Provisional translation

Material

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Financial Services Agency

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I. Proxy Advisors

I-1 Reference to Proxy Advisors in the Stewardship Code

Preamble 8. The Code primarily targets institutional investors investing in Japanese listed shares. The Code also applies to proxy advisors commissioned by the institutional investors.

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.

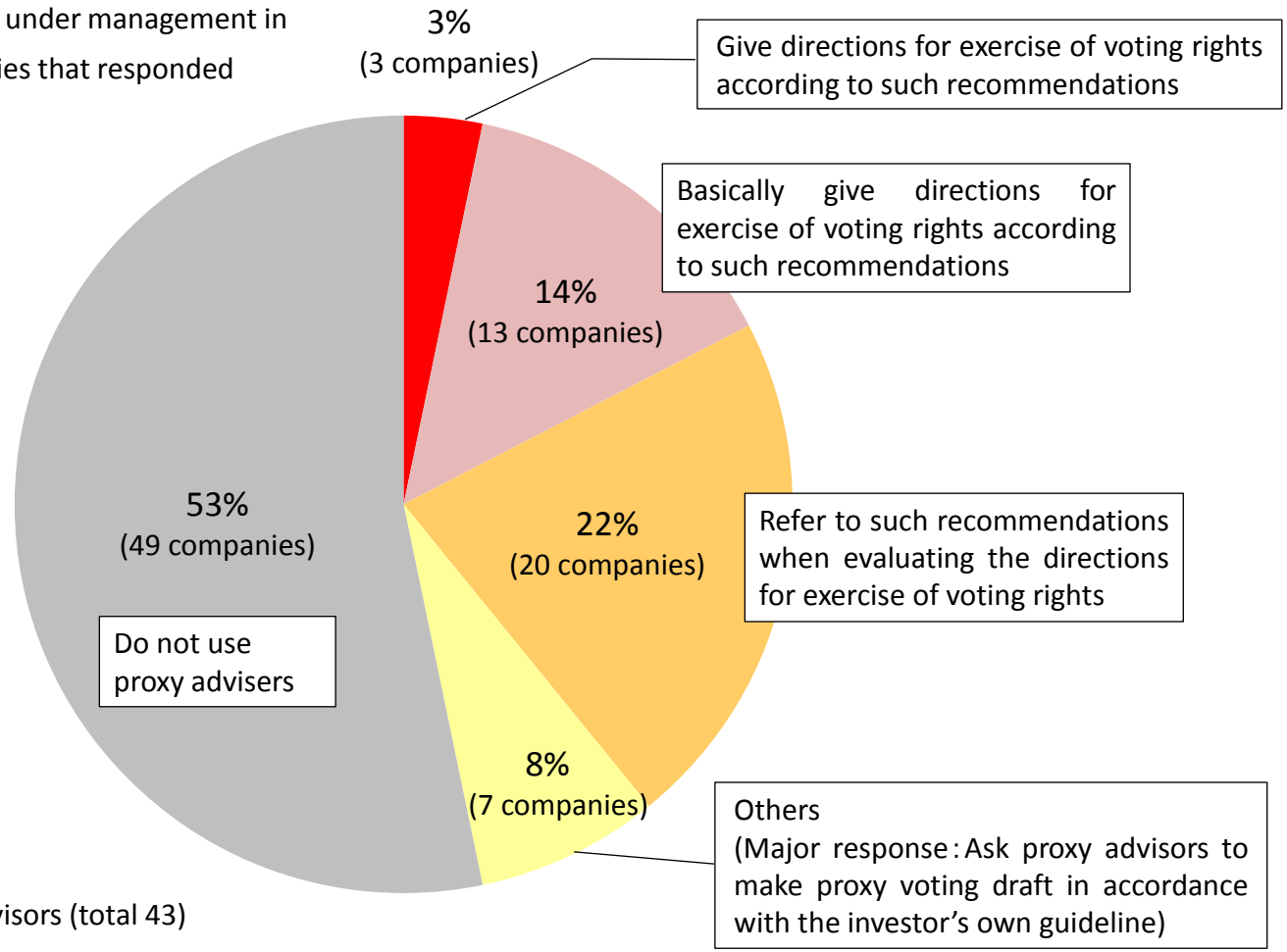
Guidance 5-4. When institutional investors use the service of proxy advisors, they should not mechanically depend on the advisors' recommendations but should exercise their voting rights at their own responsibility and judgment and based on the results of the monitoring of the investee companies and dialogue with them.

