

# Reference Material

2019.10.02

Financial Services Agency

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# I . Reference for General Issues

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# ICGN Annual Conference in Tokyo

- ❑ In July 2019, the ICGN (International Corporate Governance Network) Annual Conference was held in Tokyo. Institutional investors and companies from many countries joined and discussed corporate governance.
- ❑ At the Conference, the recent Corporate Governance Reform in Japan was highly evaluated, and Prime Minister Abe received the ICGN Global Governance Award.

## <Comments from institutional investors, etc. at the ICGN Annual Conference in Tokyo>

(Asset Owner) Since it was pointed out that the commission fee was low, we provided a new commission fee structure which incorporates engagement with investee companies.

Although the number of dialogues between institutional investors and investees is increasing, still few institutional investors have dialogues from long-term perspectives.

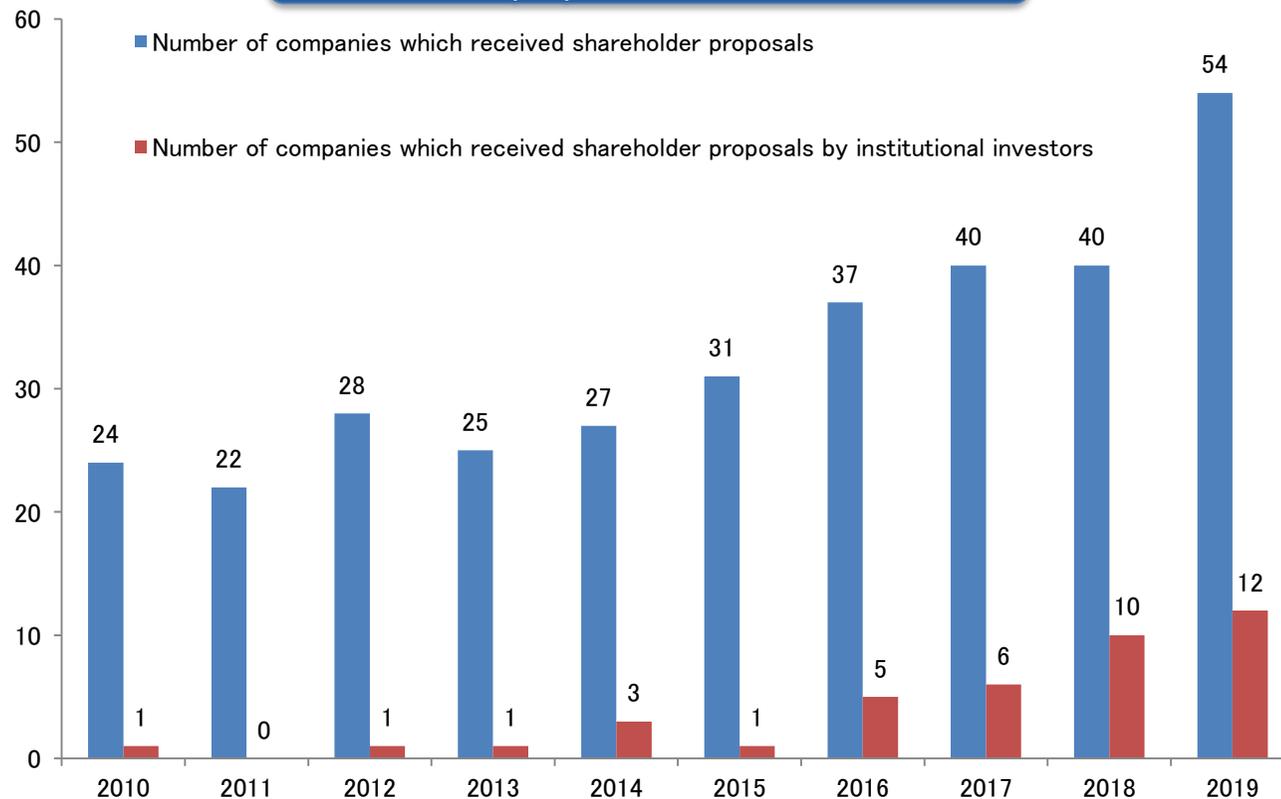
Institutional investors should further improve their engagement skills.



## AGM in June 2019

- ❑ In AGM in June 2019, **54 companies received shareholder proposals, which is a record high.**
- ❑ Although we have to wait until the outcome of their corporate management is reported to see their validity, these include cases where directors who were proposed by shareholders were elected.

The number of companies which received shareholder proposals in AGM in June 2019



(Source) IR Japan

# Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code ("Follow-up Council")

## Objective

- The Follow-up Council was established for the purposes of following up on the prevalence and adoption of both codes as well as further improving corporate governance at all listed companies.

## Themes

### 1st (Sep. 2015)

⇒ Opinion Statement (Responses to the Corporate Governance Code and Next Steps of the Follow-up Council)

### 2nd - 5th: Board of Directors and Cross Shareholdings

#### 6th (Feb. 2016): ① Board of Directors

⇒ Opinion Statement (Corporate Boards Seeking Sustainable Corporate Growth and Increased Corporate Value over the Mid- to Long-Term)

#### ② Constructive Dialogue between Investors and Companies (1)

### 7th - 9th: Constructive Dialogue between Investors and Companies (2) - (4)

#### 10th (Nov. 2016): Constructive Dialogue between Investors and Companies (5)

⇒ Opinion Statement (Effective Stewardship Activities of Institutional Investors)

### 11th - 12th : Progress on Corporate Governance Reform

#### 13th (Dec. 2017) : Discussion for Investor and Company Engagement

#### 14th (Feb. 2018) : Revision of Corporate Governance Code and Guidelines for Investor and Company Engagement

#### 15th (Mar. 2018) : Revision of Corporate Governance Code and Guidelines for Investor and Company Engagement

⇒ Published Revision of Corporate Governance Code and Guidelines for Investor and Company Engagement

