

# Status of the Stewardship Code and Opinion Statement of the Follow-up Council

January 31, 2017  
Financial Services Agency

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(Note) “Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code”

# I. Status of the Stewardship Code

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# I - 1 Status of the amount of funds for domestic stock investment by Institutional Investors

## Asset Owners

(Yen in trillion)

Total amount of funds of public pension (Note 1)	40.2
Government Pension Investment Fund (GPIF)	30.6
Pension Fund Association for Local Government Officials	4.6
National Federation of Mutual Aid Associations for Municipal Personnel	2.0
Japan Mutual Aid Association of Public School Teachers	0.8
Japan Police Personnel Mutual Aid Association	0.5
Tokyo Metropolitan Government Personnel Mutual Aid Association	0.1
Federation of National Public Service Personnel Mutual Aid Associations	1.0
Promotion and Mutual Aid Corporation for Private Schools of Japan	0.7

Total amount of funds of corporate pension (Note 2)	9.7
Pension Fund Association	1.7
Employee's Pension Fund (Total number: 256)	2.1
Defined-Benefit Corporate Pension (Fund-type: 619, Entrepreneur-type: 13,042)	5.9

## Asset Managers

(As of the end of March 2016)

※ Total market value of listed stocks: ¥ 518.6 trillion

- Investment trust, Investment managers, Trust banks, etc. ¥ 90.0 trillion (Note 3)
  - Publicly offered investment trust ¥ 25.0 trillion (Note 4)
  - Investment managers ¥ 49.9 trillion (including the amount of funds of trust banks as Investment managers) (Note 5)
  - Trust banks ¥ 15.1 trillion (Note 6)
- Life insurance company ¥ 19.8 trillion (Note 7)
  - Status of top 4 companies to the amount of general account funds for domestic stock investment.
    - Nippon Life ¥ 8.1 trillion, Meiji Yasuda Life ¥ 3.6 trillion
    - Dai-ichi Life ¥ 3.4 trillion, Sumitomo Life ¥ 1.4 trillion
- Non-life insurance company ¥ 6.7 trillion (Note 8)
  - Status of top 3 companies to the amount of funds for domestic stock investment.
    - MS & AD ¥ 2.6 trillion, Tokio Marine ¥ 2.3 trillion, SOMPO ¥ 1.5 trillion
- Foreign corporation, etc. ¥ 154.5 trillion (Note 9)
  - 5 foreign institutional investors having over ¥ 5 trillion funds for domestic stock investment. (Note 10)
    - BlackRock Fund Advisors (US), State Street Global Advisors (US), The Vanguard Group, Inc. (US), Norges Bank Investment Management (U.K.) (UK), Capital Research & Management Company (US)



(Note 1) Rating and Investment Information “Newsletter on Pensions & Investments”  
 (Note 2) Ministry of Health, Labour and Welfare & Pension Fund Association “Issues in the council of experts concerning the Japanese version of the stewardship code”, Pension Fund Association “Statistics regarding Employee’s Pension Fund”, “Statistics regarding Defined-Benefit Corporate Pension”

(Note 3) Trust Companies Association of Japan “Trust Accounts”

(Note 4) The Investment Trusts Association, Japan “The breakdown of new stock investment trust product categories”

(Note 5) The Japan Investment Advisers Association “Statistics regarding the amount of funds of the association members,” it includes privately offered investment trusts.

(Note 6) Calculating by subtracting ¥ 25.0 trillion (publicly offered investment trust) and ¥ 49.9 trillion (Investment managers) from ¥ 90.0 trillion.

(Note 7) The Life Insurance Association of Japan “Monthly Statistics”

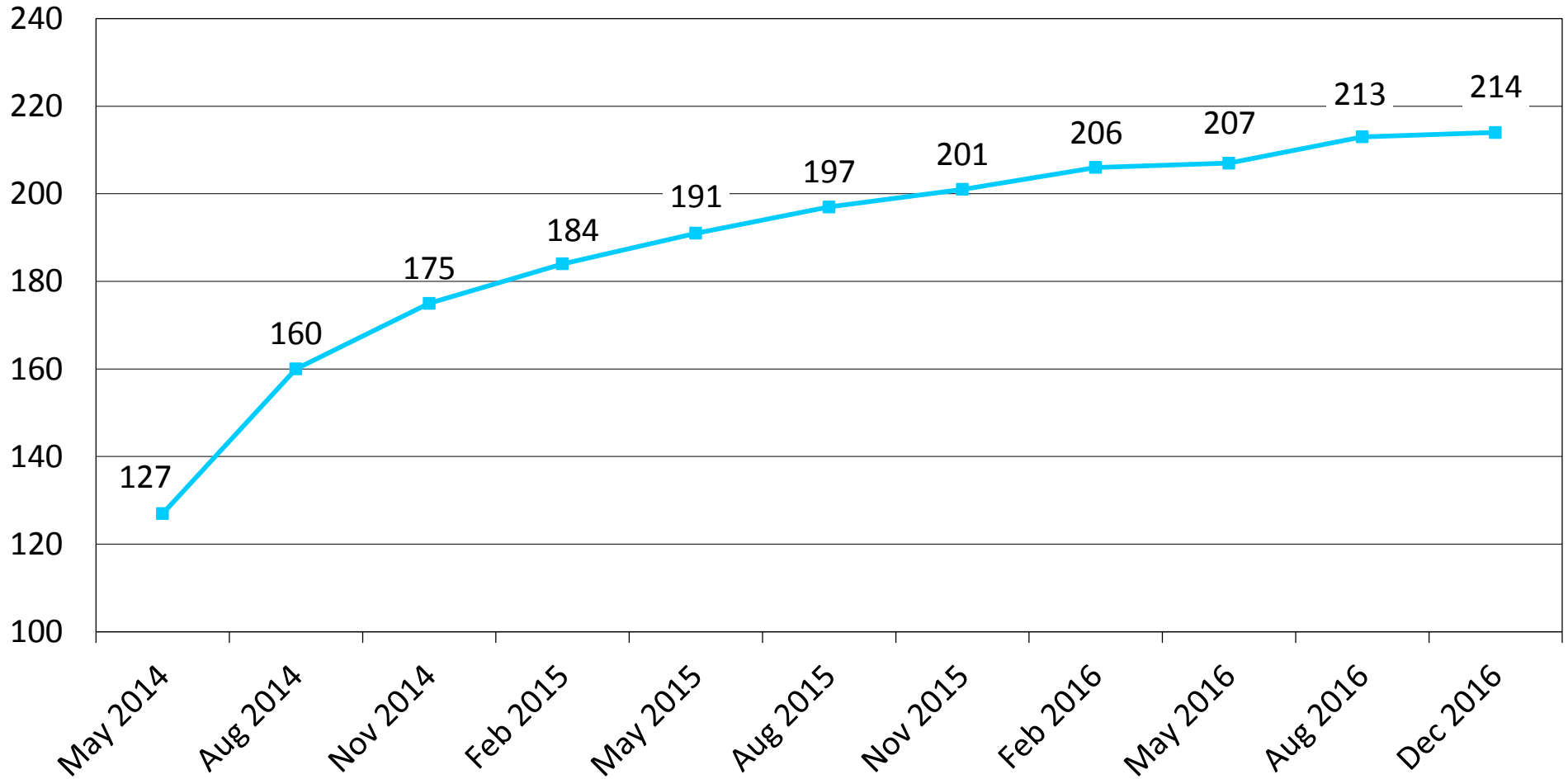
(Note 8) The General Insurance Association of Japan “Business Results”

