosure of specific processes for developing voting recommendation, and active exchanges of views with companies will lead to debate on the role that proxy advisors should play in this new era.</p>	
147	<p>I agree with the new establishment of Principle 8. In light of the draft, proxy advisors can be expected to develop appropriate and sufficient human and operational resources. Furthermore, issuing companies will be given the opportunity to confirm whether the information which is the basis for the recommendation is accurate, and at the very least, in the case of companies that endeavor to disclose information at an earlier stage, opinions submitted by these companies will be provided to their clients. I hope that as a result of such developments, recommendations based on accurate information will be provided. I also hope that “provide the submitted opinion of the company to their clients together with the</p>	

	recommendation” in Guidance 8-3 will lead to progress, including opinions submitted by companies after the public disclosure of voting recommendations.	
148	I agree with the first part of Guidance 8-3, as I think the exchange of views between proxy advisors and companies is important for understanding the companies.  (3 other similar comments)	
149	To clarify the purpose of adding Principle 8, it should state, “Service providers for institutional investors should endeavor to contribute to the enhancement of the function of the entire investment chain by providing services for institutional investors from a neutral and fair standpoint to fulfill their stewardship responsibilities.”  Many asset owners utilize service providers for institutional investors, and the services they provide have a big impact on asset owners’ decision making. For this reason, I believe Principle 8 should require service providers for institutional investors to be independent by, for example, not allowing group companies to possess an asset-management arm, and to provide services from a neutral and fair standpoint, and should articulate the desired characteristics of service providers. And if a conflict of interest exists, attention should be given to ensuring that the principle doesn’t deviate markedly from its original intentions.	Thank you for your valuable input.  Principle 8 requires that service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.  To fulfill stewardship responsibilities by institutional investors, we believe that each service provider for institutional investors should decide specifically what sorts of services are appropriate, but components of appropriate services would likely include, for example, the viewpoint that the services provided by service providers for institutional investors should not be aimed at benefitting the corporate group that they belong to.
150	I think that regulating proxy advisors is important, but with asset managers using them in various different methods, I’m concerned that making them all subject to the Code could cause the overarching focus	Thank you for your valuable input.  In light of comments to the effect that service providers for institutional investors are entities that can have a substantial impact on the quality of

	<p>of the Code to become blurred. Perhaps a separate set of rules for proxy advisors should be established, rather than applying the Code to them. (2 other similar comments)</p>	<p>the stewardship activities of institutional investors, we have redefined “proxy advisors,” which were already covered by the Code previously, and so on, as “service providers for institutional investors,” and newly established Principle 8 to cover them.</p>
151	<p>I think that the entities covered by the draft are institutional investors. The Code should be structured not to demand things of service providers, but in such a way as to describe “matters that should be taken into account when institutional investors use service providers to fulfill their stewardship responsibilities.”  (2 other similar comments)</p>	
152	<p>I believe that institutional investors (mainly asset owners) that make use of services from a service provider for institutional investors have a responsibility to, for example, to examine in advance the nature/likelihood of any structural conflicts of interest pertaining to the service provider before concluding a contract with them, and to continue monitoring them after that. Guidance 5-4 includes “When institutional investors use the services of proxy advisors” in its points to be kept in mind, but I think that this guidance ought really to also make clear the standpoint of managing conflicts of interest.  (2 other similar comments)</p>	<p>Thank you for your valuable input. While Guidance 5-4 highlights points to be kept in mind when institutional investors use the services of proxy advisors, it does not demand that institutional investors go as far as monitoring service providers for institutional investors other than proxy advisors. However, we think that it could sometimes be beneficial for institutional investors to consider how to use the services of service providers for institutional investors to conduct effective stewardship activities by expanding the provision of information from service providers for institutional investors concerning the management of conflicts of interest based on Principle 8 and Guidance 8-1.</p>
153	<p>The following should be added as guidance to Principle 8: “When institutional investors use a service provider to help them make investment decisions, they should check whether the service provider satisfies the criteria and other necessary requirements set out in the</p>	

	guidance and confirm the level of neutrality and professionalism in its operations.”	
154	<p>Guidance 5-4 states that when using the services of proxy advisors, institutional investors should vote in accordance with their own responsibilities and judgment, but regarding the use of services provided by investment consultants for pensions, I feel that alarm bells for asset owners such as corporate pensions, in particular, are not adequately described.</p> <p>And especially in the case of small and medium-sized corporate pensions, limited human and physical functions mean that stewardship activities are sometimes left completely to outsiders, and the necessary checks on the services provided by external service providers are lacking. In light of the circumstances of small and medium-sized corporate pensions and asset owners (even if they have declared acceptance of the Code), don’t Guidance 1-3 to 1-5 mean that surface-level compliance has been achieved with complete outsourcing to external parties? In this draft, even though detailed guidance may not be necessary, I would like the inclusion of an approach based on principles to be considered.</p>	
155	Regarding public disclosure of the voting recommendation process, the content of Footnote 28 is appropriate.	We appreciate your support for the intent of the revision.
156	I am against the new establishment of Principle 8. I am concerned that the new establishment of Principle 8 could result in encouraging institutional investors to make use of service providers for institutional	Principle 8 does not demand that institutional investors make use of these services, but it states that if services are provided by service providers for institutional investors, a structure for conflicts of interest



	<p>investors, and thus force them to incur higher costs. And if Principle 8 is newly established, I think it needs to be made clear that the fees paid to providers of services should be appropriate.</p>	<p>management involved, for example, must be established, given that they can have a substantial impact on the quality of the stewardship activities of institutional investors.</p> <p>Note that as paragraph 8 of the preamble states, institutional investors and their clients and beneficiaries should both recognize that costs associated with stewardship activities are an indispensable elements in asset management, and we believe that this applies equally to both institutional investors and service providers for institutional investors.</p>
157	<p>Without a business establishment in Japan, it is impossible to accurately understand each Japanese company and vote accordingly, so proxy advisors should set up a business establishment in Japan (5 other similar comments)</p>	<p>We appreciate your support for the intent of the revision.</p> <p>Setting up a business establishment in Japan is one obvious and specific example of developing appropriate and sufficient human and operational resources in order to provide asset managers with proxy recommendations based on accurate information on specific companies. So we expect that each proxy advisor will move forward with considering an appropriate and sufficient human and operational resources in light of their own circumstances.</p>
158	<p>I ask that Guidance 8-2 be removed from the draft. Requiring that proxy advisors set up a business establishment in Japan and assign personnel to it would cause governance reform to go backwards.</p> <p>I accept that Guidance 8-2 is based on the notion that proxy advisors need to have a physical presence in Japan in order to gather accurate information about Japanese listed companies. But in an era of global business in which use of the Internet is widespread, this notion has to be said to be completely outdated. Even if they are outside Japan, proxy</p>	<p>Thank you for your valuable input.</p> <p>Regarding your point, if a proxy advisor sets up a business establishment in Japan, it may be able to exchange views with companies more smoothly, so Guidance 8-2 states that proxy advisors should develop appropriate and sufficient human and operational resources, including setting up a business establishment in Japan.</p> <p>Note that setting up a business establishment in Japan is one obvious and specific example of developing appropriate and sufficient human and</p>

