

(Provisional translation)

The First Council of Experts on the Stewardship Code (FY2019)

1. Date and Time: October 02, 2019 (Wednesday) 16:00 - 18:00
2. Venue: The Central Common Government Offices No.7, 13F Meeting Room No.1

[KANSAKU Hiroyuki, Chair]

I would now like to commence this meeting of the Council of Experts on the Stewardship Code by expressing my sincere thanks to everyone for taking the time from their busy schedules to participate in today's meeting. I am KANSAKU Hiroyuki from the University of Tokyo, and I was recently appointed Chair for this Council. Your kind consideration would be much appreciated.

Let's begin with a few remarks from Mr. NAKAJIMA Junichi, Director General of the FSA's Policy and Markets Bureau. Mr. Nakajima, if you would, please.

[NAKAJIMA Junichi, Director General, Policy and Markets Bureau]

I am NAKAJIMA Junichi, and I am pleased to be here with all of you today.

Thank you very much for making the time to be with us here today. I would just like to say a few words as we open this 2019 meeting of the Council of Experts on the Stewardship Code.

The Stewardship Code was established in 2014 and the Corporate Governance Code in 2015 as part of the government's growth strategy. Subsequent revisions were made to the Stewardship Code in 2017 and to the Corporate Governance Code in 2018. A certain degree of progress can be seen in reforming governance at companies based on these two codes, which are essentially two wheels on the same axis, and I have heard these codes credited for energizing dialogue between institutional investors and companies.

At the same time, though, I have also heard it pointed out that, while although dialogue between institutional investors and companies has increased quantitatively, there is still room

for improvement in terms of quality.

Given these circumstances, the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code set up by the FSA put together an opinion statement entitled "Recommended Directions for Further Promotion of Corporate Governance Reform" in April of this year. This opinion statement pointed out, among other things, that the quality of dialogue between investors and companies must be improved to boost the effectiveness of corporate governance reform, and it then recommended that the Stewardship Code be revised.

Accordingly, this Council of Experts has been convened in the hope of compiling a revision proposal in time for the preparatory period for next year's general meetings of shareholders, and we would like to ask all members to actively join in the discussions on effectively revising the Stewardship Code. With that, I will conclude my opening remarks. Thank you for your attention.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Next, we will have the Secretariat introduce the Council members.

[INOUE Toshitake, Director, Corporate Accounting and Disclosure Division]

I am INOUE Toshitake, Director of the Corporate Accounting and Disclosure Division at the Financial Services Agency, which is serving as the Council Secretariat.

On behalf of the Secretariat, I want first to introduce the Council members in the order in which they are seated, from right to left as seen from the perspective of the members. We have:

Mr. ISHIDA Takeyuki

Mr. OGAI Taro

Mr. OBA Akiyoshi

Mr. OKADA Joji
Ms. OKINA Yuri
Mr. OGUCHI Toshiaki
Mr. SAMPEI Hiroki
Mr. SHIBASAKI Toshio
Mr. Scott CALLON
Ms. TAKAYAMA Yoshiko
Mr. TAKEI Kazuhiko
Mr. TANAKA Wataru
Mr. TSUKUDA Hideaki
Mr. HARUTA Yuichi
Mr. HOKUGO Kenichiro
Mr. MATSUTANI Hiroshi
Mr. MATSUNAGA Yosuke
Mr. MATSUYAMA Akihiro, and
Mr. YONEHANA Tetsuya

Although they could not be with us here today, Ms. UEDA Ryoko, Ms. Kerrie WARING, and Mr. TOYAMA Kazuhiko will also be participating as Council of Experts members.

Next, let me introduce the observers:

Mr. AO Katsumi, Executive Officer at the Tokyo Stock Exchange,
Ms. SAKAMOTO Riwa, Director of the Corporate System Division of the Ministry of Economy,
Trade and Industry's Economic and Industrial Policy Bureau, and
Mr. NISHIOKA Takashi, Director, Actuarial Affairs Office, Private Pension Division, Pension
Bureau, Ministry of Health, Labour and Welfare.

Although not present here today, Mr. TAKEBAYASHI Toshikazu, Counsellor of the Minister's
Secretariat at the Ministry of Justice, will also be joining us as an observer.

The Financial Services Agency will be serving as the Secretariat but, in the interest of time,
we will forgo introductions and ask you instead to refer to the seating chart.

[KANSAKU Hiroyuki, Chair]

We will be conducting today's meeting using tablets, so I will now ask the Secretariat to explain how to use the tablets.

[SHIMANUKI Madoka, Deputy Director, Corporate Accounting and Disclosure Division]

We will be using tablets in the course of today's meeting, and your cooperation would be very much appreciated.

Let me explain how to use the tablet. There are three buttons at the top center of the screen: Personal, Shared, and Presenter. Only presenters will need the Presenter button, so we ask that everyone else please refrain from using it. In "Shared Mode", the presenter's screen will be linked and displayed on your screens, so please tap the "Shared" button to put your tablets in sharing mode, which is where you should basically keep them. If you want to view materials not on the presenter's screen, please tap the "Personal" button and use the tablet in "Personal Mode". You can also view reference documents in "Personal Mode" by using the Documents Menu button at the upper right of the screen; the icon resembles a stack of paper. Secretariat staff members will be located at both ends of the venue's windows so, if at any time you are unsure how to do something on the tablet, please raise your hand so we can lend you some assistance.

As all of the audience members were informed in the notification for this meeting, no paper handouts have been distributed at this venue. The documents that will be used have also been posted on the FSA website so, if you did not prepare these documents beforehand, they can be viewed on the website with your tablets or other devices or on the projector screen.

That concludes the instructions.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Next, we will have an explanation from the Secretariat on the draft Administrative Guidelines.

[INOUE Toshitake, Director, Corporate Accounting and Disclosure Division]

Let me ask you to please put Document 2 up on your screens. This is what it looks like.

As indicated in Article 1, the draft Administrative Guidelines cover the administration of this Council of Experts on the Stewardship Code. Article 2 states that the Chair will summon the members for meetings, Article 3 that the Chair will also chair Council of Experts meetings and organize the agenda, Article 4 that interviews may be conducted, Article 5 that Council of Experts meetings will be open to the public, Article 6 that minutes will be taken for all meetings and made public, Article 7 that the documents used by the Council of Experts will be made public, and Article 8 that the Chair may if necessary establish provisions pertaining to the Council of Experts other than those in the Administrative Guidelines.

That concludes my explanation.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Are there any objections to proceeding in this manner?

(Replies of “no objection”)

[KANSAKU Hiroyuki, Chair]

Thank you. Well, then, we will proceed in that manner.

Let's move straight on to the agenda items.

As indicated in Document 1, this Council of Experts will convene for the purpose of revising the Stewardship Code. The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code (hereafter, the Follow-up Council), for which the FSA and the Tokyo Stock Exchange serve as a joint Secretariat,

compiled an opinion statement this past April on the Stewardship Code, and it has been recommended that the Stewardship Code be revised along the lines of this opinion statement.

As we start this Council of Experts meeting on revising the Code, I would like to ask the Secretariat first to brief us on the status of the Stewardship Code since the previous revision, and then to explain the discussion points in the Follow-up Council's opinion statement.

[INOUE Toshitake, Director, Corporate Accounting and Disclosure Division]

INOUE Toshitake from the Secretariat again. I will be using Document 3 for my explanation.

In Document 4 on your tablets, we have compiled data on the various items in Document 3 as well as on developments overseas. Due to time constraints, I will not offer an explanation of these, but you can refer to them whenever necessary in the course of the discussions.

Please take a look in Document 3 "Status and Issues on Stewardship Code". As indicated in the table of contents, I want first to describe for you the situation relating to the Stewardship Code after the last revision and then explain the issues by subject in the Stewardship Code.

On Page 4, I will explain the current status of the Stewardship Code. Here you can see the changes over time in the number of institutions accepting the Stewardship Code since the Code was established in February 2014. There has been a steady rise in the number of institutions accepting the Code, with 269 institutions having announced their acceptance as of September 30 of this year.

Here on Page 5 is an overview of the establishment and revision of stewardship codes in Europe, the US, and Asia. The UK established its first stewardship code in July 2010. This UK code was revised in September 2012, and I hear that preparations are underway for the second revision. In February 2014, Japan became the first country in Asia to establish its own stewardship code, followed by Malaysia, Hong Kong, Taiwan, Singapore and South Korea as Japan's introduction of a code sparked a broader move among Asian countries to

introduce stewardship codes. In the US, a Stewardship Framework was established in 2017 by the Investor Stewardship Group, or ISG, a private-sector initiative centered on institutional investors.

Please take a look at page 6, which shows some parts of the stewardship codes of the UK, the US and Japan. The left-hand side of the slide shows Principle 4 of the UK's Stewardship Code as initially introduced, containing provisions on escalation by institutional investors. By contrast, Principle 4 of Japan's Stewardship Code as established in 2014 has been put in more of a Japanese style, with the provisions focusing on constructive dialogue between institutional investors and companies. Principle E of the US ISG's Framework of 2017 stipulates that efforts are to be made to resolve differences of opinions with companies in a constructive and pragmatic manner, and the current draft of the proposed revision to the UK's Stewardship Code shows that Principle 4 has been amended to make mention of constructive engagement.

Next, before we go into individual points for discussion, let me show you the key revisions made to the Stewardship Code in 2017, and give you an overview of the Follow-up Council's opinion statement issued this past April.

Page 8 presents an overview of the Stewardship Code but, as I trust the Council members are already familiar with the details, I will skip any further explanation of this today.

