

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

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

| No | Comment summary | Response |
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| Question 1-1 (Application of the Code to institutional investors that invest in assets other than Japanese listed shares) | | |
| 1 | This is an important addition to the Code. This is of particular importance for distressed companies, where bondholders can have a significant influence on a company's future. In a distressed situation, bondholders and equity holders can form committees to actively assist the company. | We appreciate your support for the intent of the revision. |
| 2 | The revision in preamble 10 is logical and appropriate because the principle of acting as stewards of our clients' capital does not only apply to equities. Moreover, this consideration is becoming more important given the growth of fixed income, multi-asset and alternative strategies. (1 other similar comment) | |
| 3 | We support the expansion of the reach of stewardship. Pension funds with a high proportion of non-equity asset classes in their portfolios sometimes take the view that they do not need to take action on systemic risks such as climate change or to engage in stewardship. Emphasizing the importance of stewardship beyond listed equity might help combat such perceptions. | |
| 4 | Our view is that stewardship responsibilities extend to all asset classes. While different ownership rights attach to different asset classes, all | |

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| | provide opportunities for investor engagement and ‘pressure points’ where investors can influence outcomes and mitigate risks. | |
| 5 | <p>Bond investors should not be on unequal footing with equity investors. However, equity investors have a unique role to play in the capital markets in its engagement with management. Bond investors don’t vote in proxies, for example, and do not have the same level of influence. I think it would be challenging for private equity or venture capital firms to abide by the same code since investments typically require management’s permission.</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>Therefore, each principle/guidance in the Code was formulated with a focus on investment in Japanese listed shares, so they include principle/guidance where application to other asset classes is not envisaged. For that reason, when investing in other asset classes, it is envisaged that the principle/guidance in the Code will be applied to these other asset classes within the scope of application 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> |
| 6 | <p>The Code should avoid being overly prescriptive to ensure enough flexibility to implement stewardship in the most appropriate way for each asset class.</p> <p>(1 other similar comment)</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>We believe that it is important to consider the application of the Code to other asset classes while keeping such points in mind.</p> |

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| 7 | <p>It is positive that the revised Code refers other asset classes beyond equities. But we believe the language could be stronger in encouraging stewardship across other asset classes, particularly corporate debt. Creditors, like shareholders, bear the residual risk of the company as financial stakeholders. Moreover, many institutional investors may hold positions in both the debt and equity of the same company, so should have a stewardship interest in promoting sustainable corporate performance that meets the needs of both shareholders and creditors.</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>Therefore, each principle/guidance in the Code was formulated with a focus on investment in Japanese listed shares, so they include principle/guidance where application to other asset classes is not envisaged. For that reason, when investing in other asset classes, it is envisaged that the principle/guidance in the Code will be applied to these other asset classes within the scope of application possible.</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> |
| 8 | <p>It would be useful to signatories to include examples of ways in which they could effectively steward different asset classes, acknowledging that the primary means of understanding whether the activities undertaken have been effective will be through the periodic reporting requirements (as set out in Principle 6).</p> | |
| 9 | <p>We are supportive of the Revision Draft applicable to multiple asset classes. That said, the Revision Draft should acknowledge that there may be differences in the way RI principles are applied to different asset classes, given that each asset class has a unique set of rights and obligations associated with it.</p> | |
| 10 | <p>It is too early to include debt in the scope of the Stewardship Code, because debt is a non-voting security and therefore holders of it have little ability to improve governance, the most important thing to improve in Japan. Inclusion of debt in the scope of the Code at this stage will also have the effect of putting undue burdens on corporate pension funds and other smaller potential signatories.</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> <p>As you point out, engagement when investing in Japanese shares is the most efficient and effective way to improve the corporate governance of</p> |

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| 11 | <p>We think that the reference to ‘other asset classes’ may not be appropriate in light of the substantive content of the Code. In the Japanese context, we suggest that for the time being the Code continues to focus on shareholder stewardship as a matter of corporate governance relations and once stewardship practices in Japan have achieved the desired outcomes, the FSA considers the expansion of stewardship obligations to other assets.</p> <p>(1 other similar comment)</p> | <p>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 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> |
| 12 | <p>We support the amendment that mentions the applicability of stewardship responsibilities to all asset types beyond just Japanese listed shares. The suggested change, however, only ventures to state that the “Code may also apply to other asset classes”. We would encourage the Code to explicitly state that stewardship responsibility applies to all asset classes.</p> <p>(1 other similar comment)</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> |
| 13 | <p>We should be expected to be stewards of our assets in all asset classes in which we invest, recognizing that proportionality and prioritization of stewardship resources will vary across asset owners and the asset managers we use.</p> <p>We would however suggest that the text of the draft code is strengthened to specifically state that it applies to all asset classes with the deletion of the following text “as far as it contributes to fulfilling the stewardship</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, regarding investment in other asset classes, because such assets differ in nature to Japanese listed shares, there are likely to be</p> |

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| | responsibilities mentioned in the heading of this Code”. | cases in which exactly the same stewardship activities cannot be expected to be conducted. Furthermore, uniform/formal application of the Code to other asset classes could lead to stewardship activities that are divorced from the objectives of the Code, namely the sustainable growth of companies and medium- to long-term increases in their corporate value, so it is not recommended. In light of this, we expect you will understand why we have attached the following limitation: “as far as it contributes to fulfilling ‘stewardship responsibilities’ mentioned in the beginning of the Code.” |
| 14 | It should be clarified that even a debt investor that does not invest in listed Japanese shares should be able to sign the code. | Even bondholders who do not invest in Japanese listed shares can accept the Code if they conduct stewardship activities in accordance with the “stewardship responsibilities” mentioned in the beginning of the Code. |
| 15 | We think that there is a mismatch between the scope of the Code as it is identified in para 10 and the new Principle. We, therefore, suggest that you expand the scope of the Code and specifically mention service providers with activities in Japan in para 10, but make it clear that only Principle 8 is relevant for proxy advisors. | Service providers for institutional investors are considered to be entities which provide services to contribute to the institutional investors’ effective execution of stewardship activities as indicated in paragraph 10 of the preamble. Principle 8 specifically applies to service providers for institutional investors, but principle/guidance other than Principle 8 are also applied to service providers for institutional investors as far as the principle/guidance do not conflict with Principle 8. |
| 16 | We would suggest that the provision clarifies that stewardship should not be limited to particular institutions, geographies or asset classes. | 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. |

| Question 1-2 (Points to be noted when the Code is applied to institutional investors that invest in other assets) | | |
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| 17 | Bondholders have different rights versus holders of equity interests. The way in which RI principles are applied may vary depending on the overall investment strategy of the investor/client, and the nature of the investment. | <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>We believe that it is important to consider the application of the Code to other asset classes while keeping such points in mind.</p> |
| 18 | <p>While most interests are shared between investors in equities and those in other asset classes, there are some obvious differences. For example, fixed income investors do not have voting rights and need to exercise their rights through other means. They should explain their approach to seeking amendments to terms and conditions in indentures or contracts.</p> <p>(2 other similar comments)</p> | |
| 19 | Stewardship can help to play an important role in helping to create sustainable value across all asset classes. The Code should ask signatories to explain the approach they take to stewardship in different asset classes. | <p>The Code will basically continue to focus on investment in Japanese listed shares. 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> |
| 20 | Signatories should set out what assets the code applies to, and how the code is implemented within the different asset classes. This will assist the signatory’s clients and stakeholders in understanding any differences and improve transparency to the market. | |
| 21 | <p>Given that the amended paragraph now puts focus on other asset classes, additional clarity on what may be expected would assist investors in developing stewardship practices in this area of investment.</p> <p>It would be most effective if the FSA could work together with other</p> | <p>Regarding the application of the Code to other asset classes, in paragraph 10 of the preamble, it states, “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.” In other</p> |