#### 16th (Nov. 2018) : Corporate Governance Reform

#### 17th (Jan. 2019) : Companies' actions after revision of Corporate Governance Codes

#### 18th (Mar. 2019) : Further Promotion of Corporate Governance Reform (1)

#### 19th (Apr. 2019) : Further Promotion of Corporate Governance Reform (2)

⇒ Opinion Statement (Recommended Directions for Further Promotion of Corporate Governance Reform)

## Members

### Chair

(As of Apr. 2019)

Ikeo Kazuhito Professor of Economics and Finance, Rissho University

### Members

Iwama Yuichiro Senior Advisor, Norges Bank Real Estate Management  
 Ueda Ryoko Senior Research Fellow, J-IRIS Research  
 Oba Akiyoshi Chairman, Japan Investment Advisers Association  
 Oguchi Toshiaki Representative Director, Governance for Owners Japan  
 Kawakita Hidetaka Professors emeritus, Kyoto University  
 Kawamura Takashi Chairman of the Board, Tokyo Electric Power Company Holdings, Inc.  
 Kansaku Hiroyuki Professor, University of Tokyo Graduate Schools for Law and Politics  
 Kanda Hideki Professor, Gakushuin University Law School  
 Kerrie Waring Executive Director, International Corporate Governance Network (ICGN)

Kobayashi Yoshimitsu

Chairman, Member of the Board, Mitsubishi Chemical Holdings Corporation

Sampei Hiroki

Head of Engagement, FIL Investments (Japan) Limited

Scott Callon

Chief Executive Officer, Ichigo Asset Management, Ltd.

Takayama Yoshiko

Managing Director, J-Eurus IR Co., Ltd.

Takei Kazuhiro

Partner, Attorney at Law (Nishimura & Asahi)

Tanaka Masaaki

Executive Chairman of the Board, Nippon Paint Holdings Co., Ltd.

Tsukuda Hideaki

CEO, Board Advisors Japan, Inc.

Toyama Kazuhiko

CEO, Industrial Growth Platform, Inc

Matsuyama Akihiro

Director, Mitsubishi Electric Corporation

### Observer

Takebayashi Toshikazu

Counsellor, Minister's Secretariat, Ministry of Justice

Sakamoto Riwa

Director, Corporate System Division, Economic and Industrial Policy Bureau, METI

# Proposed Revision to the UK Stewardship Code

On January 30, 2019, a **proposed revision to the UK Stewardship Code** was released in **the UK** in response to recent changes in the global investment environment. The revision will be finalized this year.

## Structure of the proposed revision

The structure will be changed from two levels of principles and guidance to **three levels of principles, provisions, and guidance.**

\*The structure will be changed to follow a similar structure to the UK Corporate Governance Code (revised in July 2018)

**Common principles will be set for asset managers and asset owners, and provisions and guidances will be set respectively. Separate principles, provisions, and guidances will be set for service providers (including investment consultants and proxy advisors).**

[Chapter structure of the proposed revision]

Chapter 1	Purpose, objectives and governance
Chapter 2	Investment approach
Chapter 3	Active monitoring
Chapter 4	Constructive engagement and clear communication
Chapter 5	Exercise rights and responsibilities

Principles are to be followed on an “apply and explain” basis.

## Main points of the proposed revision

Stewardship is defined as “the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society”, and signatories are asked to establish an organizational purpose and provide disclosure on matters such as their stewardship objectives and governance structures.

Suggested to apply the principles even for investment in assets other than listed equities, such as bonds.

Clearly requires consideration of ESG factors.

Requires submission and disclosure of an annual report on activities and results.

Requires higher levels of disclosure in light of the revised EU Shareholder Rights Directive.

# Overview of US Stewardship Principles

- ❑ In January 2017, **in the US, the Investor Stewardship Group (ISG)\*** developed the Stewardship Principles (applied from January 2018).

\* The ISG is a self-regulating body of institutional investors that was formed to establish stewardship and corporate governance frameworks.

- ❑ **The Stewardship Principles are a principles-based,** self-regulating framework clarifying the basic responsibilities that institutional investors should fulfill in stewardship activities. Signatory institutions are released on the ISG's website.

**Two-level structure of principles and guidance**

Principle A	<b>Accountability</b> to beneficiaries
Principle B	Demonstration of <b>evaluation method with regards to the governance factors</b> of investee
Principle C	Disclosure of <b>management policies of conflicts of interest</b>
Principle D	Understanding the activities of <b>proxy advisors</b>
Principle E	<b>Constructive engagement</b> with companies
Principle F	<b>Collaboration</b> by institutional investors

## Main contents

- Institutional investors should establish and disclose guidelines with regards to proxy voting and engagement, and disclose the relevant results. Asset owners should evaluate how asset managers are fulfilling their stewardship responsibilities.
- Institutional investors should ensure that there are mechanisms to avoid conflicts of interest (including potential conflicts of interest).
- If a proxy advisor is used, institutional investors should ensure that the proxy advisor manages conflicts of interest.
- Institutional investors should disclose to companies what further actions they may take in the event they are dissatisfied with the outcome of their engagement efforts with companies.
- Institutional investors should consider addressing common concerns related to corporate governance practices.

# Stewardship Code of ICGN and the Netherlands

- ❑ **ICGN** (International Corporate Governance Network): The Global Stewardship Principles were adopted at the annual meeting held in June 2016.
- ❑ **The Netherlands**: A revised Stewardship Code was released in June 2018 in light of the revised EU Shareholder Rights Directive.

	Main points
ICGN	<ul style="list-style-type: none"><li>○ The Principles set out ICGN's view of the best practices for investor stewardship obligations, policies, and processes, and provide an overarching model of stewardship.</li><li>○ It has a three-part structure that consists of <u>the roles of market participants</u> in addition to principles and guidance.</li><li>○ <u>Governance management and disclosure by asset managers</u>, including conflicts of interest are described in the principles.</li><li>○ It mentions the necessity of a strategic approach in the selection of companies for engagement in passive investment and of focusing on the quality of engagement and clear outcomes.</li></ul>
The Netherlands	<ul style="list-style-type: none"><li>○ <u>Long-term corporate value creation</u> is mentioned as an objective of stewardship policies for institutional investors.</li><li>○ Provision of opportunities to inform beneficiaries and clients how shareholder rights were used.</li><li>○ Requires institutional investors to <u>make disclosures on proxy advisors</u> and confirm the conformability to their own investment policy if using a proxy advisor.</li><li>○ Recommends that institutional investors actively engage in constructive dialogue with stakeholders, including listed companies, along with other institutional investors.</li></ul>

## II . Reference for Individual Issues

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# 1. Asset Managers

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# 1-(1) Stewardship Activity Reports by Institutional Investors

❑ The quality of disclosure of stewardship activities varies widely by investor. There are some investors who **disclose examples of actual engagement**, while other investors **disclose their activities abstractly**, or **disclose nothing**.