Page 9 outlines the previous revision made to the Stewardship Code in May 2017. To ensure that corporate governance reform is deepened from "form" to "substance", it was deemed important in making these previous revision that institutional investors effectively undertake constructive dialogue with companies, and these revisions encouraged asset managers to step up their governance and conflict of interest management and clarified the roles of corporate pensions and other asset owners. The revisions also asserted that proxy advisors should invest sufficient management resources to accurately ascertain the circumstances of companies when offering advice.

Next, Pages 10 and 11 discuss the opinion statement compiled by the Follow-up Council in April of this year to promote further corporate governance reform.

Here we have put together a summary of the directions the re-revision of the Stewardship Code should take in light of current issues and of outstanding issues in corporate governance reform. A more detailed version has also been saved on your tablets for reference, so please take a look at this as necessary.

On Page 11, the issues for consideration pertaining to the Stewardship Code that were mentioned in this opinion statement have been listed by subject, and directions have been indicated for further revisions to the Stewardship Code on these respective issues.

We will cover these issues later when we look at the discussion points by subject, so I will not go into any further explanation here.

Next, let me explain the discussion points by subject.

Page 14 covers asset managers. This page has been designed to present the points noted in the Follow-up Council's opinion statement regarding efforts to make constructive dialogue more substantive and the views expressed by Follow-up Council members regarding these points.

Let's begin with the description of the opinion statement at the top. The Follow-up Council noted that insufficient information was being publicly disclosed on dialogues with investee companies, including explanations of the reasons for voting asset managers have done and, in order to make dialogue more constructive and substantive from the perspective of deepening mutual understanding with companies while at the same time fulfilling their accountability responsibilities toward asset owners, the Council deemed it important to encourage asset managers to better explain and share information on (1) their reasons for

voting in favor or against specific agenda items, (2) their dialogue activities with companies and the outcomes, and (3) their self-evaluations on implementation of the Stewardship Code principles.

On the other hand, as shown in the lower part, concerns have also been voiced by asset managers and others that, if the reasons for voting in favor or against specific agenda items were made public, companies might no longer agree to engage in dialogue with institutional investors. We would like to get your opinions on these concerns later on during the debate time.

If you will now turn to Page 15, you will see a graph showing the change over time in the voting records of asset managers on individual agenda items.

The figure on the left-hand side shows the changes over time in the respective rates of domestic and foreign institutional investors voting against agenda items vis-à-vis their voting on all agenda items proposed by companies. A look at the figures for all agenda items reveals that the voting rates against agenda items have not changed much. Focusing on individual agenda items, however, we can see in this figure on the right-hand side that, for example, there has been a gradual increase in the number of votes made by domestic institutional investors, shown here with a blue line, in opposition to agenda items on anti-takeover measures proposed by companies since the Stewardship Code was established, and the data shows a notable increase since the previous revisions to the Stewardship Code began requiring disclosure of voting records on specific agenda items.

This does not necessarily show that votes against agenda items are welcome, and I understand it to be a phenomenon indicating that asset managers have begun assessing individual agenda items and exercising their voting rights in practical terms.

The change of the rate for overseas institutional investors, seen in this graph, is moderate, but as you can see, votes opposing agenda items are on the decline.

Next, Page 16 shows the numbers of institutional investors that publicly disclose their votes on individual agenda items. This is a summary of the data as of the end of September 2019, two days ago, showing that the number of institutions publicly disclosing their votes on individual agenda items has topped 100, with the preliminary estimate standing at 119. The significant change from the light blue on the left-hand side of the bar graph to the more recent dark blue indicates that there were 20 institutions as of December 2018 that had publicly disclosed their reasons for voting against individual company proposals and that number essentially doubled as of the end of September 2019.

Please turn to Page 17, where you will find a summary by industry of the public disclosures of votes by institutional investors that I was discussing a moment ago. These figures, too, are still preliminary, but you can see that the numbers of institutions disclosing their votes on individual agenda items, including the reasons underlying these votes, are on the rise in all industries.

Moving on to Page 18, we see some examples here of disclosures of the reasons for specific votes. The lower part of the rectangle at top shows an excerpt from Guidance 5-3 of the Stewardship Code – “it is also considered beneficial in enhancing visibility for institutional investors, to explicitly explain the reasons why they voted for or against an agenda item” – but it appears that many asset managers are only publicly disclosing the reasons they voted against company proposals.

Looking at the right-hand side, though, it seems there do exist some, albeit only a few, asset managers that publicly disclose both the reasons for opposing company proposals and the reasons for voting in favor of shareholder proposals, and asset managers that publicly disclose the reasons for their votes in favor of or against all agenda items.

Page 19 shows the numbers of asset managers publicly disclosing their stewardship activities. About 50% of asset managers at present are publicly releasing stewardship activity

reports. As shown on the left-hand side of this bottom figure, some institutions in their stewardship activity reports go so far as to discuss the dialogues they have conducted and their outcomes, some are publicly disclosing feedback on their dialogues received from dialogue partners and third-party institutions, and some have listed future policies established after self-evaluations; there are examples of these on the right-hand side. Overall, there are considerable disparities among institutional investors in the content posted in their activity reports, and there are several investors whose reports are lacking in concrete details.

Page 20 describes the points on sustainability noted in the opinion statement and the discussions in the Follow-up Council. Guidance 3-3 of the current Stewardship Code includes business risks and opportunities as well as risks and opportunities arising from social and environmental matters among the details that institutional investors should ascertain about investee companies, and the footnote to this guidance also says: Along with governance, these are called ESG factors.

The opinion statement put together by the Follow-up Council this past April suggests that, when asset managers engage in dialogue on issues concerning sustainability, including ESG factors, it can be expected that these institutions see this approach as congruent with their investment strategies and as likely to lead to sustainable growth of company and improved corporate value over the medium to long term.

Among the opinions expressed by members of the Follow-up Council were that ESG factors have assumed increasing importance in evaluating companies and that integrating ESG factors into stewardship activities is vital. At the same time, members also insisted that efforts be made so that the “G” in ESG is not neglected. I hope to see this Council of Experts meeting discuss how to handle these issues within the megatrend encompassing sustainability including these ESG factors.

Now let me move on to talk about corporate pensions and other asset owners.

Page 22 notes that the Follow-up Council's opinion statement points out the importance of supporting the stewardship activities of corporate pensions in collaboration with the business community and a broad range of other stakeholders.

We have also been told, as in the opinions shown at the bottom, that sometimes misunderstandings arise within corporate pensions on the scope and degree of stewardship activities. We at the FSA would like to carry forward last year's cooperation with the business community and relevant ministries in efforts to support the stewardship activities of corporate pensions and other asset owners.

Next is the issues relating to service providers. Let me begin by touching on the Follow-up Council's discussions regarding proxy advisors.

Page 24 notes the importance of proxy advisors providing asset managers with advice premised on accurate information about individual companies. These firms are expected to establish adequate and appropriate personnel and organizational systems as well as specifically and publicly disclose the processes for developing voting recommendations including these systems. Advice should be based not only on the information publicly disclosed by companies but also on information obtained in the course of actively exchanging opinions with the companies themselves when necessary. It was also pointed out that asset managers, too, must be encouraged to disclose the names of any proxy advisors they are using, to put in place systems that allow the asset managers to confirm the details of all advice received, and to provide and explain information on the specific methods by which these firms are being used.

Other opinions suggested that, as there have been cases in which proxy advisors' assessments were based on misperceptions, greater opportunities should be made available to companies to confirm advisors' recommendation reports in advance or for companies to have their own views to be posted in these reports.

Next, Page 25 offers some data on the use of proxy advisors by institutional investors. The pie chart on the left reflects the results of a survey showing that about 40% of institutional investors are utilizing proxy advisors. On the right are examples of public disclosures made by asset managers on their use of proxy advisors. The upper example is a public disclosure by an institutional investor indicating in what circumstances it uses proxy advisors and in what specific ways it uses them. The lower example shows a public disclosure that actually names the proxy advisor being used.

Finally, Page 26 looks at investment consultants for pensions, another type of service provider. Members of the Follow-up Council opined that some investment consultants had taken advantage of their influence on customers to solicit purchases of their own investment products in the course of providing their consultant services, and that perhaps investment consultants are not properly evaluating asset managers' stewardship activities.

After clarifying that investment consultants for pensions do indeed provide key support for the stewardship activities of corporate pensions, the opinion statement recommended that these consultants establish their own systems for managing conflicts of interest, offer explanations on their activities based on these systems, and improve functions across the entire investment chain through these efforts.

The figure at the bottom left here shows the data on corporate pensions that have made contracts with investment consultants. An overall average of 26.4% of corporate pensions have such contracts, but nearly 70% of corporate pensions with assets of 100 billion yen or more have signed contracts with investment consultants, and thus the greater the assets of the corporate pension, the more likely it is to have a contract with an investment consultant.

I apologize for having had to speak so quickly, but this concludes the Secretariat's explanation.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Next let's move on to presentations from the Council members.

As we have just heard in the Secretariat's explanation, the Follow-up Council's opinion statement presented a number of points for discussion regarding asset managers, proxy advisors, and investment consultants for pensions, so I would like to ask one of our members, Mr. OBA Akiyoshi, Chairman of the Japan Investment Advisers Association, to begin by giving us a 10-minute presentation on the perspective of asset managers. Mr. Oba has submitted Document 5 for us to view.

Please proceed, Mr. Oba.

[OBA Akiyoshi, Council Member]

As just introduced, I am OBA Akiyoshi of the Japan Investment Advisers Association.

I want to discuss the direction our industry as a whole is taking in pursuing its activities.

The cover sheet on Document 5 states that the survey was conducted in October 2018. The current fiscal year's survey is still underway and the data has not yet been compiled, so I will use last fiscal year's results for my presentation.