(Note 9) Tokyo Stock Exchange, etc. “2015 Shareownership Survey”

(Note 10) Ministry of Economy, Trade and Industry “International economy research project for building unified domestic and foreign economic growth strategy 2015 (Report regarding research for developing a system to promote inward direct investment, etc. (Trend survey on foreign investment fund, etc.))” (Prepared by IR Japan, Inc.). The amount of funds for domestic stock investment are as of the end of February 2016.

## I - 2 Status of Institutions That Have Accepted the Stewardship Code ①

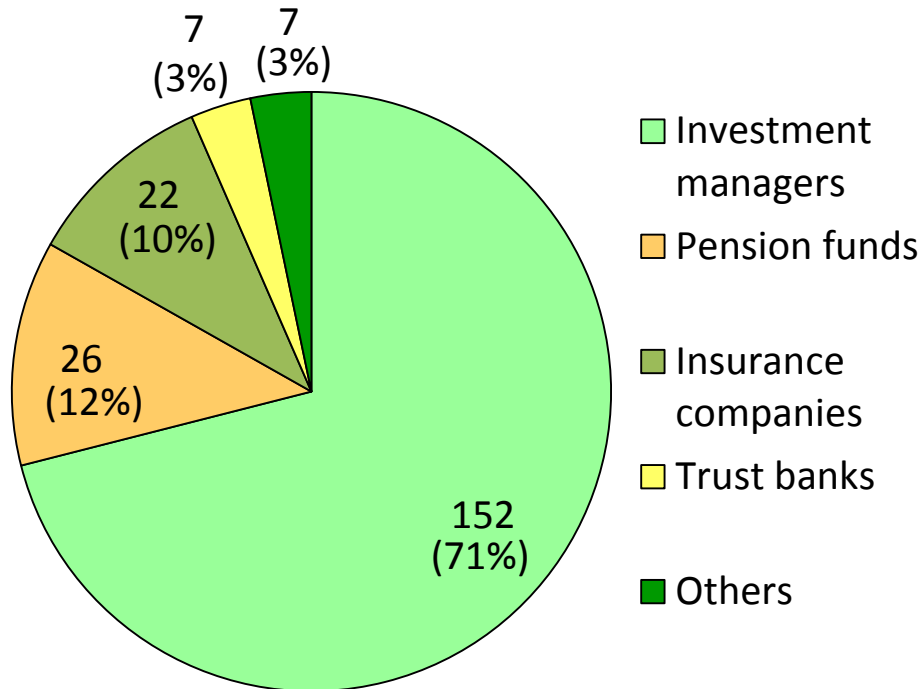
<Change in the number of accepting institutions>



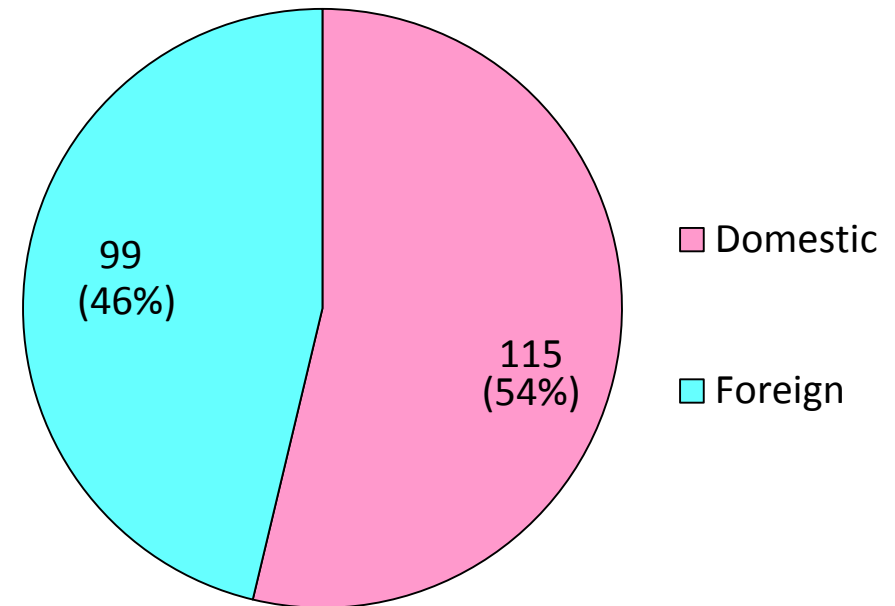
## I - 2 Status of Institutions That Have Accepted the Stewardship Code ②

