

Minutes of the 1st Council of Experts Concerning the Japanese Version of the Stewardship Code

Note that this English version of the minutes includes liberal translations and omissions, and is not a complete translation of the minutes in Japanese.

1. Time and date: 4:00–5:00 pm, August 6 (Tuesday), 2013
2. Place: Financial Services Agency

[Kansaku] I am Hiroyuki Kansaku of Tokyo University. I have been appointed to chair this Council. I would like to ask Mr. Kuwabara, Director-General of the Planning and Coordination Bureau, to kick off this meeting.

[Kuwabara] I would like to say a few words upon this 1st Council of Experts Concerning the Japanese Version of the Stewardship Code.

Last June, the Japan Revitalization Strategy was approved in a Cabinet meeting. The Strategy stipulates that it will “Consider and compile principles (Japanese version of the Stewardship Code) for institutional investors to discharge their fiduciary responsibilities, such as promoting the mid- to long-term growth of companies through dialogues.”

Furthermore, a different section of the Japan Revitalization Strategy amplifies this by stating, “With the aim of promoting sustainable growth of companies, discuss and establish the principles for a wide range of institutional investors to appropriately discharge their stewardship responsibilities through constructive dialogues with investee companies by the end of this year while considering the discussions of the Council on Economic and Fiscal Policy concerning the market economy system in Japan.”

As you are aware, the Stewardship Code is a set of principles concerning the ideal form of involvement of institutional investors in their investee companies. The Code was developed in the United Kingdom in 2010, and its purpose is set forth in the preamble: “to promote the long term success of companies in such a way that the ultimate providers of capital also prosper.” The Code also presents the concept of “Effective stewardship benefits companies, investors and the economy as a whole.”

Such purpose and concept coincide with the intent of the Japan Revitalization Strategy. However, as it is referred to in the Strategy as the “Japanese Version of the Stewardship Code,” we believe it would not suffice to simply import the Code from the UK. While using as a reference the good points of the UK Code, I sincerely hope that the Council develops an effective and well-balanced code as an appropriate “third arrow” (of Abenomics) for promoting exponential growth of the Japanese economy.

I ask that the Council members engage in free and active discussions.

[Kansaku] I would now like to ask the secretariat to explain about the Council.

[Yufu, Director of the Corporate Accounting and Disclosure Division] Hand-out Material 1 is an outline of the Council of Experts. Item 1 presents the Summary of this Council. The list of Council members (Appendix) is attached to Item 2 “Structure.” We have asked Professor Kansaku to chair the Council. (Introduction of members follows (omitted))

[Kansaku] I would now like to ask the secretariat to explain about the Council Operation Guidelines (Draft).

[Yufu] Material 2 is the Operation Guidelines that I would like the Council to approve here

today as the Council's agreement. Article 2: The meetings shall be convened by the chairman. Article 3: The chairman shall chair the Council and arrange the proceedings. Article 4 stipulates that the chairman may request a hearing. Article 5: The meetings of the Council shall be open. Article 6: The meeting minutes of the Council shall be prepared and published for each meeting. Article 7: Materials of the Council shall be made public. Article 8 stipulates that in addition to matters prescribed in this Operation Guideline, the chairman shall decide matters necessary in relation to the Council.

[Kansaku] I would like to make Material 2, which the secretariat just described, as the Council's agreement (since there are no particular opinions otherwise).

I would now like to ask the secretariat to explain the background to the Stewardship Code, in accordance with Material 3.

[Yufu] I would like to explain the background according to Material 3 (11 pages).

First, please look at page 1. The introduction of the Japanese version of the UK Stewardship Code was proposed by business sector members at the 4th Meeting of the Industrial Competitiveness Council.

Below that are the instructions from the Prime Minister on April 2 in response to this proposal. One of the several instructions states: "The Minister of State for Special Missions (Finance) shall cooperate with the relevant ministers, from the perspective of promoting companies' sustainable growth, to consider the principles for a wide range of institutional investors to discharge their stewardship responsibilities in an appropriate manner."

With regard to page 2, the Japan Revitalization Strategy that was approved in a Cabinet meeting on June 14 also mentions this proposal, in addition to the instructions by the Prime Minister in April. It has been decided as follows: "Consider and put together principles (Japanese version of the Stewardship Code) for institutional investors to discharge their fiduciary responsibilities, such as promoting the mid- to long-term growth of companies through dialogues. (Put together by the end of the year)" (Overview).