Our association has regularly conducted surveys since 2014, and 218 of our 225 member companies responded to last year's survey, giving us an extremely high response rate of 97% (Page 1 of the document) and enabling us to grasp the bigger picture. The respondent members hold about 66 trillion yen in investments in Japanese shares.

The purpose of the survey is to help improve corporate governance in Japan by popularizing and embedding stewardship activities. As this is our goal, we are not focused exclusively on numerical targets, because these are ultimately just means to our end. Our aim is to improve

governance or, to go further, to sustainably improve corporate value, and we have been regularly conducting this survey from this perspective.

Today, I want to touch on four topics from the survey.

The first is the public disclosure of voting records (Page 2 of the Document). 50% of companies are now publicly disclosing their voting records, 11.5% are considering doing so, and 38.5% have no plans to make public disclosures now or in future.

Among the reasons given for not publicly disclosing voting records are “we could not get the customer’s approval”, “it would require costly system adjustments” – I suppose this could be because TOPIX is frequently used as the index, and they would have to allocate considerable management resources to assess such an enormous number of agenda items – “we do not have voting rights under our agreement”, and “we have few customers and so only disclose voting records on a case-by-case basis if requested”.

In this year’s survey, we are specifically asking about the reasons for not intending to make public disclosures in future.

Detailed reports are prepared for each customer under discretionary investment contracts, but “public disclosure” as used in the survey refers to disclosure to the general public. Discretionary investment contracts call for detailed results to be reported to each customer, and these are done on a case-by-case basis. In the survey, however, we want to know whether the information is being made accessible to the public.

When asked if they are also explaining the reasons they voted for or against agenda items when publicly disclosing their votes (Page 3 of the Document), 23.4% of companies said that they do explain the reasons as well, while 76.6% of companies said they do not.

We have added questions to this year’s survey about whether the agenda items on which

they explained their votes were company proposals or shareholder proposals, and whether they voted for these agenda items, against them or abstained, and we have asked them to write down specific examples of agenda items on which they felt it necessary to explain their specific votes. We expect that they are only explaining votes when the agenda items have garnered particular attention or when a vote for or against would be in the interest of the beneficiary, but we have requested that they specifically provide such information.

The second topic is the use of proxy advisors (Page 4 of the Document). 41.5% of companies used advisors and 58.5% did not, with 59% of user companies employing advisors for “both Japanese and foreign shares”.

When asked how the advice was being utilized (Page 5 of the Document), 43.6% of the companies said they refer to the advice when deciding on voting instructions, 30.8% said that, with few exceptions, they generally issue voting instructions in line with the advice, and 20.5% said they issue voting instructions regarding parent companies, etc., in line with the advice, so it seems that this advice constitutes part of their management of conflicts of interest.

As for whether they publicly disclose their use of advisors and how these firms' services are being used (Page 6 of the Document), 81.8% of companies responded that they publicly disclose such use, while 15.2% said they publicly disclose neither the use of these firms nor the reasons for such use. Many companies investing in Japanese shares utilize these firms and publicly disclose this use, and it may be deduced that they are using them because exercising voting rights takes time and money, which in turn requires the allocation of management resources.

Among the specific examples offered of public disclosure of the use of proxy advisors (Page 7 of the Document) were companies who used the reports obtained from advisors as reference materials when exercising their voting rights, with the companies themselves making the final decision, and companies who utilize advisors to help manage potential

conflicts of interest when deciding on votes involving other enterprises with which they have capital or business relationships.

The third topic is the use of investment consultants (Page 8 of the Document). 38.2% of respondents said that they have received questions from their investment consultants about activities pertaining to Japan's Stewardship Code, while 61.8% replied that they had not. Although the affirmative responses have risen somewhat since the previous survey, we should keep an eye on what happens with this fiscal year's figure.

The questions most frequently received from investment consultants (Page 9 of the Document) were about policies relating to Japan's Stewardship Code, followed by engagement activities and voting.

You heard earlier from Mr. Inoue that investment consultants may still not be adequately aware of the issues at hand, so we will be asking similar questions in this fiscal year's survey to ascertain the views of investment consultants.

The fourth topic is ESG investment (Page 10 of the Document). Of the approximately 66 trillion yen invested in Japanese shares by respondent members, about 27 trillion yen has been put into ESG investment.

77.1% of companies stated that they had never received mandates from customers relating to ESG. Their customers appear to include not only asset owners but also financial institutions and general investors, so it should be interesting to see what results emerge in this fiscal year's survey.

As to whether ESG factors are being taken into consideration with making active investments (Page 11 of the Document), 62.9% of companies consider them and 18.9% are not. Most respondents say that, when selecting shares, they take into consideration how individual companies are incorporating ESG factors and carrying out corporate activities.

Page 12 of the Document gives a summary of the information I have presented here. The first point worth noting is that disclosure of individual voting records is still lagging, with 70% of companies not disclosing the reasons for their votes. This would indicate that there is significant room for improvement with respect to Principle 5 of the Stewardship Code.

The second point is that 40% of companies are utilizing proxy advisors, with the majority doing so for both Japanese and foreign shares. There was roughly a 50-50 split between companies that vote in accordance with the advice provided and companies that use the advice for reference purposes when deciding how to vote. 80% of companies are disclosing their use of advisors. In keeping with Principle 5, investment companies may need to broaden their disclosures to include their use of proxy advisors.

The third point is that fewer than 40% of investment companies had been asked by investment consultants about their activities pertaining to Japan's Stewardship Code or been sent written inquiries, and this may need to be raised as an issue in order to raise this number a little.

The fourth point is that about 80% of investment companies say they have never received a mandate to take ESG factors into consideration. More than 60% of investment companies engaged in active investment have decided to take ESG factors into account. From the perspective of promoting investment that incorporates ESG factors as advocated in Principle 3, there is still significant room for improvement.

That concludes my presentation.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Now let's ask Mr. Ishida, the Representative Director of the Institutional Shareholder Services, or ISS, to give us a 10-minute or so presentation.

Mr. Ishida, please go ahead.

[ISHIDA Takeyuki, Council Member]

I am ISHIDA Takeyuki from ISS, and I want to thank you sincerely for giving me this opportunity today. I have not prepared any documentation, so mine will be an entirely verbal commentary.

I would like to discuss from ISS's standpoint several points, with considering the discussions in the Follow-up Council.

Let me begin with managing conflicts of interest. ISS has a subsidiary company called ISS Corporate Solutions, or ICS for short. ICS provides companies with consulting services, and the concern raised here is that ISS might alter its recommendations on voting for or against particular agenda items if the issuing company is an ICS client. That concern would be valid if ISS had knowledge of ICS's client companies, so we have constructed a firewall as part of a scheme to keep ISS from learning about ICS's client companies.

More specifically, ISS and ICS operate in physically distinct locations, and they separately manage computer system access. Internal provisions have been established to prohibit ICS from communicating with ISS in any way regarding individual companies or specific agenda items.

Several provisions have also been included in the agreements signed between ICS and its client companies in order to prevent conflicts of interests. For example, ISS must not favor ICS client companies in making recommendations for or against agenda items put forth by these client companies; only ISS staff, without any involvement by ICS staff, may prepare voting recommendation reports on agenda items; and ICS clients may not disclose to outside parties that ICS is providing them with services. These measures are designed to keep ISS from learning about ICS's client companies, and are examples of the explicit provisions being written into agreements.

Enhancing information disclosure is another approach being taken to prevent conflicts of interest. Institutional investors that are ISS clients can check whether or not ICS is providing services to an issuing company. Indeed, they can confirm the details of these services and even the amounts of remuneration being paid for these services. This, too, has been explicitly incorporated into agreements between ICS and its client companies. This information disclosure allows institutional investors who are clients of ISS to monitor ISS's behavior. In other words, they are able to keep an eye on ISS's actions to determine if it is possible that being an ICS client company has influenced ISS's advice in favor of an agenda item that it should ordinarily have opposed.

These approaches are supplemented by policies. The policies established by ISS constitute standards for providing advice on voting for and against individual agenda items. ISS offers advice on voting based on publicly disclosed policies. Anyone can take a look at these policies and determine in advance how ISS will arrive at a recommendation for or against an agenda item. This is meaningful not only for ensuring transparency but also for preventing conflicts of interest because it shows that ISS formulates its voting recommendations in line with its disclosed policies and cannot make recommendations only advantageous for ICS client companies.

Next, I would like to describe our research organization. ISS has offices around the world, staffed by a total of 450 research personnel as of June 2017. The research conducted on Japanese companies is based in Tokyo, but support is received throughout the year from ISS offices outside of Japan as well. This proves particularly important during the peak period of June. With information technology having advanced as far as it has, work can now be performed via networks anywhere in the world, so there is no need to be in Tokyo to carry out research on Japan. What is important is how many resources can be dedicated to research on Japan during the peak June period; 13 ISS analysts took part in research on Japan in June of this year. The large number of convocation notices issued in June is more than our full-time staff can handle on its own, so each year we hire a large number of temporary staff in Tokyo to deal with tasks that are principally administrative in nature.

Making voting recommendations requires accurate information. The basic sources of information we use in our research include convocation notices, securities reports, and earnings summaries, and ISS tries as far as possible to obtain this information in electronic form, that is, in XBRL file format. Data is also purchased from outside providers and used for cross-checks to ensure our information is accurate. Data that is input manually is checked over by several persons, as we are very concerned with data accuracy. Maintenance on this data is performed throughout the year.

ISS has long been registered as an investment advisor with the US Securities and Exchange Commission, or SEC, and ISS has received SSAE16 internal control certification from an auditing firm to guarantee the accuracy of its research data. SSAE16 was established by the American Institute of Certified Public Accountants as a certification standard for evaluating the effectiveness of internal controls at companies undertaking outsourced operations.