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| | <p>regulators.</p> <p>(1 other similar comment)</p> | <p>words, application to other asset classes “as far as it contributes to fulfilling ‘stewardship responsibilities’,” can be expected to promote medium- to long-term increases of corporate value and the sustainable growth of companies through constructive dialogue between institutional investors and investee companies.</p> |
| 22 | <p>Opportunities for engagement for fixed income investors in corporate bonds will be different from investors in sovereign bonds.</p> | <p>“Stewardship responsibilities” mentioned in the beginning of the Code 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.</p> |

| Question 2 (Issues concerning sustainability (medium- to long-term sustainability including ESG factors)) | | |
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| 23 | <p>We generally welcome and support the Council’s proposals to refresh the Stewardship Code through the adoption of the Revision Draft. Given the growing importance of Environmental, Social and Governance (“ESG”) factors in the global marketplace, we believe it is important to ensure that the Stewardship Code remains relevant and reflective of best international practices as we move into a new decade.</p> <p>We are supportive of the Council’s proposal to incorporate in the Revision Draft the concept of a “consideration of sustainability” in the context of institutional investors’ investment management strategies.</p> <p>(5 other similar comments)</p> | <p>We appreciate your support for the intent of the revision.</p> |
| 24 | <p>We support the inclusion of sustainability/ESG factors in the Revision Draft.</p> <p>As the aim of Japan’s Stewardship Code is to create corporate value, a suggested phrase to use could be “Signatories should consider financially material ESG factors....” In order to promote quality dialogue, we suggest that if corporates have uncertainty, they should also ask investors about the need to explain why any E, S or G question is material to their investment case or how it materially impacts corporate value.</p> | <p>We appreciate your support for the intent of the revision. As you point out, even following the revisions, there has been no change in the objective of the Code, namely to promote and foster the investee companies’ corporate value and the sustainable growth of investee companies, so to make that clear, the preamble contains the following definition: “‘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) 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</p> |

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| | | factors) consistent with their investment management strategies.” We believe that it is important for each institutional investor to clearly specify how they take sustainability-related issues, including the financially material factors you point out, into consideration in their stewardship policy, consistent with their investment management strategies. |
| 25 | <p>We suggest that sustainability, including ESG considerations is clearly incorporated in the provisions accompanying Principle 3.</p> <p>Principle 1-1: We have a minor comment about footnote 6 , where we suggest that you explain the abbreviation ESG in the right order, that is ‘environmental, social and governance matters’. However, if you want to emphasize governance, rather than environmental and social matters, then we suggest that you do not use the term ESG in the main text and you replace it with ‘social and environmental factors’ or ‘matters’ as you do in Principle 3-3.</p> | <p>Regarding Principle 3, the pre-revision version of Guidance 3-3 presented “investee companies’ governance ... business risks and opportunities (including risks and opportunities arising from social and environmental matters)” as information to obtain about investee companies, so obtaining similar information is already required.</p> <p>And regarding your comment about Guidance 1-1, 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 intention of implying that any of them are of superior or inferior importance depending on the order of listing.</p> |

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| 26 | <p>We would note that Stewardship has become synonymous with a focus on engaging with companies on ESG issues: we feel that this view falls short of how fiduciaries should be interacting with their assets. It should therefore be reinforced in the Code that stewardship is about creating sustainable value (from the definition) in all its facets and, for the avoidance of doubt, that engagement to this end should also include financial and strategic factors associated with the asset along with ESG factors.</p> | <p>Guidance 4-2 requires that “when they engage in the issues of sustainability,” institutional investors “consciously engage in dialogue that is consistent with their investment management strategies and that leads to the medium- to long-term increase of corporate value and the sustainable growth of companies,” so there is no intention to limit dialogue to ESG factors. Various matters could be discussed during dialogue with investee companies, including financial and strategic factors associated with assets, which you mention. We believe that it is important for each institutional investor to decide which ones to focus on while being conscious to ensure that dialogue is consistent with their investment management strategy and that it will lead to medium- to long-term increase of corporate value and the sustainable growth of companies.</p> |
| 27 | <p>References that institutions should consider "sustainability" are a natural and feasible step forward, but at this early stage direct requirements to consider "ESG factors" and "SDGs" will confuse Japan's market by distracting attention from the inescapable fact that Japanese companies must first improve their governance, and only then can boards be realistically expected to more responsibly identify and consider those ESG factors that have a material impact on their sustainable profitability and financial condition. It is also because globally and not just in Japan, the world of ESG-based investment is still in its very early stages, and there is little agreement about what precise ESG factors in any particular industry are most important for sustainable growth and profitability, and</p> | <p>The Code has always envisaged mainly constructive and purposeful dialogue based on in-depth knowledge of the business environment etc. of investee companies, with a focus on their governance. Interest in sustainability has been growing rapidly among investors, companies, etc. recently, therefore the draft requests institutional investors to consider “sustainability (medium- to long-term sustainability including ESG factors)”.</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> |

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| | <p>which ESG-related statistics and facts should be disclosed by companies.</p> <p>(2 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> <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>As Guidance 1-2 indicates, we believe that it is important for each institutional investor to clearly specify how they take sustainability-related issues into consideration in their stewardship policy, consistent with their investment management strategy.</p> |
| 28 | <p>We believe it is appropriate for sustainability to be incorporated into the text of the revised draft. However, further clarification of the meaning of sustainability (ESG factors are subject to various definitions) would be helpful.</p> <p>Institutional investors have a vital role to play in ensuring that companies are receiving the appropriate encouragement to be sustainable. Our attention to the long-term sustainability of our investee companies' actions forms a core component of our responsible stewardship of our clients' funds, and should be rightly identified as such within the stewardship code.</p> <p>(1 other similar comment)</p> | <p>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 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</p> |

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| 29 | <p>Interpretations of “sustainability” and “long-term” are often disputed. The Code should be clear that sustainability includes the impacts and externalities generated by investee companies, and that long-termism is defined by reference to the interests of beneficiaries rather than market participants. Sustainability issues are fundamental to long-term value creation, a trend set to increase over time. We recommend that the precise meaning of the terms “sustainability” and “long-term” are defined more clearly.</p> <p>(1 other similar comment)</p> | <p>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> |
| 30 | <p>We are concerned that including ‘corresponding to their investment management strategies’ (Guidance 1-1 and 1-2) may run the risk of being interpreted as investors not needing to consider sustainability if it does not correspond to their investment management strategies. We recommend strengthening the message intended to seek clarity in stewardship approach and methodology unique to each investor. We believe that investment management strategies, particularly those employed by responsible investors, should take into account medium- to long-term issues, and it is the responsibility of the investment managers and service providers to establish a clear engagement plan and rationale for engaging on specific ESG issues. The same point applies to Guidance 4-2, Principle 7 and Guidance 7-1.</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. We will be maintaining the draft in its current form.</p> |
| 31 | <p>In Guidance 1-2 and 4-2 we believe that it is unnecessary to repeat that issues of sustainability should “correspond to” or “be consistent with” investment management strategy. It is clear the whole stewardship code</p> | <p>As you point out, it is clear the whole stewardship code application ought to align sustainability with investment management strategy, but the reason we have clearly requested that sustainability be taken into</p> |