Furthermore, in the second line from the bottom, it says that the Council will discuss the principles "while considering the discussions of the Council on Economic and Fiscal Policy concerning the market economy system in Japan."

On page 3 is the content of the discussions of the Council on Economic and Fiscal Policy. An Expert Committee has been placed under the Council, and an interim report was released on June 6. A final report is scheduled to follow, but here I have attached an illustration of the outline.

If you look from the bottom of the page, it says "Japan's experiences", in which it mentions medium- to long-term funding through the main bank system, etc. The cross mark over the arrow pointing to the left means that it should not be an easy return to the past. In addition, there is also a cross mark over the arrow pointing to the right, which means that it should not be a money game that seeks merely short-term profit either.

On the other hand, there is a bold arrow just above the center. There are three sentences here, one of which states that it is important to establish better communication between companies and investors. An explanation on the conclusion by the Expert Committee is planned to be provided by the Cabinet Office in a separate meeting.

Page 4 explains the relationship between public pensions and this Stewardship Code. The Japan Revitalization Strategy that was approved in a Cabinet meeting on June 14 clearly states that the government will consider issues pertaining to public and quasi-public funds in meetings among experts and will obtain recommendations by autumn. It mentions three matters to be discussed in the meetings. One is fund management. The second is governance such as the

operation and management system. This means reviewing the public funds' governance system. The third is measures to improve return in long-term investment in stocks. I understand that these matters have the same meaning as in the Stewardship Code, such as the involvement in corporate governance and dialogue with shareholders.

Discussions are held separately in meetings among experts concerning public and quasi-public funds, and I assume that those discussions will be linked with this Council of the Stewardship Code. In this sense, we have asked the responsible counselor of the General Secretariat of Japan's Economic Revitalization of the Cabinet Secretariat to attend this meeting today as a manager.

Page 5 introduces an example of past efforts in Japan. This is a publication of the report by the study group of the Financial System Council. In June 2009, the study group prepared a summary of issues related to the reinforcement of corporate governance by listed companies and others. While this report included discussions on issues of governance mechanisms, it also makes recommendations on matters related to the exercise of voting rights by investors, as indicated in the underlined section (c).

We have attached excerpts from the report and while I will refrain from explaining them directly due to time restrictions, I would like to mention that the lower half of this page 5 is the table of contents of the report. If you look at Section 2 which mentions discharging governance by exercising voting rights, it states: (1) Ensure appropriate exercise of voting rights based on fiduciary responsibilities; (2) Prepare and disclose voting guidelines; and (3) Disclose the results of voting. Furthermore, Section 3 mentions the enhancement of dialogue between shareholders/investors and management.

Regarding page 6 and onward, I would like to briefly explain the UK Stewardship Code. There are two main flows in the history of the UK Code. First of all, as is shown in the upper left box, there have been active discussions on the responsibilities of institutional investors in the UK since the 1990s. The ISC (Institutional Shareholders' Committee), an independent self-regulatory body, published a principle statement in 2002, which was converted into a code in 2009.

On the other hand, the upper right box shows the second flow, which is the formulation of the Combined Code in 1998 in the UK. The Combined Code is a well-known code concerning corporate governance. As is explained after the asterisk below, the FRC (Financial Reporting Council), which is the entity that formulated the Code, is an independent regulatory body that develops standards for corporate governance and financial reporting, etc., as well as monitors companies' compliance with them. The Combined Code developed by the FRC included disciplinary rules and principles aimed directly at companies as well as principles regarding voting activities by institutional investors and dialogue between companies.

Below the arrow, it says that the Walker Review was published in 2009 following the global financial crisis. Following this, the Combined Code was abolished in form but did not completely disappear. It has been divided and reorganized into two codes as indicated in the lower left and right.

First, the lower left box shows that the ideal involvement of institutional investors was stipulated in 2010 as the new Stewardship Code. This inherits the Combined Code, and the seven principles, which are specific contents, adhere to the contents of the Code on the Responsibilities of Institutional Investors mentioned at the beginning of this page.

On the other hand, the lower right box shows that the rules concerning companies have been separated from the Combined Code and formulated into the Corporate Governance Code.