Finally, I want to discuss dialogue with issuing companies. The main reason that ISS engages in dialogue with companies is to enhance the quality of the voting recommendation reports we submit to institutional investors that are ISS clients. Our aim is not bringing about changes in companies' behavior. Consequently, we are chiefly interested in pursuing dialogue not so much as two-way exchanges of views as opportunities to listen to companies' opinions and confirm information that cannot be grasped solely from convocation notices. For example, relying on the information in convocation notices alone does not give you a full picture of business mergers, shareholder proposals, proxy fights or scandals. In such cases, it is essential to listen to companies' views in order to prepare high-quality reports. This need to listen does not apply just to issuing companies, though. Regarding shareholder proposals or proxy fights, for instance, we also seek out the opinions of the proposing shareholders. Having companies correctly understand ISS's views is a secondary aim of dialogue. ISS policies are all posted on the ISS website, so ISS's fundamental philosophy can also be checked there.

Dialogue with companies may be requested by us or may be initiated by companies. We generally accept all requests for dialogue outside the months of March and June in which most general shareholders' meetings are held. For matters deemed of particular importance, we even accept requests for dialogue during these busy months, and there have been more than a few occasions on which ISS has sought out such dialogues.

Dialogues may take place in person by actually meeting and talking face-to-face or they may be conducted by telephone. Records of these dialogues are included in ISS's voting recommendation reports to let institutional investors that are ISS clients know that ISS's voting recommendations were prepared after speaking with the companies involved. Such records are part of the voting recommendation reports we prepare, and are on about 150 to 200 reports each year.

From the viewpoint of increasing transparency, issuing companies can obtain the voting recommendations made on its own agenda items from ISS at no charge. These reports contain the e-mail addresses of contact persons and organizations, so the companies can convey their opinions and objections to ISS if they believe there are problems with the recommendations. In fact, we carefully scrutinize all objections raised with ISS by issuing companies and, if revisions are needed, we amend the reports and redistribute them. Several dozen opinions or objections are communicated to ISS each year regarding its voting recommendations. Where there has been some misunderstanding of the facts by ISS or some other error, the report details are quickly amended. However, many objections stem from a difference of interpretation, and we do not make any changes to our voting recommendations in such cases. On occasion we may add a company's objections to an ISS report and redistribute it.

In other countries such as the US, Canada and France, ISS has reports on major corporations checked at the draft stage. This is possible because general shareholders meetings in these markets are spread out over several months, and convocation notices are issued a month or more in advance of the general shareholders meetings. In Japan, general

shareholders meetings are concentrated in a one-week period in late June, presenting many practical difficulties that explain why such checks are not carried out here.

Revisions of ISS policies offer other opportunities for dialogue with companies. ISS reviews its policies every year, and it solicits the views of issuing companies as well as investors when doing so. ISS also welcomes public comments during this process. Comments are received from numerous issuing companies every year and, in fact, there have been instances in which policy revisions were amended on the basis of these comments.

We regard dialogues with issuing companies as valuable opportunities to update voting policies that take into account the circumstances at Japanese companies.

That concludes my remarks. Thank you.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Next, we would like to have Mr. OGAI Taro, Managing Director at Towers Watson Investment Services, give us a presentation of about 10 minutes from the perspective of a pension investment consultant. Mr. Ogai has provided us with Document 6.

Please go ahead, Mr. Ogai.

[OGAI Taro, Council Member]

As just introduced, I am OGAI Taro from Towers Watson Investment Services, and I am pleased to meet you all.

I have been asked to speak in my capacity as an investment consultant, so I would like to explain the current circumstances facing investment consultants and other service providers for pensions in Japan.

An overview of a recent report on pension consultants prepared by the CMA in the UK has been included in the Secretariat's materials. Because there are some aspects that differ between Japan and overseas, I want to begin by explaining the circumstances overseas and then describing the situation in Japan.

Let's get right into the details.

The first page contains a graph showing that outsourcing of pension investment is expanding rapidly overseas. This is known overseas as OCIO – outsourced CIO or fiduciary management – and it has been expanding quite rapidly of late.

The reasons that pensions are increasingly relying on outsourcing are listed on Page 2, with the first being inadequate internal resources at pensions themselves, and the second being a desire for better risk management; operations are outsourced to specialists in the belief that such matters are best left to experts. The third is the need for pensions to seek out expert assistance to properly fulfill their responsibilities as trustees, given that the increasingly complex world of investment has left pensions no longer able to understand and manage completely everything themselves. Opinions have been expressed here on this point as well, and personally I think it may be worthwhile for pensions in Japan with limited resources to consider this approach.

With major investment companies undertaking these outsourced operations and even global consulting companies such as ours getting involved in this business, conflicts of interest may emerge from time to time.

The circumstances in Japan are a little different. There are almost no examples of operations being entirely outsourced in this manner, and business models, and hence conditions, differ by consulting company. While I cannot tell you what is happening at other companies, I would like to explain what we are doing at ours.

Although we have been told that it is ridiculous for a consultant to undertake investments, what I want you to understand in looking at this page is that, when we say investment, we do not mean making investments ourselves by actually buying or selling shares or bonds. As a gatekeeper, we are simply entrusted with selecting an asset manager to which such investments will be consigned. Therefore, as you see on the left-hand side of this figure, we as a consulting company advise customers on selecting the asset manager best suited to their investment needs. However, as you see here on the right-hand side, if a customer does not have a full grasp of the issues involved and is thus unable to switch over to a different asset manager in a timely fashion, we can not only offer selection advice but we can also be commissioned to make and execute the selection ourselves. This is the extent to which we engage in investment.

There is no essential difference between the figures on the left and right in this sense, so rather saying there is no conflict of interest connected with the right-hand side, I can say we are properly managing any potential conflicts of interest as a consultant and, of course, as a gatekeeper as well.

This page shows more details on the measures our company is taking. I do not intend to explain them all in detail, but I would like to discuss the point at the top. You should understand that we do not belong to any specific financial group. As I mentioned a moment ago, we do not engage in investment by buying and selling securities ourselves, nor is such investment being carried out or entrusted to some different company within a group affiliated with us.

Additionally, we do not maintain dubious ties with other companies in this regard, nor do we ever receive compensation in the form of kickbacks for steering money entrusted to us or our customers' money into the companies we select or evaluate. We instead provide advice from the perspective of what investments are best for the customer and for the ultimate beneficiary, and are then contracted by the customer to select a company to make these investments on the customer's behalf.

While we are committed to carrying out our duties properly, we are more than willing to prevent or rectify any shortcomings in information disclosure. The CMA report suggested that detailed disclosures should be made of who paid compensation to whom, and we will step up our efforts in this regard if necessary.

However, in what may point to an embarrassing shortcoming in Japan, I understand that there are service providers other than consulting companies who have influence with pensions on their investments.

Let's look now at the document on Page 5. Our company has conducted an annual survey for almost two decades now, and for the past 18 years we have been asking questions that will enable us to determine the percentage of pension funds that decide on outsourcing companies based on business ties with their parent organizations or parent companies. If you look here, you will see the percentage is about 20% overall. As you might imagine, though, the smaller the pension fund, the larger this percentage becomes. Up to 40% of small funds in certain circumstances have no choice but to select outsourcing companies on the basis of business ties with their parent companies or organizations.

As Mr. Inoue explained earlier, about 26% of pensions in Japan employ consultants, and you can see here that the figure is about 40% for small pension funds. This percentage doesn't apply just to our own customers. We survey nearly 100 funds, most of which are our customers, but I am certain that, if you were to ask the other 10,000-plus funds, including those not using consultants, you would find that the percentage might be even higher but not likely any lower.

One aspect of Japan's system I cannot seem to get my overseas colleagues to understand is that of a master trustee. A master trustee performs management operations, actuarial work, and investment operations and thus could be considered an extremely potent partner for pensions.

Given that pensions naturally rely on them across-the-board for these managerial and actuarial operations, my feeling is that they are pressured into entrusting them with their investment operations as well. It would seem inevitable that doubts would arise as to whether they are faithfully fulfilling their fiduciary responsibilities, in other words, whether outsourced companies are being selected with only the pension participants and beneficiaries in mind.

As seen in the previous page, I have seen and heard of instances of major financial groups lobbying the parent organizations of funds, with the end result being that changes in outsourcing companies or even in the makeup of portfolios may not be possible without consulting financial or sales personnel from the group.

The following two pages show the state of the investment industry in Japan and the state of Japanese investment companies. To offer my personal opinion here, I feel when looking globally that, with many Japanese asset managers having acquired and maintained business in this manner, Japan's investment industry and investment companies do not unfortunately exert a presence worthy of a major power ranking second and third in the world economically and financially.

As has been pointed out previously in these meetings, corporate pensions in Japan have extremely limited resources, and people lacking the needed expertise are often struggling to run them. It is my understanding that pension funds, if their hands are tied by master trustees, or in some cases the parent organization's main bank, borrowers, or business partners, often find it difficult or impossible to fulfill their fiduciary responsibilities nor to accept the Stewardship Code. Rectifying this situation would be the starting point for building sound investment chains, and an extremely important if roundabout short-cut allowing asset owners to fulfill their true functions.

This concludes my remarks.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

We will now take some time to hear and debate your opinions on the presentations we have just received from the Secretariat, Mr. Oba, Mr. Ishida, and Mr. Ogai.

These presentations were presented by representatives of an asset manager, a proxy advisor, and an investment consultant for pensions, but we are happy to take remarks on a broad range of other topics of interest. Since today is our first Council meeting, please also feel free to offer any opinions you might have on the conduct of the meeting.

