

Secretariat Briefing Pack

November 18, 2024



金融庁

Financial Services Agency, the Japanese Government

Contents

- I. Main opinions from the members at the first meeting of the Expert Panel on the Stewardship Code**
- II. Transparency of beneficial shareholders
- III. Collective/collaborative engagement
- IV. Questions for discussion

Main opinions from the experts shared at the first meeting (1/3)

Overall corporate governance reforms in Japan

- Over the last ten years, issues discussed by the board of directors have been changing, reflecting the views of capital markets.
- It is important to discuss in an integrated manner how sustainability transformation leads to business models and to increased corporate value.
- While the number of engagements has increased, there is still a large number of companies in the Prime Market whose PBRs are below one and they have not received a sufficient market evaluation.
- Mid- to long-term growth capital is not being used to invest in Japanese companies.

Effective implementation of stewardship activities

- Some investors engage in dialogues only to fill in the check boxes and fail to engage in constructive dialogues.
- It should be reconfirmed whether the implementation of dialogues leads to the effective exercise of voting rights.
- Adding a disclosure item on how each institutional investor fulfils its stewardship responsibilities to the appropriate part (such as Principle 6 of the Stewardship Code) should be considered.
- More asset owners should sign up to the Stewardship Code. It is important to bolster initiatives such as incentivising institutional investors through management fees and collective/collaborative engagement.
- The FSA should assess compliance with the Stewardship Code by institutional investors as well as their service providers.
- Compiling good and bad practices of asset owners, asset managers, and companies and sharing the practices with them could lead to their profound study of engagement.
- Passive investors should contribute to an increase in the corporate value of investee companies by expressing their approval or disapproval of proposals and takeovers by activist funds.
- Resources and costs should be optimised throughout the entire investment chain, including final beneficiaries.
- The continued substantial presence of cross-shareholdings impedes the implementation of effective engagement.

Main opinions from the experts shared at the first meeting (2/3)

Collective/collaborative engagement

- Since each investor has different investment philosophies and investment purposes, some investors do not need to collaborate with other investors. Therefore, **collective/collaborative engagement should be positioned as one of many methods for dialogue so as not to impede constructive dialogues.**
- **In order to conduct collective/collaborative engagement smoothly, it is important for investors to have similar investment philosophies and investment periods.** Meanwhile, it is difficult to deal with issues on which investors have different views, such as how to improve the business strategies of investee companies.
- Collective/collaborative engagement should be indicated as **an option** in a neutral way **that can be used if necessary.**
- For institutional investors, it is more important to select and actively engage in **a small number of collective/collaborative engagement initiatives in which they can make a greater contribution,** rather than participating in a large number of initiatives.
- Since there is concern that collective/collaborative engagement could put **excessive pressure on investee companies,** establishing a mechanism by which companies can consult with relevant authorities should be considered.

Transparency of beneficial shareholders

- **The transparency of beneficial shareholders is important** from the perspective of continuously improving the quality of dialogue between investors and companies.
- Companies need to **grasp the views of their shareholders as well as their shareholding ratios.** Despite the fact that companies have investigated them at significant cost, it is not possible to fully grasp the information under the current situation. Until the law is amended to require investors to respond to inquiries from companies, this issue should be covered by the Stewardship Code.
- The cooperation of foreign investors is essential for grasping beneficial shareholders. **A system should be developed** to ensure that companies can grasp who the beneficial shareholders are.
- **It is an excessive burden for investors to respond to inquiries from companies every time.** If the authenticity of the inquirer cannot be confirmed, investors cannot respond to them from the perspective of fiduciary duties.

Main opinions from the experts shared at the first meeting (3/3)

Streamlining the Stewardship Code

- Streamlining of the Stewardship Code should not end up with the “watering down” of the Code or lowered overall expectations for signatories’ stewardship.
- The notes to the Code should be examined, such as by deleting obvious ones.
- One option might be merging Principle 2 and 7, and also putting other relevant issues together in the context of “governance of institutional investors.”

Other issues

- It should be examined whether the Stewardship Code states in more detail that the Code is applicable to investments in assets other than equities.
- It should also be examined whether to specify that institutional investors could possibly engage not only with issuers but also with a wider range of counterparties, including governmental agencies and service providers.
- It should be examined how to contextualise the institutional investor’s approach towards service providers (related to Principle 8 and Guidance 5-4).
- Companies are complaining that the quality of dialogue with proxy advisors is not high, and that evaluations/recommendations by them are biased due to the absence of dialogues.
- Mechanical judgements of voting recommendations by proxy advisors with a box-ticking approach, including on ROE, may be resulting in stock buybacks and other easy-going measures by companies.
- In light of the increasing impact of ESG information on stewardship activities, it should be examined whether to ask ESG information providers to accept the Stewardship Code.