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| | <p>application ought to align sustainability with investment management strategy. It seems odd to refer to this explicitly in section 4-2.</p> <p>We believe that consideration of sustainability should apply not only to stewardship policy (Principle 1) and engagement (Principle 4) but also to voting and reporting. As such, we would like to see sustainability additionally mentioned in Principles 5 (voting and disclosure of voting activity) and 6 (periodic reporting to clients and beneficiaries) to request institutional investors to take sustainability into consideration.</p> | <p>account “consistent with their investment management strategy” is to reiterate that the revision is not intended to make consideration of sustainability that is divorced from the investment management strategies of institutional investors an objective of institutional investors’ stewardship responsibilities. We will therefore be maintaining the draft in its current form to make this intention clear.</p> <p>And as you point out, while Principle 5 and Principle 6 do not make explicit mention of sustainability, we believe that it is important for each institutional investor, when voting or reporting their stewardship activities, to consider sustainability while being conscious to ensure their actions are consistent with investment management strategy and that they will lead to medium- to long-term increases of corporate value and the sustainable growth of companies.</p> |
| 32 | <p>We believe that Principle 7 in the Code could be improved by expanding the definition of “sustainability”. For example, you may consider amending Principle 7 (or the supporting Guidance) to indicate that sustainability includes the consideration of robust corporate governance practices, along with effective oversight of environmental and human capital factors.</p> <p>Additionally, we would also suggest that Principle 7 (or the supporting Guidance) is rephrased to emphasize the need for investors to continue to develop their skills and resources, and to ensure that those skills and resources are deployed in the effective implementation of their engagement activities.</p> | <p>Guidance 7-1 states that “institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the companies and their business environment and consideration of sustainability consistent with their investment management strategies. Institutional investors should have the necessary internal structure to have appropriate engagements and make proper judgments.” Thus, the first sentence refers to the development of skills and resources you refer to. Similarly, Guidance 7-1 requires this development of skills and resources and establishment of structures “to make dialogue with investee companies constructive and beneficial, and</p> |

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| | | to contribute to the sustainable growth of the companies,” and we believe that appropriate deployment of skills and resources, which you refer to, is important. |
| 33 | We recommend replacing “... that leads to medium- to long-term increase of corporate value and the sustainable growth of companies” with “... that creates long-term value for clients and beneficiaries while leading to sustainable benefits for the economy, the environment and society.” | <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 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</p> |

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| | | investors the consideration of sustainability itself, separate from the investment management strategy of each institutional investor. We will be maintaining the draft in its current form. |
| 34 | <p>Limiting sustainability to considerations of ESG issues on a company-by-company basis will often be too narrow a scope. A sustainable financial system should support sustainable and equitable economic development. Beneficiaries' interest in financial returns relates to the usefulness of their savings in future. If the future is severely resource constrained, inequitable and insecure, beneficiaries are unlikely to receive the intended benefits of their savings.</p> <p>Consideration of the impacts and externalities of portfolio companies is therefore crucial for both long-term value creation and alignment with the interests of ultimate beneficiaries. Investors should seek to eliminate risks related to the market or economy as a whole, such as:</p> <p>The Code should clarify that "long-term" sustainability indicates sustainability over the time horizons of the ultimate beneficiaries of investments.</p> <p>The relevant provisions of the Code should be amended to "medium- to long-term sustainability consistent with the time horizons of beneficiaries".</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 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</p> |

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| | | <p>investors the consideration of sustainability itself, separate from the investment management strategy of each institutional investor. We will be maintaining the draft in its current form.</p> <p>Guidance 1-2 requests that institutional investors should clearly specify how they take sustainability-related issues into consideration in their stewardship policies, consistent with their investment management strategies, and here, “investment management strategies” includes time horizons.</p> |
| 35 | <p>We support the language relating to sustainability and ESG factors. We believe the specific language of the Preamble could be stronger than simply calling for “consideration” of these factors. We believe the Code should be more explicit in calling for ESG integration through all aspects of the investment process, including valuation, risk assessment, investment decision-making (buying and selling) and engagement.</p> | <p>We appreciate your support for the intent of the revision. 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 medium- to long-term increase of corporate value and the sustainable growth of companies. We will be maintaining the draft in its current form.</p> |
| 36 | <p>Adding this phrase to the definition of “stewardship responsibilities” in the box at the top of page 1 of the Revision Draft further complicates what is already a long sentence. Instead, we recommend simplifying the existing definition of “stewardship responsibilities”.</p> <p>We believe it is important for investors to integrate material ESG issues into their investment decision-making process. Rather than adding a</p> | <p>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 ensure that measures are consistent with investment management strategy and that they lead to</p> |

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| | <p>vague phrase to the top of page 1 and to Principles 1 and 7 of the Revision Draft, a more effective way to make this point would be to include an additional principle about ESG integration.</p> | <p>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. Regarding comments such as yours about the definition of stewardship responsibilities, we expect that the content of the revisions will be appropriately communicated.</p> |
| 37 | <p>We agree that it makes sense to reference sustainability and ESG factors explicitly. For the English version, we recommend the sentences in the beginning of the preamble and Guidance 1-1 in Principle 1 to be rephrased and separated out into individual points for clarity.</p> | <p>We appreciate your support for the intent of the revision.</p> <p>Regarding comments such as yours about the definition of stewardship responsibilities and Guidance 1-1, we expects that the content of the revisions will be appropriately communicated.</p> |

| Question 3 (Promotion of stewardship activities by asset owners such as corporate pensions) | | |
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| 38 | We welcome updating of the Code to explicitly encourage pension funds including corporate pension funds to be stewards of their assets, to apply the code and encourage asset managers to engage in stewardship. A concept of proportionality “corresponding to their size and capacity” is the correct approach. | We appreciate your support for the intent of the revision. |
| 39 | We encourage the Council to continue to promote stewardship in corporate pension funds. | |
| 40 | To encourage non-financial corporate pension funds to sign the Code, FSA should request that MHLW take simple, obvious and non-mandatory measures, even if only by way of administrative rules such as Tsutatsu. | As you point out, 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 popularize and raise awareness of the Code among corporate pensions and other asset owners. |
| 41 | Asset owners are less resourced than asset managers, but they have a large influence and impact on the market and behaviour of asset management firms. Asset owners therefore need to have the knowledge of how to assess good stewardship in order to hold their asset managers accountable. We suggest guidance by regulator(s) to this effect would be a helpful addition. | <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. By using this format, we expect that even asset owners, etc. who are unfamiliar with the Code will be able to easily grasp the scope of monitoring. And alongside such initiatives by</p> |

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| | | private-sector bodies, we expect that that effective stewardship activities by asset owners will be promoted. |
| 42 | We would encourage a review of the strength of “Chinese walls” between pension funds and their corporate sponsor; and asset managers and their parent company. We should highlight that this is addressed in the 2018 Corporate Governance Code Principle 2.6. | <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 Follow-up Council and by relevant parties, including the Financial Services Agency.</p> |
| 43 | Asset owners have a fiduciary duty to their beneficiaries. We do believe the fiduciary duty extends to undertaking good stewardship and protecting the long-term value of the assets. We encourage the regulator(s) to support and promote the link between the fiduciary responsibilities of asset owners and how this duty relates to stewardship obligations. | 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 |