Who would like to start us off? All right, Mr. Tsukuda, please go ahead.

[TSUKUDA Hideaki, Council Member]

Since I am the lead-off batter, let me begin by thanking the Secretariat and everyone else for their presentations.

On Page 10 of the document from the Secretariat, the “Recommended Directions for Further Promotion of Corporate Governance Reform” lists some outstanding issues pertaining to the Stewardship Code and the Corporate Governance Code.

Rather than a comment, I have a couple of questions that I would like to ask Mr. Oba about something not listed here.

Turning from Page 10 back to Page 6, I am very pleased to see that Japan’s code uses the expression “through constructive engagement” for the first time, but five years have passed since the Code was established (in February 2014).

This was an issue brought up several times by the Follow-up Council but, as my first question, did the quality of engagement improve during the five years? For example, has it become

more common, if not always the case, over the past five years that company managers have found dialogues with passive investment firms informative? Or to put it from the opposite standpoint, let me ask Mr. Oba if he believes that company managers on the whole genuinely feel that engagement has been extremely helpful in boosting corporate value. That is my first question.

As for my second question, I noticed in listening to your presentation that the expression "managing conflicts of interest" appeared quite a few places. In addition, Page 6 of the document from Mr. Ogai we saw earlier stated: "There are numerous examples of major financial groups placing pressure on the parent companies of funds". That, of course, makes managing conflicts of interests at those major financial groups very important. This is perhaps particularly true in Japan. How much has the management of conflicts of interest improved since five years ago? All parties no doubt think they are managing conflicts of interest properly but, looking objectively, evaluating the degree to which conflicts of interest have been properly managed, especially at those asset managers belonging to integrated financial groups, is an issue that needs to be addressed. I would like to ask your views on these issues.

That's all.

[KANSAKU Hiroyuki, Chair]

Mr. Oba, can we get you to respond to the questions we just heard?

[OBA Akiyoshi, Council Member]

There are more than 2,000 listed companies involved in engagement and about 200 investment companies respond to our questionnaire, so it is difficult to give a succinct answer.

My impression with regard to engagement is that improvements can be seen in the activities of some companies active globally, in that they are more aware of the engagement efforts of investment companies and they are preparing integrated reports covering key financial and non-financial information and taking other steps to paint a picture of their corporate growth.

Unfortunately, not all companies have similarly improved, with some of them being unable to keep up the needed allocation of management resources. This makes it very difficult at the moment to sum up the overall situation neatly. Companies have offered a variety of opinions, among them being that the excessive use of foreign terms written in katakana makes it difficult to understand.

Consequently, it is hard to make a sweeping generalization about how things are going. My impression is that some companies have seen substantial benefits and tangible progress, while others are having quite a hard time keeping up.

[TSUKUDA Hideaki, Council Member]

What about conflicts of interest?

[KANSAKU Hiroyuki, Chair]

Do you have any comment on conflicts of interest?

[OBA Akiyoshi, Council Member]

Me?

[KANSAKU Hiroyuki, Chair]

Yes, Mr. Oba, if you would.

[OBA Akiyoshi, Council Member]

As Mr. Ogai also pointed out with regard to managing conflicts of interest, the large number of asset managers in Japan belonging to financial conglomerates may prompt these institutions to believe that any lack of sensitivity shown toward this issue would be seen as suspicious. When disclosing the reasons for voting for or against agenda items, doing so for all agenda items would pose difficulties in terms of cost. Therefore, it would seem prudent to disclose voting reasons for those agenda items where suspect to have conflicts of interest or agenda items that have garnered public attention.

This may go beyond the bounds of this Council meeting a bit, but I might add that, if no solution can be found for an issue that has been previously discussed, it might not be unreasonable to consider revamping some of the rules. One might want to reconsider as a matter of human ingenuity why the Glass-Steagall Act was passed in the US during the Great Depression. It was subsequently repealed due to a variety of circumstances. It might be necessary to go back to the very start to determine what came about as a result. Still, that would exceed the scope of this Council meeting, so I will leave off there with my impressions.

[KANSAKU Hiroyuki, Chair]

Thank you. Mr. Tsukuda, is that satisfactory?

[TSUKUDA Hideaki, Council Member]

Thank you.

[KANSAKU Hiroyuki, Chair]

Would anyone else like to make some remarks?

Yes, Mr. OGUCHI, please go ahead.

[OGUCHI Toshiaki, Council Member]

Thank you. Because time is limited, I would like to return to the basics rather than get into details. As Mr. Nakajima noted in the beginning, five years have passed since the Code was created in 2014. It was amended in 2017, so this revision will be the second. Our discussions seem to be growing in scope as we go along, and I strongly feel that the further we proceed, the more necessary it will be to return to the starting point and reaffirm why the Stewardship Code was created in the first place.

As for why that is, the explanation probably has been omitted on Page 8 of Document 3 but the reasons are given at the beginning of the Stewardship Code. One is to promote sustainable growth of companies through constructive dialogue between institutional

investors and these companies, and another is to enhance the medium- to long-term investment returns for clients and beneficiaries. The responsibilities entailed in pursuing these two purposes are known as stewardship responsibilities. This may tie into what Mr. Tsukuda was talking about earlier, but five years have passed since the Code was formulated and, even if five years cannot be called a long time, this might be an opportune moment to look back over a number of things. The Code was created to ensure sustainable corporate growth and improve medium- to long-term investment returns, so it seems to me that we should look back first over the degrees to which the results or outcomes have been achieved in pursuing these two aims.

As was noted in several documents and remarks, there is considerable room for improvement in the number of institutions that have pledged to adhere to the Code as well as the number of public disclosures of individual voting records and other aspects of transparency that Mr. Oba's presentation covered but, be that as it may, I think that there has been notable development in the activities themselves. Unless it can be shown that the result, the outcome, of this development has been sustainable growth of companies and greater medium- to long-term investment returns, though, I think it will be difficult to make a practical assessment of stewardship activities.

Indeed, as I said a few moments ago, the deeper our discussions go and the broader the range of topics we cover, the weaker our awareness of the Code's original purposes will become. Stewardship activities will simply become ends in themselves rather than means of achieving certain aims. We always talk about the need to make the transition from "form" to "substance" in governance reform, but we risk this becoming empty sloganeering. Without a sense of commitment to the true spirit of the Code, I am afraid we may only see improvement in "form".

As we examine various revisions to the Code, we should think of outcome awareness as an issue affecting the Code as a whole, and we may need to discuss these revisions from the perspective of outcomes.

This applies to the Code as a whole, but also the institutional investors actually involved that have thus far accepted the Code as well as the service providers and the asset owners have to think hard from their respective positions. As they come up with the best ways to carry out these stewardship activities, I believe they need to incorporate their outcome awareness and undertake public disclosures.

That is all.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Next we will hear from Mr. Yonehana, Mr. Matsunaga, and Mr. Hokugo, in that order.

Let's begin with Mr. Yonehana.

[YONEHANA Tetsuya, Council Member]

Thank you very much. I would like to offer two comments.

The first is a general comment as we begin working on a second revision of the Stewardship Code. Looking back over events thus far from a single company's frame of reference, we have been working as an asset manager to implement substantive approaches since the previous revision, and we feel that the formulation and subsequent revision of the Stewardship Code has undoubtedly raised awareness of the importance of dialogue at asset managers and companies. We believe as an asset manager that dialogue with companies has become easier as a result.

Opinions may vary on this, but I have a real sense that the Stewardship Code is supporting the efforts of both asset managers and companies and steering them in desirable directions and, as we strive to revise the Stewardship Code in view of the Follow-up Council's discussions, I am hopeful that these revisions will lend support to still more sophisticated stewardship activities.

My second comment pertains to both Mr. Ogai's presentation and Mr. Tsukuda's comments and, since they touched on a subject relating to our industry, let me make just a few points in that regard.

The circumstances surrounding corporate pensions as asset owners came up in one presentation, and I want to first talk about the master trustees for pensions mentioned on Page 6 of the Document. Few people are familiar with the duties of a master trustee, which consist primarily of duties consigned by trust banks and life insurance companies. The trustee is responsible for the administrative tasks connected with operating a corporate pension program – remitting the benefits to be paid to corporate pension recipients and collecting funds as premiums – as well as the administrative tasks connected with managing financial settlements and actuarial calculations for the pension, and these duties do not include making investments for the corporate pension. Hence, the master trustee is not involved in the consignment of investment operations for corporate pensions.

Speaking from practical experience, we are entrusted with these administrative tasks, these master trustee tasks, so we tend to have more frequent interaction with customers than those pensions without master trustees, and I believe this results in more opportunities for us to hear customer needs and to propose programs and investments.

With the governance of corporate pensions growing more sophisticated, customers are taking internal accountability into consideration as well when selecting asset investment products, and I understand is that customers are now giving more careful scrutiny to products before signing up. Even at those pensions for which we serve as master trustee, customers cancelling our company's investment products and acquiring those of other companies is an everyday occurrence, so just because a company is serving as a master trustee does not mean that its assets under management will naturally increase. This is my first point.

My second point, something Mr. Tsukuda also mentioned, concerns relations with major

financial groups. Earlier there was some discussion about conflicts of interest, and I think that, if anything, this is more of a concern about the abuse of a dominant position. Speaking from that perspective, we are a trust bank belonging to a major financial group and we as an individual company do not provide any loan services to corporations. The Group as a whole, including the Group's commercial banks, follows strict procedures designed to prevent abuse of dominant positions in pension and all other operations, and I think other financial institutions take a similar approach in this regard.