<Composition of accepting institutions (as of the end of December 2016)>

Composition by attribute



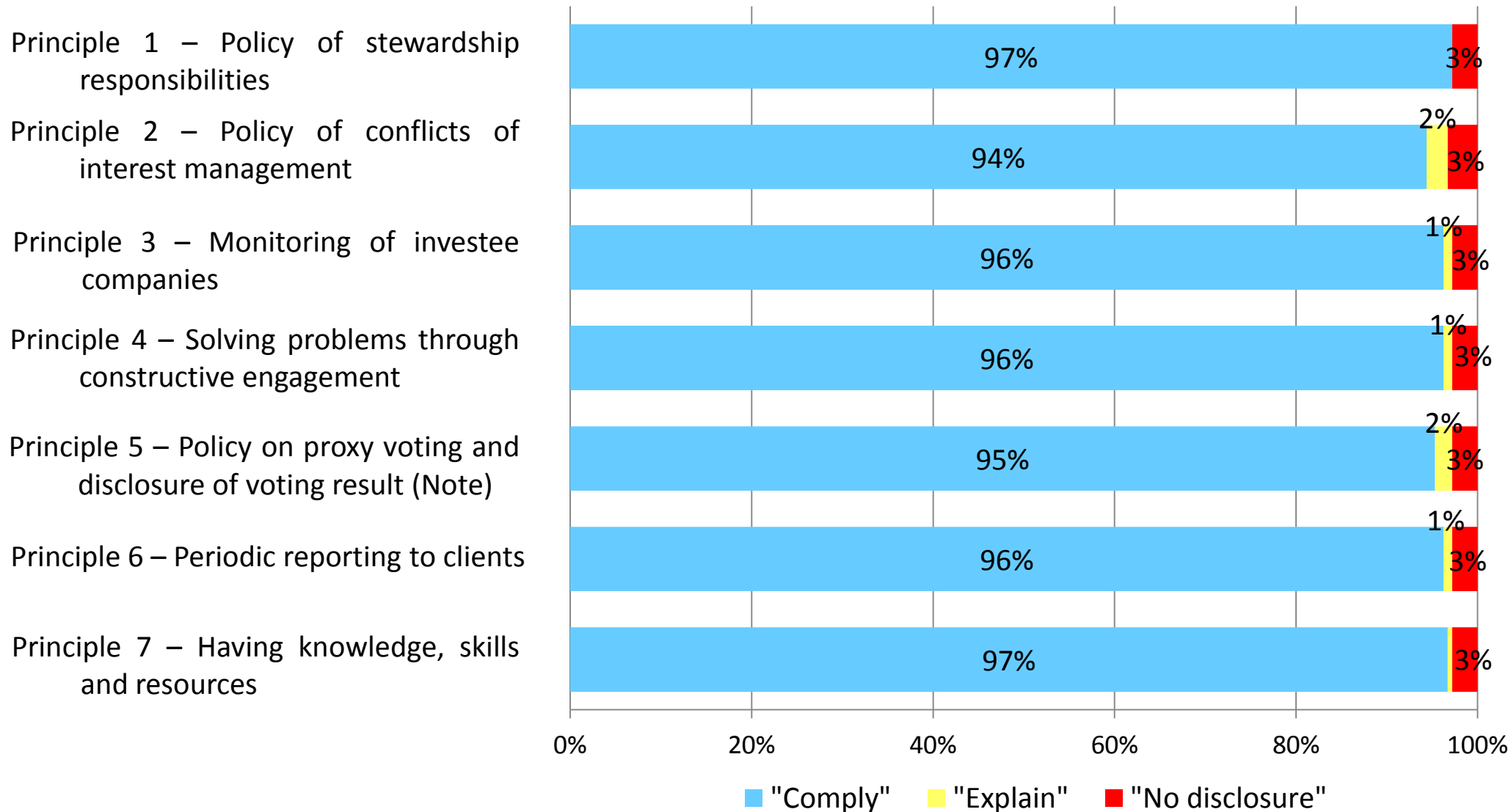
Composition by domestic/foreign companies



(Note) "Others": Proxy voting advisers, interactive investment firms, etc.

## I - 2 Status of Institutions That Have Accepted the Stewardship Code ③

<Rate of “comply” or “explain” with respect to each principle (as of the end of December 2016)>



(Note) Disclosure status of voting result are described later (see page 19)

## II. Opinion Statement of the Follow-up Council

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# II - 1 Outline of the Follow-up Council

## Purpose

For the purpose of following up with the prevalence and adoption of the Stewardship Code and Corporate Governance Code as well as further improving the corporate governance of listed companies, the “Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code” of which the Financial Services Agency and the Tokyo Stock Exchange will act as joint secretariat is established.

## Members

As of November 30, 2016

Chair		Hideki Kanda	Professor, Gakushuin University Law School
Kazuhiro Ikee	Professor of Economics and Finance, Keio University	Scott Callon	Chief Executive Officer, Ichigo Asset Management, Ltd.
Members		Yoshiko Takayama	Managing Director, J-Eurus IR Co., Ltd.
Yoichiro Iwama	Chairman, Japan Investment Advisers Association	Kazuhiro Takei	Partner, Attorney at Law (Nishimura & Asahi)
Ryoko Ueda	Senior Research Fellow, J-IRIS Research	Masaaki Tanaka	Senior Global Advisor, PricewaterhouseCoopers International Limited
Akira Uchida	Counselor, Toray Industries, Inc.	Hideaki Tsukuda	Managing Partner & Representative Director, Egon Zehnder Co., Ltd.
Akitsugu Era	Vice President, Head of Investment Stewardship, BlackRock Japan Co., Ltd.	Kazuhiko Toyama	CEO, Industrial Growth Platform, Inc.
Toshiaki Oguchi	Representative Director, Governance for Owners Japan	Kengo Nishiyama	Senior Strategist, Nomura Securities Equity Research Department
Hidetaka Kawakita	Professors emeritus, Kyoto University	Observers	
Takashi Kawamura	Chairman Emeritus, Hitachi, Ltd.	Toshikazu Takebayashi	Counsellor, Civil Affairs Bureau, Ministry of Justice
Hiroyuki Kansaku	Professor, University of Tokyo Graduate Schools for Law and Politics	Takanobu Yasunaga	Director, Corporate System Division, Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry

## Status of Council

### The 1st Council on September 24, 2015

⇒ Discussing about listed companies’ reaction to Corporate Governance Code and policy of running council (aiming to publish opinion statement based on the discussions)

### The 2nd Council on October 20

: **Issues related to the board, etc. (1)**

### The 3rd Council on November 24

: **Issues related to cross-shareholdings**

### The 4th Council on December 22

: **Issues related to the board, etc. (2)**

### The 5th Council on January 20, 2016

: **Issues related to the board, etc. (3)**

### The 6th Council on February 18 :

#### ① Issues related to the board, etc. (4)

⇒ Publishing opinion statement “Corporate Boards Seeking Sustainable Corporate Growth and Increased Corporate Value over the Mid- to Long-Term”

#### ② Constructive dialogue between companies and institutional investors (1)

### The 7th Council on April 24

: **Constructive dialogue between companies and institutional investors (2)**

### The 8th Council on June 1

: **Constructive dialogue between companies and institutional investors (3)**

### The 9th Council on September 23

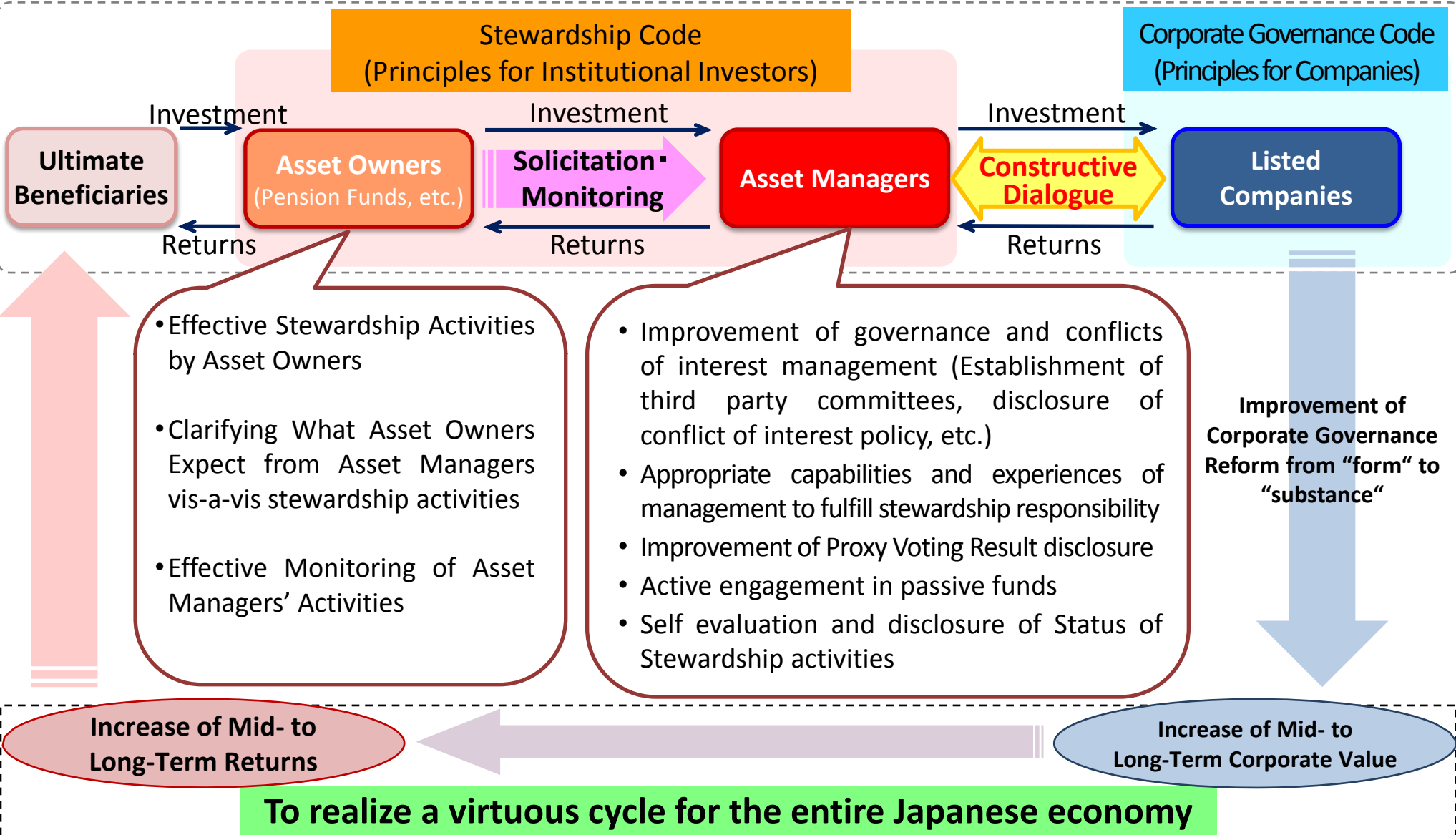
: **Constructive dialogue between companies and institutional investors (4)**

### The 10th Council on November 8

: **Constructive dialogue between companies and institutional investors (5)**

⇒ Publishing opinion statement “Effective Stewardship Activities of Institutional Investors” (November 30)

## II - 2 Point of Opinion Statement



⇒ Excerpt from Opinion Statement “IV. Closing Remarks”

The Follow-up Council expects that the Stewardship Code will be reviewed/ revised, taking into account this Opinion Statement together with international discussions on stewardship responsibilities as well as market practices under the Code.