## Overseas Investor A

**Number of companies and cases of engagement**

**The subjects of engagement**

**Name of the companies which were engaged**

**Cases of proxy voting according to engagement**

Company	Country	Resolutions	Result	Notes
Softbank	Japan	<ul style="list-style-type: none"> <li>Independence</li> <li>Auditors' compensation</li> </ul>	<ul style="list-style-type: none"> <li>For</li> <li>Abstention</li> <li>Against</li> </ul>	<p>Engaged with the Chairman on many sensitive governance issues, notably their independence criteria for Directors and external auditors, but also the requirements of their compensation policy.</p> <p>The company's willingness to move towards meeting our main voting policy criteria led us to vote for all of the resolutions.</p>
Crédit Suisse	Switzerland	<ul style="list-style-type: none"> <li>Binding approval of compensation elements</li> <li>Compensation policy (advisory)</li> </ul>	<ul style="list-style-type: none"> <li>For</li> <li>Abstention</li> <li>Against</li> </ul>	<p>After having dialogued with the company on our questions in terms of transparency and standards for fixed and variable remuneration, a public statement by the Chairman responding in part to our wishes led us to vote for the "binding" resolutions.</p> <p>On the other hand, we maintained our opposition to the resolution (merely advisory) on the overall compensation policy.</p>
Continental AG	Germany	<ul style="list-style-type: none"> <li>Compensation policy</li> </ul>	<ul style="list-style-type: none"> <li>For</li> <li>Abstention</li> <li>Against</li> </ul>	<p>After having accepted the compensation policy in 2014 following dialogue with the company, an amendment in 2017 increased the remuneration potential without any explanation, notwithstanding our previous comments. Despite further dialogue, we finally rejected this change, along with around 20% of the shareholders who spoke at the General Meeting.</p>
Mitsubishi Heavy Industries Group	Japan	<ul style="list-style-type: none"> <li>Independence</li> <li>Directors' attendance rate</li> <li>Remuneration report</li> </ul>	<ul style="list-style-type: none"> <li>For</li> <li>Abstention</li> <li>Against</li> </ul>	<p>Our dialogue addressed an improvement in the Board's rate of independence, but also greater transparency in terms of director attendance and variable compensation components.</p> <p>After sharing our views, we approved all the proposals tabled at the General Meeting.</p>

● For ● Abstention ● Against

## Japanese Investor B

**Organization of engagement**

**Analysis of Engagement**

**Cases of engagement (Industry • Subjects • Results)**

**Self Assessment**

## Japanese Investor C

(Provisional Translation by FSA)

The system of stewardship and evaluation of stewardship activities

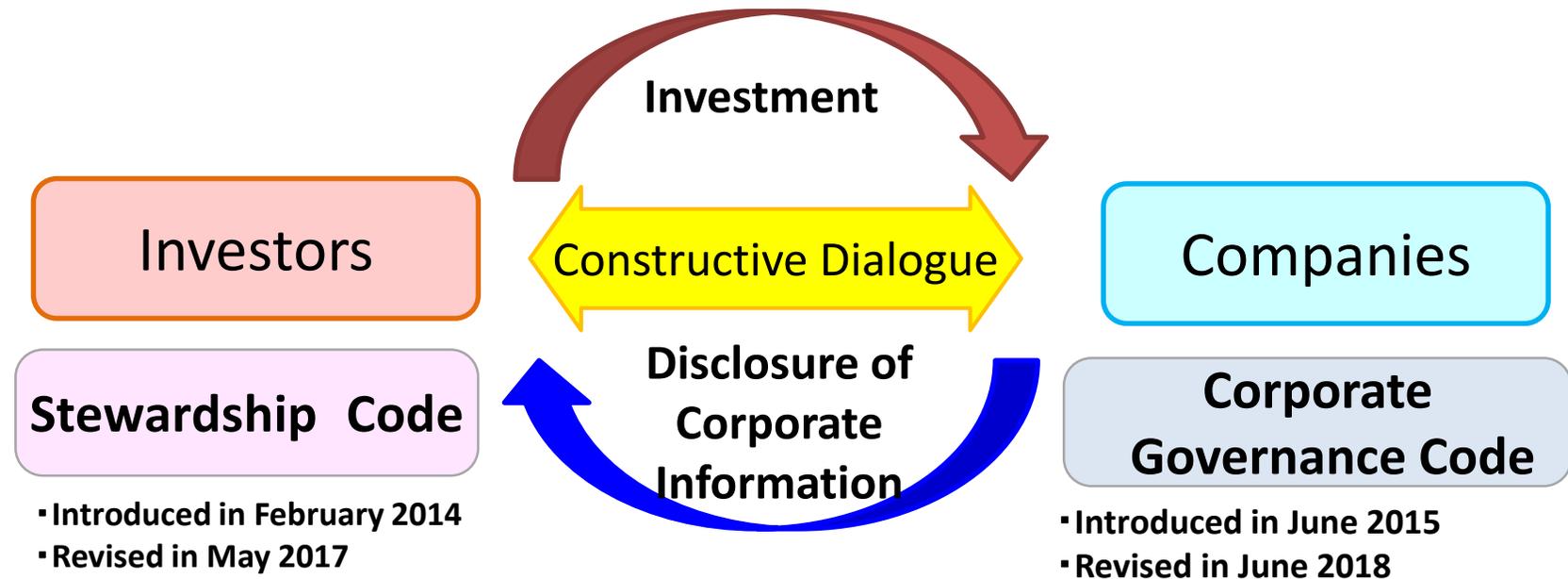
We contribute to increase corporate value and sustainable growth of investee companies through exercising voting rights appropriately in accordance with the voting policy of the company.