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| | | 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. |
| 44 | The responsibility for stewardship should not just involve asset managers, but also include asset owners, corporate pension funds. Although many of these stakeholders may lack the resources to vote on thousands of companies or conduct engagement, they have a responsibility to include ESG/stewardship criteria when delegating investment responsibilities (to consultants, asset managers). | As you point out, asset owners are a subset of institutional investors, so we believe that they also bear stewardship responsibilities. It is not envisaged that the large number of corporate pensions that do not invest for themselves will vote publicly disclose voting activity or engage in dialogue with companies. Rather, it is expected that they will monitor asset managers, which vote, publicly disclose voting activity and engage in dialogue with companies. Through such monitoring, we expect that the function of the entire investment chain will improve and that medium- to long-term investment returns will increase through the sustainable growth of companies and medium- to long-term increases of corporate value, which is the objective of the Code. |
| 45 | Most Japanese corporate pension funds do not directly manage investments but delegate the activities to external managers. However, it should be made clear that only activities are delegated; asset owners retain their stewardship responsibilities. At least, asset owners should have a clear voting policy for their investment managers and service providers, and over time, consider being more involved in engagement when resources allow. | As you point out, asset owners are a subset of institutional investors, so we believe that they also bear stewardship responsibilities. It is not envisaged that the large number of corporate pensions that do not invest for themselves will vote publicly disclose voting activity or engage in dialogue with companies. Rather, it is expected that they will monitor asset managers, which vote, publicly disclose voting activity and engage in dialogue with companies. Through such monitoring, we expect that |
| 46 | Disclosure of their voting records. This will help pension holders to | the function of the entire investment chain will improve and that |

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| | likewise hold pension management accountable. The ultimate accountability to their pension holders will also help in the event of potential conflicts of interest. | medium- to long-term investment returns will increase through the sustainable growth of companies and medium- to long-term increases of corporate value, which is the objective of the Code. Regarding the formulation of policies concerning voting, it is of fundamental importance to confirm that asset managers have formulated a voting policy and are actually voting in an appropriate manner, and the Code does not necessarily envisage corporate pensions themselves formulating policies concerning voting. |
| 47 | <p>It is appropriate for asset owners (and asset managers) to set and disclose their investment and stewardship beliefs. These do provide meaningful insight to beneficiaries who are interested in understanding the strategic focus of the trustees. In our view greater transparency on these issues can help drive greater accountability.</p> <p>(1 other similar comment)</p> | As you point out, having asset owners express their own investment philosophy in their policies for fulfilling their stewardship responsibilities will likely serve to promote stewardship activities by asset managers, so we consider it to be beneficial. Through such activities by asset owners, we expect that the function of the entire investment chain will improve and that medium- to long-term investment returns will increase through the sustainable growth of companies and medium- to long-term increases of corporate value, which is the objective of the Code. |
| 48 | While the addition of words such as "Asset owners, corresponding to their size and capacity, etc.." is excellent, this language is far too vague. The Code should make it clear that asset owners can choose from specific, feasible activities in order to comply, and that the compliance standard depends not only on size and capacity, but also on the quality and experience of existing staff, particularly in the case of corporate pension funds. | "In line with their size and capabilities, etc." can include the quality and experience of staff. In line with your suggestion, we believe that one approach to developing the ability to conduct stewardship activities is to employ pension investment consultants, etc. or obtain their assistance in building up experience during the process. |

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| | <ul style="list-style-type: none"> ▪ A pension fund may hire an outside qualified (independent) consultant to help it to put in place stewardship policies and criteria, and to evaluate asset-managers' activities each year. ▪ In cases where "capacity" and staffing pose impediments, as long as the signatory pension fund makes public on its website a detailed report prepared by the consultant (in its own name) and formally approved by the board of the pension fund, it will have complied with the Stewardship Code. At the same time, the Code should strongly encourage pension funds to learn from such activities and move towards hiring or training staff to diligently perform those stewardship activities in the future, albeit still with the support of outside independent consultants. | |
| 49 | To encourage participation, asset owners should let their end clients present at conferences with investee companies. | Regarding the status of stewardship activities by asset managers, corporate pensions are required to report it to their ultimate beneficiaries. Almost all Japanese corporate pensions investing in equities outsource investment, the stewardship activities required of corporate pensions under the Code are basically indirect, involving the monitoring of the stewardship activities conducted towards investee companies by the outsource asset managers. |
| 50 | <p>Japanese pension schemes should be required by MHLW to publicly disclose in their statements of investment principles and communications with beneficiaries:</p> <ul style="list-style-type: none"> ▪ how they consider material ESG issues in their investment processes, including their policy on stewardship | The Code requires that institutions that are eligible to accept the Code do so voluntarily. Further, by adopting “comply or explain” and a “principles-based approach,” the intention is for each institutional investor to conduct stewardship activities flexibly in accordance with their own circumstances. |

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| | <ul style="list-style-type: none"> ▪ whether they are signatories to the Stewardship Code (and if not, why not). <p>(1 other similar comment)</p> | <p>We expect that relevant parties such as the Financial Services Agency and the Ministry of Health, Labour and Welfare will take action to promote stewardship activities of asset owners with a view to expanding acceptance of the Code among asset owners such as corporate pensions.</p> |
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| Question 4: (Public disclosure of reasons for voting for or against specific agenda items) | | |
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| 51 | <p>We welcome the additional expectations for investors to explain the reason for voting for or against certain proposals at shareholder meetings. We believe this will enhance the accountability of investors particularly if there are potential conflicts of interest. In addition, providing explanations on their voting decisions would help send the right messages to companies and facilitate the engagement process.</p> <p>(2 other similar comments)</p> | We appreciate your support for the intent of the revision. |
| 52 | <p>We are supportive of encouraging greater transparency within the decision making process. We think it is appropriate for both asset owners and asset managers to disclose their investment and stewardship beliefs and reasons behind their voting policies and individual voting decisions.</p> | |
| 53 | <p>We support this expectation under the Code. Voting is an important aspect of stewardship; engagement and voting practices are interlinked and feed into each other. The voting policies and practices of asset managers are a key part of asset owners' selection process and should be sufficiently clear for asset owners to determine how aligned these are with their beneficiaries' interests.</p> | |
| 54 | <p>It is really important to publicly explain how votes are directed and the reasons for this when of interest. We believe that asset managers should explain their reasons for directing a vote "for" or "against" in cases where it is material or particularly contentious. We however, disagree that an explanation is required for each and every item when the vote is</p> | As you point out, imposing an obligation to disclose how one has voted with respect to every agenda item, including cases where the vote has been for a company proposal, runs the risk of inducing superficial disclosures. However, others have argued that the reasons for voting for and against proposals deemed important, as is mentioned in the draft, |

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| | cast in favor of management. | should be publicly disclosed, for reasons such as enhancing the visibility of whether an entity has been voting appropriately in accordance with its policy for the discharge of stewardship responsibilities. In light of these views, the Code states that reasons for voting for or against agenda items considered important from the standpoint of contributing to constructive dialogue with investee companies should be publicly disclosed. |
| 55 | <p>We are not in favor of the Council’s proposal to require institutional investors to disclose vote rationales on the agenda of investee companies. We take this approach primarily for the following reasons:</p> <ul style="list-style-type: none"> ▪ To the extent that an institutional investor engages in private dialogue with company management that may impact the outcome of the vote, an institutional investor would not wish to be required to disclose the details of these conversations on the agenda of investee companies. A requirement to disclose such information could negatively impact the ability of an institutional investor to engage with an investee company. <p>This would be detrimental to investor engagement with investee companies.</p> <ul style="list-style-type: none"> ▪ Votes on contentious issues, such as mergers and acquisitions and proxy disputes, may include proprietary and highly confidential non-public information related to the investment strategy of an institutional investor. Again, a requirement to disclose such details could negatively impact an institutional investor’s desire to engage with an investee company. ▪ The administrative burden of complying with such a requirement would likely be considerable based on the number and nature of | <p>Having said that, the Code is not intended to adversely affect, in the manner you have alluded to, dialogue between institutional investors and investee companies. Rather, through disclosure with respect to agenda items “considered important from the standpoint of constructive dialogue with the investee companies,” we expect that engagement between institutional investors and investee companies will be further encouraged.</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> <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> |