When disclosing their voting activities, institutional investors using the service of proxy advisors should publicly disclose the fact and how they utilize the service in making voting judgments.

I-2 Practice of using Proxy Advisors' services

＜Result of the survey by Japan Investment Advisors Association on its member companies＞

※ Response of 92 companies with assets under management in Japanese equity out of the 126 companies that responded (survey sent to 212 companies)



(Note) The companies which use proxy advisors (total 43) include 11 companies which use them only for non-Japanese equity.

(Source) Japan Investment Advisors Association "3rd Survey report on the JIAA member companies to the questionnaire for the Japan Stewardship Code" (conducted in Oct., 2016)

I-3 Trends toward introducing rules for proxy advisors in Europe and the US (1)

US

The bill adopting a registration system of proxy advisory firms and requiring them to establish a system, etc. including establishing policies to manage conflicts of interest, having sufficient staff, and forming procedures to give companies an opportunity to comment on the draft recommendations, is under discussion in the US.

Legal Basis	Financial CHOICE Act of 2016 (introduced in the House in September 2016)
Outline	The act for purpose of improving the quality of proxy advisory firms by fostering accountability and transparency, etc. 【Registration System】 It is required to register before providing the services to any client. A proxy advisory firm must file with the SEC an application including the following information for registration (the information shall be publicly available on the SEC's website) ・a certification that they have adequate financial and managerial resources ・the procedures and methodologies that they use in the services, including whether and how they consider the size of a company ・organizational structure ・whether or not the applicant has a code of ethics (if not, the reasons therefor) ・any potential or actual conflict of interest relating to the provision of the services and the policies to manage conflicts of interest 【Duty to Establish System, etc.】 ・Establishment and enforcement of written policies to manage conflicts of interest ・Having staff sufficient to produce proxy voting recommendations that are based on accurate and current information ・Forming procedures to give companies an opportunity to comment on the draft recommendations ・Employing an ombudsman to receive complaints about the accuracy of information used in making recommendations and resolving those complaints in any event prior to voting on the matter ・Designation of a compliance officer 【Duty to Report】 Submitting an annual report to the SEC including information about the number of shareholder proposals its staff reviewed and the number of staff who reviewed and made recommendations on such proposals

(Reference) The division of investment management of the SEC published non-binding guidance for investment advisers in 2014. The guidance states that an investment adviser should ascertain whether they have the capacity (i.e. staffing, policies to manage conflicts of interest) to adequately analyze proxy issues when retaining a proxy advisory firm and provide ongoing oversight of them.

I-3 Trends toward introducing rules for proxy advisors in Europe and the US (2)

EU

The proposal on amending the Directive ensuring that proxy advisors disclose information, including procedures to ensure qualifications of the staff, how they take company-specific conditions into account and have dialogues with the companies, and take actions against conflict of interest, is under discussion in the EU.