I will say again from personal experience that, when we ourselves go out on sales calls, we have often been told by company pension representatives to "go see Finance team" or "go talk with Sales" and, as a rule of thumb, this is most likely just another way of turning salespeople away.

As I said a moment ago, while the basic viewpoint may differ from that given in Mr. Ogai's earlier presentation, I do believe that the question of how a relatively small-scale corporate pension can fulfill its fiduciary responsibilities needs to be addressed.

One point with regard to this issue is that the approach taken by sponsoring company of corporate pensions are important and, since provisions on functioning as an asset owner for the corporate pension were added to Principle 2-6 when the Corporate Governance Code was being amended in June of last year, it is expected that this will allow for a suitable approach. In connection with the Stewardship Code, upgrading stewardship activities overall has been discussed in a variety of venues, and I think it is important for both asset owners and asset managers to push ahead with this from their respective standpoints.

That is all I have to say.

[**KANSAKU Hiroyuki, Chair**]

Thank you very much.

Well, then, Mr. Matsunaga, please proceed.

[MATSUNAGA Yosuke, Council Member]

I am MATSUNAGA Yosuke from Nippon Life Insurance Company, and I want to start off with three points from the perspective of a life insurance company engaging in investment for the long term.

The first point concerns disclosure of the reasons behind voting for or against agenda items.

Disclosing the reasons for voting for or against agenda items is essential for ensuring transparency in stewardship activities, but there are serious concerns that demanding across-the-board disclosure of specific details that would reveal specific details about dialogues could undermine mutual trust with companies and adversely impact future dialogue efforts, so I ask that this be considered very carefully.

The second point concerns stepping up dialogue efforts with companies and explaining the results of these dialogues.

It is vital that companies exercise creativity and ingenuity in continually striving to enhance disclosure but, at the same time, the approaches taken should be flexible and should give due consideration to the actual capabilities and strengths of individual companies.

The third point concerns ESG.

As you know, ESG is an important factor in improving corporate value over the medium to long term, and The Life Insurance Association has launched an ESG Investment & Loan Promotion Working Group to pursue a full range of ESG investments and loans.

Meanwhile, efforts toward constructive dialogue on ESG are still at the development stage, with the stances of individual companies on this matter varying widely.

Information on these efforts as well as on E and S efforts at companies currently available through dialogue is hardly adequate.

Accordingly, I think careful consideration should be given at this stage to incorporating, or integrating, ESG factors obtained through constructive dialogue into the investment process, and including them immediately and uniformly into the Code.

Having made these three points, I would like to conclude by discussing two points from Mr. Ogai's presentation, with the proviso that my comments may overlap those of Mr. Yonehana somewhat.

The first point pertains to master trustee operations.

As Mr. Yonehana mentioned, master trustees are responsible for program management operations involving the management of pension contract liabilities and corporate pension payments. Offering asset investment advice is not included in pension management agreements.

Asset management companies may offer asset management advice, but this is directed at promoting their own investment products and clearly differs from investment consulting that entails comparative recommendations of other companies' investment products.

Because master trustees are responsible for program management, they naturally have more interactions than other parties but, since it is the (pension) fund that selects the investment products, I see them as having equal standing with other companies.

Now let me get to my second point about preventing abuse of an advantageous position.

Life insurance companies each have their own approaches, so I will give you an example from our company, although I will not go into specifics in the interest of time. We have in

place a suitable system for managing conflicts of interest and, because our management team recognizes the great importance of customer-oriented business operations, we are putting such operations into practice.

In any case, we recognize the importance of pursuing customer-oriented business operations, creating systems to manage conflicts of interest, and developing and proposing products to meet customer needs.

That is all I have to say. Thank you.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Mr. Hokugo, please go ahead.

[HOKUGO Kenichiro, Council Member]

I am HOKUGO Kenichiro from the Pension Fund Association's Pension Investment Department. Thank you for having me.

I also want to thank the members of the Follow-up Council for compiling this Stewardship Code as well as they have. I would like to offer my views as an asset owner.

Thanks to the Stewardship Code and the Corporate Governance Code, interest in the Japanese market has risen significantly, so I frankly think it is a good thing that these codes were established.

I also oversee hedge fund investment, so I frequently notice overseas hedge funds and long-only funds taking an interest in Japanese markets and, from time to time, they express that interest to me and ask how best to approach these markets, so I can tell you that these codes are clearly having an effect.

Today I would just like to briefly make two points. Since this is my first time here, I will take a big-picture approach instead of going into a detailed account. Earlier we heard from Mr. Oguchi about the purposes of the codes, and my attention was drawn to the overview we saw on page 8 of Document 3. I believe that we need to accurately assess the third item listed there – monitoring the governance and corporate strategies of investee companies – and that governance is indeed an issue for Japanese companies.

Return is the number one mandate for asset owners, as it is for investment companies, and it is the fiduciary duty if – to give an extreme and entirely theoretical example – we cannot generate returns from Japanese markets to exit these Japanese markets; giving up on them is always an option. I would say that these two codes are major prerequisites for boosting the Japanese market, and that both the Corporate Governance Code and the Stewardship Code are important.

I see the purpose of today's Council meeting as determining from what angles we will be revising the code so that we can go into more detail in the next two meetings. As my second point, I regard these two codes as being two wheels on the same axle, and what I have seen and experienced in the markets and during engagement leads me to think that wheel of the Stewardship Code might be somewhat smaller. If you will pardon the poor metaphor here, a smaller wheel on one end of an axle means that, although the wheel will still spin and the cart will not go around in circles, the cart will lose some forward momentum. To put this in more concrete terms, the Corporate Governance Code basically applies to listed companies, while the Stewardship Code is more for institutional investors. I hear that this applies to the UK's Stewardship Code as well, but taking into account the special circumstances of Japan, where general corporate shareholders make up nearly 25%, there are few people bound by the Stewardship Code or required to comply with it, so it appears small and powerless.

This is very much out-of-the-box and not an issue on which we will reach a conclusion here but, for example, a return on assets on the balance sheet of a bank or a general corporate is the responsibility of company management, whether the company is listed or not, and thus

company management should be thought to be an investor. In that case, any company holding other companies' shares, whether you choose to call them cross-holding shareholders or stable shareholders, should also be required to sign up for the Stewardship Code. This is one measure that could be taken. This would provide greater depth or impact and, as a result, because they would be required to disclose voting records and shoulder other burdens, the shares held by such companies would have a major impact on capital efficiency, and I think this would little by little improve the situation in Japan, where share prices are deeply undervalued and more than half still have PBRs of less than one.

I have gone on a bit long, but that concludes my remarks.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Next we will hear from Mr. Haruta, Mr. Okada, and Ms. Takayama, in that order.

Mr. Haruta, if you would please start.

[HARUTA Yuichi, Council Member]

Thank you. I am HARUTA Yuichi from Rengo.

First, let me express my gratitude for being included among the members of the Council of Experts on the Stewardship Code.

As we just heard, this Council of Experts has been organized to discuss revisions to the Stewardship Code, and I, too, think it important that the Corporate Governance Code and the Stewardship Code function smoothly as two wheels of the same axis. I hope that efforts can be made in this regard that will lead to greater social sustainability and sustained growth for companies.

I would like to bring up two points that were noted by the Follow-up Council.

The first is mentioned on page 22 in the Secretariat's handout. Under the points made regarding specific actors, the stewardship activities of asset owners are discussed, and it is important that we support the stewardship activities of corporate pension funds. I am in full agreement with this point.

It goes without saying that corporate pensions are in a position to impact corporate management even if they do not engage directly in dialogues with investee companies, and it is important to clarify to asset managers the views of the corporate pensions son stewardship responsibilities and decision-making criteria. We need to take this perspective into consideration when discussing code revisions.

My other point, mentioned on page 20, regards ESG and sustainability, topics brought up earlier.

Of the points listed there, I think dialogue on issues of sustainability, including ESG factors, is particularly important. We at Rengo have been running campaigns to popularize ESG investment and get more people to participate in such investment.

However, as noted on page 20, ESG efforts can become imbalanced, and care must be taken not to focus exclusively on E,S and neglect G.

In part because we are a labor union, we believe more emphasis should be given to the S part of ESG in terms of labor and human rights. Above all, when talking about public pensions or corporate pensions, we use the term "workers' capital" to refer to the funds contributed by workers or on their behalf. This workers' capital is very important to workers.

Accordingly, we would appreciate any extra attention that the Stewardship Code might give to such things as the ILO's core labor standards, safety and health, human resources development, work-life balance and decent work at investee companies.

I have gone on a bit long, but that concludes my remarks.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Your turn, Mr. Okada.

[OKADA Joji, Council Member]

This is my first time participating in this Council so, although this may already have been discussed, I want to bring up two points that came to mind from my practical experience as a CFO and a *kansayaku* (audit and supervisory board members) .

The first point concerns dialogue. As I was listening to the discussions on taking dialogue from “form” to “substance”, I began thinking that investors should conduct more dialogues with non-executive officers, specifically outside directors as well as *kansayaku*(audit and supervisory board members), both internal and external. If I were an investor, I would be interested in hearing what non-executive officers think about their companies’ governance system, and in asking more specific questions about, say, if executives are giving briefings or submitting documents to external directors, if reports are being made in an appropriate and timely manner, and if non-executive officers are allowed to attend Management Board meetings if they wish. Asking questions such as these will give you a better picture of the views on governance held by the company’s executives.

If asked these questions, executives might not be able to say much more than that everything is in compliance as stated in the corporate governance reports. Non-executive officers are in independent positions for that reason, and I believe it might be useful to conduct dialogues with them.