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| | investments made by institutional investors, the volume of ballots and the potential for different rationales depending on the institutional investor (and within various investment affiliates of an institutional investor). | case of specific investee companies and for each agenda item, it could handle this by proactively explaining the reasons. |
| 56 | We believe it is important to avoid an unnecessary reporting burden. We would recommend limiting the scope of disclosure to a selected sample of votes. We see limited upside to disclosing rational of voting decisions which followed our policy and were non contentious. | |
| 57 | <p>It is important to strike a balance between transparency and efficiency. While it would be achievable to include our voting rationales for every resolution, this would likely be a costly and overly burdensome solution to implement with limited value to clients.</p> <p>While many of our voting decisions are directly linked to a singular topic from our voting guidelines, resolutions often require complex analysis and detailed rationale. Proxy contests are just examples of complex issues for which an asset manager must vote based on holistic analysis of numerous factors that will depend on each investor's unique priorities and strategies. Mandating disclosure could result in companies being misled by overly simplified voting rationale, or otherwise force investment managers to disclose their proprietary strategies. Such disclosure mandates could also deemphasize the need for comprehensive engagement with investee companies, and disclosure of voting rationales should not be a substitute for comprehensive dialogue with investee companies.</p> | |

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| 58 | <p>From a regulatory or macro perspective, we can see the benefits of disclosing voting reasons. But voting alone is a crude tool for assessing both proposals from corporate as well as the reasons behind a vote.</p> <p>For asset managers holding many portfolio companies the obligation to explain votes for all general meetings is likely to lead to standard answers and non-meaningful disclosures. This issue can be resolved by requiring shareholders to explain the implementation of their voting policy with practical examples to their voting policies.</p> | <p>As you point out, imposing an obligation to disclose how one has voted with respect to every agenda item runs the risk of inducing superficial disclosures. For reasons such as this, the Code does not require disclosure of reasons with respect to every agenda item. Rather, it requests disclosure of reasons, regardless of whether the vote was for or against, in the case of agenda items deemed important from the standpoint of contributing to constructive dialogue with investee companies, and we believe that it is important for each institutional investors to decide for themselves based on their own circumstances whether an agenda item constitutes such an agenda item.</p> <p>Furthermore, with regard to your remarks about voting policy, Guidance 5-2 requires institutional investors have a clear policy on voting and publicly disclose it, and we believe that it is important for each institutional investor, when formulating and publicly disclosing this policy, to adapt it to suit their own circumstances, while ensuring that it is sufficiently easy to understand for relevant parties such as clients and beneficiaries (including ultimate beneficiaries).</p> |
| 59 | <p>Regarding the topic of “important” votes, we think the question of what makes a vote significant is important for the stewardship code to consider. We recognize that some votes are more significant than others, and at times a supportive vote may be as significant as voting against a proposal. We are wary of the general trend of treating proposals that have received ~20% votes against as significant on that basis. Sometimes majority and minority shareholders are wrong, and sometimes the media</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> |

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| | <p>are wrong. Separate from the vagaries of public opinion and popular trends, there are issues to be voted on that are relevant to the investment case, those which are relevant to the growth thesis upon which we invest our client's funds. These matters, regardless of whether they are in the limelight or not, are significant. We would encourage the adoption of a similarly aspirational definition of "important votes" in the revised Stewardship Code.</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> |
| 60 | <p>We think it is best practice for investors to explain their voting rationale when they vote against a management resolution. It is not practical, or necessary, to call for explanations when investors vote in favor of a management resolution.</p> | <p>It has also been pointed out that stating that rationales "should" be publicly disclosed only in the case of votes against management resolutions poses the risk of inducing entities to avoid publicly disclosing rationales by voting superficially in support of such resolutions.</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> |

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| 61 | <p>Voting disclosure is a good idea in principle. Investee companies should understand why there were votes for or against an agenda item. I'm concerned it would create another layer of reporting that could start to become burdensome for smaller firms and larger firms with many, small positions. The barrier to start an asset management fund focused on engagement should not be raised. In this regard, the Guidance 5-3 should incorporate the concept from Guidance 1-3, 1-4 and 1-5: "corresponding to their size and capacity, etc." So long as there is a way to streamline the process, it would help improve the dialogue with companies and enable shareholders to voice specific frustrations.</p> | <p>In Guidance 1-3, 1-4 and 1-5, which you mention, and which concern asset owners, we added the phrase "in line with their size and capabilities, etc." to promote acceptance of the Code by asset owners such as corporate pensions by alleviating their concerns that they would be unable to accept the Code unless they are able to perform activities at the same level as other asset owners of a completely different size.</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 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> |
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| Question 5 (New establishment of Principle 8 concerning “service providers for institutional investors” and points to keep in mind, etc.) | | |
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| 62 | <p>We welcome the new guidance provided for proxy advisors in Principle 8.</p> <p>We recognize that the entire market benefits when service providers avoid conflicts and promote transparency, accuracy and active engagement, and we welcome the Council’s attention to this area.</p> <p>(4 other similar comments)</p> | We appreciate your support for the intent of the revision. |
| 63 | We support Guidance 8-1 and recognize the need for service providers, such as proxy advisors, to develop and disclose structures for managing conflicts of interest. | |
| 64 | We support Guidance 8-2 and recognize the need for proxy advisors to dedicate sufficient human and operational resources to the important support role they play in helping institutional investors meet their fiduciary responsibility to vote thousands of securities in an informed manner, usually in a very compressed timeframe. | |
| 65 | <p>We support the disclosure of the processes proxy advisors use in relation to the collection of accurate information and the formulation of their vote recommendations.</p> <p>A proxy advisor is a believer of being transparent when it comes to the disclosure of its methodologies and steps it takes when analyzing each proposal for which it issues vote recommendations.</p> <p>(1 other similar comment)</p> | |
| 66 | We support Guidance 8-3 and recognize the need for proxy advisors to not only engage with their investor clients but to also provide companies | |

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| | with the opportunity to be heard at different stages of the proxy research process. | |
| 67 | Addressing this issue for proxy advisors is helpful. Proxy advisors serve an important function in the voting infrastructure for a diverse and large number of investors. It is important that proxy advisors continue to serve this function and remain independent, without being unduly pressured by management or any third party. | |
| 68 | We support the new principle relating to service providers to institutional investors. Service providers have an important role to play in the stewardship “ecosystem”, and it is important that their activities are aligned with institutional investors to promote sustainable value creation and effective stewardship. (2 other similar comments) | |
| 69 | At a high level, we are generally comfortable with the proposed changes. However, we consider the provisions included within Principle 8, focusing on proxy advisors to be un-implementable in Japan given the current voting chain. | Given that the proxy advisors have already been subject to the Code, and that service providers for institutional investors such as proxy advisors and investment consultants for pensions can have a substantial impact on the quality of stewardship activities by institutional investors, we have redefined entities that provide services at the request of institutional investors, etc. to contribute to the institutional investors’ effective execution of stewardship activities as “service providers for institutional investors,” and established Principle 8 to apply to these entities. |
| 70 | We think that proxy advisers would be able to have higher quality voting assessments /recommendations if companies are encouraged to hold | Thank you for your valuable input. As for points like yours about shareholders meetings being concentrated |