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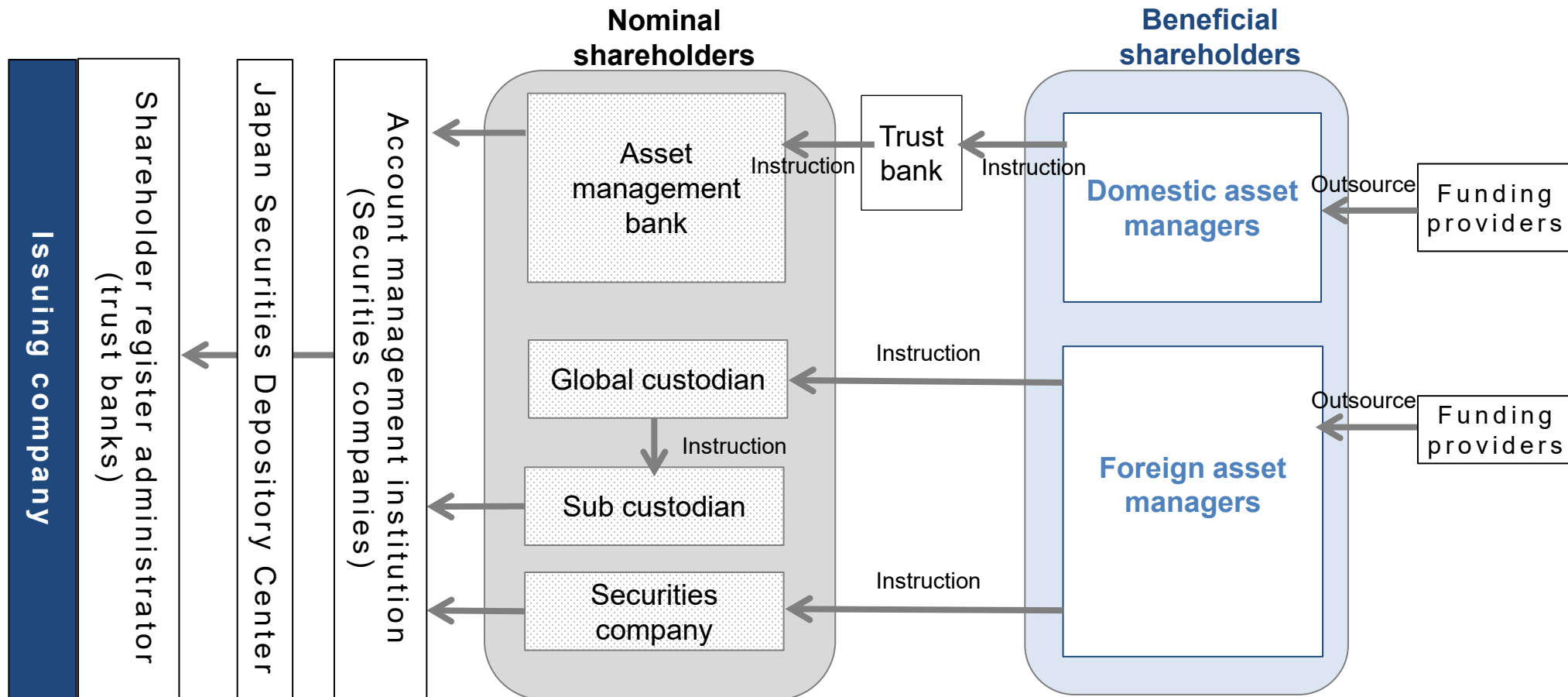
- I. Main opinions from the members at the first meeting of the Expert Panel on the Stewardship Code

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Stakeholders on the shareholder registration

- ❑ Shareholder registration involves a number of stakeholders. In cases where shares are held by financial institutions (e.g., banks as well as life and non-life insurance companies), business companies and individuals, shareholders on the register are equated to beneficial shareholders (i.e., a person who has the authority to direct voting rights and invest). In other cases, however, the names of institutional investors who are beneficial shareholders do not appear on the shareholder register.
- ❑ Many companies outsource the survey of domestic and overseas shareholder identification.



Report of the Financial System Council's Working Group on Tender Offer Rules and Large Shareholding Reporting Rules (published on December 25, 2023) (excerpt)

III. Transparency of beneficial shareholders

Under the current rule, companies and shareholders can ascertain the status of nominal shareholders through the disclosure of the shareholder registry under the Companies Act and the status of large shareholders in annual securities reports. On the other hand, there is no system under which companies and shareholders can ascertain the status of beneficial shareholders (shareholders who have the authority to give instructions on voting rights or the authority to invest in the relevant shares), except for those who are subject to the large shareholding reporting rule (holding over 5%).

Thus, from the viewpoint of promoting dialogue between companies and shareholders/investors, it was pointed out that practical considerations for beneficial shareholders should be made with reference to systems in other countries so that issuer companies and other shareholders can efficiently identify the beneficial shareholders and the number of shares held by them.²⁰

In other countries, there are mainly:

- systems that require institutional investors that hold specified amounts of assets to disclose their holdings statements at regular intervals, as in the United States, and
- systems that require beneficial shareholders and nominal shareholders to respond when they are asked questions by companies on the status of their holdings and information on beneficial shareholders, as in European countries.

The system in the U.S. is believed to be a system that contributes to improving market transparency as it enables any person, not just companies and other shareholders, to view institutional investors' statements on their holdings. However, there were opinions that it is an excessive regulation vis-a-vis the purpose of promoting dialogue between companies and shareholders/investors and opinions that information necessary for companies may not be disclosed depending on how the system is designed.