Page 7 briefly introduces the framework of the UK Stewardship Code. The first circle is the FRC, which is the entity that formulated the Code and which I explained earlier. The second circle states that compliance with the FRC's stewardship code is not mandatory but adopts a

“Comply or Explain” approach as a “soft law.” The asterisk means that the Code applies to institutions that declared compliance with the Stewardship Code and such institutions must comply with the Code or explain the reason if they choose not to comply with one of the principles.

The third circle indicates that the Stewardship Code is scheduled for review every two years. Indeed, the review process started in April 2012, with the first revision implemented in September of the same year. The revision at that time took the concept that had been categorized as institutional investors and separated it into asset owners and asset managers, who are entrusted with funds by the asset owners and who manage such funds in various forms. This separation into two concepts and the clarification of their roles and responsibilities is said to have been the major revision.

Page 8 introduces the main points of the UK Stewardship Code’s preamble, which precedes the actual principles. The first circle is the purpose of the Stewardship Code, which the Director-General mentioned in his speech. It says that stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. It also mentions that effective stewardship benefits companies, investors and the economy as a whole.

The second circle indicates that in publicly listed companies responsibility for stewardship is shared between the board of the company and the investors, and that the primary responsibility rests with the board of the company. On the other hand, it also mentions that investors in the company also play an important role in holding the board accountable for the fulfillment of its responsibilities.

The third circle mentions that for investors, stewardship is more than just voting. It states that activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, and that engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of voting at general meetings.

Please look at page 9. I assume that we will have an opportunity at the next meeting to introduce the UK Stewardship Code in more detail with the help of experts. Today, we introduce a temporary translation of the seven principles only. The seven principles have detailed descriptions and guidelines respectively for implementation. I would like to omit introducing them today.

Page 10 describes efforts in major countries and regions other than the UK. First, in the United States, the famous Employee Retirement Income Security Act (ERISA) (1974) stipulated the fiduciary responsibilities of pension funds and trustees. Furthermore, the Avon Letter that was released in 1988 and 1994 clarified that the exercise of voting rights was part of the fiduciary responsibilities under ERISA.

The European Commission prepared and published the ‘Action Plan: European Company Law and Corporate Governance,’ which proposed that the disclosure obligations on policies concerning voting and engagement as well as the results of the voting should be clarified. It implied a revision of the EU Shareholders’ Rights Directive within 2013. The Green Paper that was subsequently published also made a recommendation that mostly overwrites this.

OECD issued a revision to its Principles of Corporate Governance in 2004, in which it stipulates disciplinary rules for institutional investors in a fiduciary capacity and the disclosure of conflicts of interest of institutional investors, as well as disciplinary rules for companies.

Finally, page 11 states the situation of engagement in Japan between shareholders and investors. Although the sources include some old data, (1) the upper left indicates the status of regular presentations for investors: 79.5% of companies have held presentations for analysts and institutional investors. On the other hand, (2) the upper right indicates that 79.4% of

companies did not have the opportunity for individual discussion with shareholders prior to general meetings. While it may divert from the theme, (3) the lower half of this page shows data on the efforts to vitalize general meetings by indicating the kind of effort being made by each issuer.

[Kansaku] I would now like to proceed to free discussions. Since this is the first meeting of the Council, I will refrain from setting a theme and ask the members to speak freely.

[Horie, member] In July, I carried out a field survey on the Stewardship Code with my colleague, Sadakazu Osaki. I would like to summarize my findings as well as my thoughts on hearing the secretariat's explanation earlier into the following four points.

First, although I think that the point and focus of the discussion today will tend to fall on voting, I believe a very important point is that voting is not the only method of dialogue between company management and investors. Certainly, I understand that very important matters related to corporate value such as the selection of board members are included in the general meetings, but the meetings are rather a place where investors passively respond to proposals that the company presents. The important point is not only that, but also to promote dialogue in which company management and investors can discuss matters more frankly in a private setting. A person in the UK said that the promotion of such dialogue is the very purpose of the Code, and the key point in order to raise corporate value. My first point is that although I believe voting will also be a main theme in this meeting, I hope that the Council will engage in a broad discussion including other issues.