One reason I think such dialogues would be effective is because you can check how knowledgeable non-executive officers, that is, external executives, are with respect to governance and other topics. This will enable you to confirm that the transition has been

made from “form” to “substance”. Many investors are satisfied simply if the prescribed numbers of outside executives have been appointed, but I would like to see non-executive officers, as outside executives, be interviewed to check whether they are truly capable of making practical contributions to company governance.

One more point, which appeared near the middle of Reference Document 2 after “Further issues”, is that there are cases of cross-shareholdings in corporate pension accounts being excessively high. I am no longer working at a company so I am not familiar with the actual circumstances, but cross-shareholdings are in fact included among pensions’ investment assets. To eliminate a shortfall in reserves when introducing pension accounting, pensions were built up with shares using an approach unique to Japan at the time. It is more often the case that these shares are entrusted to another party to hold rather than being held directly by the fund itself. I am not sure whether this constitutes an issue or not, but the parent company exercises the voting rights for these shares. Pension funds are able to accumulate cross-shareholdings as assets at market prices without spending money, but the only earnings are the dividends.

I want to point out a conflict that arises here because parent companies vote on agenda items pertaining to dividends. It is hardly feasible that a pension fund would ask the parent company to vote “against” on agenda items pertaining to dividends because it is small. Nevertheless, the yield for pension funds does indeed depend on the dividend policies of investees.

I do not know to what degree these cross-shareholdings are included in companies’ pension funds, but it would seem strange not to return to a practice of parent companies buying back all of these shares with cash, and pension funds autonomously investing this cash.

I have not conducted in-depth interviews on the mechanisms of pension programs so there may be something I am misunderstanding, but my points are based on the possibility that, like written here, there are cases in which the percentage of cross-shareholdings among pension investment assets becomes an issue at a company.

That is all.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Next we have Ms. Takayama.

[TAKAYAMA Yoshiko, Council Member]

Following up on some of the earlier remarks about dialogue between companies and investors, I would also like to make a few comments on the current level of dialogue as seen from a corporate perspective.

As a company, we are in a position to support dialogue between companies and investors, and I have been engaged in many dialogues, including during this latest general shareholders' meeting season.

A variety of changes were apparent, and I would like to comment these changes from two perspectives.

One is the impact that requiring individual disclosures of votes in the previous revision of the Stewardship Code has had on dialogue, and the other is dialogue on ESG. I want to comment on the changes that have taken place in dialogue from these two perspectives.

To start off with my conclusion on the impact of individual disclosures of voting records, I feel that the quality of dialogue has risen as both investors and companies have changed their behavior in ways that bring them closer together.

Our impression on investors from a company perspective is that, when individual disclosure first came to be required, many major institutional investors publicly released extremely detailed guidelines on voting, and the tendency was to vote strictly in accordance with these guidelines.

However, the circumstances surrounding voting and decision-making changed little by little. For the companies which active funds own, investors, for example, did not simply follow the guidelines but brought in analysts so they could make more qualitative assessments. There is also a tendency for investors, whether active or passive investment style, to make comprehensive assessments through engagement with companies.

On the other hand, individual disclosures have sparked greater interest in learning not only how investors voted but also why they voted that way. A growing number of companies have begun conducting their own analyses or undertaking direct dialogues with investors to discover these reasons.

While there may have been some concern that individual disclosures could have negative impacts, the fact is that individual disclosures of votes are having a positive effect on dialogue between investors and companies.

The second perspective I want to bring up is dialogue regarding ESG.

Here, too, let me start with my conclusion that companies and investors have on the whole been able to engage in deeper and more frequent dialogue about ESG. The person overseeing ESG at an investor side is quite often someone from its responsible investment department. In some cases, when investors meet companies, the meetings are attended solely by persons from the responsible investment department. Recently, however, there have been deeper dialogues on ESG attended by persons from the responsible investment department as well as fund managers, and the result has been that these dialogues go beyond being pro forma talks and feature more practical discussions.

There have been changes among companies as well. Previously, dialogues between companies and investors would be two-pronged, with the IR team engaging in discussions with fund managers, while the general affairs division or some other team handling the

general shareholders meeting would converse with the investors responsible for voting. Conducting separate dialogues in this way was the general practice.

As the Corporate Governance Code and the Stewardship Code have been established and revised over time, however, companies have taken incremental steps to ensure that persons responsible for general shareholders meetings and ESG as well as the IR team together participate in dialogues covering ESG.

These circumstances have led to visible changes in broad-based ESG dialogues, and I believe these dialogues are becoming deeper as well.

The dialogues may still not seem to be enough in terms of their absolute level or their rate of change. However, I think that the frameworks for dialogue set out in the Corporate Governance Code and the Stewardship Code are very appropriate, and that the dialogues between companies and investors based on these frameworks are steadily deepening.

That's all.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Let's now hear from Mr. Sampei, Mr. Takei, and Mr. Tanaka, in that order. Mr. Sampei, if you would please begin.

[SAMPEI Hiroki, Council Member]

Thank you. Earlier we heard from Mr. Oba about a survey whose findings have now been compiled and learned that data for this year is currently being collected, so I would like to share my feelings at the moment from something of an on-the-ground perspective about questions and surveys from investment consultants.

I think we are seeing an increase in direct inquiries from investment consultants and asset owners. In some cases, it seems likely that it was the investment consultants who provided the basis for discussion.

However, here is where I see a problem. While the questions have shot up in number, they are lacking in content. When asking about votes, for example, the questioner will state that the Corporate Governance Code says such and such and then ask whether you oppose companies if they do not comply with the Code, demanding a clear “yes” or “no” answer. If you do not oppose the companies, they will then offer loaded questions on why you do not oppose them. If they are in fact not complying and they managed to explain their positions in a persuasive manner, then all is well. That is why it is important to understand the gist of the Code. There has also been a sharp rise in the number of questions about ESG. Even as numerous companies are pursuing ESG integration, the questions increasingly seem to be dividing up E and S and G, making me want to keep count of the respective numbers.

As Mr. Oguchi and Mr. Oba said earlier, the ultimate goal is the sustained improvement of corporate value, but there are concerns about actually being able to achieve the goal in this way. Companies have made tremendous efforts to issue integrated ESG reports at an increasingly higher level. Nevertheless, I have my doubts about the approach of asking questions in a scattered fashion while trying to integrate these efforts. More and more surveys and questions are appearing, but they seem to be heading off-course and I am concerned that this trend will pick up speed and scope.

That is all from me.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Next up is Mr. Takei.

[TAKEI Kazuhiro, Council Member]

What I have to say will overlap somewhat with what Mr. Oguchi and Mr. Sampei have spoken about. The first thing is, now that we are discussing taking the Corporate Governance Code from “form” to “substance”, we need to have the same “from form to substance” discussions for the Stewardship Code as well. I think raising the quality of constructive dialogue is important. Countermeasures should be taken for phenomena and events that have become increasingly pro forma since the previous revision of the Code or since the establishment of the Code, whether this entails sounding an alarm, drawing greater attention to issues or resolving the misunderstandings at the root.

The first issue from that perspective is that noted on Page 24 of Document 3, concerning the involvement of advisors. All of the items listed on Page 24 are important, and they should be written up in keeping with the revisions we make. In addition to these points, though, dialogues between advisors and company representatives should go beyond just guaranteeing the accuracy of the information listed on Page 24 and transformed into conversations that focus more on serving as constructive dialogues.

Because the majority of passive funds, overseas passive funds in particular, have not pledged to abide by the Stewardship Code, I understand that the roles of advisors include key gatekeepers under Japan’s Stewardship Code framework. I am aware that advisors face resource limitations, but we nevertheless suggest that they sign on to Japan’s Stewardship Code to take part in constructive dialogue.

On a related point, the US came out with a new disciplinary rule in August of this year that affects proxy advisors. Although it has its harsh sides, the rule does include provisions on strengthening accountability, but I nonetheless do not think it is appropriate to increase the granularity of voting criteria for form’s sake out of concern for accountability, or for a proxy advisor to try to satisfy accountability by providing all advice in a rigid yes-no format. Pursuing such a superficial course actually contradicts the spirit of Japan’s current Stewardship Code, so I would like to see advisors also sign up for the Stewardship Code, bearing in mind the need to avoid form for form’s sake. This is my first point.

My second point relates to voting disclosures. What Mr. Inoue explained about the more disclosure for various reasons is in itself fine, but at the same time, I think the point made earlier by Mr. Sampei on the problem of a pro forma response is an extremely important in relation to this issue. This also relates to the verification of outcomes that Mr. Oguchi was discussing earlier, raising the question of whether it is advisable, for example, to superficially evaluate how often an investment company must vote against agenda items. Meaningful affirmative votes exist as a result of the constructive dialogues because the company's efforts are making steady progress, so asset managers should not be evaluated in a pro forma manner by some outside party not actually participating in the dialogues, by simply looking at the results and noticing few negative votes. Therefore, a warning towards pro forma evaluations should be sounded in the Code, such as against the tendency of looking only at the number of negative votes. Since the previous revision of the Code, there has been considerable progress about conflicts of interest involving asset managers. I believe pension consultants and asset owners should put a little more trust in asset managers seriously engaged on the ground to make voting decisions.

My third and final point, which is connected with my second point, concerns something on Page 22 of Document 3. The point brought up on Page 22 is that there are few corporate pensions signing up to the Stewardship Code for reasons such as the heavy burdens that would be incurred, the need to engage in direct dialogue, and serious misunderstandings of the scope of stewardship activities. As for these misunderstandings, asset owners' understanding of the meaning of fulfilling fiduciary responsibilities is involved, and it would be better to leave the more fiduciary responsibilities to asset managers. I do not think it is proper, for example, for an asset owner to give the asset manager detailed instructions on voting and to limit the asset manager's discretion, ignoring associated resources and costs. An asset owner's fiduciary duty does not necessarily require him/her to issue detailed instructions to an asset manager. Where an asset manager engages in constructive dialogue while taking into account the characteristics of individual asset owners, asset owners who have signed up for the Stewardship Code could leave the asset manager a certain degree of discretion. With regards to the fiduciaries, I think it would be better to send a message in the

Code that an asset owner is not necessarily required to closely scrutinize the details even when he/she signs up the Code.

