

Material

August 6, 2013

Past developments (Instructions given by the Prime Minister based on discussions of the Industrial Competitiveness Council)

4th Meeting of the Industrial Competitiveness Council

March 15, 2013

- Material submitted by members of the private sector (compiled by General Manager Sakane) “Promoting the vitalization of industries”

I. Promoting industry consolidation and business reconstruction

Establishing a scheme that promotes industry consolidation and business reconstruction and thus creating a virtuous cycle between the scheme and an active use of the private sector are necessary in order to avoid overcompetition in Japan and to respond to global competition that requires rapid addressing of changes in the market.

Politics/Bureaucracy

- ④ Introduction of the Japanese version of the UK Stewardship Code

The near-term policy responses based on the discussions of the 4th and 5th meetings of the Industrial Competitiveness Council (abridged)

April 2, 2013

6th Meeting of the Headquarters for Japan’s Economic Revitalization
Shinzo Abe, Prime Minister & Chief of Headquarters

Based on the discussions of the 4th and 5th meetings of the Industrial Competitiveness Council, I want the relevant ministers to respond to the following matters as a near-term policy issue.

(Vitalizing industries)

- Ministers of State for Special Missions (Finance) should cooperate with relevant ministers to consider the principles for a wide range of institutional investors to appropriately discharge their stewardship responsibilities, with the aim of promoting sustainable growth of companies.

Past developments (Japan Revitalization Strategy 1)

Japan Revitalization Strategy (abridged)

Approved at a Cabinet meeting on June 14, 2013

I. Overview

Examples of Necessary Key Measures in Line with the “Roadmap to Growth”

- Consider and compile principles (Japanese version of the Stewardship code) for institutional investors to fulfill their fiduciary responsibilities, such as promoting the mid- to long-term growth of companies through dialogues.

[Compile by end of the year]

II. Three Action Plans

1. Industry Revitalization Plan

1. Accelerating structural reform program (Vitalizing industries)

○ Strengthening corporate governance

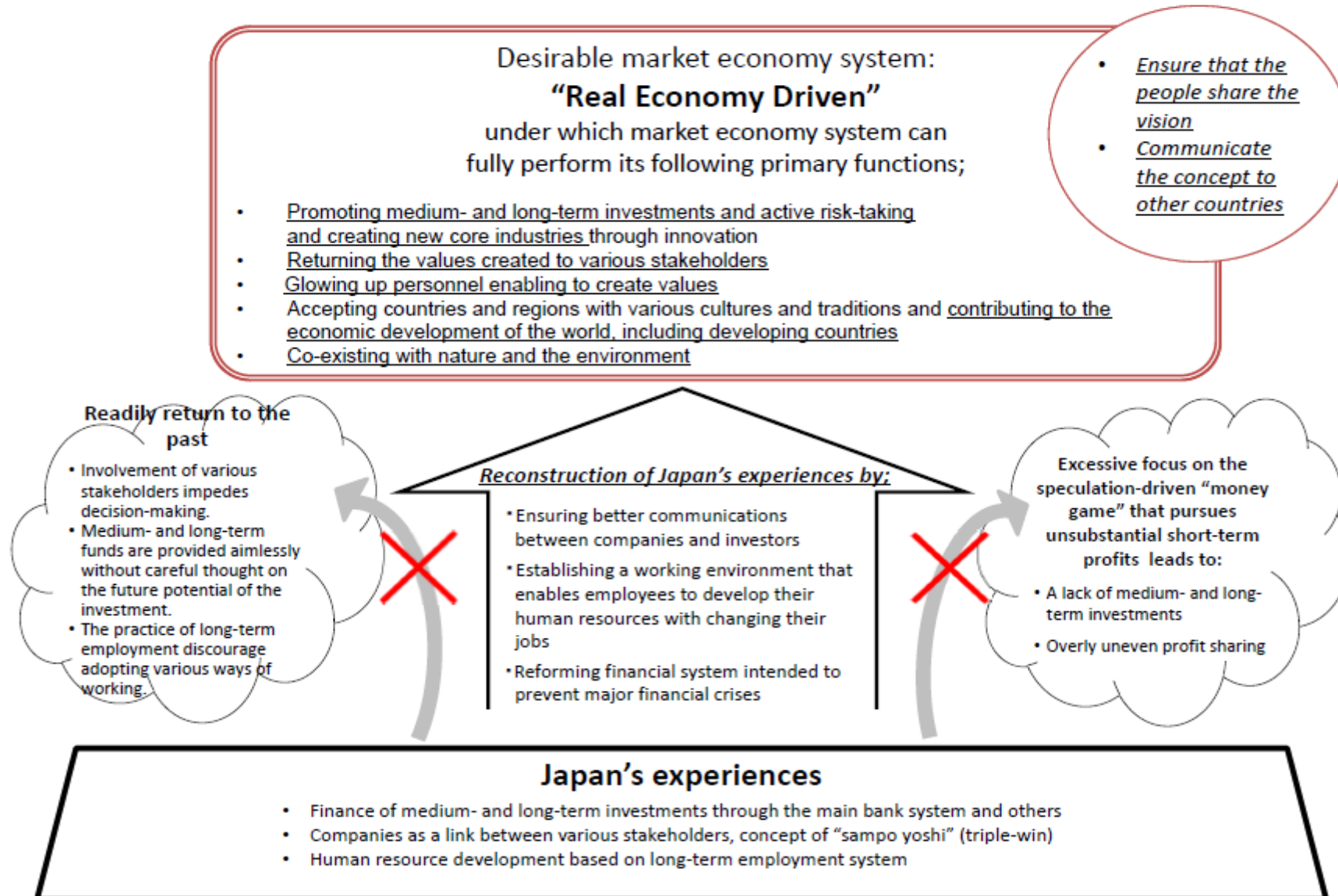
- With the aim of promoting sustainable growth of companies, discuss and establish the principles for a wide range of institutional investors to appropriately discharge their stewardship responsibilities through constructive dialogues with invested companies by the end of this year while considering discussion of the Council on Economic and Fiscal Policy concerning the market economy system in Japan.