	advisors can obtain accurate information about Japanese listed companies, and it is also possible to provide useful recommendations to investors from overseas. And if a face-to-face meeting is appropriate, the person in charge can travel to Japan. Guidance 8-2 imposes considerable expenses on businesses that are assisting with governance reform in Japan. As a result, opportunities to reform governance in Japan could be hindered. I have similar views about Guidance 5-4, so I ask that it also be removed.	operational resources in order to provide asset managers with proxy recommendations based on accurate information on specific companies. So we expect that each proxy advisor will move forward with considering an appropriate and sufficient human and operational resources in light of their own circumstances.
159	Guidance 8-2 can be read as meaning that setting up a business establishment in Japan is best practice. For service providers for institutional investors, setting up a business establishment in Japan can be a factor that leads to increases in service fees.	
160	For proxy advisors, geographical factors are unlikely to be absolute hindrances, so the business establishment in Japan should not be demanded.  (6 other similar comments)	
161	If, as in Guidance 8-3, the proxy recommendations flow is changed, service costs could increase. When conducting stewardship activities, it would be natural to be conscious of the cost of adhering to the Code revisions, and it is desirable for asset owners and asset managers to proactively discuss not only the increase in proxy recommendation costs, but also the sharing of the cost of adhering to the Code.	As paragraph 8 of the preamble states, institutional investors and their clients and beneficiaries should both recognize that costs associated with stewardship activities are an indispensable element in asset management, and we believe that this applies equally to both institutional investors and service providers for institutional investors.
162	I suggest that the first part of Guidance 8-3 be changed to “In providing proxy recommendations, proxy advisors should rely upon corporate	In light of your comment, we have revised the first part of Guidance 8-3 to state that proxy advisors “In providing proxy recommendations,

	<p>disclosure, and in light of exchanges of views with companies, etc. upon necessity.”</p> <p>Although the first part of Guidance 8-3 includes the phrase “upon necessity,” it comes across as a rule saying that making decisions based solely on disclosed information is inadequate, and that there absolutely must be opinion exchanges with companies. Investment decisions made by investors are fundamentally based on corporate disclosure, and this is not limited to voting, so altering the wording to the above expression would enable unnecessary confusion to be avoided.</p> <p>(1 other similar comment)</p>	<p>proxy advisors should rely upon corporate disclosure, and actively exchange views with companies upon necessity” in order to make it clear that when proxy advisors provide recommendations, it is also important that they do so based on corporate disclosure.</p>
163	<p>Regarding the first part of Principle 8-3, it is questionable whether the matters should be regulated under the Code, and it’s enough to expand corporate disclosure.</p> <p>(2 other comments)</p>	<p>Thank you for your valuable input.</p>
164	<p>If one-on-one dialogue between proxy advisors and companies increases excessively, it will conflict with the fair disclosure rule.</p>	<p>Thank you for your valuable input.</p> <p>Regarding the fair disclosure rule, please refer to “Points to Note Regarding Article 27-36 of the Financial Instruments and Exchange Act (Fair Disclosure Rule Guidelines)” (April 1, 2018).</p>
165	<p>If proxy advisors themselves exchange views with companies, they must also invest themselves, and be on the same footing as investors by taking on risk as shareholders, so I oppose the first part of Guidance 8-3.</p>	<p>Regarding the first part of Guidance 8-3, given that proxy advisors can have a substantial impact on the quality of the stewardship activities of institutional investors, and from the standpoint of ensuring the accuracy and transparency of the information that forms the basis for their recommendations, we believe that if proxy advisors also proactively exchange views with companies as necessary, this could be beneficial.</p>
166	<p>Information that would affect voting decisions should be made public, so I am opposed to the first part of Guidance 8-3, which calls on proxy</p>	

	<p>advisors to provide recommendations after themselves exchanging views with companies.</p> <p>(1 other similar comment)</p>	
167	<p>The wording in the latter part of Guidance 8-3 should be altered to “Unless it is difficult to do so due to lack of early disclosure of shareholders meeting convocation notices, etc., the proxy advisors should provide a company, that is the subject of a proxy recommendation, with an opportunity to confirm whether such information is accurate, etc., and should provide the submitted opinion of the company to their clients together with the recommendation. As such, I would like more powerful language to be used to ensure that proxy advisors give issuing companies the opportunity to confirm in advance the content of the recommendation, and provide the opinions of issuing companies to their clients.</p> <p>Because there are many investors who refer to recommendations from proxy advisors or vote in line with their recommendations, proxy advisors play a huge role in the appropriate discharge of stewardship responsibilities by institutional investors, so ensuring that the structures they have established and the services they provide are appropriate is a key task. And because opinions from issuing companies concerning recommendations on voting from proxy advisors can serve as important reference material for institutional investors to enable them to determine a fair and appropriate voting policies, proxy advisors should be actively encouraged to seek such opinions.</p>	<p>Thank you for your valuable input.</p> <p>The latter part of Guidance 8-3 states that providing companies subject of a recommendation with the opportunity to confirm whether such information is accurate, etc., and also providing the submitted opinions of the company to their clients together with recommendation constitutes one method of contributing to the accuracy and transparency of the information that forms the basis for the recommendations, provided by proxy advisors.</p> <p>However, it also states that when implementing such a method in practice, proxy advisors should actively exchange views “upon necessity” in light of their own circumstances.</p> <p>As for points like yours about the early disclosure by companies of shareholders meeting materials, this is one of the corporate-side issues addressed in “Second Revision of the Stewardship Code,” and it is expected that relevant parties, including the Follow-up Council and the Financial Services Agency, will review the matter further.</p>

168	<p>Regarding the first part of Guidance 8-3, forcing proxy advisors to “exchange views actively with companies” and provide recommendations that is “not only reply on the disclosed information of companies” constitutes intervention in the business models of individual companies and ignores the responsibilities of companies whose information disclosures are inadequate and the lack of essential discipline in the disclosure of information. It also imposes a cost burden on service providers for institutional investors, and I think it has contradictions as a method for compensating for inadequacies.</p>	<p>Regarding the first part of Guidance 8-3, given that proxy advisors can have a substantial impact on the quality of the stewardship activities of institutional investors, and from the standpoint of ensuring the accuracy and transparency of the information that forms the basis for their recommendations, we believe that if proxy advisors also actively exchange views with companies upon necessity, this could be beneficial. As for your point about expanding corporate disclosures, this is one of the corporate-side issues addressed in the “Second Revision of the Stewardship Code,” and it is expected that relevant parties, including the Follow-up Council and the Financial Services Agency, will review the matter further.</p>
169	<p>Voting plays an important role in stewardship activities, but I don’t think it’s appropriate to rely on proxy advisors to make voting decisions, and I believe that institutional investors with voting rights should be cautioned about this. In cases in which appropriate voting decisions cannot be made, surely one option is just to abstain from voting and leave the matter in the hands of company’s management.</p>	<p>As Guidance 5-4 states, even if institutional investors make use of the services of a proxy advisor, they should exercise their voting rights at their own responsibilities and judgment based on the results of the monitoring of the investee companies and dialogue with them, and from the standpoint of stewardship responsibilities, we do not believe it is desirable for institutional investors to mechanically depend on the advisors’ recommendations and vote without studying agenda items itself.</p>
170	<p>Given that the U.S. Securities and Exchange Commission (SEC) has not yet applied its amended rules to proxy advisors, does adherence to the new guidance have a realistic feasibility in Japan, where shareholders meetings are concentrated in June? I think further investigations are needed to avoid confusion.</p>	<p>The latter part of Guidance 8-3 states that providing companies subject of recommendations with the opportunity to confirm whether such information is accurate, etc., and also providing the submitted opinion of the company to their clients together with the recommendations constitutes one method of contributing to the accuracy and transparency</p>