By contrast, the system in European countries communicates the information on the status of holdings of beneficial shareholders to issuer companies and, we believe, is more suitable for the purpose of promoting dialogue between companies and shareholders/investors.²¹

Therefore, going forward, relevant authorities should work on initiatives to develop appropriate rules, using the system in European countries as guides. [Specifically, first of all, calling on institutional investors to respond when issuer companies ask them about the status of their holdings by clearly stating principles of conduct for institutional investors as soon as possible](#) and subsequently making such responses mandatory under law should be considered.²²

In addition, a discussion of rules and their application to improve the efficiency of these beneficial shareholders' grasping processes is desirable.

²⁰ In recent times, the importance of constructive dialogue between companies and investors has rapidly increased and there are issues regarding the effectiveness of the large shareholding reporting rule (see "4. Ensuring effective implementation of large shareholding reporting rule" in "II. The large shareholding reporting rule"). There were opinions that, in light of these situations, the absence of a system that enables companies and shareholders to know who the beneficial shareholders are and how many shares they hold is an urgent issue for Japan's capital market.

²¹ On the other hand, there were opinions that the introduction of a system designed after the U.S. system as the model should continue to be discussed from the viewpoint of the importance of improving market transparency.

²² Along with this, there were opinions that how information about beneficial shareholders obtained by companies is disclosed, for example, through annual securities reports, should be considered.

Systems in other countries regarding the identification of beneficial shareholders (1/3)

US	
	Form 13F
System / Purpose	NOBO
	<ul style="list-style-type: none"> ● NOBO Request System ● The purpose of this system is to mitigate the communication gap that arises between nominal shareholders and beneficial shareholders when interacting with the company.*1
Overview	Form 13F
	<ul style="list-style-type: none"> ● Disclosure of holdings by institutional investors under the Securities Exchange Act of 1934 (Form 13F). ● The purposes of this system are: (1) centralized management of data related to the investment activities of institutional investors; (2) provision of data concerning the assets held by institutional investors, facilitating the examination of their impact on the market and the implications of that impact for public policy; and (3) enhancement of investor confidence in the integrity of the market.*2
	<ul style="list-style-type: none"> ● Shareholders can choose to be classified as either Objecting Beneficial Owners (OBO) or Non-Objecting Beneficial Owners (NOBO) when opening a securities account. ● Securities firms must provide a list of information regarding their customers who are classified as Non-Objecting Beneficial Owners (NOBO) to the company upon request.
	<ul style="list-style-type: none"> ● Institutional investors with discretionary management of over \$100 million in equities listed on U.S. exchanges are required to submit a quarterly report to the SEC detailing their holdings, including the names of the securities, stock classes, security identification numbers, number of shares, and market prices (Form 13F). ● The submitted Form 13F is made publicly available on the SEC's website (EDGAR).

*1 Japan Institute of Business Law, "Report on the Results of the Research Study on the Dialogue Between Companies and Investors Aimed at Creating Sustainable Corporate Value (Survey on Shareholders' Meetings) for the Fiscal Year 2019 Industrial Economic Research Commission" (Mar 13, 2020), at 41

*2 SEC, "Reporting Threshold for Institutional Investment Managers," Release No. 34-89290; File No. S7-08-20 (Jul 10, 2020), at 9

Systems in other countries regarding the identification of beneficial shareholders (2/3)

	UK
System / Purpose	<ul style="list-style-type: none"> ● Disclosure Request System based on Section 793 of the Companies Act. ● The system was established on the grounds that companies should have the right to know the true identity of their shareholders.*1
Overview	<ul style="list-style-type: none"> ● A public company may give notice to any person who the company knows or has reasonable cause to believe to be interested in the company's shares. (Section 793(1)) ● The person receiving the notice must, within the reasonable time specified in the notice, confirm whether or not they have a beneficial interest, and if they do, provide sufficient information to identify the beneficial owners, detailed information such as the number of shares held, and whether there are other beneficial owners. (Section 793(2) to (7))
Disclosure system	<ul style="list-style-type: none"> ● The company must keep the information about beneficial shareholders identified through this system by adding it to the register within three days of the receipt, while also disclosing it for public inspection. (Section 808 and after)
Practical flow*2	<ul style="list-style-type: none"> ● The notice based on Section 793 is first issued to the shareholders listed on the shareholder register. If the recipient of the notice is the sole beneficial owner of the shares, they will typically respond, confirming that they are indeed the sole beneficial owner, and the inquiry will be concluded. However, if there are other individuals with a beneficial interest in those shares besides the shareholders listed on the register, multiple notices may be required. ● The system corresponding to the notice under Section 793 is not necessarily designed to facilitate smooth engagement between companies and investors. However, it appears that the notice system under Section 793 is now well-known among custodians and institutional investors within the UK. Companies seem to issue notifications based on Section 793 approximately once a month, making efforts to identify beneficial owners through nominal shareholders, and custodians and institutional investors generally do not refuse to provide information.