Past developments (Expert Committee on Desirable Market Economy System)

○ Council on Economic and Fiscal Policy Expert Committee on Desirable Market Economy System

Interim report (summary)

June 6, 2013



Past developments (Japan Revitalization Strategy 2)

Japan Revitalization Strategy (abridged)

Approved at a Cabinet meeting on June 14, 2013

I. Overview

Examples of Necessary Key Measures in Line with the “Roadmap to Growth”

- At meetings among intellectuals, review and obtain recommendations on cross-cutting issues pertaining to public and quasi-public funds, such as the management of funds (promotion of diversified investment), matters of governance including risk management structure, and measures for improving the returns on long-term investments in shares, bearing in mind the scale and nature of each fund.

[Reach conclusion by autumn]

II. Three Action Plans

1. Industry Revitalization Plan

5. Further strengthening Japan’s international competitiveness as a business hub

○ Desirable management of public and quasi-public funds

- At meetings among intellectuals, the government will review and obtain recommendations by autumn on cross-sectoral issues pertaining to public and quasi-public funds, such as the management of funds (promotion of diversified investment), matters of governance including risk management structure, and measures to increase returns on long-term investments in shares, bearing in mind the scale and nature of each fund.

Past efforts in Japan (Report by the Financial System Council's Study Group)

○ Publication of the Report by the Financial System Council's Study Group (June 2009)

Since 2008, the Financial System Council's Study Group on the Internationalization of Japanese Financial and Capital Markets has held discussions concerning the strengthening of corporate governance of publicly listed companies. The Study Group published a report entitled, "Toward Stronger Corporate Governance of Publicly Listed Companies" in June 2009.

The report makes proposals on: (a) Issues surrounding funding in the market; (b) Issues surrounding governance structures of publicly listed companies; and (c) Issues surrounding the exercise of voting rights by investors.

• Report by the Financial System Council's Study Group

Proposals concerning "issues surrounding the exercise of voting rights by investors" (table of contents)

1. Investment based on accurate company evaluation
2. Fulfillment of governance by exercising voting rights
 - (1) Ensure appropriate exercise of voting rights based on fiduciary responsibilities
 - (2) Prepare and disclose voting guidelines
 - (3) Disclose the results of voting
 - (4) Disclosure by listed companies of ballot results at shareholder meetings
 - (5) Develop an environment for exercising voting rights
 - (6) Promote the use of electronic voting platforms
 - (7) Submit securities reports and internal control reports to shareholder meetings
3. Rich dialogue between shareholders/investors and management

The UK Stewardship Code 1

History of the Stewardship Code

○ Discussions on the desired responsibilities of institutional investors had been held in the UK since the 1990s.


⇒ UK's ISC published 'The Responsibilities of Institutional Shareholders and Agents: Statement of Principles' in 2002. The ISC converted it to a code and compiled 'Code on the Responsibilities of Institutional Investors' in 2009.