		<p>of the information that forms the basis for the recommendations, provided by proxy advisors.</p> <p>However, it also states that when implementing such a method in practice, proxy advisors should actively exchange views “upon necessity” in light of their own circumstances.</p> <p>As for points like yours about shareholders meetings being concentrated in June, this is one of the corporate-side issues addressed in the “Second Revision of the Stewardship Code,” and it is expected that relevant parties, including the Follow-up Council and the Financial Services Agency, will review the matter further.</p>
171	<p>I support the addition of Principle 8. However, I am against requiring proxy advisors, before their clients see their recommendations, to give the company concerned the opportunity to review and comment on the recommendations in advance and engage in consultations about it. I believe that this approach seriously inhibits opportunities for investors to obtain highly-independent recommendations concerning agenda items put forward at annual shareholders meetings.</p>	<p>The latter part of Guidance 8-3 states that giving companies subject to recommendations the opportunity to confirm that there are no discrepancies in the information that will provide the foundation for recommendations, and also providing clients with the opinions of the companies concerning the recommendations constitutes one method of contributing to the accuracy and transparency of the information that forms the basis for the recommendations, supplied by proxy advisors.</p> <p>However, it also states that when implementing such a method in practice, proxy advisors should proactively exchange opinions “upon necessity” in light of their own circumstances.</p>
172	<p>“Service providers that offer services relating to investment decision making must have been registered, etc. as investment advisory business operators, etc.” should be added to the guidance to Principle 8.</p>	<p>Thank you for your valuable input.</p> <p>Regarding whether service providers for institutional investors need to register as Investment Advisory Business Operators, etc. under the Financial Instruments and Exchange Act, we believe this will be judged</p>

		based on whether the services concerned constitute Investment Advisory Business, etc. under the Act.
173	A principle concerning service providers for institutional investors has been newly established this time, and I hope that one of the effects of this is that it contributes to improving quality of their services by, for example, leading to an accurate understanding of the circumstances of companies among service providers for institutional investors.	We appreciate your support for the intent of the revision.
174	Given, for example, that service providers for institutional investors have become increasingly influential, I agree with the new establishment of Principle 8 and the requirement that structures for conflicts of interest management be developed.  (8 other similar comments)	We appreciate your support for the intent of the revision.
175	I think it would be appropriate to make it a clear requirement for investment consultants for pensions employed by corporate pensions to be subject to financial supervision.	Regarding whether service providers for institutional investors constitute entities subject to the authority of the Financial Services Agency, we believe this will be judged based on whether the services they provide concerned meet the various criteria under the Financial Instruments and Exchange Act.
176	I hope that the circumstances of investment consultants for pensions will be checked whether they are conducting business appropriately in accordance with Guidance 8-1 in the draft, and that they will be subject to regulation where necessary.	Thank you for your valuable input.
177	It is necessary to first provide a clear and specific definition of “services providers for institutional investors,” and to then present clear guidance about what is expected of each type.	In paragraph 9 of the preamble, “service providers for institutional investors” are defined as “parties which provide services at the request of institutional investors, etc. to contribute to the institutional investors’

	<p>I think that the guidance companies will be expected to follow will differ depend on whether they are proxy advisors, investment consultants for pensions, or engagement service providers, but it's unclear which service providers the guidance applies to. I think that to comply with the guidance, "service providers for institutional investors" will need to substantially expand their staff/organizations. This increase in expenses will lead to higher prices for their services, which will be borne by asset managers and asset owners. I think serious consideration should be given to whether the new guidance is necessary in light of the financial burden.</p>	<p>effective execution of stewardship activities," and proxy advisors and investment consultants for pensions are mentioned as specific examples, but the term is not limited to them, and a broad range of other parties that fulfill the function of providing services at the request of institutional investors to contribute to the institutional investors' effective execution of stewardship activities would also likely fall under the definition. So in line with your comment, we believe that because the nature of application of each guidance item in the Code could differ for each party, adaptations/judgments should be made in light of the circumstances of each entity, including cost.</p>
178	<p>Consideration needs to be given to consistency with, for example, the establishment of structures, which is required under Guidance 8-1. In particular, if asset owners are included in service providers for institutional investors, it might not be suitable given their circumstances, such as where asset owners need to exchange views with companies.</p>	<p>If asset owners constitute "service providers for institutional investors" as defined in paragraph 9 of the preamble to the Code, it will be important for them, as it is for other service providers for institutional investors, to appropriately manage conflicts of interest with respect to their services, and Guidance 8-1 therefore calls on asset owners to take appropriate measures in accordance with their circumstances.</p>
179	<p>Service providers for institutional investors operate in a wide variety of fields, and I agree with the definition in the draft, which is based on their functions, and can include broad range of entities.</p>	<p>We appreciate your support for the intent of the revision.</p>
180	<p>Regarding (certain) "institutions" in Footnote 27, it should be made clear that these includes institutions that provide other investment advisory services besides the master trustee services provided by master trustees for pensions, so it should be altered to the following:</p>	<p>In paragraph 9 of the preamble, "service providers for institutional investors" are defined as parties "which provide services at the request of institutional investors, etc. to contribute to the institutional investors' effective execution of stewardship activities," and proxy advisors and</p>



	<p>“Service providers for institutional investors principally refers to proxy advisors and investment consultants for pensions, but is not limited to them, and a broad range of certain institutions (including institutional investors) that fulfill the function of providing services that contribute to effective stewardship activities by institutional investors and have master trustee services, etc. at the request of institutional investors would likely be included.”</p> <p>It should be clearly stated that also from the standpoint of institutional investors that are provided with services, master trustees for pensions fall under certain “institutions.”</p>	<p>investment consultants for pensions are mentioned as specific examples, but the term is not limited to them, and a broad range of other parties that fulfill the function of providing services at the request of institutional investors to contribute to the institutional investors’ effective execution of stewardship activities would also likely fall under the definition.</p> <p>Regardless of whether they are being requested master trustee services, if the operations of a financial institution fall under the above definition, we believe that the institution would constitute a “service provider for institutional investors.”</p>
181	<p>The trust sector believes that so-called master trustee services for corporate pension schemes (which include administering the collection/distribution of contributions) do not fall under “services for institutional investors” in Principle 8, and will not lead to conflicts of interest in connection with Guidance 8-1. In Principle 8 of the draft, the scope of services for institutional investors is not made clear, but the application of each principle follows a “principles-based approach,” and in Principle 8, entities that provide various services to institutional investors have to assess the relationship of the services that they provide with effective stewardship activities by institutional investors, and after making their own appropriate judgments, take measures in accordance with the purpose/spirit of the Code. Is this understanding correct?</p>	
182	<p>The expression (certain) “institutions, including institutional investors” in Footnote 27 is vague and its scope is not limited, so it would be</p>	<p>Regarding Footnote 27, a broad range of institutions other than proxy advisors and investment consultants for pensions that fulfill the function</p>