The second point is that, as the secretariat explained earlier, the Code is not mandatory in the UK but a voluntary one in the form of "Comply or Explain." Although I think that some in Japan would say it is better to adhere to the Japanese culture and make it compulsory, I think the important thing is the voluntary creation of the rules. Forced application of the rules may end up in the rules becoming a formality, such as meeting the CEO once a year, for example. There is a risk that the Code may be reduced to a matter of formality as people might think they have done their duty if they carried out such formalities. My second point is that since there is a risk that this might not lead to actual dialogue concerning the improvement of corporate value, a voluntary rule that a management company uses as a tool to differentiate its investment abilities according to its investment strategy would naturally be ideal.

The third point is that as long as the investment management company makes requests and proposals to the company side, it should also be necessary for the investment management company to reform its own governance. For example, a conflict of interest is possible in every relationship between the investment management company and customer. The UK Stewardship Code states that in case there is a conflict of interest, the institutional investors should state how to address the matter. For example, it is natural for there to be a case in which the investment management company will follow the intention of a customer that is related to a bill that the company does not really want to agree to in view of raising the value of a client, but will agree to a bill that is against an improvement of investment value in nature. Therefore, I believe it is important to disclose such details from the position of the investment management company.

The final point, as Yufu-san explained earlier, is that awareness reform on the side of the asset owner itself is also necessary. Let me explain. Although the asset owner indicates standards of voting in large pension funds and others, I believe that it is important that the asset owner urges investment management companies in guidelines, etc., to look at the long-term corporate value and engage in dialogue with companies. While it is important for the investment management companies to change by themselves, I think it is easier for them to take action by being shown the intention of the asset owner who is the supplier of funds in the form

of an investment guideline. I hope that a guideline from a longer term perspective will be presented in order to make management companies aware of activities to raise corporate value not only in voting by the asset owner itself.

[Furuichi, member] I deeply agree with considering principles for institutional investors to promote the mid-to long-term growth of companies through dialogue, as stated in the Japan Revitalization Strategy.

However, as for specific ways to address this issue, I think the way of dialogue will differ according to the attributes of each institutional investor.

For example, life insurance companies seek communication with companies throughout the year and not only when voting, based on the perspective of promoting the mid- to long-term growth of companies. Furthermore, they have clearly stipulated and disclosed the basic policies regarding voting.

In terms of the overall industry, the Life Insurance Association has consistently implemented and published the results of its shareholders' return survey every year since 1974, which is approximately 40 years ago. It is seeking communication between companies and investors as well as maximizing shareholders' return and corporate value.

Since a life insurance company, especially in Japan, has long-term liabilities such as whole life insurance with the policyholder, it manages its assets from an extremely long-term perspective. The same goes for equity investment.

Therefore, being involved and contributing to the development of a company through such constructive engagement will allow the life insurer to enjoy stable dividends, which are the fruit of mid- to long-term growth, and eventually ensure payments of insurance to policyholders, which is the greatest mission of a life insurer, and will also result in fostering a company.

Naturally, I understand some of the background in the UK and the thinking behind it concerning the Stewardship Code, the UK, hasn't achieved any fruit so far.

Therefore, in order to promote companies' sustainable growth based on the efforts of Japan's institutional investors and not introducing the UK Stewardship Code in Japan as a formality, I would like to proceed with the discussions while always questioning what we are doing it for, and whether voting or the disclosure of voting really have such effects, and whether it will promote mid- to long-term growth of companies, which is the true goal. I hope that the Council will proceed in such a way, too.

[Kawada, member] My name is Kawada of JX Holdings. I would like to say a few words as a member from the investee issuing entity side. I have long been in charge of the general meetings of shareholders or handling and liaising with shareholders in our company. I would like to offer my opinion based on my experience.

I acknowledge that dialogue between companies and investors, institutional investors in particular, is very useful in the sense of deepening mutual understanding and is valuable and meaningful. However, I would first like to mention that I am very concerned that there can be a risk of insider information issues trading when a company provides information to certain shareholders in order to deepen their understanding, because of such risk, we must promote dialogue with great caution issues.

Secondly, I have a concern that the discretion of a company's management may be extremely restrained if certain standards or principles are forced upon institutional investors concerning their conduct as investors, especially voting practices. Most company executive managements naturally aim at growth of their company and an increase in corporate value and sound company management, and there are bound to be differences in management style and structure since the business environment differs among various businesses or from industry to industry. I

am concerned that uniform judgment based on formality may have unintended effect and inhibit sound business judgment.