* The ISC (Institutional Shareholders' Committee) comprises the Association of British Insurers, Association of Investment Companies, Investment Managers Association, and the National Association of Pension Funds, and consists of representatives of various types of institutional investors (renamed in May 2011 to Institutional Investor Committee).

○ As for rules regarding corporate governance in the UK, the 'Combined Code' compiled by FRC exists (1998).

The Code not only includes principles concerning companies but also regarding ballots and dialogues with companies by institutional shareholders.

* The FRC (Financial Reporting Council) is an independent regulatory body that sets standards for corporate governance, financial reporting, and accounting/auditing as well as monitors compliance to the standards.



○ In 2009, the so-called Walker Review, which was commissioned by the Chancellor of the Exchequer, was published on the back of the global financial crisis. The Combined Code was abolished subsequently (2010).



[The contents of the Combined Code have been separated and reconstructed.]



○ A new Stewardship Code on the desired involvement of institutional investors in investee companies was compiled (2010).

* While taking from the Combined Code, the specific rules of the Stewardship Code are based on and adhere to the seven principles of the Code on the Responsibilities of Institutional Investors.

○ The Corporate Governance Code stipulates the disciplinary rules of the company side (2010).

* The Corporate Governance Code is based on the contents of the Combined Code. The Listing Rules (Article 9.8.6) require compliance with the Corporate Governance Code and the disclosure of the reason if it is not complied with ("Comply or Explain" approach).

The UK Stewardship Code 2

Framework of the UK Stewardship Code

- Published by the FRC.

- Compliance with the Stewardship Code is not a requirement but a “Comply or Explain” approach as a so-called soft law.
 - * The Code is applied to institutions that declared compliance with the Stewardship Code. Such institutions are required to comply with the Code or if they choose not to comply with one of the principles, they should provide an explanation.

- The Stewardship Code is scheduled for a review every two years. In April 2012, the FRC disclosed a consultation document for revisions to the Code, which was carried out in September based on the results of the consultation.
 - * In the revision, institutional investors were divided into asset owners and asset managers, and their roles and responsibilities were clarified.

The UK Stewardship Code 3

Main points of the preamble to the UK Stewardship Code

- Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole.
- In publicly-listed companies responsibility for stewardship is shared. The primary responsibility rests with the board of the company, which oversees the actions of its management. Investors in the company also play an important role in holding the board to account for the fulfillment of its responsibilities.
- For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.
- The Stewardship Code adopts the “Comply or Explain” approach.

The UK Stewardship Code 4

Outline of the UK Stewardship Code

- The UK Stewardship Code consists of the following seven principles. Detailed guidance is provided for each principle.

[The UK Stewardship Code]

Institutional investors should:

1. publicly disclose their policy on how they will discharge their stewardship responsibilities
2. have a robust policy on managing conflicts of interest in relation to stewardship, which should be publicly disclosed.
3. monitor their investee companies.
4. establish clear guidelines on when and how they will escalate their stewardship activities.
5. be willing to act collectively with other investors where appropriate.
6. have a clear policy on voting and disclosure of voting activity.
7. report periodically on their stewardship and voting activities.

Efforts in other countries

○ **United States**

- The Employee Retirement Income Security Act (ERISA) (1974) stipulated fiduciary responsibilities of pension funds and trustees with the aim of protecting the pension rights of corporate pension scheme members.
- The Avon Letter (a set of replies to questions from Avon Products' corporate pension released by the United States Department of Labor) (1988, also released in 1994) clarified that the exercise of voting rights was part of fiduciary responsibilities under ERISA.