	appropriate to specify institutions or service providers in slightly more concrete terms.	of providing services at the request of to contribute to the institutional investors' effective execution of stewardship activities would also likely fall under the definition, and here, (certain) "institutions" would likely include service providers for institutional investors if they possess an institution that provides services included in the above definition of service providers for institutional investors.
183	I would like to express my agreement with making the definition of service providers for institutional investors "a broad range of institutions that fulfill the function of providing services that contribute to effective execution of stewardship activities by asset managers or asset owners," but I think the provisions should prevent excessive breadth and expanded interpretations. Even now, companies are incredibly busy, what with having to respond to ESG-related questionnaires and interviews, and I would like that to be kept in mind.	Thank you for your valuable input. The significance of the Code employing a "principles-based approach" is that it involves relevant parties confirming and sharing the aim and spirit of the principles, and reviewing their activities against the aim and spirit, not necessarily against the letter of the principles. So we expect that when acting in light of the Code, institutional investors and service providers for institutional investors will do so after confirming and sharing the aim and spirit of the principles, and reviewing their activities against the aim and spirit, not necessarily against the letter of the principles.
184	Regarding the definition of service providers for institutional investors, I feel that making it encompass a broad range of possible entities makes it unclear. Because the Code is only revised every three years, I think now would be a good opportunity to make the definition clearer.	Because the Code employs a "principles-based approach," if a certain institution is deemed to be an institution which provides service at the request of institutional investors to contribute to the institutional investors' effective execution of stewardship activities, we believe it would constitute a "service provider for institutional investors."
185	I agree with the provision of Principle 8 and the accompanying guidance. There is a partial overlap with Principle 1 to Principle 7 and the guidance	We appreciate your support for the intent of the revision. Regarding your comment, we have defined service providers for institutional investors with a focus on the functions of the services

	<p>for them, (e.g. Guidance 8-1 duplicates Principle 2 and its guidance), so the application of these needs to be reorganized.</p> <p>I have doubts about whether Principle 8 and Guidance 8-1 in the draft are sufficient. At the very least, Principle 8 should require the formulation and public disclosure of a policy.</p>	<p>provided, and even if it is an institutional investor, if it is an institution which provides services at the request of institutional investors to contribute to the institutional investors’ effective execution of stewardship activities, it would constitute a service provider for institutional investors.</p> <p>So if an institutional investor constitutes a service provider for institutional investors, each of the existing principles (including the guidance) as well as Principle 8 (including the guidance), which applies to service providers for institutional investors, will all be applied to them, though among the operations of institutional investors, only the provision of services by institutional investors as a service provider for institutional investors would be subject to the application of Principle 8 (including the guidance).</p>
186	<p>In paragraph 9 of the preamble, it states that “The other principles of the Code, including guidance, also apply to them as far as the principles do not conflict with Principle 8.,” but there’s a lack of information about what to do in such cases. Instead of removing Guidance 5-5 from the Code, it would be better to move it to another of the Code’s guidance items. For example, I would like consideration to be given to adding guidance to Principle 8 to make it clear that the other principles and guidance of the Code apply to service providers for institutional investors.</p> <p>In such a case, I think it would be appropriate to provide clarification for important principles/guidance, so consideration should be given to</p>	<p>Given that the Code states that a broad range of entities could fall under the definition of service providers for institutional investors, paragraph 9 makes it clear that principles other than Principle 8 (including the guidance) apply to service providers for institutional investors as far as the principles do not conflict with Principle 8. In light of the fact that the Code employs a “principles-based approach,” it is left to each service provider for institutional investors to decide which principles/guidance from among principles other than Principle 8 (including the guidance) specifically apply to them.</p>

	<p>listing the key components of the principles/guidance that should be applied to service providers for institutional investors in Guidance 8-4. From that standpoint, wouldn't it be appropriate, for example, to at least include the formulation and public disclosure of stewardship policies (Principle 1) and periodically conducting self-evaluations and making improvements (Guidance 7-4)?</p>	
187	<p>I don't reject paragraph 9 of the preamble outright, but only presenting things from a macro viewpoint makes things too abstract, and I feel it's inadequate. It would be useful to clearly state what things contribute to improving the function of the investment chain as a whole, even if some of them seem obvious.</p> <p>Regarding this point, I think that it's probably essential to clearly state that service providers for institutional investors "support institutional investors, which are the clients for the services provided, in appropriately fulfilling their stewardship responsibilities."</p> <p>This may seem obvious, but if they turn a blind eye to, or even aid and abet dereliction of duty by their institutional investor clients, they won't have fulfilled the stewardship responsibilities expected of service providers for institutional investors, so even if a service provider for institutional investors provides services that reflect the wishes of the clients, it is clear that this is not in line with the spirit of the Code. Service providers for institutional investors (investment consultants for pensions, etc.) include providers of a wide variety of services, and there</p>	<p>As paragraph 9 of the preamble states, "service providers for institutional investors" encompass a broad range of institution which provide services at the request of institutional investors to contribute to the institutional investors' effective execution of stewardship activities, so they are expected to play an important role in improving the function of the investment chain as a whole.</p> <p>Furthermore, Principle 8 states that services providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.</p> <p>Note that under the Code, the entities supposed to fulfill "stewardship responsibilities" are envisaged to be institutional investors, so because, as you point out, the nature of the application of the Code could vary depending on each service provider for institutional investors, adaptations/judgments should be made in light of their own circumstances.</p>

	are likely to be doubts about their circumstances, so I would like a basic view to be properly conveyed.	
188	I would like some guidance to be added to encourage institutional investors, when they make use of the services of a proxy advisor, to only use services after performing an adequate assessment of the proxy advisor concerned. For example, they could be required to determine procedures for assessing proxy advisors, and more examples of matters that should be assessed could be provided. To ensure that proxy advisors have proper systems in place and provide appropriate services, it is effective for them to be assessed by institutional investors, which are the users of the services, and if institutional investors make use of proxy advisors as they fulfill their stewardship responsibilities, assessing the systems and structures and the content of the services provided is essential for fulfilling their own stewardship responsibilities.	<p>Guidance 5-4 states that when institutional investors use the services of a proxy advisor, it is important that they use the service based on an understanding of the voting recommendation process, including the human and operational resources of the advisors.</p> <p>Because the Code employs a “principles-based approach,” when an institutional investor uses the services of proxy advisors, we believe it will be useful for it to consider how it will make use of proxy advisors, in light of their voting recommendation processes, including their human and operational resources of the advisors.</p>
189	Regarding Guidance 5-4, to further promote the establishment of structures by proxy advisors, the following text should be added: “Even when using the services of proxy advisors, it is important to make use of them after finding out about the human and operational resources of the advisors and considering the appropriateness of their processes for voting recommendations and policies (standards).	