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| | their annual shareholders meetings at different times of the year. | at the same time of year, 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 Financial Services Agency, will review the matter further. |
| 71 | <p>As it relates to the requirement for proxy advisors to have a local presence within Japan, we have some reservations. We recognize that setting up an establishment is not always feasible and presents its set of challenges.</p> <p>In our view, the ability of a proxy advisor to provide accurate proxy research should not be conditioned on whether or not the proxy advisor has a business establishment in Japan. We strongly believe that the decision on whether or not to open and maintain an office in a particular jurisdiction should be up to the proxy advisor.</p> <p>(1 other similar comment)</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 easily, 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 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> |
| 72 | <p>We find the requirement to set up a business establishment in Japan not practicable for smaller proxy advisor firms that may well offer quality services even in the absence of such establishment and that may not have the capacity/resources to set it up locally.</p> <p>(1 other similar comment)</p> | |
| 73 | <p>We strongly believe its research and recommendations should be based exclusively on publicly available information. This position allows for objective analysis, and encourages companies to provide their investors with clear and comprehensive disclosure.</p> <p>(1 other similar comment)</p> | <p>Thank you for your valuable input.</p> <p>In light of your comment, we have revised the first part of Guidance 8-3 to state that proxy advisors "In providing proxy recommendations, proxy advisors should rely upon corporate disclosure, and actively exchange views with companies upon necessity" in order to make it</p> |

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| | | clear that when proxy advisors provide recommendations, it is also important that they do so based on corporate disclosure. |
| 74 | <p>In our view, allowing companies to review the finished work product of a proxy advisor etc. before it is distributed to its investor clients would not only be extremely challenging during the peak proxy season but would also place serious constraints on the proxy advisor's time to research and write its reports and on the already compressed timeframe their clients have to digest these materials.</p> <p>(1 other similar comment)</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> |
| 75 | <p>Given the tight timeframes and crowded nature of Japan's proxy voting season, the idea that proxy advisers can enter a dialogue with companies in any kind of systematic way is hard to envisage.</p> <p>(2 other similar comments)</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> |
| 76 | <p>Relating to Principle 8-3, given the condensed timing of the Japanese proxy voting season in June, we do not consider there would be enough time for the additional process of companies providing feedback to proxy advisors to take place.</p> <p>(1 other similar comment)</p> | <p>As for points like yours about shareholders meetings being concentrated at the same time of year, 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> |
| 77 | <p>We agree with Guidance 8-1. On the other hand, we have the following reservations about Guidance 8-2 and 8-3. We believe that companies should be responsible for providing information in the public domain in a timely way to allow informed voting decisions.</p> | <p>Regarding Guidance 8-2 and Guidance 8-3, given that proxy advisors can have a substantial impact on the quality of stewardship activities by institutional investors, we require that proxy advisors disclose their proxy recommendation process and provide recommendations after they themselves have actively exchanged views with the companies as necessary.</p> |

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| | | As for points 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. |
| 78 | As for the idea that a proxy advisor should allow companies to include their opinion on its research prior to it being published to its clients, we feel strongly that this would be an unwarranted intrusion into the relationship between the proxy advisor and its clients. (1 other similar comment) | Guidance 8-3 states that upon the request from a company that is the subject of a proxy recommendation, it is considered to contribute to secure accuracy of the information which is the basis for the recommendation and transparency that the proxy advisors provide the company with an opportunity to confirm whether such information is accurate, etc., and provide the submitted opinion of the company to their clients together with the recommendation. Note, however, that this guidance only refers to providing companies with the opportunity to confirm the information, so as to ensure the accuracy and transparency of the information that forms the basis for the recommendation from proxy advisors. |
| 79 | Giving all companies such an opportunity to review the information and draft reports would cause a significant delay in our report delivery which is not in the interests of our clients or the fulfillment of their stewardship responsibilities. (1 other similar comment) | |
| 80 | Regarding requiring proxy advisors to “exchange views” with issuers “upon necessity” we would like to highlight the following: proxy advisors already provide opportunities for issuers to provide feedback on their benchmark research reports prior to delivering them to clients (i.e. institutional investors). It appears to be an undue burden for advisors to expand the scope of their engagement with issuers without a clarity on what defines “upon necessity” and without an explicit rationale or benefits of mandating such actions. | Thank you for your valuable input. Regarding the phrase “upon necessity,” given that proxy advisors can have a substantial impact on the quality of stewardship activities by institutional investors, it is expected that each proxy advisor will consider the level of necessity themselves. |

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| 81 | All proxy advisors should have access to the same information to avoid information asymmetry. | Regarding 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. |
| 82 | We have concerns with urging proxy advisors to rely on supplemental information obtained directly from listed companies. In practice, it does not seem feasible that a proxy advisor could provide a recommendation to its clients based on non-public information that is disclosed to the proxy advisor by the company in question. (1 other similar comment) | |
| 83 | With regard to proxy advisors “exchanging views actively with companies upon necessity”, we do not believe that this is necessary. Proxy advisors’ guidance should be based on publicly disclosed information. Furthermore, if any material non-public information is shared by the company with the proxy advisor, this could potentially lead to issues of insider trading for subscribers to the proxy service. | Regarding 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. Regarding the connection with insider trading, reference should be made to Guidance 4-6 and Footnote 21, and basically the receipt of undisclosed material facts should be regarded with caution. |
| 84 | We advocate Principle 8-1 on conflicts of interest. Footnote 27 that specifies the various types of service providers could be inserted to the ‘Aims of the Code’. | We appreciate your support for the intent of the revision. In the “Aims of the Code” in the preamble, we have defined each of the entities subject to the Code, including services providers for institutional investors, and Footnote 27 is positioned as providing a supplementary definition of service providers for institutional investors as used in paragraph 9 of the preamble. |

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| 85 | We find that footnote 29 is a truly important component of the new proposed framework and should be integrated to the text of Principle 8-2. | Thank you for your valuable input. |
| 86 | Proxy advisors could instead develop such a dialogue where necessary and inform accordingly their clients of its outcome. Attaching the company's opinion to the advisor's recommendation without our recommendation may lead to a fragmented and less useful. Message to clients and misses the opportunity to convey educative messages to clients and enhance dialogue among market actors and companies. We, therefore, propose that the Code allows for more flexibility in framing and developing dialogue with companies while allowing clients to be duly informed of the dialogue that may have taken place (if any). | Thank you for your valuable input. Regarding 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. Furthermore, from the standpoint of encouraging institutional investors to fulfill their own stewardship responsibilities, they are required to endeavor to increase medium- to long-term returns for clients/beneficiaries by promoting increases in the corporate value of companies and their sustainable growth through constructive dialogue with companies. |
| 87 | We welcome footnote 28 in the proposed Code which mentions the disclosure requirement on whether proxy advisors 'have dialogues with companies, and the nature of such dialogues'. Nevertheless, the 'nature' does not necessarily include 'outcomes' of such dialogue which are even more informationally useful. We, therefore, suggest including 'outcomes' in the disclosure framework and integrating footnote 28 in Principle 8-3. | Footnote 28 gives examples of specific proxy recommendation processes for which public disclosure is required under Guidance 8-2, and these include major information sources, whether proxy advisor engages in dialogues with companies, and the nature of such dialogue. It does not envision public disclosure of the nature of specific dialogues concerning recommendations relating to specific agenda items. So Footnote 28 does not envision public disclosure of the outcomes of specific dialogues. |