Legal Basis	Proposal on amending Shareholder Rights Directive (tentatively agreed between Council of the European Union and European Parliament in December 2016) (Note)
Outline	【Disclosure of Code of Conduct】 Member States shall ensure that proxy advisors publicly disclose reference to a code of conduct which they apply and report on the application of this code of conduct (where proxy advisors do not apply a code of conduct or they depart from any of the recommendations of that code of conduct, explanation of the reasons for doing so) on their websites annually. 【Disclosure of System, etc.】 Member States shall ensure that proxy advisors publicly disclose on an annual basis at least all of the following information in relation to the preparation of their research, advice and voting recommendations in order to adequately inform their clients about the accuracy and reliability of their activities: ・the essential features of the methodologies and models they apply ・the main information sources they use ・procedures put in place to ensure quality of the service and qualifications of the staff involved ・whether and, if so, how they take national market, legal, regulatory and company-specific conditions into account ・the essential features of the voting policies they apply for each market ・whether they have dialogues with the companies and the stakeholders of the company, and, if so, the extent and nature thereof ・the policy regarding prevention and management of potential conflicts of interests 【Disclosure of Actions against Conflict of Interest】 Member States shall ensure that proxy advisors disclose to their clients any actual or potential conflict of interest or business relationships that may influence their service and the actions they have undertaken to manage the actual or potential conflict of interest.

(Note) “Directive” is binding upon each Member State but leaves to the national authorities the choice of form and methods. Also, implementation procedures in each Member State (i.e. enactment of domestic legislation) are necessary for applying.

II. Collective Engagement

II-1 Reference to Collective Engagement in 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 skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.

Guidance 7-3. Exchanging views with other investors and having a forum for the purpose may help institutional investors conduct better engagement with investee companies and make better judgments.

II-2 Discussion about Collective Engagement in the process of developing the Stewardship Code

Discussion in the process of developing the Stewardship Code

○ Under the large shareholding reporting system,

- shareholders are required to calculate their shareholding percentage by including the shareholding of a "Joint Holder". Subsequently, in a situation where an institutional investor takes action against an individual investee company in a joint effort with other investors and such other investors are considered as "Joint Holders," such an investor is required to take into account the ownership of the other investors in complying with the large shareholding reporting system, and
- a special reporting system (*1) is in place for financial instruments business operators, etc., who repeatedly and continuously execute buy/sell transactions in their daily operations, etc. However, a holder of shares, etc. may not use the special reporting system if it commits to the "Act of Making Important Suggestions" (*2).

(*1) In ordinary circumstances, the large shareholding report and the change report must be submitted within five business days from the day the cause of the submission occurs. However, those eligible for the special reporting system need only to judge whether to assume reporting obligations on the pre-registered bi-monthly reference date and submit the report within five business days of the reference date.

(*2) Suggestion of matters (Disposal of and acceptance of assignment of important assets, appointment or dismissal of representative directors, etc.) specified in Article 14-8-2 of the Order for Enforcement of the Financial Instruments and Exchange Act as those that will cause material changes or materially influence the issuer's business activities at the general shareholders meeting of investee companies or to their corporate directors.

○ In previous meetings of Council of Experts in the process of developing the Stewardship Code, the Council advised that it was necessary to further clarify and specify the following points in order to promote dialogues between institutional investors and investee companies:

- Under what circumstances is an investor deemed as a "Joint Holder"?
- What constitutes an "Act of Making Important Suggestions"?

Publication of "Clarification of Legal Issues Related to the Development of the Japan's Stewardship Code"

○ Therefore, the FSA published "Clarification of Legal Issues Related to the Development of the Japan's Stewardship Code" in February 2014, and clarified the interpretation of these legal issues.

II-3 Clarification of Legal Issues (1) : "A Joint Holder"

(Question) If a holder of shares, etc., exchanges opinions with another investor about exercising voting rights in terms of a specific investee company, or agrees with other investor to jointly request the investee company to set up a dialogue and to change the company's business policy, etc., will the other investor be considered a Joint Holder under the reporting requirements for large shareholdings?

(Answer) The concept of a Joint Holder applies when an investor agrees with another investor to **execute voting rights and other shareholder rights** jointly (Article 27-23 of the Financial Instruments and Exchange Act).
The "voting rights and other shareholder rights" most likely include, **the legal rights of shareholders including rights to propose, rights to inspect books and records, rights to request that the company file a lawsuit against erring directors, etc. in addition to voting rights.**
Therefore, basically, as long as the agreement between an investor and another investor remains within the scope of **shareholders' general activities that are unrelated to the exercise of legal rights**, the other investor **will unlikely be considered** a Joint Holder.