(Recommendations by the Statement of the Follow-up Council)

### 【Effective Oversight by Asset Owners】

- Asset owners should conduct their own stewardship activities to the greatest extent possible in order to secure the interests of ultimate beneficiaries. Furthermore, in cases where they do not conduct stewardship activities involving their direct exercise of voting rights, they should require asset managers to carry out effective stewardship activities.
- When selecting and/or issuing mandates to asset managers, asset owners should clearly specify issues and principles which they expect from asset managers with regard to stewardship activities, including the exercise of voting rights. Large asset owners especially should keep in mind their positions/roles in the investment chain and articulate issues and principles which they expect from asset managers concerning stewardship activities from the standpoint of fulfilling their stewardship responsibilities, including the exercise of voting rights, and proactively include their own considerations, instead of accepting asset managers' policies without verifications.
- Asset owners should effectively monitor asset managers to ensure that their stewardship activities are aligned with their own policies, making use of the asset managers' self-evaluations, etc. In conducting such monitoring, they should look at the quality of dialogue between asset managers and investee companies, instead of merely checking the number of meetings held between them and the duration of such meetings.

<Relevant Principle of the Stewardship Code>

Principle 1: Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

## II - 3 Effective Oversight by Asset Owners ②

### Points

- Asset Owners have responsibilities to monitor stewardship activities of asset managers.
- Some comments that asset owners shall include provisions on stewardship activities in the contract with asset managers, or instruct asset managers their engagement policy and follow up the results of stewardship activities regularly.
- Corporate pension funds should supervise and request report on asset managers' activities.

### Comments

- Japanese pension funds should provide active oversight over the stewardship process, and report to both trustees and beneficiaries on the stewardship activities by their asset managers. Japanese asset owners should include stewardship-related language in the terms of investment management agreements between asset owners and asset managers. (ICGN, International institutional investor organization)
- What a Japanese asset owner should do is to clearly instruct the asset managers how they have to act, and the asset owner has to do regularly follow up with the asset manager. (AP4, Sweden)
- Asset owners should regularly monitor and review how the selected managers undertake/deliver the promised responsibilities and make progress over time. (APG Asset Management, The Netherlands)
- We support GPIF's efforts to facilitate its asset managers' engagement in dialogue with investee companies. (Oasis Management, HK)
- It may be worth consideration to make it a rule for asset managers that manage assets of pension funds to seek comments and instructions from their pension fund clients concerning their dialogue with investee companies and their voting guidelines. Through such discussion with asset managers, pension funds would be better educated about the need for dialogue with investee companies. (Oasis Management, HK)
- Pension funds should not worry about a lack of the resource to carry out stewardship. Their role is to hold the fund managers to account for delivery of stewardship activities. (Aberdeen Asset Management, UK)

## II - 4 Governance of Asset Managers/conflicts of interest ①

(Recommendations by the Statement of the Follow-up Council)

### **【Effective Stewardship Activities of Asset Managers】**

- Institutional investors – especially asset managers who are mandated to manage the funds of pension funds and other asset owners and who directly carry out dialogue with investee companies – should be expected to conduct effective stewardship activities based on in-depth corporate valuations and taking a mid- to long-term perspective, instead of merely focusing on short-term performance. Furthermore, in doing so, it is important for institutional investors to make careful judgments by taking note of the particular circumstances of individual companies, instead of mechanically applying formal criteria or depending on proxy advisors.

### **【Enhancement of Asset Managers' Governance】**

- In order to secure the interests of ultimate beneficiaries and prevent conflicts of interest, asset managers should have in place such governance structures as independent boards and/or third-party committees for making proxy voting decisions and carrying out oversight.

### **【Management of Conflicts of Interest】**

- Asset managers should identify specific circumstances that may give rise to conflicts of interest which may significantly influence the exercise of voting rights and/or dialogue with companies, and set out and disclose specific policies on measures for avoiding such conflicts and/or nullifying the effects of such conflicts, thus securing the interests of ultimate beneficiaries.

### **【Securing Adequate Capabilities and Experience】**

- An asset manager's senior management team should have adequate capabilities and experience to effectively fulfill stewardship responsibilities, and the team composition should not be based on the internal logic of the financial group to which the asset manager belongs or the like. Senior management should also recognize that they take responsibility for carrying out important roles and tasks for the asset manager's governance and conflicts of interest management, and should engage in promoting measures to address these issues.