I recognize that institutional investors already have principles for company analysis or voting practices either of their own or by associations such as the Life Insurance Association of Japan. I would like to mention that there is a risk that establishing binding principles in some way may lead to duplicate restrictions, and restrain voting practices and investment activities.

[Oguchi, member] In my business, I have many opportunities to speak with overseas institutional investors. I personally do not like the term ‘overseas investor’ and prefer to use ‘global investor.’ I think that the borders of the investment world are very low in the sense that investors invest anywhere in the world including Japan, and the Japanese investors here invest not only in Japanese companies but also in foreign ones.

On the other hand, since each region has different cultures and systems, it is necessary to take great care in such matters. However, institutional investors should not forget that they bear the common role of investing in good companies for the people of their country as well as global citizens who have deposited their money with them and are building long-term assets such as pensions from the returns of their investment.

I have been engaged in my current job for about five years with such global institutional investors. On the company side, there are discussions that Japan seems to be a little different in the global norm. Although I do not think this means that it is good to import things from abroad in a uniform way, thanks to the efforts of companies and all of you here, I think the issue of how we should treat outside ideas is now being discussed based on a better understanding of such ideas.

Likewise, I think it is important for the investor side to have a perspective on whether their investment can really be explained to global investors, based on the purpose of “addressing global competition.”

In short, this means whether their way of investment can be explained to global investors as a reasonable one, although needless to say, they have their own ways of investment. This is slightly off the topic, but in this sense, I recommend that the minutes of this meeting be prepared in English to be shared globally.

Thinking in this context and looking back over the past five years, I would like to talk about an event that I was not able to explain to global investors. It was the response of institutional investors when the scandal occurred.

Since the precious money of customers has been lost, it is the global norm that large shareholders raise their voices and take action against a scandal, and that would naturally invite pressure from society. However, when several scandals occurred in Japan, although I will refrain from mentioning names, we must think about whether Japanese institutional investors raised their voices against the companies that lost their customers’ money, compared to the global institutional investors who did. Furthermore, I believe we must think about whether we can explain to the outside why they took such action.

As I said earlier, although it goes without saying that it is meaningless to carry out only stylized matters, when, as in the example I just mentioned, institutional investors return to their point of origin, which is to manage other people’s money and not their own, can they properly explain to those people, who entrusted them with their money, about what they are doing, including voting and dialogue? I think we should also create and disseminate a code that would guarantee such a perspective.

In addition, if information from Japan is not understood in the global society as in previous cases, I think it would be a huge minus from the perspective of global competition. Furthermore, since global institutional investors may decide to exclude Japan altogether from their global

investments, I think we should proceed with our discussions while paying close attention to the matter.

[Eguchi, member] My title may look a little strange, but I have been involved in the exercise of voting rights for more than 10 years in a company called BlackRock and its predecessor Barclays Global Investors. I am now in a position quite far from the company, hence the title shown in the distributed material. Therefore, I hope you will listen to what I say as an opinion from a free position that is distanced from BlackRock.

What I have felt over the past 10 years in exercising voting rights is, as Kawada-san also mentioned earlier, that the responses of companies have changed from 10 years ago when I started my career. When we telephoned companies 10 years ago, they treated us as if we were corporate racketeers, but nowadays we do not receive this type of treatment at all. Things have changed significantly. I think it is important to fully understand the change that occurred over this period.

There was a discussion earlier that voting is not the only issue. That is true of course, and although I personally am in a position to help companies, we are positioned right in the middle of the so-called engagement. As mentioned earlier, I think the most important part about engagement is for the investor side and the company side to freely and frankly exchange opinions in a private environment. We are currently trying to put this in practice, or establish how we should carry it out through trial and error.

With regard to this, we are trying to determine how we can achieve fruitful engagement in Japan through trial and error with the backing of such activities by the Ministry of Economy, Trade and Industry.

Such efforts have already been initiated. Therefore, in terms of encouraging the activities that are intended by the Stewardship Code, at least there is already a budding form and the most important thing is how to further energize and support such activities. I believe the most important thing is how to energize the activities that have already been started voluntarily, instead of making these an obligation in some form or restricting them.