*1 Ito Kunio, and Ozaki Yasuhiro, eds., "Transforming the Framework for 'Dialogue' for Sustainable Growth: Challenges in Corporate Information Disclosure and Shareholder Meeting Processes in Japan." Shoji Homu (2017), at 316

*2 Japan Institute of Business Law, "Report on the Results of the Research Study on the Dialogue Between Companies and Investors Aimed at Creating Sustainable Corporate Value (Survey on Shareholders' Meetings) for the Fiscal Year 2019 Industrial Economic Research Commission" (Mar 13, 2020), at 72-73

Systems in other countries regarding the identification of beneficial shareholders (3/3)

EU	
System / Purpose	<ul style="list-style-type: none"> ● Article 3a of the EU Second Shareholder Rights Directive (SRD II: The Shareholder Rights Directive II),^{*1} which was passed on May 17, 2017, states that Member States shall ensure that “companies have the right to identify their shareholders.” ● The right was institutionalised because it was thought that in order for shareholders to exercise their rights and to facilitate direct engagement between shareholders and the company without an intermediary, the starting point is for the company to know who their shareholders are, and in some cases it is necessary for the company to grant access rights to the shareholders.^{*2}
Overview	<ul style="list-style-type: none"> ● Member States shall ensure that, on the request of the company or of a third party nominated by the company, the intermediaries communicate without delay to the company the information regarding shareholders. ● Member States may provide to be only allowed to request the identification of shareholders holding more than a certain percentage of shares or voting rights. Such a percentage shall not exceed 0,5%. ● The information obtained by the company and intermediaries shall be protected in accordance with the rules of data protection laws.

* In July 2023, the European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA) published a report summarizing the results of the public consultation on the application of the amendments to SRDII from 2017. The report highlights several key points: (1) A unified definition and regulation of “shareholder,” including beneficial owners, should be considered among member states, (2) The scope of securities covered by the right to identify shareholders should be clarified, (3) There is insufficient clarity in the uniform regulatory requirements and formats for communication among issuers, transfer agents, and other intermediaries, and this should be addressed, (4) When setting thresholds not exceeding 0.5%, both supportive and opposing opinions were expressed regarding the promotion of dialogue between issuers and shareholders, (5) Customization of shareholder information requests based on ownership percentages should be implemented.

^{*1} Directive (EU) 2017/828 of the European Parliament and of the Council of May 17, 2017, amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement

^{*2} Hiroyuki Kansaku, “Sustainable Corporate Growth and Related Issues under the Companies Act and the FIEA: Insights from Europe.” Commercial law review (2198) (2019) at 20. Directive (EU) 2017/828, supra note 1, Paragraph 4.

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Report of the Working Group on Capital Market Regulations and the Asset Management Task Force of the Financial System Council (published on 12 December, 2023) (excerpt)

- ❑ The Asset Management Task Force of the Financial System Council had discussed efforts for the effective implementation of stewardship activities. Consequently, in a report published in December 2023, the Task Force made recommendations for promoting collective or collaborative engagements.

V. Efforts for the Effective Implementation of Stewardship Activities

Institutional investors, who play a core role in the investment chain, are required to fulfill stewardship responsibilities to promote the increase of corporate value by engaging with companies from a medium- to long-term perspective. In that case, **it is necessary to engage with individual companies based on in-depth knowledge of the circumstances of each company, rather than a formalistic or one-size-fits-all response** based simply on uniform numerical criteria or proxy advisor's voting recommendations. In order to provide appropriate incentives for such activities, it is important to share the cost of stewardship activities among the investment chain and establish an environment including policy support.²⁶

For the effective implementation of stewardship activities through such engagements, **it is important to encourage institutional investors to make efforts for engagement depending on their status (size, investment policy, etc.) in line with the Stewardship Code.** In order for institutional investors to more actively make such efforts, on the one hand, it is useful to increase the benefits that institutional investors can derive from stewardship activities, and on the other hand, it is also useful to reduce the costs of such activities.²⁷ In light of this, **it is beneficial for institutional investors to use collective or collaborative engagements actively from the perspective of supplementing qualitative and quantitative resources and reducing costs.**²⁸

As an example of specific initiatives in this direction, a certain asset owner is adopting passive investment models focusing on stewardship activities in which the management fee structure is different from that of ordinal passive investment with the aim of improving the overall market through stewardship activities, as well as diversifying and enhancing approaches to stewardship activities. In addition, there are initiatives such as collective or collaborative engagement in which the investor engages with companies in collaboration with other investors and the monitoring of asset managers by multiple asset owners collaboratively.²⁹ **It is expected that the effective implementation of stewardship activities will further progress as the number of investors implementing these various efforts increases.**³⁰

26 In order to be able to promote substantial engagement activities, there was an opinion that consideration should also be advanced on specific measures to realize engagement based on a deep understanding of the actual conditions of companies.

27 There was an opinion that the cost burden, including reporting operations related to stewardship activities, should not be excessive, and that it is necessary to appropriately include such costs in compensation.