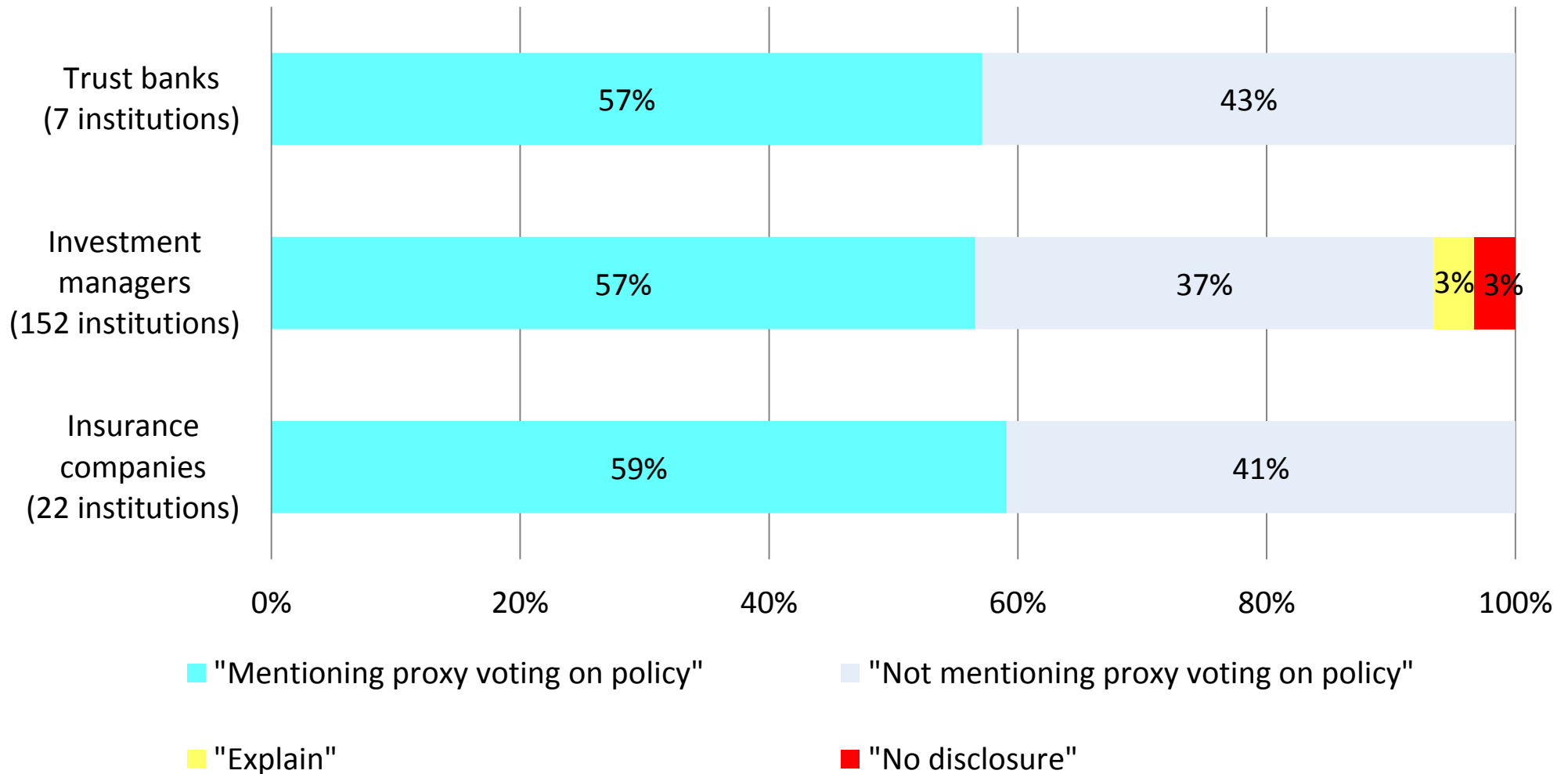
<Relevant Principles of the Stewardship Code>

Principle 2: Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

Principle 5: Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of investee companies.

## II - 4 Governance of Asset Managers/conflicts of interest ②

<Disclosure status of conflicts of interest management policy by attribute (as of the end of December 2016)>

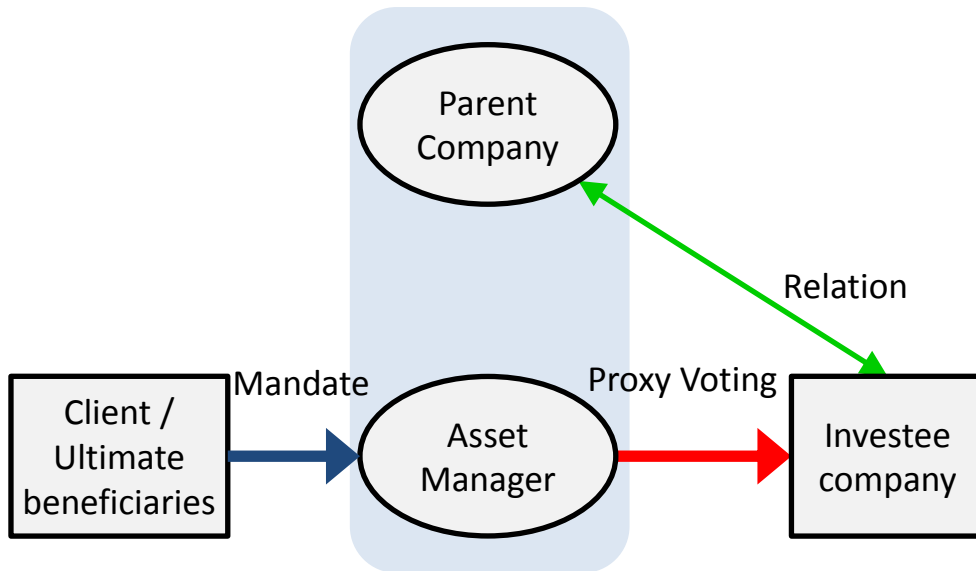


## II - 4 Governance of Asset Managers/conflicts of interest ③

The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code and the Working Group on Financial Markets of the Financial System Council discussed the cases including the case of a group of companies that includes a parent company engaged in corporate business and an asset manager within the same group and the case of a company engaged in both corporate business and asset management within the same entity that may give rise to conflicts of interest which may significantly influence the exercise of voting rights and/or dialogue with companies.

The case of a group of companies that includes a parent company engaged in corporate business and an asset manager within the same group.

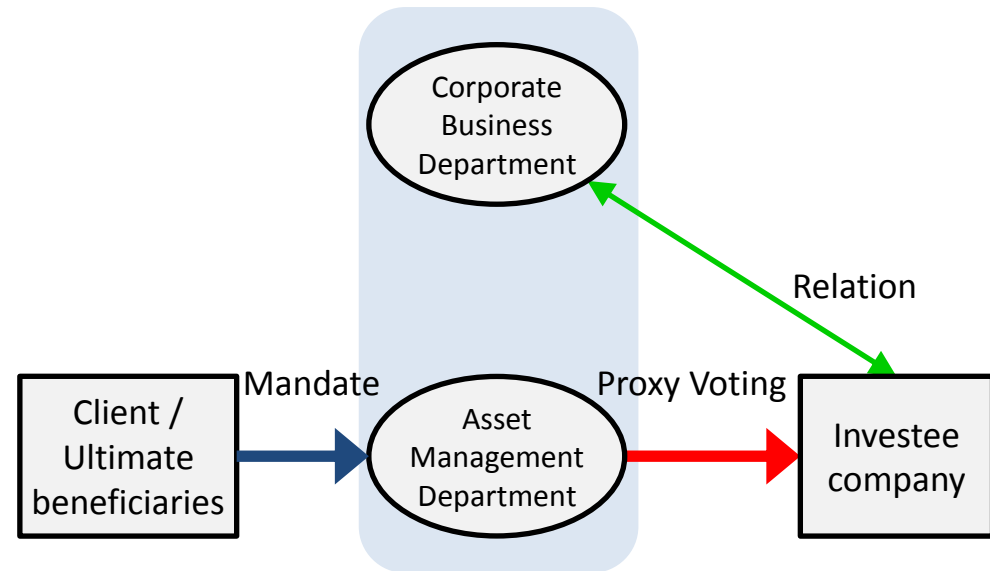
Same Group



**【 The circumstances may give rise to conflicts of interest 】**  
The circumstances of the asset manager putting the intentions of the parent company engaged in corporate business ahead of the interests of the client/ultimate beneficiaries, when exercising the voting rights of the investee company.