(Question) When a holder of shares, etc. communicates to another investor its plan for the exercise of voting rights, and such plan matches with that of the other investor, will the other investor be considered a Joint Holder under the reporting requirements for large shareholdings?

(Answer) The concept of a Joint Holder applies when an investor **agrees** to execute voting rights and other shareholder rights **jointly** (Article 27-23 of the Financial Instruments and Exchange Act)
The FSA's view is that the agreement referred hereto means **an agreement containing the element of a mutual or unilateral promise to act in future (written or verbal and explicit or implied); and differs from a mere exchange of views**.
Therefore, basically, in the situation where an investor, in the discussions, etc. with another investor, **communicates their plan for the exercise of voting rights and finds that the plan is the same as the other investor**, the other investor **will unlikely be considered** a Joint Holder.

(Source) "Clarification of Legal Issues Related to the Development of the Japan's Stewardship Code" (February 26th, 2014)

II-3 Clarification of Legal Issues (2): "Act of Making Important Suggestions"

(Question) In dialogue with investee companies, will the following actions of institutional investors with more than a 5% holding ratio of share certificates, etc. be considered as the Act of Making Important Suggestions?

(1) Request for an explanation regarding the investee company's management policy, etc. (including policies regarding governance, capital strategy, etc.)
(2) Explanation regarding their policy for exercising voting rights and disposing of/holding shares, and specific plan for exercising voting rights and disposing of/holding the investee company's shares
(3) Request for an explanation of the investee company's stance given (2) above
(4) Asking questions at a general shareholders' meeting
(5) Request for resolution of specific matters at a general shareholders' meeting
(6) Requesting the investee company to change their business policy, etc. if the investee company's explanation for (3) & (4) above does not match their policy
(7) Requesting the investee company to change their business policy, etc. in a situation other than that described in (6) above

(Answer)

1. An action is considered the Act of Making Important Suggestions if all of the following conditions are satisfied.
(i) The objective contents of the matters suggested match any one of items listed under Article 14-8-2 of the Order for Enforcement of Financial Instruments and Exchange Act
(ii) The act in question is **intended to cause material changes to or materially influence** the issuer's business activities
(iii) The act in question is classified as a **"suggestion"**
2. It should be noted that **actions (1) through (4)** listed above are basically **highly unlikely to be classified as the Act of Making Important Suggestion** because these are viewed as the act of sharing knowledge with the investee company, not as a "suggestion" as in (iii) above.
3. On the other hand, **actions (5) through (7)** above are the actions of a large shareholder with more than 5% holding ratio of share certificates, etc. requesting changes to the investee company's business policy, etc. and resolutions at general shareholders meetings.
Therefore, basically, as long as the contents of these actions are as listed under the Order (criteria (i) above), **it is highly likely that they will be deemed as "suggestions" (criteria (iii) above) that are "intended to cause material changes or materially influence the issuer's business activities" (criteria (ii) above)**.
4. It should be noted, however, that, **depending on an individual situation, some actions are less likely to be identified as the Act of Making Important Suggestions, even though they are classified as actions (6) and (7)** described above.
5. Specific examples of paragraph 4 above include **cases where a shareholder provides its own opinion in response to an issuer's request**, or **where a shareholder meets an issuer at a meeting that was set up voluntarily by the issuer**(*) **and provides its opinion, etc**. In this situation, **the investor's actions are intended to respond to an independent request by the issuer** whose intention is to refer to the shareholder's opinion or to acquire the shareholder's support by enhancing the shareholder's knowledge of the company's earnings, strategies, etc., through dialogue. Thus, **these cases are less likely to be regarded as acts with an intention to materially change or influence the issuer's business activities (criteria (ii) above).**

(*) Earnings results briefings, Investor Relations meetings (including small meetings), etc.

(Source) "Clarification of Legal Issues Related to the Development of the Japan's Stewardship Code" (February 26th, 2014)