These are my three points.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Next is Mr. Tanaka, please.

[TANAKA Wataru, Council Member]

I am TANAKA Wataru from the University of Tokyo. The Secretariat's report, the various members' reports, and the opinions have all been extremely informative. This being my first time, I would like to offer my views on what I think is important, although I am not sure whether they will tie in directly with the latest revisions.

There has perhaps never been a more important time than now for engagement with listed companies in Japan. Governance reform has made headway at listed companies over the past 10 years or so, and certainly outwardly and formally the number of independent outside directors has increased, so it appears that companies are coming every closer to putting in place global-standard governance structures.

Looking at the actual details – and, of course, these differ by company – boards of directors now comprise mostly members of the top management team, with independent outside executives, if any, making up a minority. Consequently, if these independent outside executives are not chosen well, we could see extremely risky situations in which boards of directors easily become dictatorial structures run by the top management teams.

Back when large boards of directors were a matter of course, the president was really no more than first among equals but, with boards now comprising several members of the top management team as well as two or three outside directors, it has become possible for the

president to wield a dominant influence over his former colleagues.

This approach can provide an effective governance structure if good choices of top managers and independent executives are made, of course, but there is the concern that a poor choice of personnel could leave a scandal-ridden executive still sitting on the board, making it easier for that executive, for example, to ignore shareholder interests in an M&A in order to protect himself.

If sufficient action cannot be taken at the board of directors level, there is no one else but the shareholders that can rectify the governance of listed companies. Exercising shareholder rights has become an important role of institutional investors, and I think that engagement activities, which include voting by institutional investors, are more important than ever, in light of fears of corruption in the governance of listed companies, in restoring the governance of a company as a final bulwark and maintaining and improving its growth potential and corporate value.

To say a few words from this perspective, a variety of problems in new domains not previously discussed have emerged in today's Council meeting. However, even given the undeniable importance of these discussion points, engagement activities – seeking out dialogue with companies and together considering measures to improve their corporate value – naturally are the centerpiece. It is also essential to consider what countermeasures should be taken if such amicable engagement activities do not prove successful.

Looking at Page 6 in Document 3 explained by the Secretariat ahead of the Council meeting, we can see that, in the evolution from the UK code to Japan to ISG and then to the proposed revisions of the UK code, Principle 4 of the original UK code contained the expression “escalation of stewardship activities” but this was changed to “constructive engagement” in the proposed revisions, with the explanation that the word “escalation” had been dropped, and I was a bit surprised by this because the idea of escalation had previously been given considerable emphasis.

If you will take a look at Page 10 in Reference Document 4 handed out by the Secretariat, you will see the UK's principles regarding "constructive engagement", underneath which are a number of provisions. One of the lower-ranking of these, number 19, contains a clause on the escalation of engagement as needed. Number 20 also speaks about collective engagement, which was discussed when making the previous revisions to Japan's code. It would seem, then, that neither the escalation of stewardship activities as needed nor collective engagement has been negated in the UK's revisions, and that they have instead simply been moved down into the provisions. This is how I believe the concept of "constructive engagement" inclusive of all of these was established. Please let me know if my understanding is incorrect.

I thus do not think the UK has rejected the concept of escalation as needed, which may be necessary in Japan as well.

Since we have here with us some officials from the Financial Services Agency, I would like to see one thing emphasized. Legal interpretations were sorted out when collective engagement was discussed in the Council meeting for the previous revision, and I think the issue of collective engagement running afoul of the provisions on joint holders in the large shareholding reports was also sorted out to a certain degree.

Listening to what persons working at asset managers and actually involved in engagement have to say, I think the problem has not yet been resolved. The large shareholding report regulations are still said to be having a chilling effect. Regardless of the comprehensive management control indicated by "Act of Making Important Suggestions", in addition to the breadth of the original provisions in which all actions of a certain level of importance were seemingly included among the "Act of Making Important Suggestions", the concept of "joint exercise of shareholder rights" can be read as having extremely comprehensive application because, unlike in the UK and other countries, there are no requirements that it be for the purpose of management control. In the end, I think it would be best to resolve this through legislation.

Because such provisions exist under the current legal system, I have heard it said that an investor wanting to make a suggestion has no choice but to do so in the form of a question, that is, to ask the management team what they think about a particular matter.

It is often touted as true that Japan traditionally has a culture of non-verbal communication and ideas can thus be conveyed indirectly, but the people I have spoken to have made it clear that ideas are not being conveyed, saying that the investor's intent is not communicated to corporate managers, or at least to certain corporate managers, simply by asking questions. An approach must be developed to allow things to be stated more directly.

Of course, this may not be something that occurs very often. It could be that a serious degradation of governance that prompts shareholders to take direct action is not a frequent occurrence, but I think it is extremely important to be able to act should an urgent situation require it. As far as going back to the basics of engagement, I think there is still leeway for further discussing the matter and coming up with a better system, so I would certainly like to see this point examined.

That is all.

[KANSAKU Hiroyuki, Chair]

Thank you.

Let's now please hear from Ms. Okina and then Mr. Ogai, in that order.

[OKINA Yuri, Council Member]

I just have two points I want to make.

Mr. Oba earlier presented some survey findings and said that ESG might be the direction for making more improvements. Given that the Stewardship Code aims for medium- to long-term improvement of corporate value, I believe there is significant risk involved in long-term

investments that fail to give consideration not only to G but also to the environment and society so, when deciding on rational investment strategies, I think that engagement through dialogue with companies should become a more widespread practice.

On my other point, we heard various explanations from members earlier on the topic of proxy advisors, and the survey discussed by Mr. Oba also showed that these firms are being utilized widely in various ways and, as there are not a few areas in which companies are acting in accordance with the advice offered by these firms, I believe that proxy advisors have now come to play quite significant roles. This makes it an essential precondition that accurate information be disseminated, and it is extremely important to enhance personnel and organizational systems.

On the other hand, it is also necessary for investors to put in place robust systems and to make decisions with reference to those systems.

Those are my two points.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Well, then, Mr. Ogai, if you please.

[OGAI Taro, Council Member]

Mr. Sampei discussed this earlier, but I would like to say a word or two about the kinds of stewardship activity surveys that investment consultants have been conducting among asset managers and about other efforts they are pursuing.

Our company has not been sending out questionnaires either through myself or through customers and I do not know the circumstances at other companies, so this may not answer Mr. Sampei's point, but our own company's efforts have placed a heavy emphasis on sustainability. Consequently, these stewardship activities and aspects of ESG included within

sustainability are included among the evaluation items also examined when researching asset managers or when conducting interviews.

It is difficult to say why only 40% and not 100% of consultants ask questions, but our own company unfailingly conducts interviews for research and evaluation purposes. With regard to active managers of Japanese shares as well as those from overseas, pensions have unfortunately seen the distribution of shares decline even they have been cutting risk over the past 20 years. On the split between domestic and foreign shares, for quite some time Japanese shares had accounted for about 60% out of home country bias, but more recently, with the focus in certain cases on the total market value of global stocks, the percentage of Japanese shares among all shares has dropped to less than 10%, and the overall total has also dropped, as has the percentage within, as the weight of Japanese shares has steadily declined, so the need for active asset managers for Japanese shares has regrettably declined.

Having had three or four active asset managers heretofore, they have discussed reducing this number but only very rarely have they considered hiring a new asset manager or replacing an existing one. Although I do not have the precise data on hand, our company's research on Japanese shares and on active managers for Japanese shares seem to have decreased and, when it comes to investing in Japanese shares, I have to say that, at least at our company, interviews are not being done as often as they used to be, although this may just be my own perception.

That's all I have to say.

[KANSAKU Hiroyuki, Chair]

Thank you very much.

Is there anyone else? Yes, Mr. Matsutani, please go ahead.

[MATSUTANI Hiroshi, Council Member]

I am MATSUTANI Hiroshi from The Investment Trusts Association. This is my first time participating and, since we do not have much time, I would just like to offer a brief impression.

I see it as a very good thing that stewardship activities are deepening and contributing to the improvement of corporate value and to the interests of trustees. I have high expectations that these activities will create even more progress.

While I am hoping that discussions on upgrading these stewardship activities and engagement activities will be pursued further here, I want to ask that these discussions do not go in the direction of making things more restrictive. As Mr. Oba mentioned, success has not yet been achieved in certain areas but, if the required homework increases due to stricter requirements, there will be a rise in copy-and-paste submissions, as frequently happens in schools. I do hope the discussions will help promote the idea of more sophisticated activities. Your consideration would be appreciated.

[KANSAKU Hiroyuki, Chair]

Thank you very much. Is that everyone? We have exceeded our scheduled time so, although there are still some matters we have not yet covered thoroughly enough, we will conclude today's discussions here.

In closing, I would like to ask the Secretariat if there are any messages they would like to convey.

[INOUE Toshitake, Director, Corporate Accounting and Disclosure Division]

We will be coordinating with all of the members on the schedule for the next Council meeting, and we would like to set this schedule in keeping with dates and times convenient to you all. Your patience would be greatly appreciated.

That is all from the Secretariat.

[KANSAKU Hiroyuki, Chair]

Thank you very much. With that, we will conclude today's Council meeting.

Thank you all for coming.

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