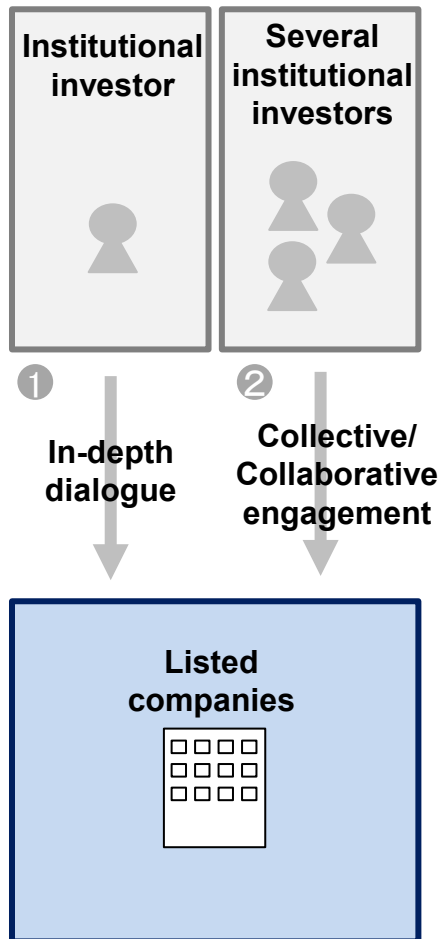
28 There were also opinions that voting advice companies should be required to develop systems based on the Stewardship Code and that the introduction of some sort of discipline should be considered.

29 Regarding the engagement of passive investors, there was an opinion that it should not be forgotten that engagement is not based on a uniform standard of specific numerical values specific to passive investors but is based on a close look at and judgment of the characteristics of individual companies like active investors.

30 There was an opinion that human resource development is also an urgent need for stewardship activities.

Report of the Working Group on Tender Offer Rule and Large Shareholding Reporting Rule of the Financial System Council (published on December 25, 2023) (Overview) ~Large Shareholding Reporting Rules~

- ❑ For the large shareholding reporting rule, the working group on Tender Offer Rule and Large Shareholding Reporting Rule of the Financial System Council (published on December 25, 2023) recommends as follows.
- ❑ Based on the recommendation, the law to amend the Financial Instruments and Exchange Act, including clarification of the scope of the large shareholding reporting rule, was filed.



Large shareholding Reporting Rule

- 1 In order for passive investors to have in-depth dialogues with companies, the rules should be clarified to allow investors to use the special reporting rule,* if all of the following conditions are satisfied:**
 - the **purpose** of the engagement **is not directly related to corporate control****
 - the **manner** of the engagement **leaves the adoption or refusal up to the company's management**

* See the next page for details of the current rule

** For example, suggested changes regarding dividend policy and capital policy
- 2 In order to promote collective/collaborative engagement,* even in cases where institutional investors agree on voting rights, if the investors' aim of agreement is not to jointly engage in the act of material proposal, and the agreement is not for the continuous exercise of voting rights, they should not be required to aggregate their ownership ratio as "joint holders."**

* The efforts to engage in dialogue with individual companies in collaboration with other institutional investors

The transparency of beneficial shareholders

In order to efficiently identify the beneficial shareholders (※)

- (1) **Call on institutional investors to respond** when issuer companies ask them about the status of their holdings by clearly stating **principles of conduct for institutional investors**, and
- (2) **Make the above responses mandatory under law**

※ Shareholders who are not on the shareholder registry (nominee shareholder) but who have the authority to give instructions on voting rights or the authority to invest in relevant shares

Clarifying “Joint Holders” in relation to the Large Shareholding Reporting Rule (in the revised Financial Instruments and Exchange Act, enacted on May 15, 2024)

- ❑ To promote constructive dialogue from a mid- to long-term perspective, the scope of “joint holders” is to be clarified

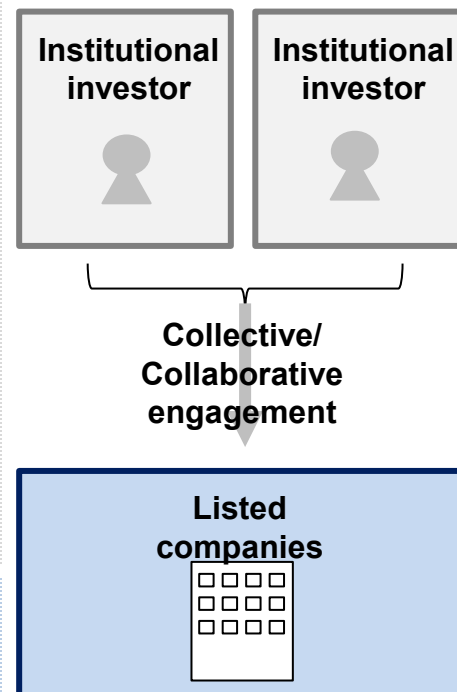
Issues and policy measures

Issues

- As investors are expected to engage in dialogue with companies based on their in-depth understanding of individual companies, it is important to compensate for the lack of investors’ qualitative and quantitative resources and increase the effectiveness of dialogue by means of collective or collaborative engagement.*
 - * Refers to the effort to engage in dialogue with individual companies in collaboration with other institutional investors about specific topics
- However, it is pointed out that joint holders as defined under the large shareholding reporting rule may have room for legal ambiguity and hinder collective or collaborative engagement.
 - ※ If two or more investors (Investor A ■%, Investor B □%) fall under the category of “joint holders” (i.e. persons who have agreed to jointly exercise voting rights and other rights as shareholders) and the combined ownership ratio (■%+□%) exceeds 5%, they will be required to submit a large shareholding report.