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| 88 | <p>Whilst ensuring a conflict of interest policy is in place, we consider proxy advisor should also publish further documents and/or procedures, for example, how they are considering, material environmental, social and governance issues.</p> | <p>Thank you for your valuable input.</p> |
| 89 | <p>The council should ensure that information asymmetry does not become an unintended consequence across proxy advisors. If the situation arises where a company considers additional information to be required, this is better communicated to investors via normal distribution channels. We would not be comfortable with any guidance that could lead to a proxy advisor basing its vote recommendation on anything other than publicly available information.</p> | <p>Guidance 8-3 contains the statement: that upon the request from a company that is the subject of a proxy recommendation, it is considered to contribute to secure accuracy of the information that is basis for the recommendation and transparency that the proxy advisors provide the company with an opportunity to confirm whether such information is accurate, etc., and provide the submitted opinion of the company to their clients together with the recommendation.” So it does not necessarily require explanations of the reasons for not doing so to be provided.</p> |
| 90 | <p>We fundamentally disagree that proxy advisors should be requested to exchange views actively with companies and not only rely on disclosed information (Guidance 8-3). We believe that for the voting process to function, companies must provide information in the public domain so that the market has access to the information. The information cannot be limited to closed meetings between proxy advisors and companies and should be available to all investors.</p> <p>(1 other similar comment)</p> | <p>Regarding 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.</p> |
| 91 | <p>It is our understanding that most proxy advisors already have structures in place to avoid or mitigate potential conflicts.</p> <p>However, we agree that specific disclosure of any material interests, material transactions /relationships and any other information that is</p> | <p>Thank you for your valuable input.</p> <p>We believe that public disclosure of efforts to manage conflicts of interest in accordance with Guidance 8-1 will enable institutional</p> |

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| | <p>material to assessing the objectivity of the proxy advisor in the matter or parties concerning which it is providing the advice would be useful. Values, where relevant, should be disclosed, e.g. how much a proxy advisor has been paid for consulting services, the nature of the services, duration of the relationship, etc. We do not believe that it would be appropriate that conflicts of interest disclosure be made public, disclosure included as part of the proxy reports would suffice.</p> | <p>investors, which are their clients, and beneficiaries to compare the publicly-disclosed information.</p> |
| 92 | <p>We agree that proxy advisors should develop human and operational resources and disclose the processes whereby voting recommendations are determined, we would be wary about the inclusion of a requirement that they exchange views with the companies on which they are reporting. In particular, companies should not be permitted an opportunity to review proxy voting advice and provide feedback to the proxy advisor before the proxy advisor provides the advice to clients. Our view is that a copy of the advice of proxy advisors, restricted to facts, should be sent to companies for information only.</p> <p>Allowing companies to review and comment on items beyond the facts including but not limited to matters of analysis and methodology renders the advice vulnerable to influence.</p> | <p>Thank you for your valuable input.</p> <p>Regarding 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. Note that Guidance 8-3 only envisages providing companies with the opportunity to confirm the information, so as to ensure the accuracy of the information which is the basis for the recommendation from proxy advisors and transparency.</p> |
| 93 | <p>We are very supportive of the inclusion of service providers within the Code. Pensions market: the enormous influence that investment consultants have over pension scheme trustees. To ensure that stewardship is practiced effectively throughout the investment chain it is essential to hold investment consultants in particular to the same</p> | <p>We appreciate your support for the intent of the revision.</p> |

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| | <p>standard as other signatories to the Code.</p> <p>(1 other similar comment)</p> | |
| 94 | <p>We agree with Guidance 8-1. On the other hand, we have the following reservations about Guidance 8-2 and 8-3. We believe that companies should be responsible for providing information in the public domain in a timely way to allow informed voting decisions.</p> | <p>Regarding Guidance 8-2 and Guidance 8-3, given that proxy advisors can have a substantial impact on the quality of stewardship activities by institutional investors, we require that proxy advisors disclose their proxy recommendation process and provide recommendations after they themselves have actively exchanged views with the companies as necessary.</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> |
| 95 | <p>I agree with the establishment of Principle 8 and Guidance 8-1, 8-2 and 8-3. Although the proxy advisors and service providers may require a separate law and code of its own.</p> | <p>Thank you for your valuable input.</p> |
| 96 | <p>We support the wider definition of ‘service providers for institutional investors’, which is not limited to proxy advisors and investment consultants for pension funds. However, under the current proposal, only Guidance 8-1 is applicable to service providers who are not proxy advisors (as both 8-2 and 8-3 are specifically for proxy advisors), and it only refers to management of conflicts of interests. We think that those service providers should also be expected to explain how they support their clients’ stewardship activities, particularly in enhancing long-term</p> | <p>We appreciate your support for the intent of the revision.</p> <p>Principle 8 states 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.</p> <p>We believe that service providers to institutional investors other than proxy advisors and investment consultants for pensions should, under Principle 8, also endeavor to provide appropriate services to encourage</p> |

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| | value and ensuring sustainability. | institutional investors to increase the medium- to long-term corporate value of investee companies. |
| 97 | The improvement in Japan's Corporate Governance is due to the Stewardship Code, the Corporate Governance Code, and a large array of participants all working together. Those participants include asset managers, retail shareholders, pension fund shareholders, corporate shareholders, proxy advisors, research analysts, and other investment consultants and advisors. All of these stakeholders should hold themselves to advising companies in the best interest of the medium- and long-term success of the company. | Thank you for your valuable input. |
| 98 | It is appropriate to highlight proxy advisors and investment consultants, but service providers need not be limited to these particular services and could be expanded. For example, this could potentially include providers of ESG data and metrics as well as overlay engagement services. | Regarding Footnote 27, a broad range of institutions other than proxy advisors and investment consultants for pensions that fulfill the function 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. |

| Question 6 (Other) | | |
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| Collaborative engagement | | |
| 99 | <p>While we endorse the change in the terminology from ‘collective’ to ‘collaborative’ engagement, we propose that the term ‘collaborative’ needs to be clarified to avoid any ambiguity.</p> <p>On the positive side, ‘collaborative engagement’ may suggest the maintenance of individual identities and objectives and avoids triggering legal thresholds relating to ‘acting in concert’ activities. But, ‘collaborative engagement’ may imply an engagement that is also supported by the company itself.</p> <p>The latter may impede shareholder activism. We find that dissenting opinions may be equally productive and constructive in terms of engagement outcomes and stewardship quality.</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> |
| 100 | <p>Both collective engagement and collaborative engagement are valuable and important distinct components of our stewardship activities. We believe there are differences in the way market participants understand terms like “collaborative” and “collective” engagement and encourage the Code to provide a brief definition.</p> | |
| 101 | <p>We support the use of the word ‘collaborative’ in place of ‘collective’ engagement, which we think describes the action more accurately. However, the Code should encourage collaborative engagement more explicitly, particularly in the original Japanese text.</p> <p>Researches show that collaborative engagement has positive impacts on the success rate of engagements on ESG issues and helps gain access to</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</p> |

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| | <p>management in engagement, etc.</p> <p>FSA should update its legal guidance to clarify that investors seeking to collaboratively engage will not be deemed to breach acting in concert rules or the “act of making important suggestions”</p> <p>(1 other similar comment)</p> | <p>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> |
| Public disclosure of stewardship activities | | |
| 102 | Transparency by disclosing stewardship activities enhance the accountability that is critical to stewardship activities. | We appreciate your support for the intent of the revision. |
| 103 | We believe the Code could be further improved by emphasizing the outcomes and effectiveness of stewardship activities - rather than focusing on the implementation of policies and processes. As a reference, we believe the framework used in the UK Stewardship Code may be a workable solution as it emphasizes stewardship outcomes in the “Reporting Expectations” | 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.” |
| 104 | We recommend introducing a greater emphasis on reporting on stewardship outcomes rather than stewardship policies. You can refine the information provided in the list of signatories, putting more emphasis on the ‘stewardship activity reports’. You can also use the reports and the disclosure of voting results as benchmarks if you include a public tiering exercise. | 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 |
| 105 | We welcome the inclusion to disclose the results of stewardship | |