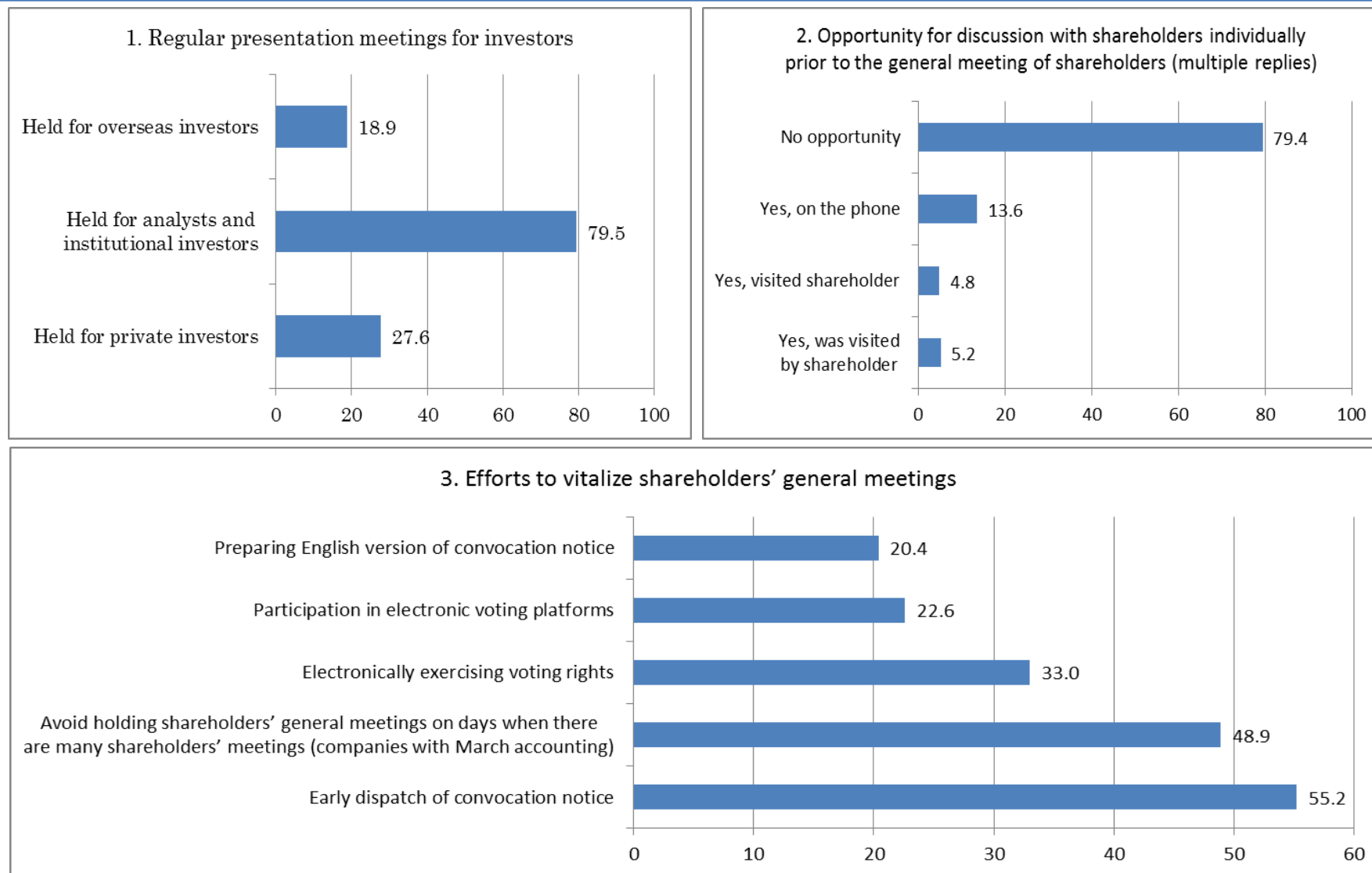
○ **European Commission**

- The European Commission published the 'Action Plan: European Company Law And Corporate Governance' in 2012. The Action Plan proposed that the disclosure obligations of institutional investors on policies concerning voting and engagement as well as the results of the voting should be clarified (it implied a revision of the EU Shareholders' Rights Directive within 2013).
- The European Commission's Green Paper; Long-Term Financing of The European Economy (2013) also requiring more transparency from asset managers on the fulfillment of their fiduciary duties.

○ **OECD**

- Principles of Corporate Governance (2004) stipulates the following:
 1. Institutional investors acting in a fiduciary capacity should disclose their overall corporate governance and voting policies with respect to their investments, including the procedures that they have in place on the use of their voting rights.
 2. Institutional investors acting in a fiduciary capacity should disclose how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investments.

State of dialogue between shareholders/investors and management



(Source) 1, 3 “TSE Listed Companies White Paper on Corporate Governance 2013,” The Tokyo Stock Exchange; 2 “2009 White Paper on General Meetings of Shareholders,” Shojihomu No. 1883

(Note 1) For 1 and 3, the reported data of all domestic companies listed on the Tokyo Stock Exchange as of September 10, 2012 (2,275 companies) were subjects of the analysis. Companies listed on the first section of TSE were extracted from these figures. Figures are in percentage terms.

(Note 2) For 2, a questionnaire was carried out for 2,512 domestic companies (excl. emerging market and foreign companies) listed on Japan’s five stock exchanges including Tokyo, Osaka, and Nagoya. 1,897 companies responded (response rate: 75.5%). Figures are in percentage terms.