Policies

- In light of promoting constructive dialogue from a mid- to long-term perspective, the scope of “joint holders” is to be clarified at the level of acts.



Law revision

Clarifying “joint holders” in relation to the Large Shareholding Reporting Rule

- **Unless two or more investors reach an agreement which would have a material impact on a company’s management,* they should not be required to aggregate their ownership ratio as “joint holders”**

* Assuming a case where two or more investors jointly make a proposal that is not directly related to corporate control, such as a change in dividend policies or capital policies

(Ref.) On the other hand, in order to appropriately respond to cases that may threaten the fairness of the capital market, such as cases in which two or more investors stealthily failed to submit reports, a cabinet order is to be revised to deem a joint holder when there are certain external facts, such as an officer concurrent position relationship and a funding relationship.

UK Stewardship Code and the ICGN Global Stewardship Principles (collective/collaborative engagement)

- ❑ The UK Stewardship Code 2020 states that signatories, **where necessary, participate in collaborative engagement**, and stipulates that they should disclose **the collective/collaborative engagements they have participated in and the reasons for their participation**.
- ❑ The ICGN Global Stewardship Principles also provide that **investors may consider engaging with other investors, as appropriate**, and should disclose collaborations undertaken, engagement objectives, time frames, key engagement milestones, and outcomes, as appropriate.

UK FRC	Principle 10	❑ Signatories, where necessary, participate in collaborative engagement to influence issuers
	REPORTING EXPECTATIONS: Activity	<ul style="list-style-type: none"> ❑ Signatories should disclose what collaborative engagement they have participated in and why, including those undertaken directly or by others on their behalf. For example: <ul style="list-style-type: none"> • collaborating with other investors to engage an issuer to achieve a specific change; or • working as part of a coalition of wider stakeholders to engage on a thematic issue. ❑ Signatories should provide examples, including the issue(s) covered, the method or forum, their role and contribution.
	REPORTING EXPECTATIONS: Outcome	<ul style="list-style-type: none"> ❑ Signatories should describe the outcomes of collaborative engagement. For example: <ul style="list-style-type: none"> • any action or change(s) made by the issuer(s); • how outcomes of engagement have informed investment decisions (buy, sell, hold); and • whether their stated objectives have been met. ❑ Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved.
ICGN	3.7 Collaborative engagement	❑ Investors may consider collaborating with other investors to engage with companies and issuers on specific issues, as appropriate. Investors should disclose collaborations undertaken, engagement objectives, time frames, key engagement milestones, and outcomes, as appropriate. Investors should respect 'acting in concert' and market abuse regulations, confidentiality, client interest, and ensure that voting decisions are made individually.

Proposed updated UK Stewardship Code: Consultation proposal (1/3)

- ❑ On 11 November, 2024, the FRC launched a public consultation on [the proposed revisions to the UK Stewardship Code](#), with a plan to publish the updated Code in the first half of 2025 and an effective date of January 2026.

* Under the 2020 Code, there was a concern about overburden for institutional investors, because of the detailed review of reporting by the FRC.

Perspectives of 2020 Code review

- The review will focus on, amongst other topics, the extent to which the Code:
 - supports long term value creation through appropriate investor-issuer engagement that drives issuers' prospects and performance
 - creates reporting burdens on issuers as well as Code signatories and
 - has led to any unintended consequences, such as short-termism in targets and outlook for issuers.

Key points of the proposed review

Definition of Stewardship	<ul style="list-style-type: none">● The inclusion of 'leading to' and below in the definition of Stewardship can contribute to the interpretation that creating value for clients must always deliver wider additional benefits. The updated Code removed 'leading to' and below.● [2020 Code]<ul style="list-style-type: none">- 'Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.'● [Updated Code]<ul style="list-style-type: none">- 'Stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries.'
Structure of Principles	<ul style="list-style-type: none">● The term 'reporting expectations' of the 2020 Code may imply to signatories that the disclosures they make must be formulaic.● To ensure that the reporting against the Principles is not be seen as a 'tick-box' exercise, the updated Code includes the Principles with more concise prompts on 'how to report'. These are designed to encourage signatories to explain their individual approach to stewardship and will be supported by guidance that gives additional, non-prescriptive suggestions for some of the information signatories may wish to include.

Proposed updated UK Stewardship Code: Consultation proposal (2/3)