We review our system of stewardship and the results of stewardship activities of the company and believe that such system and the results are appropriate since we conduct stewardship activities in accordance with our stewardship policy.

We will continue to be in charge of stewardship activities primarily through proxy voting.

<End>

## 1-(2) Corporate Governance Reform and ESG Issues



### Guidance 3-3

When investors monitor investee companies, a variety of factors (...) may be considered as relevant. Factors may include, (...), including risks and opportunities arising from social and environmental matters (...).

### General Principle 3 [Notes]

(...) non-financial information, such as (...), ESG (environmental, social and governance) matters, is often boiler-plate (...).

# 1-(2) Global Movements toward Sustainable Investment

□ In 2006, **PRI** (Principles for Responsible Investment) was announced. There are six principles that include incorporating ESG factors into investment analysis and decision-making processes.

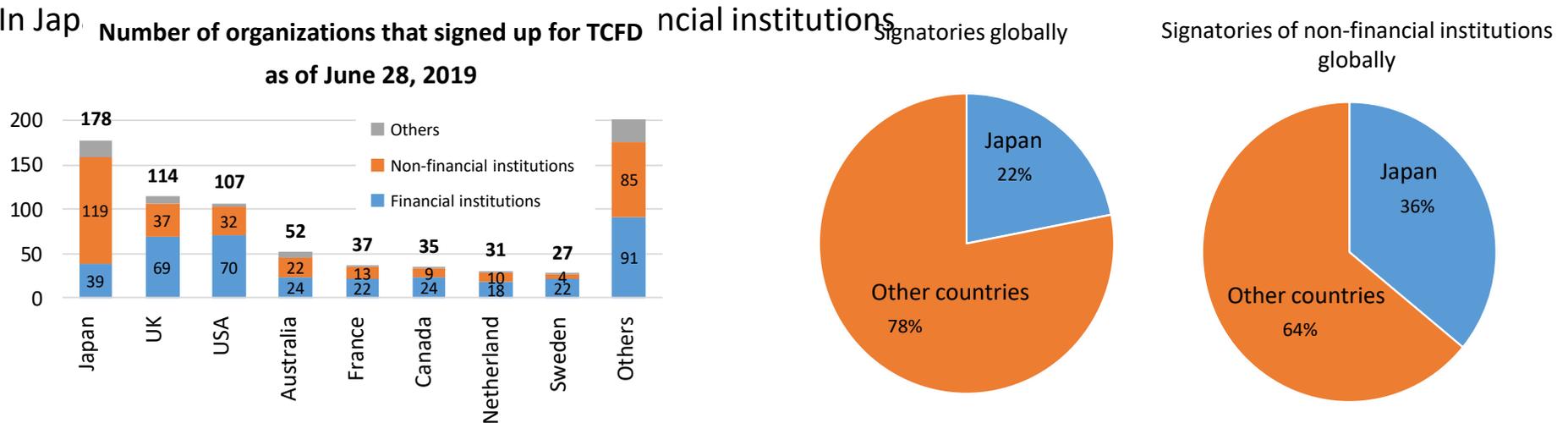
■ In Japan, in 2015, GPIF signed up for PRI. There are 74 Japanese signatories as of May 20, 2019.



□ In June 2017, **TCFD** published a report that summarized the opinions that promote voluntary disclosure by companies.

■ Globally, 792 organizations have signed up for TCFD. In Japan, 178 organizations have signed up as of June 30, 2019.

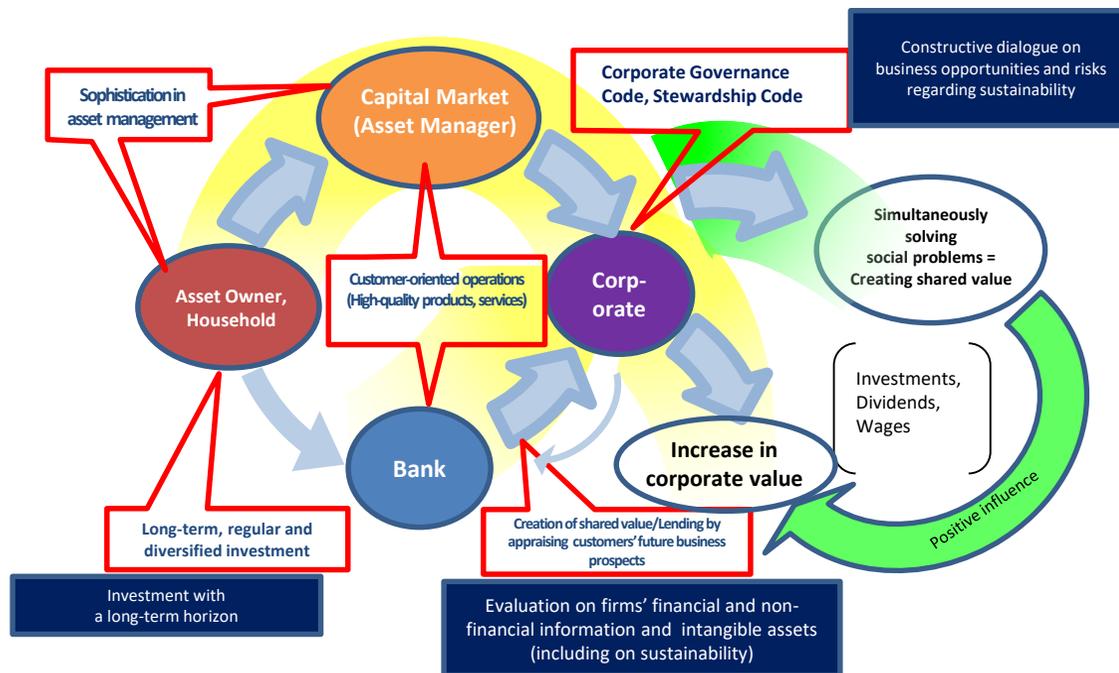
■ In Japan, **Number of organizations that signed up for TCFD financial institutions**



□ In November 2018, **SASB** published a new rule for disclosing sustainability matters by industry.