<b>Question 6 (Other)</b>		
<b>Collaborative engagement</b>		
190	<p>Regarding collaborative engagement in the draft, “collective engagement” has been only changed to “collaborative engagement.” Furthermore, in the Code, the expression used is “there are circumstances in which collaborative engagement can also be effective,” but I think it would be more appropriate to choose that wording that encourages stewardship activities through collaborative engagement.</p>	<p>As for “collaborative engagement,” in conjunction with the fact that “collective engagement” was changed to “collaborative engagement” in the 2020 version of the U.K. Stewardship Code, we have also changed the term used in Guidance 4-5 to “collaborative engagement.”</p> <p>As collaborative engagement could take many different forms, in Guidance 4-5 we have positioned collaborative engagement as one option for dialogue between institutional investors and companies.</p>
191	<p>With respect to the interpretation of joint holders and the act of making important suggestions, “Clarification of Legal Issues,” which has been referred to in Footnote 20, would likely have somewhat of an effect on the promotion of collaborative engagement and the effectiveness of dialogue by large institutional investors due to the relationship with the practical implementation of the large shareholding reporting system, so I ask that the investigations referred to in the “Second Revision of the Stewardship Code” are begun urgently.</p> <p style="text-align: right;">(1 other similar comment)</p>	<p>Regarding your comment, in “Clarification of Legal Issues Related to the Development of the Japan’s Stewardship Code” (published on February 26, 2014; below “Clarification of Legal Issues”) published by the Financial Services Agency, we have clarified interpretations concerning points such as what constitutes “joint holders” and the “act of making important suggestions” in relation to the handling of the large shareholding reporting system, which could be an issue when conducting collaborative engagement.</p> <p>During discussions by the Council, it was pointed out that Clarification of Legal Issues does not clarify the scope of collaborative engagement that is currently permitted, so as stated in the section about the “Second Revision of the Stewardship Code”, the Financial Services Agency is expected to move forward with considering ways of responding to this issue in the future.</p>
192	<p>Regarding the current system for joint holders, who only have a capital relationship, I would like consideration to be given to the severing of joint holder relationship under certain conditions in light of the independence of voting by asset managers and improvements in managing conflicts of interest.</p>	

193	I think it would be appropriate to rephrase collaborative engagement in Guidance 4-5 using the word “should,” and retain it as guidance.	Thank you for your valuable input. Because collaborative engagement could take many different forms, in Guidance 4-5 we have positioned collaborative engagement as one option for dialogue between institutional investors and companies.
<b>Explanation of situation with shareholdings</b>		
194	<p>Regarding Footnote 16, the rationale for explaining the shareholding status during dialogue is unclear. We are concerned about the risk that this will make it difficult to obtain opportunities for dialogue in situations where shares are not currently held but would be held in the future and situations where the number of shares held has decreased due to various reasons (including client-based factors such as the redemption of investment trusts). It should be made so that companies do not select investors or restrict access to information according to how many shares they hold.</p> <p>(1 other similar comment)</p>	<p>Based on your comments, to make it clear that constructive dialogue is important no matter how many shares are held, we have edited the wording of Footnote 16 to this: “Constructive dialogue between institutional investors and investee companies should not be merely driven by the size of shareholdings. That being said, there are cases when it is appropriate for institutional investors to explain to investee companies how many shares they own/hold.”</p> <p>When determining whether it would be “appropriate for institutional investors to explain to investee companies how many shares they own/hold,” we believe that it is important for each institutional investor</p>
195	<p>Regarding Footnote 16, in Japan it’s time to improve the quality of engagement regardless of the proportion of the company’s shares the shareholder holds. Explaining the shareholding status when entering dialogue could encourage companies to think, “Even if we don’t take this dialogue seriously, it won’t have much impact,” or “This will affect which resolutions are adopted at the shareholders meeting, so let’s take this seriously.” If so, the focus of dialogue could shift away from the engagement agenda. This could result in engagement going into reverse. In reality, investors sometimes pursue engagement even when they don’t</p>	<p>to decide from the standpoint of whether it will contribute to constructive dialogue with investee companies.</p>

	<p>hold any shares, as they are considering investing in the company in the future. And companies, particularly those that are interested in increasing their corporate value over the long term, also tend to ask for engagement with investors who are not currently shareholders, with the aim of expanding and diversifying their shareholder base.</p> <p>Furthermore, the level of interest in “how many shares in the investee company the institutional investor holds” is shaped by the level of interest in SR (shareholder relations), the primary focus of which is the outcome of the next shareholders meeting, so it is important not to confuse SR objectives with engagement.</p> <p>In addition, though stewardship is neither a right nor any obligation, explaining, for example, the proportion of shares held, could be deemed as an action rooted in rights and obligations. The issue of “investigations to identify actual shareholders” is one that should be discussed and resolved separately from the Code.</p>	
196	<p>How about changing Footnote 16 to this? “When institutional investors engage in dialogue with investee companies, if constructive dialogue is considered to be beneficial, they may explain to the investee company how many shares in it they themselves hold.”</p> <p>The shareholdings of institutional investors can change based on various factors, and explaining how many shares are held at the time of the dialogue is not essential for constructive dialogue. Basically, the matter should be left up to the investors and companies concerned. For example, an explanation could be provided when it is considered</p>	



	<p>beneficial for dialogue, and could include a description of the investor’s investment management policy. With the large shareholding reporting system already in place, having the Code uniformly prescribe that “it is appropriate for institutional investors to explain to investee companies” could actually hinder the promotion of dialogue between investors and companies.</p>	
197	<p>How about changing Footnote 16 to this? “When institutional investors engage in dialogue with investee companies, they should endeavor, regardless of the number of shares they hold, to ensure that the dialogue is constructive, and it may sometimes be beneficial for them to explain to the investee company how many shares in it they themselves hold.”</p> <p>Whether the dialogue is constructive and contributes to increasing corporate value should be determined based not on how many shares are held, but on the quality of the dialogue/proposals concerned. Furthermore, shareholding status and policy are what constitutes investment management strategy, so disclosing it could conflict with the fiduciary responsibility toward clients. Of course, there may be cases where an investor’s explanation of its investment policy and shareholding status with regard to the company lead to a more constructive dialogue. Therefore, rather than uniformly prescribing that “it is appropriate for institutional investors to explain to investee companies,” I believe that it would be better to say that investors “can explain its shareholding status when doing so would be beneficial for dialogue.”</p>	

	(1 other similar comment)	
198	Requiring disclosure of shareholding status beyond what is required in large shareholding reports is an inappropriate demand that would impede activism and dialogue with shareholders in Japan. Not only does it go against the tide of governance and shareholder protection, but it also places an unnecessary procedural burden on all shareholders.	
<b>Public disclosure of stewardship activities</b>		
199	This is something that was invisible before so public disclosure has a lot of advantages.	We appreciate your support for the intent of the revision.
200	Clients, etc. are already demanding this so I agree.	
201	I think it's important for the discharge of fiduciary responsibilities.	
202	It's a good thing for the investment industry as a whole so I agree.	
203	The Council should demand that investors spare resources on producing reports that focus not only on the processes relating to stewardship activities, but also on the nature of and the results of their activities. This could be expected to reduce the risk of turning into a process-centered practice such as mere box ticking.  (1 other similar comment)	Guidance 7-4 of the draft calls on asset managers to publicly disclose the "results of their stewardship activities including dialogue with companies."  Furthermore, we believe that reports concerning "how they fulfill their stewardship responsibilities through their stewardship activities" as stated in Guidance 6-1 include the results of the stewardship activities that were conducted.
204	It is difficult to define the results of dialogue and stewardship activities for public disclosure, and it often takes an extremely long period of dialogue to produce results, and it is also incredibly hard to define those results as one of your own company's accomplishments. Without generally accepted assessment standards, self-assessments are likely to	Regarding the public disclosure of the "results of stewardship activities," in Guidance 7-4, the same guidance states that entities "should be conscious that these are consistent with their investment management strategies and lead to the medium- to long-term increase of corporate value and the sustainable growth of companies."