Key points of the proposed review

Collaborative Engagement	<ul style="list-style-type: none"> ● [Proposed changes to the Code] <ul style="list-style-type: none"> - In the updated Code, we have brought together Principles 9 and 10 of the 2020 Code, which deal with engagement and collaborative engagement respectively. This reflects the fact that collaborative engagement may be used by signatories as part of their overall approach, when it is appropriate. Collaborative engagement can be an important and effective stewardship tool. However, not every signatory will have the opportunity to engage collaboratively each year. Case studies highlighting engagement, any examples of escalation and rationale for their chosen approach would be disclosed under this Principle. Please see Appendix D for the sample guidance. ● [Updated Code] Principle 3. Signatories engage to maintain or enhance the value of assets. <ul style="list-style-type: none"> - Engagement may take many forms, including directly with investee companies and other assets, with other relevant stakeholders or in collaboration with other investors. - Signatories shall describe own methods of engagement, including whether the Signatory have engaged directly or in collaboration with others, and the reasons for chosen method on their reports.
Reduction of disclosure burden	<ul style="list-style-type: none"> ● In order to distinguish between different types of information and to reduce reporting where possible, the report shall be divided into the following two parts: <ul style="list-style-type: none"> a) Policy and Context Disclosure: regarding information about their organisation, its governance and resourcing, linking to relevant policies. This disclosure is reviewed less frequently by the FRC (after three years) and updated this report as necessary by the signatory. b) Activities and Outcomes Report: every 12 months thereafter, signatories will be required to submit a report that provides information on how they have exercised stewardship in the preceding year. ● Updated Code allow signatories to refer to information disclosed outside of their stewardship report as part of their assessment. ● Any use of cross-referencing would be supported by a clear policy from the FRC on its appropriate use.
Proxy advisors	<ul style="list-style-type: none"> ● To introduce Principles to be applied specifically by proxy advisors and investment consultants, to reflect the importance of the services they provide to clients in the stewardship ecosystem. ● Principle 2. Proxy advisors ensure the quality and accuracy of their research, recommendations and voting implementation. ● Engagement with stakeholders supports the delivery and accuracy of proxy advisors' services.



Proposed updated UK Stewardship Code: Consultation proposal (3/3)

Mapping of updated UK Stewardship Code and 2020 Code

Updated Code for asset owners and asset managers	2020 Code for asset owners and asset managers	Updated Code for service providers	2020 Code for service providers
Policy and Context Disclosure		Policy and Context Disclosure	
A. The organisation, its clients and investment beliefs	1. Purpose, strategy and culture	A. The organisation and its services	1. Purpose, strategy and culture
B. Governance and resources	2. Governance and resources	B. Governance and resources	2. Governance and resources
C. Stewardship policies and review	5. Review and assurance	C. Stewardship policies and review	6. Review and assurance
D. Conflicts of interest	3. Conflicts of interest	D. Conflicts of interest	3. Conflicts of interest
E. Dialogue with clients and beneficiaries	6. Client and beneficiary needs		
Principles (Activities and Outcomes Report)		Principles (Activities and Outcomes Report)	
1. Integration of stewardship and investment	7. Integration of stewardship and investment	1. Communication with clients	5. Supporting clients' stewardship
2. Market-wide and systemic risks	4. Market-wide and systemic risks	2. Proxy advisors – quality and accuracy of recommendations	5. Supporting clients' stewardship
	11. Escalation	3. Investment consultants – integration of stewardship and advice	4. Market-wide and systemic risks
3. Engagement	9. Engagement	4. Investment consultants – market-wide and systemic risks	5. Supporting clients' stewardship
	10. Collaboration		
	11. Escalation		
4. Exercising rights and responsibilities	12. Exercising rights and responsibilities		
	11. Escalation		
5. Selection and oversight of external managers	8. Monitoring managers and service providers		
6. Monitoring service providers	8. Monitoring managers and service providers		

Collective/collaborative engagement initiatives

- ❑ Initiatives for collective/collaborative engagement include those by the Institutional Investors Collective Engagement Forum and the Life Insurance Association of Japan, as well as those by the Investor Forum in the UK.
- ❑ **In order to conduct effective stewardship activities** that are appropriate for each investor's situation, **it may be beneficial for investors to utilise collective/collaborative engagement initiatives like them.**

		 Initiatives in Japan	 Initiatives in the U.K.	
		Institutional Investors Collective Engagement Forum (IICEF)	Life Insurance Association of Japan	Investor Forum
Organization Overview	<ul style="list-style-type: none">❑ Established in 2017 to support constructive, "purposeful dialogue" (collaborative engagement) conducted with companies through collaboration by institutional investors to contribute to appropriate stewardship activities of institutional investors	<ul style="list-style-type: none">❑ Established to promote the sound development and maintain the reliability of the life insurance industry and thereby contribute to the improvement of people's lives❑ The Association operates a stewardship activities working group to help revitalize the stock market and realize a sustainable society	<ul style="list-style-type: none">❑ Launched in 2014 with the goal of placing stewardship at the center of investment decision-making by promoting dialogue, creating long-term solutions, and enhancing value	
	Activities	<ul style="list-style-type: none">❑ The forum operates an institutional investor collaborative dialogue program for collaborative engagement<ul style="list-style-type: none">• Participating investors discuss issues common to Japanese companies and set the agenda• The secretariat presides over and facilitates dialogue with the target companies and supports constructive dialogue between the companies and participating investors• The main agenda includes:<ul style="list-style-type: none">✓ Realizing management that is conscious of cost of capital and stock price✓ Identifying materiality and disclosing nonfinancial information✓ Handling proposals with a high rate of opposition at general shareholders' meetings, etc.	<ul style="list-style-type: none">❑ Companies participating in the stewardship activities working group perform collaborative engagement (commenced in FY2017)<ul style="list-style-type: none">• The main agenda includes:<ul style="list-style-type: none">✓ Enhancing shareholder returns✓ Enhancing disclosure of ESG information✓ Enhancing disclosure of climate change information, etc.	<ul style="list-style-type: none">❑ The forum has developed a Collective Engagement Framework that organizes legal risks, etc., and conducts collective engagement in a format that represents the views of participating investors❑ Holds events for investor-company dialogue❑ Shares best practices
Participants		<ul style="list-style-type: none">❑ Pension Fund Association, Dai-ichi Life Insurance, Sumitomo Mitsui DS Asset Management, Sumitomo Mitsui Trust Asset Management, Mitsubishi UFJ Trust and Banking Corporation, Meiji Yasuda Asset Management, Resona Asset Management (7 companies)	<ul style="list-style-type: none">❑ Asahi Mutual Life Insurance Co., Japan Post Insurance Co., Gibraltar Life Insurance Co., Sumitomo Life Insurance Co., Dai-ichi Life Insurance Co., Taiju Life Insurance Co., Daido Life Insurance Co., Taiyo Life Insurance Co., Nippon Life Insurance Co., Fukoku Mutual Life Insurance Co., Meiji Yasuda Life Insurance Co. (11 companies)	<ul style="list-style-type: none">❑ 55 companies (comprising asset owners and asset managers in the UK and abroad)