# 1-(2) "Sustainable Development Goals" (SDGs)

□ Sustainable Development Goals: **SDGs** are 17 goals and 169 targets of sustainable development, set forth as successors to the Millennium Development Goals (MDGs). SDGs also target developed countries, not only emerging countries.



(Source)  
 FSA, *JFSA's Initiatives for User Oriented Financial Services in a New Era - Financial Services Policy: Assessments and Strategic Priorities 2019*, (Published in August 2019)

# 1-(2) Actions Taken into Account Sustainability (UK)

- ❑ **The Proposed Revision to the UK Stewardship Code** has a principle for sustainability as one of its key changes. The principle clearly requires institutional investors to take into account material ESG factors **when fulfilling their stewardship responsibilities**.

## The UK Stewardship Code

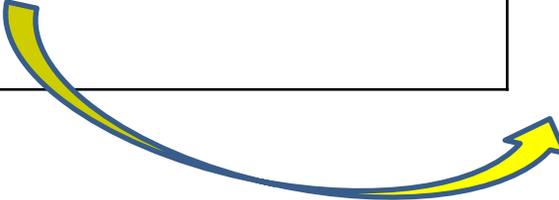
- Factors regarding sustainability are NOT clearly mentioned.
- They are just mentioned in Guidance, as an example in considering escalation.

### 【The UK Stewardship Code】

#### Principle 4

#### Guidance

“Instances when institutional investors may want to intervene include, ... when they have concerns about the company’s strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters.”



## Proposed Revision to the UK Stewardship Code

- ※ In the introduction, it states “The Code focuses on developing stewardship to deliver sustainable value for beneficiaries, the economy and society”
- Principle E clearly requires signatories to demonstrate how they take into account material ESG factors.

### 【Proposed Revision to the UK Stewardship Code】

#### 2 INVESTMENT APPROACH

#### Principle E

“Signatories must integrate stewardship with their investment approach **and demonstrate how they take into account material ESG factors, including climate change.**”

#### Provision 11

Asset owner	Asset manager
Signatories should ensure that the investment and stewardship mandates that they issue appropriately reflect the investment time horizon of their beneficiaries and demonstrate <u>how they take ESG issues into account.</u>	Signatories should align their investment and stewardship activities appropriately with the client’s investment time horizon and <u>demonstrate how the organisation takes ESG issues into account.</u>

## 1-(2) Actions Taken into Account Sustainability (other countries)

<b>ICGN</b>	<p>○In ICGN Global Stewardship Principles, the Principle states “<u>Investors should integrate material environmental, social and governance (ESG) factors in stewardship activities</u>”, and the Guideline mentions, “<u>Investors should consider ways to analyze, monitor, assess and integrate ESG related risks and opportunities</u> as part of their approach to stewardship and in particular in their monitoring, voting and engagement practices.”</p>
<b>US</b>	<p>○The US Department of Labor released a notice in 2016 that indicated an interpretation to the effect that the trustee of a corporate pension plan could take into consideration elements of ESG in investment policies and when exercising voting rights in light of their fiduciary responsibility.</p> <p>In response to questions regarding this interpretation, in April 2018, the US Department of Labor indicated a stance that <u>ESG factors should not be handled lightly because of their possible economic impact and that the focus should be on the economic benefits for the trustee.</u></p>
<b>Singapore</b>	<p>○Singapore Stewardship Principles express that <u>investors may engage with their investee companies</u> on a full spectrum of topics, including strategy, long-term performance, risk, financials, culture and remuneration, <u>social and environmental considerations, and corporate governance.</u></p>
<b>Hong Kong</b>	<p>○Principles of Responsible Ownership express that investors should encourage their investee companies to have policies on environmental, social and governance (ESG) issues and engage with investee companies on <u>significant ESG issues that have the potential to impact the companies' goodwill, reputation and performance.</u></p>

# 1-(3) Conflict of Interest Management in Asset Managers in Japan

## Opinion Statement No.4 from Follow-up Council

- Strengthening the corporate governance of asset managers, including conflict of interest management, continues to be an important issue.

### Major opinions on this issue

#### <Opinions in Follow-up Council>

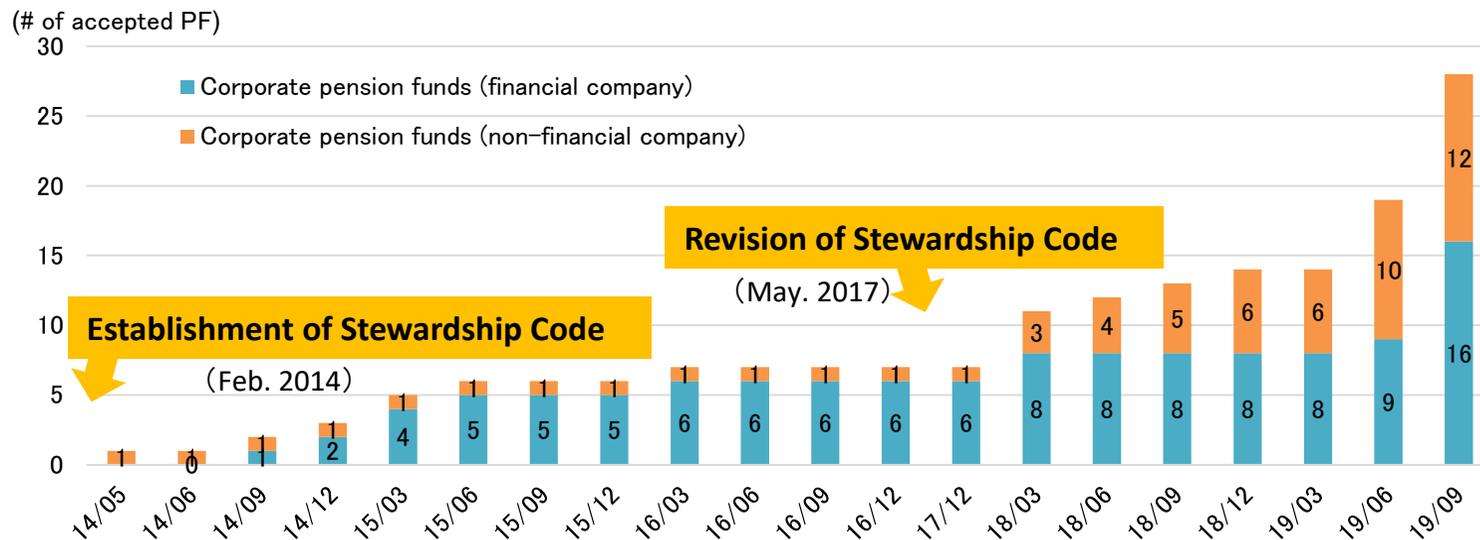
- The quality of disclosure on conflict of interest management, etc. is high for some asset managers, but for others it is not.
- We have to be careful not to promote the formative establishment or strengthening of conflict of interest management.