	<p>cause confusion among investors and issuers, so how about using an expression like “could be publicly disclosed?” The wording in the draft runs the risk of leading to superficial dialogue with attention to results and public disclosure.</p>	<p>The aim here is to ensure that entities are not encouraged to regard the definition of the results of stewardship activities as being superficial and surface level, and to prevent circumstances in which entities focus not on key issues from the standpoint of increasing corporate value, but on tasks that are easy to achieve. The purpose is to get entities to go beyond the pursuit of superficial results and conduct activities that are in line with the purpose of the Code. In other words, we feel that the focus of “results” as mentioned here should not, for example, be just things like the number of dialogue engagements.</p>
205	<p>While it is important for institutional investors to self-assess their own stewardship activities, it should be borne in mind that demanding institutional investors to publicly disclose the results and accomplishments of stewardship activities could encourage asset managers to seek results or accomplishments that are easy to achieve or superficial rather than results or accomplishments that would contribute to the sustainable growth of investee companies. It could also create an incentive for investors to overstate results that were actually achieved as a consequence of the changes in the company itself or pressure from multiple investors, as if they were their sole accomplishments.</p> <p>Therefore, it should be made clear that the “public disclosure of results” as demanded here is not requiring public disclosure of the short-term number of engagements or “accomplishments.” Rather, it should be stressed that when publicly disclosing or referring to the results of stewardship activities, it is important to do so from the standpoint of how the results of stewardship activities are connected with long-term increases in corporate value and the sustainable growth of companies.</p> <p>(6 other similar comments)</p>	<p>And with regard to the point about a long period of dialogue often being necessary to produce results, we believe that this is especially likely in the case of issues that are important and difficult to reach agreement on, so we believe that asset owners also need to take care not to demand rapid and superficial results.</p>
206	<p>Questioning results is obvious, and public disclosure does not allow confirmation of whether the entity has been acting properly.</p>	

	(1 other similar comment)	
<b>Scope of application of the Code</b>		
207	Institutional investors and proxy advisors should include in their own stewardship activities to encourage companies to proactively increase opportunities for dialogue not just at shareholders meetings, but also with individual investors. Conversing with various stakeholders will contribute to the achievement of sustainability.	Thank you for your valuable input.
208	Banks and other financial institutions as well as nonfinancial companies that hold shares, investment funds that conduct investing activities, etc. should also be subject to the Code and encouraged to accept it. (1 other similar comment)	Thank you for your valuable input.
209	The Bank of Japan’s participation in stewardship activities would encourage parties that are responsible for stewardship, including corporate pension funds, to take part in stewardship activities.	Thank you for your valuable input.
<b>Dialogue with non-executive officers</b>		
210	Regarding “non-executive officers (independent outside directors and kansayaku (audit and supervisory board members), etc.),” I’d like to know exactly which persons “etc.” refers to. Under the current Companies Act, companies are able to select the form of organization other than a Company with <i>Kansayaku</i> Board, so can I assume that independent outside directors and auditors, etc., which are given as examples of non-executive officers, would include “audit committee members” of a Company with Three Committees (Nomination, Remuneration, Audit) and Supervisory Committee	“Non-executive officers (independent outside directors and kansayaku (audit and supervisory board members), etc.)” include “audit committee members” and “supervisory committee members.” And besides them, anyone who falls under “non-executive officers” is subject to Footnote 17. Furthermore, as you point out, we believe that “outside directors” who do not satisfy the Tokyo Stock Exchange’s Guidelines for Listing Management Etc. (February 7, 2020) would be included in “etc.”

	<p>Members at a Company with Supervisory Committee as “etc.?”</p> <p>Furthermore, would it be correct to understand that officers that satisfy the Companies Act criteria for being outsiders but do not satisfy the Guidelines for Listing Management Etc. would also be covered? And if there are any other parties who would be covered, I’d also like these to be made clear.</p>	<p>However, we believe that it will be necessary to consider, based on individual circumstances, dialogue in which situations and with which “non-executive officers” would be beneficial.</p>
211	<p>In Guidance 4-1, text should be inserted to the effect that non-executive officers are permitted to be in attendance, and Footnote 14 should be moved up into the main body. By allowing non-executive officers attend dialogue sessions, the content of the dialogue will be reported directly to and discussed by the board of directors, which will make the company take it more seriously.</p>	<p>Footnote 14, which has been newly established in the draft, is aimed at encouraging “non-executive officers” such as independent outside directors/auditors, etc. to actively respond to dialogue, particularly in situations where doing so is regarded as desirable in light of their position/role.</p> <p>While we believe that the content of the footnote is important, we will maintain it as a footnote as it provides supplementary information for Guidance 4-1.</p>
212	<p>Regarding Footnote 14, given that the content of dialogue is an important topic, and that most non-executive officers cannot be said to be engaging in dialogue to a sufficient degree, demands by institutional investors for dialogue with independent outside directors, etc. is growing. To reflect this, the content of Footnote 14 should be presented as a principle or guidance.</p>	
213	<p>I totally agree that dialogue with outside directors/auditors, etc. is important. However, the level of importance likely differs depending in the company, timing, etc., and by specifically defining it in the Code, there is a danger of dialogue with outside officers being conducted in a superficial fashion.</p>	<p>We appreciate your support for the intent of the revision.</p> <p>With Footnote 14, in order to ensure that dialogue with non-executive officers will not be conducted in a superficial fashion, dialogue is expected to take place from the standpoint of contributing medium- to long-term increases in corporate value and to sustainable growth, which is the objective of the Code. In this regard, we have given “priority issues</p>

		<p>of the management policy including governance structure and review of business portfolio” as an example of matters for which dialogue with non-executive officers is intrinsically important.</p> <p>However, we believe that it will be necessary to consider, based on individual circumstances, dialogue in which situations and with which “non-executive officers” would be beneficial.</p>
214	<p>Footnote 14 is incredibly significant from an investors’ standpoint. While we emphasize dialogue with outside directors/auditors, etc. as part of collaborative engagement, we are often refused meetings with outside directors/auditors, etc. I’d like the Financial Services Agency to encourage the companies to respond more positively.</p>	<p>We appreciate your support for the intent of the revision.</p> <p>The Financial Services Agency is expected to continue taking action in this area.</p>
<b>Cost of engagement with passive investing proliferating</b>		
215	<p>We are often asked for individual engagement by investment companies that don’t hold a large number of shares, and our IR/SR people are struggling to cope. Criteria for rejecting such requests based on the size of the shareholding as a proportion of the investment portfolio or the percentage of the company’s shares held should be presented, or alternatively, further steps to promote collective engagement should be taken.</p>	<p>With passive investment becoming increasingly widespread, members of the Council also pointed out the need to consider the nature of engagement, and it was decided to explore this issue going forward.</p>
216	<p>The benefits obtained from applying the Code and the burden of personnel expenses, etc. on companies need to be measured and quantitatively verified through, for example, the presentation of evidence of cost effectiveness. If the Code results in an increased burden</p>	