The case of a company engaged in both corporate business and asset management within the same entity.

Same Entity



**【 The circumstances may give rise to conflicts of interest 】**  
The circumstances of the asset management department putting the intentions of the corporate business department engaged in business including financing service, stock transfer agency service and corporate sales ahead of the interests of the client/ultimate beneficiaries, when exercising the voting rights of the investee company.

## II - 4 Governance of Asset Managers/conflicts of interest ④

### Points

- Solid governance structure including independent oversight and conflicts of interest management is important for effective stewardship activities.
- There are comments to urge establishing clear proxy voting standards, or independent committees for proxy voting judgement. Some introduce the case where an independent board is established when an asset manager has a parent company.

### Comments

- ICGN's Stewardship Principles begin with internal investor governance as the first step towards an effective stewardship capability. The Principles certainly identify conflicts of interest as one of the key investor governance considerations; but, the Principles extend into other aspects of investor governance which include time horizons, independent oversight, ethics, capacity and remuneration. (ICGN, International institutional investor organization)
- There needs to be more discussion on this in due course, including the issue of conflict of interest and how this affects responsible investment. (ACGA, International institutional investor association)
- Under the Dutch Corporate Governance Code and Stewardship Code, we are required to clearly disclose what could be the conflicts of interest cases and how we properly deal with the cases/situations on an annual basis. It is indeed an excellent idea for Japanese asset managers to establish an independent committee to deal with any issues that are deemed to fall into the 'conflict of interests' category. (APG Asset Management, The Netherlands)
- Most of the domestic assets are held by asset managers owned by powerful banks and insurance companies, whose business interest are not necessarily aligned with that of underlying assets. The Council could take a close look at the robustness of the "Chinese Wall," which could be extremely weak. (Legal & General Investment Management, UK)
- It would help to avoid conflict if the asset managers clarify quantitative standards and guidelines to assess the governance of investee companies and exercise their voting power and set up an independent committee to make actual voting decisions. (Oasis Management, HK)
- The funds associated with a bank have their own independent board that should work for the fund, not the bank. The funds also have to report how much of their business they do with their bank. (AP4, Sweden)
- Create an independent committee to objectively review contentious votes. Be transparent by disclosing the decisions made by this committee. (Large North American fund)
- When conflicts of interest will occur, the sub-group of the Investment Management Group will resolve the conflict of interest. (UK asset manager)



(Recommendations by the Statement of the Follow-up Council)

### 【Engagement in Passive Management】

- Unlike active management, passive management provides a limited choice in terms of selling shares of Investee companies and a greater need to facilitate increases in corporate value over the mid- to long-term. Accordingly, asset managers and the like should conduct engagement activities (dialogue) more proactively and exercise voting rights from a mid- to long-term viewpoint.

<Relevant Principle of the Stewardship Code>

Principle 4: Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

## II - 5 Engagement of Passive Managers ②

### Points

- Engagement for passive funds is important since they cannot sell shares and need to have a mid-to-long term increase of corporate value.
- Engagement with investee companies in the passive funds needs a screening process to choose companies with significant issues and large market caps.
- Some point out that passive funds in Japan may not have been active in engagement.

### Comments

- Passive funds, unlike active funds, cannot sell shares even if they think the performances of the issuers are not good. Therefore passive funds need to improve the mid- to long-term corporate value of investee companies through engagement. However, it has been pointed out that Japanese passive funds have not been active in engagement until now. (Oasis Management, HK)
- Investors should develop methods or risk-based tools to identify and prioritize portfolio companies for further analysis and engagement which can include environmental, social and governance issues. (ICGN, International institutional investor organization)
- Starting at the largest companies by market cap and running down that list should help identify large companies with issues where client investments are such that passive investors should intrude themselves. The level of activity will be dictated by the level of resources in place. (Aberdeen Asset Management, UK)
- We screen the portfolio twice a year to get an overview in what companies or sectors there is problems or situation to handle. We also get weekly updates if there are some issues occurring. Then we decide, case by case, if we are going to engage or not. It depends on the dignity of the issue, on the size in our portfolio or how big we are as owners in the company. (AP4, Sweden)
- Subject companies for engagement should be based on the severity of the governance issues, history/past practice of the boards, amount of the ownership in the company, etc. (Large North American fund)

## II - 6 Enhanced Disclosure of Voting Results ①

(Recommendations by the Statement of the Follow-up Council)