## 2. Asset Owners, including Corporate Pension Funds

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## 2. Stewardship Activities by Corporate Pensions: Acceptance of the Stewardship Code

Among 269 institutional investors who accepted the Stewardship Code, there are **28 corporate pension funds**. (Since the last revision, **21 corporate pension funds** accepted the Code.)



Source: FSA

### <Accepted Pension Funds (PF)>

#### Financial Firms

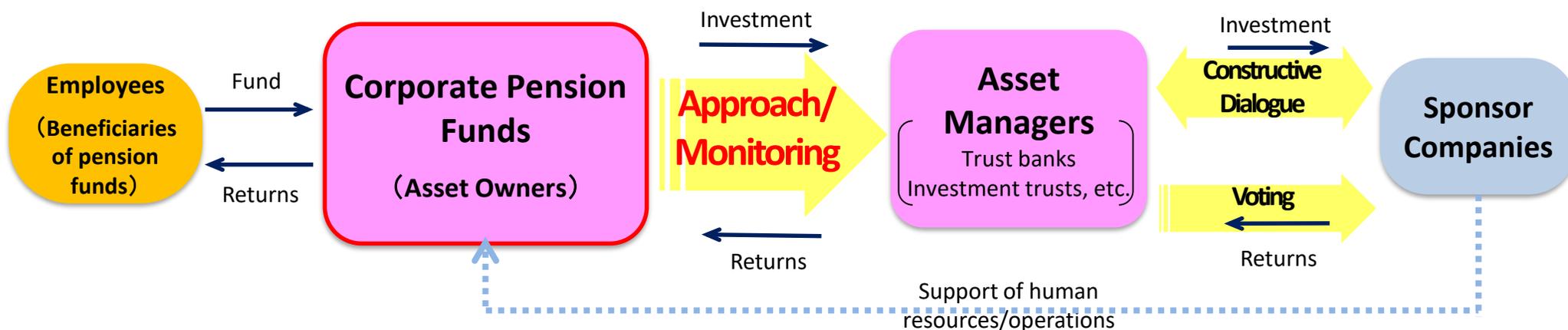
2014	Mitsubishi UFJ Trust and Banking Corporation PF MUFG Bank PF
2015	Mitsui Sumitomo Banking Corporation PF Mizuho PF, Resona PF
2016	Sumitomo Mitsui Trust Bank PF
2018	Aioi Nissay Dowa PF Mitsui Sumitomo Insurance PF
2019	Bank of Yokohama PF, Hyakugo Bank PF Chiba Bank PF, Chugoku Bank PF Daishi Bank PF, Hokuetsu Bank PF Iyo Bank PF, Toho Bank PF

#### Non-Financial Firms

2014	SECOM PF
2018	Panasonic PF Eizai PF, National Construction Association PF NTT Employees PF, Mitsubishi Corporation PF
2019	Certified Public Accountants' Corporate PF Otsuka Pharmaceutical Group PF The PF of Casio, ITOCHU Corporate PF Nihon IT Software PF Omron Group PF

## 2. Stewardship Activities of Corporate Pension Funds in Japan

- ❑ The role of asset owners, including corporate pension funds, is significantly important because they are in the closest position to the beneficiaries, and they approach and monitor asset managers who have direct dialogues with investee companies.
- ✂ It is often heard from corporate pension funds that they misunderstood that, as part of their stewardship activities, they would have to cast votes by themselves or have to conduct direct dialogues with investee companies. Most of them are not required to do so, and first of all, they are required to monitor asset managers' stewardship activities toward investee companies by receiving reports from them, etc.\*



\* Stewardship Code: Guidance 1-4

When selecting or issuing mandates to asset managers, asset owners should clearly specify issues and principles to be required in conducting stewardship activities, including the exercise of voting rights, in order to ensure effective stewardship activities. In particular, large asset owners should proactively consider and clearly specify issues and principles to be required in conducting stewardship activities, including the exercise of voting rights, keeping in mind their positions and roles in the investment chain, instead of mechanically accepting asset managers' policies without any verification.

## 3. Service Providers

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### (1) Proxy Advisors

### 3-(1) Proxy Advisory Firms

Firm	HQ	Est. Year	# of / Main Markets	# of GAM	# of clients
ISS (Institutional Shareholder Services)	US	1985	115 markets	44,000	2,000
Glass Lewis	US	2003	100 markets	20,000	1,300
Egan-Johnes Proxy Services	US	2002	US+	(unknown)	(unknown)
PIRC	UK	1986	Europe	(unknown)	(unknown)
Minerva Analytics (The Manifest Voting Agency)	UK	1995	Europe+	6,500	below 50
Proxinvest	France	1995	Europe	(unknown)	(unknown)

Note 1: Proxy Governance Inc. (established in 2004) sold the Proxy Advisory business to Glass Lewis in 2011

Note 2: German Proxy Advisor, IVOX, was acquired by Glass Lewis in 2015

Note 3: The Manifest Voting Agency went into administration in 2018, then became a part of Minerva Analytics.