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| | activities. However, an unnecessary reporting burden should be avoided. We recommend limiting the scope of the disclosure of stewardship activities. | “results” as mentioned here should not, for example, be just things like the number of dialogue engagements. |
| 106 | The Code could encourage better quality dialogue by encouraging investors to set objectives for their engagements where appropriate, that will lead to a greater focus on achieving outcomes. In assessing a manager’s stewardship activities, asset owners would be able to consider the level of ambition of managers’ engagement objectives and the outcomes they contribute to, rather than the number of meetings held. | Regarding “outcomes,” if detailed and separate definitions, beyond the current wording, were provided, it might be misleading to make entities think that it is enough to just focus on the listed items. Therefore, we would like to refrain from establishing a more detailed definition. |
| Scope of application of the Code | | |
| 107 | Asset owners should also include corporations and banks that own securities issued by other listed corporations. | Thank you for your valuable input. |
| 108 | FSA should bring bank equity holdings in listed companies into the scope of the Stewardship Code, and require banks to either: (a) sign the Code with respect to those holdings or (b) at least, publish how they have voted with respect to each resolution at each company's AGM. | Thank you for your valuable input. |
| 109 | The proposed revisions need to focus more on ALL shareholders, including corporate pension funds, all financial institutions including banks, public corporations and general corporations. Given the significant portion of Japanese listed equities held by corporates, they should be expected to fulfil duties as responsible investors and to disclose the extent to which any conflicts of interests are identified and addressed, and if they cannot be effectively managed, the plan for exits. | Thank you for your valuable input. |

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| | (4 other similar comments) | |
| 110 | Asset managers, retail shareholders, pension fund shareholders, corporate shareholders, proxy advisors, research analysts, and other investment consultants and advisors should hold themselves accountable to the Aims of the Code. | Thank you for your valuable input. |
| Dialogue with non-executive officers | | |
| 111 | We strongly agree with footnote 14. Outside directors and kansayaku have historically been hesitant to directly meet investors. As independent directors gain experience and their role is expanded, it is important that they both hear concerns directly from investors and broaden their perspectives by meeting with investors. (1 other similar comment) | We appreciate your support for the intent of the revision. |
| 112 | We highly welcome footnote 14. We find such meetings very helpful and think that they should be done more often, as they are already in other markets such as the UK, and increasingly in the US. We strongly ask that this point be included in the main text rather than the footnote. | We appreciate your support for the intent of the revision. While we agree with the importance of the content of Footnote 14, we maintain them as footnotes as its role is to provide supplementary information for Guidance 4-1. |
| Other | | |
| 113 | The change to Guidance 2-3 seems to hurt the smaller asset managers that have limited resources and further discourages establishing a business in Japan. This should only apply to the asset managers' clients. | The Code adopts a “principles-based approach,” so we expect that each asset manager will take measures appropriate for their own circumstances in order to safeguard the interests of clients/beneficiaries and prevent conflicts of interests. |
| 114 | We hope footnote 15 helps internal communication. | We appreciate your support for the intent of the revision. |
| 115 | Good stewardship relies on investors choosing the right approach and material issues to engage on depending on the specific circumstances of | Thank you for your valuable input. |

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| | their investments. On this basis, we support the continuation of ‘comply or explain.’ | |
| 116 | We welcome the openness of the Code to periodic revision in preamble. Periodic revision improves the legitimacy of stewardship codes or principles and assist market actors to gradually improve their stewardship practices following a flexible and escalated absorption of requirements in soft law instruments. | Thank you for your valuable input. |
| 117 | Footnotes 13 to 17 should be included in the main text. This will help investors to understand ‘constructive dialogue’ and promote appropriate stewardship activities. | While we agree with the importance of the content of footnotes 13 to 17, we maintain them as footnotes as their role is to provide supplementary information for Guidance 4-1 |
| 118 | We note that there is a change in the terminology and you now use the term ‘investment management strategy’ (see also Principle 3-3). We would like to see some more clarification in the use of this term as opposed to the terms (stewardship) ‘policy’ and ‘stewardship activity reports’ (see also Comment 3 above). | “Investment management strategy” refers to the strategy at the level of the entities that accept the Code (For information about the discussions by the Council concerning this term, please refer to the minutes to the 3rd Meeting and the written opinion from Council Member Sampei.). “Policy on how they fulfill their stewardship responsibilities” refers to a clear policy on how to approach stewardship responsibilities, how to fulfill those responsibilities in accordance with that approach, and what sort of role one will play in light of one’s position in the investment chain running from their clients and beneficiaries to the investee companies. “Stewardship activity reports,” refer to reports of stewardship activities by institutional investors. |
| 119 | Encourage outcome-oriented engagement. Including expectations that signatories set objectives in advance of engagements and be prepared to escalate when appropriate could improve outcomes from dialogue and | 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 |

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| | contribute to long-term value creation. | policy that covers an option to pursue escalation. |
| 120 | The change of the wording of Principle 7 is a step to the right direction. This allows for more flexibility, though we still find the criterion of ‘in-depth knowledge of the investee companies’ difficult to be assessed and satisfied, especially for signatories with large portfolios. | We appreciate your support for the intent of the revision. |
| 121 | We believe Principle 7 is the key point of engagement. Some investors may not have the scale and scope to appropriately engage with companies, but, at least, should vote their shares responsibly in accordance with the mid- to long-term interests of their investee companies. For other investors, research and insights into a company’s business and various factors affecting the business and the company are all important for productive engagement for the mid- to long-term success of the company. | We appreciate your support for the intent of the revision. |
| 122 | In order to assist in developing high quality engagement, we would like to see companies disclose their attempts to engage with investors (including minority shareholders) and who at the company undertook that discussion. As shareholders we particularly value the ability to speak directly to the board, as in our experience it is more likely to facilitate positive change. | Regarding the willingness of directors to engage in dialogue, Supplementary Principle 5.1.1 of the Corporate Governance Code states, “Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management and directors, including outside directors, should have a basic position to engage in dialogue (management meetings) with shareholders.” We believe that it will be important to continue encouraging companies to establish structures for constructive dialogue. |
| 123 | The government should not put up barriers to hostile takeovers since it could play an important role in the consolidation of Japan’s fragmented industry structures. | Thank you for your valuable input. |

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| 124 | The Code should include engagement with policymakers within investors' stewardship responsibilities. Public policy has a substantial effect on the sustainability and stability of financial markets. | Thank you for your valuable input. |
| 125 | We ask that the FSA considers the recently published UK Stewardship Code and reflect on whether additional emphasis could be given in Japanese Stewardship Code on the reporting by signatories of stewardship activities outcomes achieved. | The focus of the Code is on providing useful information for making decisions to market participants by calling on institutional investors to publicly disclose policies for the fulfillment of stewardship activities and stewardship activity reports. Accordingly, at the present time, authorities are not considering the selection of reports after determining whether the content of reports is appropriate. |
| 126 | FSA should consider adopting a tiering exercise for signatories. For the Code to be truly effective, the quality of reporting should be a tool for competitive differentiation among asset managers and a relevant source of information for asset owners in manager selection procedures. Moreover, the enforcement of the Code should be improved. (1 other similar comment) | The focus of the Code is on providing useful information for making decisions to market participants by calling on institutional investors to publicly disclose policies for the fulfillment of stewardship activities and stewardship activity reports. Accordingly, at the present time, the authorities are not considering adopting a tiering exercise. |
| 127 | The Code needs to address the stewardship role of passive shareholders. | 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. |