In energizing the activities, I think there are several very important points. The UK was the first country in the world to carry out “engagement.” While it is difficult to identify exactly when the engagement set in, it had already started in the 1980s. We must then clarify why it started in the UK. At the same time, we must fully consider how the UK and Japan differ. It is highly improbable that what was successful in the UK would also be so in Japan. We must think in terms of what kind of conditions we have to prepare in order to establish something that is different in content but similar in form to what was carried out in the UK.

In doing so, I consider an important condition is the legal aspect. In the UK, the obligation to disclose large shareholdings and the rules such as in TOB regulations that require disclosure of shared ownership are treated loosely. This is based on the perspective that engagement or voting is a company’s governance activity and not something that is related to transactions that accompany control rights.

On the other hand, if there is an issue that has been determined as requiring discussion among investment management companies for example, a major concern in Japan would be whether it would violate the large shareholding report regulations or TOB regulations. This is what we experience every day. I think such regulations prevent mutual cooperation in thinking about or proceeding with matters.

I hope we can deepen discussions today regarding how we can develop the issue that is already budding, including such development in the legal aspect.

One more thing that I would like to mention is that, as the secretariat explained today, this stream of Stewardship is from Europe. I think the reality is that it started in the UK and spread

to the EU. The influence of the UK in the EU is extremely large. The influence of the UK concerning voting rights and TOB is especially significant, and we should consider that the discussions held in the EU are all discussions in the UK.

Therefore, an issue would be whether discussions in the UK are enough. As far as I hear and see mainly through reading various publications from an academic position, it seems that the feeling in the United States is very different. Therefore, I hope that various perspectives are presented at this Council including the situation in the United States as compared to Europe, which was mentioned earlier, upon proceeding with the discussions.

[Tokunari, member] I am participating in this Council from Mitsubishi UFJ Trust and Banking, representing the Trust Companies Association of Japan (TCAJ). Since we are a trust bank, we have an asset management subsidiary, and we also manage pension funds at the parent company. Therefore, in this sense, I think we are more of an asset manager than an asset owner, according to the earlier discussion. Since this is the first Council, I would like to introduce our past efforts and explain what the current situation is.

TCAJ was a member of the study group from four years ago as mentioned on page 5 that Mr. Yufu explained earlier. TCAJ has sent out a notice and made voluntary efforts in the industry regarding the preparation and disclosure of the guideline mentioned in 2. (2) as well as the disclosure of the results of voting in 2. (3). Since then, each member company of TCAJ has published their own voting guideline and summarized and announced the voting results.

I also think that the enhancement of dialogue between shareholders/investors and the management mentioned in 3. , which is “engagement” that has been discussed since a while ago, is extremely important. This is because we are an institutional investor and an asset manager, and are required to raise investment returns for the beneficiaries. Therefore, our main purpose is to determine how we can be of benefit to the final investors. In this sense, I believe constructive dialogue with the companies we invest in is extremely important.

Allow me to refer to individual company data. Our fund managers cover less than 1,000 companies, mainly Japanese listed companies, but the number of our contacts was around 5,600 companies last year. Therefore, if we average by company, it is a significant number of contacts. Telephone inquiries, visits to us or visits to them, as well as company presentations amount to such a number of contacts every year.

There are actually several cases each year in which a company reviewed their anti-takeover measures that we view as excessive, or abolished the retirement benefit system of management, as a result of discussions with the company we invested in, since we have an image of the ideal governance as an institutional investor, although maybe not because we recommended these. From this perspective, we think that such engagement is extremely important for final investors and that it will lead to our differentiation as an individual company. We hope to continue making good efforts in the future.

I am very grateful to have been given this opportunity to participate in a discussion about what we can do as an institutional investor for the improvement of corporate governance and the growth of Japan.

[Matsushima, member] My name is Matsushima of Daiwa Asset Management. As mentioned, we operate under a certain spirit that is similar to what is described in this Stewardship Code and under the rules of the Association. Concerning voting in particular, each company has announced the policy.

In exercising voting rights as our practical task, there are points where we constantly struggle. For example, the voting rights of Japanese general meetings and the voting power of general meetings in the United States are significantly different. For instance, we often vote against

proposals for appropriation of retained earnings based on the judgment that the company accumulates money, resulting in the lack of a rise in share price performance and ROE. However, what may happen in Japan when everyone votes against a matter is that no dividends will be paid at all without a counter proposal.