### 3-(1) Recent Measures of Proxy Advisors

- ❑ Proxy advisors are promoting measures to provide companies with data on companies which would be the basis for proxy recommendations, or provide companies with recommendation reports, **prior to or after delivering such recommendations to their clients.**
- ❑ For enhancing the transparency of proxy advice and eliminating factual errors, some proxy advisors **provide issuer companies opportunities to confirm factual information which will be the basis of voting recommendations.**

#### 【Institutional Shareholder Services (ISS)】

- In certain markets, draft research reports are provided in order for issuers to confirm the factual information prior to publication at the discretion of ISS.
- An issuer may request, free of charge, a copy of the ISS report on its own shareholder meeting after it has been published to ISS clients.

#### 【Glass Lewis】

- Since 2015, Glass Lewis started to provide **the Issuer Data Report (IDR) Service** for companies at no charge. This service provides companies with opportunities to check the data which will be used as the basis for voting recommendations.
  - ✂ Issuer companies who want to use the IDR service need to disclose the shareholder meeting materials which are necessary for voting recommendations 30 days before the meeting.
- The final recommendation report (Proxy Paper) can be purchased after the shareholder meeting.
- **Report Feedback Statement: (RFS) Service** has started since Spring of 2019. The RFS Service provides the opportunity for issuer companies and shareholders to express feedback to Glass Lewis. The feedback of the issuer companies and shareholders is provided to Glass Lewis' research team and its subscribers. The RFS Service started to be provided to some US listed companies, and is scheduled to be expanded to companies in the rest of the world.

## 3-(1) Proxy Advisors : US

□ In October 2017, the **SEC** submitted the **Corporate Governance Reform and Transparency Act of 2017** to Congress, which was approved in the House of Representatives. In addition, in November 2018, the **Corporate Governance Fairness Act** was submitted to the Senate. However, **both were abandoned** due to the end of the session.

① Registration (e.g. organizational structure, conflicts of interest)

⇒ submitted information and documents shall be publicly available on the SEC's website.

② Policies and procedures in place to manage conflicts of interest.

③ Procedures and methodologies used in developing proxy voting recommendations.

④ Staff sufficient to produce proxy voting recommendations based on accurate and current information.

⇒ the number of staff members who reviewed and made recommendations is reported annually to the SEC

⑤ Procedures sufficient to permit companies receiving proxy advisory firm recommendations with an opportunity to provide meaningful comment.

⑥ Ombudsman to receive complaints about the accuracy of voting information used in making recommendations and seek to resolve those complaints.

⑦ Designation of a Compliance Officer etc.

□ In **August 2019**, the **SEC** published **the two Guidelines** below for proxy advisors and asset managers.

### 1) "Commission Guidance Regarding Proxy Voting Responsibilities of Investment Advisors"

Division of Investment Management, SEC

- An investment advisor (IA) and its client may agree upon the scope of the IA's authority and responsibilities to vote proxies
- In reviewing its use of a proxy advisory firm, ① an IA should adopt and implement policies and procedures designed to evaluate the proxy advisory firms in order to ensure that the IA casts votes in the best interest of its clients, and ② IAs could consider the adequacy and quality of the proxy advisory firm's staffing, personnel and/or technology.
- IA's policies and procedures should consider a periodic review including an assessment on the extent of which potential factual errors, potential incompleteness, or potential methodological weaknesses in the proxy advisory firm's analysis.

### 2) "Commission Interpretation and Guidance Regarding the Applicability of the Proxy Rules to Proxy Voting Advice"

Division of Corporate Finance, SEC

- Proxy voting advice provided by a proxy advisory firm constitutes a **solicitation** under the Exchange Act.
- ⇒ Exchange Act 14a-9 prohibits any solicitation from containing any statement which is **false or misleading**.  
(Proxy advisors need to disclose an explanation of the methodology, information sources, and material conflicts of interest)

### 3-(1) Proxy Advisors : EU

In EU, in June 2017, the EU updated the [Shareholder Rights Directive](#) and clarified the rules for proxy advisors. (It requires member countries to reflect them in their regulations by June 10, 2019.)

#### 【Article for Proxy Advisors in SRD】

<b>System</b>	<ul style="list-style-type: none"><li>○ Member States shall ensure that proxy advisors publicly disclose reference to a code of conduct which they apply and report on the application of that code of conduct.</li><li>○ Where proxy advisors do not apply a code of conduct, they shall provide a clear and reasoned explanation why this is the case.</li></ul>
<b>Disclosure</b>	<ul style="list-style-type: none"><li>○ 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:<ul style="list-style-type: none"><li>⇒ the essential features of the methodologies and models they apply; the main information sources they use; the procedures put in place to ensure quality of the research, advice and voting recommendations 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 which are the objects of their research, advice or voting recommendations and with the stakeholders of the company, and, if so, the extent and nature thereof; the policy regarding the prevention and management of potential conflicts of interest</li></ul></li><li>○ Member States shall ensure that proxy advisors identify and disclose without delay to their clients any actual or potential conflicts of interest or business relationships that may influence the preparation of their research, advice or voting recommendations and the actions they have undertaken to eliminate, mitigate or manage the actual or potential conflicts of interest.</li></ul>

Based on the requirement of the [Code of Conduct](#) by Shareholder Rights Directive above, in July 2019, the [Best Practice Principle Group which consists of major proxy advisors published a revision of the Best Practice Principle.](#)\*  
(The original version and the revision of the Principle are on the next page. )

\* Following the publication of the European Securities and Markets Authority (ESMA) report in February 2013, which encouraged the proxy advisory industry to develop its own Code of Conduct, a number of industry members formed the Best Practice Principles Group (BPPG). The BPPG published the Best Practice Principles in 2014, and revised them in July 2019.

# 3-(1) Proxy Advisors : EU

## 【Summary : Best Practice Principle (BPP)】

### Principles 2014

Signatories provide services that are delivered in accordance with agreed client specifications. Signatories should have and publicly disclose their research methodology and, if applicable, “house” voting policies.