### 【Enhanced Disclosure of Voting Results】

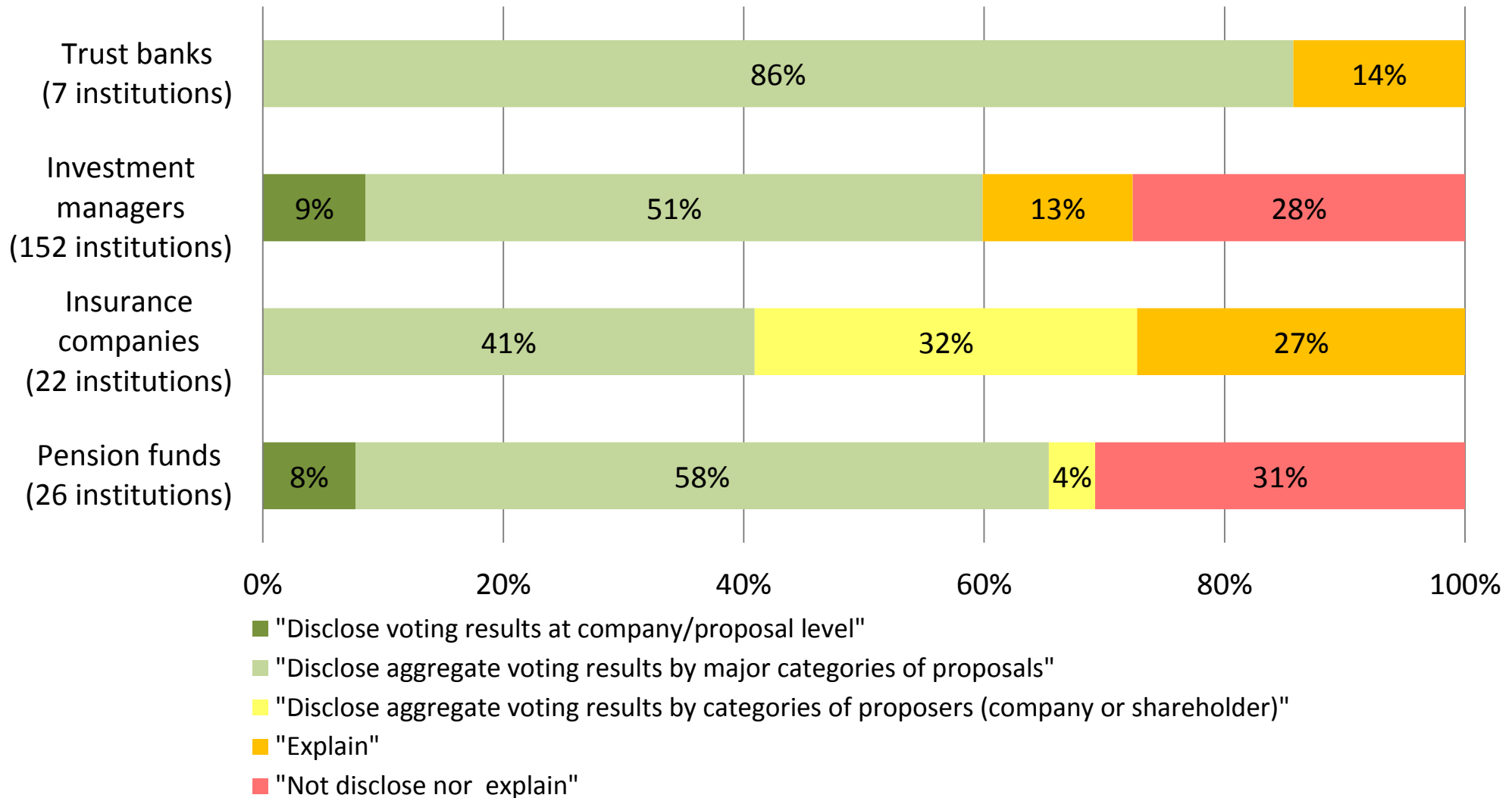
- In order to secure the interests of ultimate beneficiaries and to enhance transparency, asset managers and the like should make it a principle to disclose company/proposal level voting results to the public, not merely to asset owners, at a minimum based on a “Comply or Explain” approach.
- Such a practice where asset managers clearly explain in public their reasons for voting “for,” “against” or “abstain,” as necessary, can contribute to increasing transparency.

<Relevant Principle of the Stewardship Code>

Principle 5: Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist: it should be designed to contribute to the sustainable growth of investee companies.

## II - 6 Enhanced Disclosure of Voting Results ②

<Disclosure status of proxy voting results by attribute (as of the end of December 2016)>



## II - 6 Enhanced Disclosure of Voting Results ③

### Points

- Transparency of proxy voting results shall be ensured for fulfilling accountability to beneficiaries.
- There are some comments that the disclosure of aggregated proxy voting results is insufficient.
- Many of the responding investors disclose proxy voting results by individual-company basis. Other investors report such results to their clients.

### Comments

- As a general rule, an investor's voting records should mainly show how the investor voted on an individual-company basis. Ideally, the voting records should also summarize the reasons for not voting in favor of a management-propose issue. (ICGN, International institutional investor organization)
- I don't think that disclosure of aggregated statistics provides accountability or helps manage conflicts. It just indicates activity at the highest level; it does not facilitate others to hold the manager to account for delivering good decision-making on behalf of clients. We release our voting decisions 3 months in arrears, which we believe still allows us to be held to account. (Aberdeen Asset Management, UK)
- The example for disclosure of voting records by Japanese institutional investors shows that most companies disclose voting records at an aggregated level. It would be fair to say that such information will be of limited value to stakeholders, including investors. (Norges Bank, Norway)
- The Japanese institutional investors should disclose their own proxy voting guidelines and also disclose proxy voting records as much as possible upon request of their investors. (Oasis Management, HK)
- Our clients are regularly provided with proxy voting records. In keeping with the firm's focus first and foremost on existing clients, those records and holding details, are not publicly disclosed. (UK asset manager)
- BCIMC discloses publicly its proxy voting records at the company-level on a live-basis ahead of AGMs. (British Columbia Investment, Canada)
- Transparency is the best solution to addressing any concerns with conflicts of interest. To that end, voting disclosure needs to be as transparent as possible and we consider the example provided in the consultation to be insufficient in meeting the level of transparency needed. (Large North American fund)
- Asset managers should eventually disclose what their voting policies are and how they voted, agenda by agenda. APG discloses fully and publicly through its website. (APG Asset Management, The Netherlands)

## II - 7 Self-Evaluation of Asset Managers

(Recommendations by the Statement of the Follow-up Council)

### 【Self-Evaluation of Asset Managers】

- Asset managers should regularly conduct self-evaluations of their implementation of the Stewardship Code toward continued improvement of their governance structures, etc. and disclose the results to the public. Such self-evaluations are expected to help asset owners select and/or evaluate asset managers.

<Relevant Principle of the Stewardship Code>

Principle 7: To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment, and the skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.