	<p>on corporate pension funds and companies, it will be a factor in reducing their international competitiveness.</p> <p>(1 other similar comment)</p>	
217	<p>In light of the realities of equity investment in Japanese capital markets (there are many listed companies, market cap is dominated by large companies, and most investment is passive and based on the TOPIX index), deeper discussions should be held concerning the allocation of managerial resources of asset managers, management fees, and benchmark indexes, so as to ensure that effective stewardship activities are conducted between passive investors and investee companies.</p>	
<b>Governance structures of asset managers</b>		
218	<p>The governance structures of asset managers should differ depending on the entity. The draft should be altered to make it clear that each company should establish a governance structure that suits their structure and size. In its current form, the draft reads as asset managers would normally be required to establish third-party committees, etc.</p> <p>(9 other similar comments)</p>	<p>We have mentioned third-party committees, etc. in Guidance 2-3 merely as one example of a governance structure. The Code follows a principles-based approach, so we expect that each asset manager will take action to secure returns for their clients and beneficiaries and prevent conflicts of interest in an appropriate manner.</p>
219	<p>I think that governance structures should be both established and publicly disclosed, as this is already demanded by clients, etc.</p> <p>(1 other similar comment)</p>	
220	<p>I think that governance structures should be both established and publicly disclosed, as this is important for making investment decisions.</p>	

<b>Internal audit</b>		
221	Given that internal audit is an essential function for achieving effective corporate governance, the establishment/utilization of the internal audit department should be included in the information about the governance of investee companies that institutional investors should obtain.	We regard to the establishment/utilization of internal audit departments as an important component of governance. In the opinion statement by the Follow-up Council in April 2019, it was suggested that securing the reliability of audit be made an issue for future investigation with respect to the Corporate Governance Code. As for your point, we expect that it will continue to be considered at the Follow-up Council.
222	In order for asset managers to conduct stewardship activities appropriately, they need to improve their own governance, etc. by making use of their own internal audit departments. Asset owners, too, can improve the quality of stewardship activities by conducting monitoring with an awareness of the importance/effectiveness of internal audit at asset managers. Internal audit can also play an important role in helping asset owners to fulfill their stewardship responsibilities and service providers for institutional investors to conduct stewardship activities appropriately. These points should be clearly stated in the Code.	
<b>Other</b>		
223	From the standpoint of promoting the sustainable growth of listed companies and medium- to long-term increases in their corporate value, I support the overall direction of the draft, particularly the inclusion of emphasis on sustainability aspects, including ESG factors.	We appreciate your support for the intent of the revision.
224	I agree with the draft, as it shows that progress is being made overall.	
225	Even with the stock market bearish, funds booking losses, and shares being sold as criticism of equity investment mounts, I'd like you to remain steadfast in rigorously debating stewardship.	We intend to continue discussion in order to expand effective stewardship activities.



226	<p>I strongly agree with promoting increases in the corporate value of our country's companies as well as their sustainable growth through the utilization of the Code. That being said, the Code should specifically be implemented in a way that prevents asset managers being tempted, as a consequence of an excessive burden being imposed on them, to take superficial measures due to a lack of resources or to increase management fees without taking effective action.</p>	<p>We expect that the Financial Services Agency will continue to communicate and raise awareness to ensure that institutional investors are not encouraged to pursue superficial stewardship activities.</p>
227	<p>If too many specifics are included, the activities of investors are likely to become uniform, so the Code should limit itself to presenting a general framework of principles.</p> <p>I think that it is necessary to look comprehensively at the domestic market environment in order to reduce the administrative burden on asset managers (i.e. tasks that translate it into costs for the end investors) so that they can maximize returns for investors. If companies that satisfy all the requirements of the Corporate Governance Code are made a new market corresponding to the current First Section of the Tokyo Stock Exchange, and the index for this new First Section of the Tokyo Stock Exchange is revamped, there would be a wide range of benefits such as motivating companies to satisfy the requirements of the Corporate Governance Code, improvement of services in conjunction with the dramatic reduction of the number of issuers contained in the index and the administrative burden on asset managers, and increased returns for end investors. Accordingly, I hope that the market will be reformed based on a broad perspective.</p>	<p>Thank you for your valuable input.</p>

228	<p>I guess that “other teams (departments)” in Footnote 14 refers to the departments in charge of voting, the investment departments that make investment decisions, and the departments that perform analysis to facilitate investment decision making. The draft as a whole should make entities aware that each of these departments should work together to conduct consistent stewardship activities. So how about moving it to the preamble?</p>	<p>As you point out, it is important for departments to also work together in areas besides dialogue. We have inserted this footnote to Principle 4 in this draft based on the awareness that there is a lack of coordination among departments especially when there is a department specializing in dialogue.</p>
229	<p>Guidance should be added to encourage institutional investors that are considering voting against a company’s proposal to vote in such a way as to benefit shareholders after considering the impact on the administration of the issuing company if the proposal is rejected at a shareholders’ meeting. There have been cases of institutional investors voting against all the proposals without offering any alternatives, but if the election of all director candidates is rejected, administration of the issuing company will be difficult, and shareholders’ interests will be harmed.</p>	<p>Thank you for your valuable input.</p>
230	<p>I agree with the introduction of escalation, as it is often difficult for an entity to exert any influence on its own, while escalation can bring about changes in the behavior of companies.</p> <p style="text-align: right;">(2 other similar comments)</p>	<p>Guidance 4-4 states that institutional investors should have a clear policy in advance on how they design dialogue with investee companies in various possible situations. We believe that one approach is to have a policy that covers an option to pursue escalation.</p>
231	<p>As the Institutional Investors Collective Engagement Forum has been established, an escalation system should also be introduced.</p>	
232	<p>Regarding the introduction of escalation, I think it’s normal in the sense of fulfilling fiduciary responsibilities.</p>	

233	<p>I can't agree with the introduction of escalation because the meaning of escalation is unclear and the sorts of situations in which escalation is required are vague.</p> <p>(1 other similar comment)</p>	
234	<p>I can't agree with the introduction of escalation because if escalating is meaningful it can take place, and a wide variety of management policies should be respected.</p> <p>(2 other comments)</p>	
235	<p>Regarding the issue of strategic shareholdings (not limited to cross-shareholdings) and stable shareholders, if, as is the case in Japan, it is extremely rare for shareholder proposals to be adopted and for company proposals to be rejected, neither companies nor shareholders can enjoy the advantages that capital market discipline offers. In order to ensure the effectiveness of the Stewardship Code and the Corporate Governance Code, the Financial Services Agency should use all means necessary to ensure that future revisions of the Stewardship Code, etc. result in freeing Japanese companies from reliance on stable shareholders and enabling dynamic, disciplined, and agile global shareholders to become the primary players.</p>	<p>Regarding your comment, the Corporate Governance Code states that when listed companies hold shares for strategic purposes, they should disclose their policy with respect to doing so, including their policies regarding the reduction of such shareholdings. It also states that the board should annually assess whether or not hold each of such shares, specifically examining whether the purpose is appropriate, and disclose the results of assessment. It further states that they should establish and disclose specific standards with respect to the voting rights as to strategic shareholdings, and vote in accordance with the standards.</p> <p>We regard these issues as important for promoting the sustainable growth of companies and medium- to long-term increases in corporate value, so we expect that relevant parties will continue to be encouraged to take action with respect to them.</p>
236	<p>More effort should be made to eradicate cross-shareholding by companies.</p>	
237	<p>Although it is recommended that shareholders meeting convocation notices be disclosed three weeks in advance, they are disclosed later on average. Therefore asset managers are forced to work on an extremely</p>	<p>Regarding your comment, the Corporate Governance Code states that listed companies should take appropriate measures to ensure the exercise of shareholder rights at shareholder meetings, such as enhanced</p>