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Questions for discussion (1)

[Increasing transparency of beneficial shareholders]

- ❑ In Japan, there is no legal system for companies to identify beneficial shareholders (persons who have the authority to give instructions on voting rights or to make investments in stocks but are not nominal shareholders), except for cases where companies are subject to the Large Shareholding Reporting Rules (more than 5%).
- ❑ What are the experts' views on clarifying in the Stewardship Code that institutional investors should respond to inquiries from issuing companies about their holding status, from the viewpoint of promoting the development of relationships of trust between companies and institutional investors and facilitating companies' requests for dialogues with institutional investors?
- ❑ How should institutional investors address this issue? For example, what are the experts' views on adding to the Stewardship Code that it is desirable to disclose in advance policies on how to respond to requests from investee companies?

Draft revised text of the Code	Current text of the Code
4-2. In order to engage in constructive dialogue with investee companies, institutional investors should, in response to requests from investee companies, explain to investee companies how many shares they own/hold.	4-1. 16. Constructive dialogue between institutional investors and investee companies should not be merely driven by the size of shareholdings. That being said, there are cases when it is appropriate for institutional investors to explain to investee companies how many shares they own/hold.

*The current note 16 of the Code will be upgraded to 4-2 as a new Guidance.

Questions for discussion (2)

[Promoting collective/collaborative engagement]

- ❑ What are the experts' views on collective/collaborative engagement initiatives by investors?
- ❑ Some suggested benefits of collective/collaborative engagement include:
 1. If two or more investors have the same purpose for dialogue, collaboration could supplement the resources devoted to stewardship activities and reduce costs.
 2. When investors share a view on what is an issue for a specific company, it may be reasonable for the company to have a forum for collective/collaborative dialogue instead of being asked the same questions repeatedly.
- ❑ On the other hand, some suggested points of attention include:
 1. Institutional investors use a considerable amount of resources on the analysis of companies they engage with, and it is difficult to share its details with other investors. However, collective/collaborative engagement conducted without sharing such analysis would be superficial, and may instead result in stewardship activities only to fill in the check boxes.
 2. Investment objectives and investment periods vary among investors. In collective/collaborative engagement, it might be difficult to handle different perceptions among investors about how to improve the business strategies of investee companies. In addition, even if investors share a view on what is an issue for an investee company at an early stage of dialogue, it may become difficult for them to continue engaging in collaboration, as investors may have different positions on the extent, content, and timeline of the dialogue at subsequent stages.
- ❑ Building on the considerations above, what are the experts' views on stating in the Code that collective/collaborative engagement should be "examined as an option" (see next page)?
- ❑ In addition, what are the points of attention when conducting collective/collaborative engagement? How should such points be described in the Code (see next page)?

Questions for discussion (3)

【Promoting collective/collaborative engagement】

Draft revised text of the Code	Current text of the Code
<p>4-6. In addition to institutional investors engaging with investee companies independently, institutional investors should consider, as an option, engaging with investee companies in collaboration with other institutional investors (collective/collaborative engagement) as necessary. In doing so, it should be kept in mind whether it will lead to constructive dialogue that contributes to the sustainable growth of investee companies.</p> <p>20 [Deleted]</p> <p>[Deleted, considering that the objective of 7-3 is achieved by the revised 4-6.]</p>	<p>4-5. In addition to institutional investors engaging with investee companies independently, it would be beneficial for them to engage with investee companies in collaboration with other institutional investors (collaborative engagement) as necessary²⁰.</p> <p>20 The Financial Services Agency published “Clarification of Legal Issues Related to the Development of the Japan’s Stewardship Code” in February 2014 and clarified its interpretation as to when “joint holders” under the large shareholding reporting (and “a person in a special relationship” under the TOB rules) will be applied (see footnote 3). http://www.fsa.go.jp/en/refer/councils/stewardship/20140226.pdf</p> <p>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.</p>