#### Principle 1 Service Quality

Signatories should have and publicly disclose a conflicts-of-interest policy that details their procedures for addressing potential or actual conflicts of interest that may arise in connection with the provisions of services.

#### Principle 2 Conflicts of Interest Managem ent

Signatories should have and publicly disclose their policy (or policies) for communication with issuers, shareholder proponents, other stakeholders, media and the public.

#### Principle 3 Communi cations Policy

### Principles (July 2019)

BPP Signatories disclose:  
the essential features of the methodologies and models they apply;  
the main information sources they use; how BPP Signatories alert clients to any material factual errors or revisions to research, analysis or voting recommendations after research publication.

BPP Signatories should also have a process in place to identify and disclose without delay to their clients, on a case-by-case basis, actual or potential conflicts of interest or business relationships that may influence the preparation of their research, advice and voting recommendations and the actions they have undertaken to eliminate, mitigate and manage actual or potential conflicts of interest.

BPP Signatories should provide high-quality research that enables investor clients to review the research and/or analysis sufficiently in advance of the vote deadline ahead of a general meeting.  
BPP Signatories should inform clients about the nature of any dialogue with relevant parties in their research reports, which may also include informing clients of the outcome of that dialogue.

The Principles are supported by a detailed Guidance.

The Principles became more detailed.

## 3-(1) Proxy Advisors : UK

- ❑ Based on the EU's revised SRD II, the [UK established a new section for service providers in a consultation paper](#) published on January 30, 2019.

### 【UK (Stewardship Code revision proposal) – Service Providers】

#### Principles

- A:** Signatories must develop their purpose and state how their purpose, strategy, values and culture enable them to promote effective stewardship.
- B:** Signatories must ensure they execute their role in the investment community in a manner that promotes and enables effective stewardship.
- C:** Signatories' governance, processes, resources and remuneration (including fee structures) must support them to promote and enable effective stewardship.
- D:** Signatories must establish policies to manage conflicts of interest, which put the interests of clients first.

#### Provisions

- 1:** Signatories must indicate the range of services they offer, and how they serve the interests of clients and enable them to deliver effective stewardship.
- 2:** Signatories must inform clients about the accuracy of their services and demonstrate service quality by providing information about how products and services are prepared to best support clients' stewardship.
- 3:** Signatories should explain what activities they undertake to work with other stakeholders and exercise their roles as stewards of the market.
- 4:** Signatories should ensure their workforce has appropriate experience, qualifications and/or oversight to deliver their services.
- 5:** Signatories should disclose their conflicts of interest policy and how it has been applied.
- 6:** Signatories should establish a code of conduct.

## 3. Service Providers

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### (2) Investment Consultants

### 3-(2) Outline of Businesses of Major Investment Consultants

Type of companies	Company	Investment Consulting	Asset Management	Pension Scheme, Actuaries	Pension Admin, Services	Other Business
Independent (including Non-Japanese)	A	○	□	□	□	
	B	○	□	○	○	
	C	○	○			
	D	○				○
Stock Broker affiliated	E	○	□			
Life Insurance Companies	F	○	○			
Trust Banks	G	○	□	○	○	
	H	○	○	○	○	

Note: The chart shows other businesses provided by major investment consultants to pension funds.  
○, □ indicates different entities in the same group.

## 3-(2) Investment Consultants : Summary of CMA Report & The Order (UK)

❑ Based on **Investment Consultants Market Investigation** (by CMA, December 2018), CMA established “The Investment Consultancy and Fiduciary Management Market Investigation Order 2019,”.

### [Summary of CMA Report]

- Investment consultancy has an influence on pension schemes to manage £1.6 trillion of investments.
- **Potential conflicts of interest** on investment consultancy:
  - **investing in their own asset management or investment products**
  - business relationships or the receipt of gifts and hospitality that might affect the independence of the consultants’ manager ratings
- CMA’s decision on remedies as follows:
  - Remedy 2: require investment consultancy firms to separate their marketing of fiduciary management from their provision of investment consultancy advice
  - Remedy 7: require pension scheme trustees to set strategic objectives for their investment consultant to judge the quality of their services
  - Remedy 8: require investment consultants to report the performance of any recommended asset management products

### The Investment Consultancy and Fiduciary Management Market Investigation Order 2019

- Firms offering both Investment Consultancy Services (ICS) and Fiduciary Management Services (FMS) must not provide, within the same document, their Pension Scheme Trustee clients with both: Marketing Material in respect of FMS and advice in respect of ICS or FMS. (5.1)
- Pension Scheme Trustee must not enter into a contract with an Investment Consultancy Provider unless the Pension Scheme Trustee have set Strategic Objectives for the Investment Consultancy Provider. (12.1)
- IC Providers and FM Providers must adhere to some requirements (e.g. the source of the information) when providing information to potential Pension Scheme Trustee clients on the past performance of their recommended Asset Management or in-house funds or financial instruments. (13-1)
- ⇒ Pension Scheme Trustees, IC-FM Firms, IC Providers and FM Providers must submit Compliance Statements to the CMA in a certain period. (18-1)

### 3-(2) Investment Consultants : Description on Investment Consultants in Codes in other countries

Codes in some other countries include [descriptions about investment consultants](#).

Code	Section	Content
ICGN (Global Stewardship Principle)	Part 3 (Stewardship ecosystem)	<b>Investment consultants and advisors</b> Investment consultants and advisors can assist asset owner and asset managers with developing and implementing their responsibilities as part of their advisory services. Consultants, advisors and other service providers ... should endeavour to understand their role in the investment chain and to provide services in the interests of their immediate clients and ultimate beneficiaries.
UK (Stewardship Code the proposed revision)	Introduction 2 (Who the code is for) and Introduction 3d (Major changes to the code in 2019)	The Code is written for asset owners, asset managers and entities providing services to the institutional investment community, including: investment consultants, proxy advisors and other service providers that want to demonstrate their commitment to stewardship. The Provisions are tailored to different roles within the investment community.