	<p>tight schedule, and it's likely to be even harder for companies that provide services to institutional investors. I would like disclosure three weeks prior to be made compulsory or for 15 business days to be provided.</p> <p>I would also like all the information needed for reasons for support or rejection to be presented on convocation notices. This would also contribute to effectively creating an environment in which it is easy for individual shareholders, who are unable to obtain opportunities to engage in dialogue with companies, to decide whether to vote for or against proposals.</p>	<p>information disclosure and early delivery of convocation notices. As this is also important for deepening dialogue between companies and investors, we expect that relevant parties will continue to be encouraged to take action with respect to them.</p>
238	<p>Asset managers are being encouraged to “publicly disclose” several types of information, but most asset managers share a variety of information with clients and investee companies and have in-depth discussions about it. It is important that asset managers be left with room to maneuver by allowing them to consider what needs to be disclosed after taking into account the objectives of public disclosure, who the targets of public disclosure are, and potential drawbacks of disclosure, and to then select appropriate methods.</p>	<p>The draft is aimed at enhancing visibility as to whether voting is appropriate in light of the policy for fulfilling stewardship responsibilities, quelling concerns about conflicts of interest with respect to voting, etc. Accordingly, in line with your comment, the draft states that there are a number of matters that institutional investors should publicly disclose.</p> <p>That being said, the Code adopts a “comply or explain” approach given that the circumstances of institutional investors are diverse.</p> <p>Regarding determining the need for public disclosure and specific disclosing method, we believe that it is important for each institutional investor to make adaptations/judgments to ensure that disclosures are sufficiently easy to understand for relevant parties such as clients and beneficiaries (including ultimate beneficiaries), while also considering the purpose of each principle and guideline.</p>

239	Supervisory authorities should emphasize to the entire investment chain that superficial responses by institutional investors are not recommended, and should provide appropriate guidance and conduct appropriate supervision.	Thank you for your valuable input.
240	To make it clearer who each principle and guidance item is aimed at, instead of using the term “institutional investors,” depending on the principle/guidance, a clear distinction should be made between “asset owners” and “asset managers.”	Among each of the principles/guidance in the Code, with those that apply to both asset owners and asset managers, the term “institutional investors” is used, while in those that mainly apply to asset owners or asset managers, the respective terms are used.
241	I think the guidance should only comprise “should” statements, with other statements presented as notes.	Regarding which matters are subject to “comply or explain” as “should” statements, we will continue to explore approaches such as making it clear at a glance by looking at each sentence.
242	With regulations on the listing of parents and subsidiaries being tightened, the importance of stewardship responsibilities toward listed subsidiaries of listed parent companies has increased, so I propose that the following statement be adopted: “Parties responsible for stewardship that invest in shares of listed subsidiaries should explain their policies on investment in listed subsidiaries (e.g. methods of confirming mechanisms for safeguarding the interests of minority shareholders) and policies for dialogue with the parent companies and other shareholders (excluding other institutional investors as referred to in Guidance 4-5) of listed subsidiaries.”	Regarding group governance, including the issue of listing of parents and subsidiaries that you point out, it was suggested in the opinion statement published by the Follow-up Council in April 2019 that broad-based investigations should continue to be carried out. As this is an important issue, in light of your point, we expect that it will continue to be considered at the Follow-up Council and that progress will therefore be made from the standpoint of protecting ordinary shareholders.
243	A penalty box period should be established for asset managers that have committed wrongdoings.	Thank you for your valuable input.

244	Another important issue is how to allocate costs. (1 other similar comment)	As stated in paragraph 8 of the preamble, we believe that both institutional investors and clients/beneficiaries should be conscious that reasonable costs incurred in connection with the conduct of stewardship activities are a necessary investment cost.
245	I think that the objectives would be achieved more efficiently if executives guilty of anti-environmental activities were subject to criminal penalties.	Thank you for your valuable input.
246	Given the importance of the Corporate Governance Code, direct mention of the formulation of that Code should be made in the preamble. (The description of the background that led up to the formulation of the Code is long-winded and should be condensed in the future.) The Guidelines for Dialogue for Between Investors and Companies should also be mentioned in the preamble.	Thank you for your valuable input.
247	Regarding “at an understanding” in Guidance 4-1, an awareness of issues is important, so to make that point clear, it should be altered to “shared awareness (particularly shared awareness of issues).” The presence of the word “issues” would clarify the connection with “to solve the problem” at the end of the guidance.	We believe that “shared awareness of issues” is included in “at an understanding in common.” In light of that kind of awareness, we expect that progress will be made with constructive dialogue to address issues.
248	There’s really no need for “priority” in “priority issues of the management policy” in Footnote 14. And to promote action on sustainability, it should be altered to “management issues (including issues relating to sustainability).	In the draft, we have given “priority issues of the management policy including governance structure and review of business portfolio” as an example of matters for which dialogue with non-executive officers is regarded as important.
249	“Governance structure” in Footnote 14 should be changed to “establishment of government structures.” “Voting activities” in	Regarding your comment, we will be maintaining the draft in its current form as we believe that the purpose of the expressions used in the draft

	<p>Guidance 6-4 should be changed to “voting” to maintain consistency with the wording in other parts of the draft. “Recommendation” in Guidance 8-2 should be changed to “recommendation relating to voting,” and “the above measures” in “the voting recommendation process, including the above measures” should be changed to “development of human and operational resources and voting recommendation process.” “Proxy recommendations” in Guidance 8-3 should be changed to “recommendations relating to voting,” “whether such information is accurate, etc.,” should be changed to “such as whether information that forms the basis for voting recommendations contains any inaccuracies, omissions, or errors,” and “to secure accuracy of the information that is basis for the recommendation and transparency” should be changed to “ensuring the accuracy/appropriateness, etc. of information that formed the basis for recommendations relating to voting and the transparency of the voting recommendation process.”</p>	are clear.
250	<p>“Company that is the subject of a proxy recommendation” should be changed to something like “companies subject to voting,” and consideration should be given to including responses to requests from shareholders that have voted also herein.</p>	Thank you for your valuable input.
251	<p>To prevent irrational obstruction of investment funds flowing into Japan and overseas asset managers setting up in Japan, sufficient awareness should be given to ensuring an equal footing with regulations in overseas jurisdictions other than Europe and the U.K.</p>	Thank you for your valuable input.