In contrast, appropriation of retained earnings is not even on the agenda of general meetings in the United States, and moreover, all executives can be selected if they are within the quorum.

In Japan, we sum up the number of approving votes for each person and will not select one if the number falls short of the criteria. Therefore, if everyone votes against a bill that everyone wants to vote against since it is insufficient (as in the proposals for appropriation of retained earnings mentioned earlier), there is a risk that a worse situation, like no payment of dividends at all for example, might happen if a counter proposal does not gain support.

On the other hand, if everyone unites and tries to engage in order to present a counter proposal, different rules might be applied to each country. I think it is very important to develop a code in line with specific company acts of each country.

Furthermore, as another member mentioned earlier, we believe our primary fiduciary responsibility is basically to improve the performance of asset management. Voting rights and engagement are an extension of that, meaning that within our fiduciary responsibility we try not to hold the shares of a company whose performance does not improve. We hope to actively consider a code that is based on such differences in the legal system of countries as well as the ideal fiduciary responsibility aimed at by each business format.

[Noguchi, member] My name is Noguchi of DIAM, which is in the investment advisory industry.

Since most topics have already been covered, I would like to briefly mention what we actually do at DIAM.

We exercise voting rights with the aim of maximizing shareholder profits through the investee company's compliance with corporate ethics, and of establishing an appropriate governance system. It has been more than 10 years since we started voting under the current standards that are in line with such purposes. In addition, our parent companies are a bank and a life insurance company, we make it a policy to exercise voting rights by taking into consideration only the profits of the entruster and beneficiary, and have established a system that can realize such a concept and through which we have exercised voting rights.

Furthermore, we have 15 in-house analysts who cover around 600 to 700 Japanese stocks. They engage in daily dialogue with Japanese companies from various contact points. In particular, with regard to dialogue for purposes related to voting, our analysts conduct about 100 cases a year, including cases that are solely for that purpose as well as cases with a combined purpose. Through such dialogue, we sound out companies on our ways of thinking concerning voting for individual bills. In addition, some companies do not clearly explain, for example, the reason for an increase in the number of board members at general meetings. In some cases, our analysts make a phone call to the company to clearly confirm the reason before we exercise our voting rights.

While the act of voting itself is important, we believe that the dialogue with companies through voting is an extremely important point. As several members have mentioned, I understand that the UK Stewardship Code is not merely the disclosure of results of the exercise of voting rights, but also the importance of how to proceed with the dialogue with companies. We have been conducting various trials with regard to dialogue with companies.

In considering the Japanese version of the Stewardship Code, we hope to be able to contribute based on our past trials since I hear that we will consider the code in line with the Japanese legal system and business customs.

I sincerely hope to be able to contribute to the consideration of the code even though it is a brief period.

[Fukushima, member] I served as an inside director of an American listed company for 12 years and have served as an outside director of nine Japanese companies to the present. Based on my experience as an independent director, I would like to briefly mention two points, although most points have already been covered and therefore some parts will be a repetitive.

The first point, as mentioned by Noguchi-san, is that it is not sufficient simply to disclose the results of the voting. It is very important to determine how to proceed with the dialogue with the companies. I think that establishing the Code is necessary. However, these matters have two aspects: the content of the Code and the actual implementation of the Code. I am concerned that with regard to the content, focusing only on the exercise of voting rights may have a reverse effect, as has been pointed out earlier. Therefore, I would like to discuss section 3. on the dialogue, as described on page 5 of the materials prepared by the secretariat.

I am suggesting this based on my recent experience of receiving a phone call from a European investor in one of the companies for which I serve as an independent director. This request came from a securities firm that manages the stocks of this company. I have served as an outside director of nine Japanese companies, but this was my first direct contact from an overseas investor. This was a good opportunity for both the investor and me, as an independent director, to deepen the understanding of each other's views. Therefore, I would welcome more opportunities for such dialogue.

Our discussions at this meeting should always keep overseas investors' perspectives in mind and discuss how Japan can "Comply or Explain" from the perspective of global investors.

Based on my professional experience, I believe that most Japanese companies are serious and thus there are fewer companies that deviate in terms of "Comply" compared to other countries. Therefore, companies that do not comply intentionally tend to stand out and become a big problem. In addition, some companies may not realize that they are not complying. In this sense, I think that the number of earnest companies is generally greater in Japan than in other countries.

The second point concerns the application of these rules. In terms of whether it should be a soft law or a hard law, I would recommend that it be a soft law. This is because if 60 to 70% of the companies are not complying, a hard law might result in restricting companies' operations unnecessarily.

I would like to recommend that the Council consider the Code in the direction of a soft law, allowing companies to comply or explain voluntarily.

[Hamaguchi, member] My name is Hamaguchi of the Pension Fund Association. While I think corporate pension funds carry out the exercise of voting rights and other matters written in this Code mainly through their asset manager, I would like to take this opportunity to consider whether there is anything that can be added from the position of asset owner, as Horie-san mentioned earlier.

The reason why such discussions come up concerning the establishment of the Code is because the implementation of stewardship is not viable, or is not working due to various restraining factors. Therefore, although I do not mean that it is meaningless to only create such a code, I think it is necessary to go a little further and discuss what kind of restraining factor exists in implementing the matter.

To be specific, from the perspective of cost-effectiveness, asset owners, especially pension funds in Japan are generally poor and the system is weak as well on the cost side. Therefore, the discussion will always be that there is not enough budget or people to develop a system that can

address such matters. I think it would be effective if the Council hears the opinions of GPIF and government official mutual aids in discussing the necessity of how to address the situation of not being able to increase personnel or spending expenses, which I think is the reality.

In terms of effects, although voting rights are being exercised, they have not led to effects as is expected. I think anti-takeover measures and stable shareholder engineering are also a factor. The concentration of the dates of general meetings is another problem. I think it would be good if the discussions go a little further to how the market's efficiency should be improved.

[Oba, member] I have been contemplating from what perspective I should talk in this wide-ranging discussion, but I would like to mention two points. The first point is the fact that investors and issuers have made various efforts. However, it is evident that the performance gained from each company's share price and dividend for the past 25 years has been very poor. I therefore think discussions on how to improve this matter have risen now. That is why I think this kind of Council has been established.

To be specific, it would have been more convincing if we could have verified all listed companies, but since that is too difficult, we examined only companies listed on the first section of the Tokyo Stock Exchange. Only about 150 companies brought positive returns to investors over the past 25 years. The rest were negative returns. In short, the number of companies that were creating value, to use a financial term, was very small, and that as a result there has been a destruction of value.

Therefore, I believe that a pressing issue for Japan is how to establish a scheme that can improve corporate value while building on the discussions of the Stewardship Code. This is my first point.

The second point is that we are an investment management company, Tokio Marine Asset Management, and during the last fiscal year we launched an Engagement Fund that is also related to the Stewardship Code. Although the fund is named Engagement, I think it will be extremely difficult to create a truly win-win relationship unless it is high-quality engagement. This is not easy. We have to accumulate experience and knowledge about various matters. Therefore, when we launched the fund, we limited the number of companies to invest in to about 10.

We gained the approval of overseas investors for this fund. To be specific, we were entrusted with a public pension fund from Sweden. We have launched and are operating such a fund, mainly managing the money from Sweden.

Let me only mention the results. Although it is impossible to evaluate the performance in such a short period of time, I feel that reasonable achievements have been made.

[Ishida, member] What I feel from our various communications with overseas investors is that Japan is now a part of Asia. Japanese equity had previously existed as an independent asset class within Asia, but the reality of today is that unfortunately Japan's presence is declining. As market capitalization increases and governance and information disclosure improves among Asian companies, the presence of Japanese equity has decreased in recent years. When we think about why we are discussing the Stewardship Code in the first place, the request to raise the global competitiveness of Japan is bound to be the background.

Therefore, I believe it is important to proceed with this discussion while constantly having a global perspective and not turning it into an inward-looking discussion.

[Kansaku] If there are no more remarks, I would like to end the free discussion. The opinions that have been provided today will be used as reference when we make specific considerations in the future.

Next time, I would like to invite the relevant parties and conduct interviews on the principles to ensure that institutional investors carry out their fiduciary responsibilities in the appropriate manner.

Finally, I would like to ask the secretariat if there is a closing message.

[Yufu] The date of the next Council will be coordinated by the secretariat in accordance with your schedules. We are currently thinking of early September and will ask about your schedule for around that time.

End