

Track changes in red include transparency of beneficial shareholders and collaborative engagement.

Track changes in blue include the revisions from the perspective of streamlining the Code.

Principles for Responsible Institutional Investors

《Japan's Stewardship Code》

- To promote sustainable growth of companies through investment and dialogue —**

Draft revisions

**~~The Council of Experts on the Stewardship Code (FY2019)~~
Financial Services Agency**

~~March 24, 2020~~ MM DD, 2025

**(Original Code: February 26, 2014
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“Stewardship responsibilities” and the role of the Code

In this Code, “stewardship responsibilities” refers to the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries (including ultimate beneficiaries; the same shall apply hereafter) by improving and fostering the investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies.

This Code defines principles considered to be helpful for institutional investors who behave as responsible institutional investors in fulfilling their stewardship responsibilities with due regard both to their clients and beneficiaries and to investee companies. By fulfilling their stewardship responsibilities properly in line with this Code, institutional investors will also be able to contribute to the growth of the economy as a whole.

***The “Background” section has been transferred to the end of the document.**

Aims of the Code

~~5.1. As stated in the box at the beginning of this report, i~~In this Code, “stewardship responsibilities” refers to the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries by improving and fostering the investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment and consideration of sustainability consistent with their investment management strategies. This Code defines principles considered to be helpful for institutional investors who behave as responsible institutional investors in fulfilling their stewardship responsibilities with due regard both to their clients and beneficiaries and to investee companies.

~~6.2.~~At a company, the board of directors has the responsibility to enhance the corporate value by exerting adequate governance and proper oversight on the management, taking decisions on key policy and business matters as stipulated in Japan’s Corporate Governance Code. The function of the board and that of institutional investors as defined in the Code are complementary and both form essential elements of high-quality corporate governance, which are indispensable in ensuring the sustainable growth of the company and the medium- to long-term investment return for the clients and beneficiaries. With due regard to the roles of both the board and institutional investors, the Code promotes constructive engagement, or

purposeful dialogue, between institutional investors and investee companies. The Code does not invite institutional investors to interfere with the finer points of managerial matters of investee companies².

7.3. Activities by institutional investors done to discharge their stewardship responsibilities (hereafter, “stewardship activities”) should not be seen to be confined to voting, although voting is an essential element of stewardship activities. Stewardship activities include proper monitoring of the investee companies and constructive engagement with them done to discharge the stewardship responsibilities to foster sustainable growth of the companies³.

8.4. In the Code, two categories of institutional investors are identified: “institutional investors as asset managers” (hereafter, “asset managers”), which are entrusted to manage funds and invest in companies; and “institutional investors as asset owners” (hereafter, “asset owners”), including providers of funds.

The asset managers are expected to contribute to the enhancement of the corporate value of investee companies through day-to-day constructive dialogue with them.

The asset owners are expected to disclose their policies on fulfilling their stewardship responsibilities and contribute to the enhancement of the corporate value of investee companies through their own actions and/or the actions of the asset managers, to which they outsource their asset management activities⁴.

The asset managers should aim to know the intention of the asset owners so that they can provide services as expected, and the asset owners should aim to assess the asset managers in line with the Code, not placing undue emphasis on short-term performance.

Effective and appropriate stewardship activities by institutional investors ultimately aim at the enhancement of the medium- to long-term investment return for the clients and beneficiaries. Institutional investors and their clients and beneficiaries should both recognize that costs associated with stewardship activities are an indispensable element in asset management.

9.5. Parties such as proxy advisors and investment consultants for pensions which provide services at the request of institutional investors, etc. to contribute to the institutional investors’ effective execution of stewardship activities (hereafter “service providers for institutional investors”) are expected to play important roles in enhancing the functions of the entire investment chain running from their clients and beneficiaries to the investee companies.

Principle 8 of the Code specifically applies to service providers for institutional investors.

² ~~In addition, the Code does not preclude a decision to sell a holding, where this is considered in the interest of clients and beneficiaries.~~

³ In order to facilitate constructive dialogue between institutional investors and investee companies, the Financial Services Agency published “Clarification of Legal Issues Related to the Development of the Japan’s Stewardship Code” to clarify legal issues related to the large shareholding reporting and the tender offer rules (TOB rules) in February 2014. <http://www.fsa.go.jp/en/refer/councils/stewardship/20140226.pdf>
<https://www.fsa.go.jp/en/refer/councils/stewardship/index.html> [to be updated]

⁴ ~~Apart from the Code, the Asset Owner Principles (published on August 28, 2024) provide common principles that are considered useful for asset owners in fulfilling their responsibility (fiduciary duties) to manage their assets while taking into account the best interests of beneficiaries.~~

The other principles of the Code, including guidance, also apply to them as far as the principles do not conflict with Principle 8.

~~10.6.~~ The Code primarily targets institutional investors investing in Japanese listed shares. The Code may also apply to other asset classes as far as it contributes to fulfilling “stewardship responsibilities” mentioned in the beginning of the Code.

“Principles-Based Approach” and “Comply or Explain”

~~11.7.~~ The principles in the Code should be applied in a manner suited to the specific conditions and situations of each institutional investor (“institutional investor” here including any service providers for institutional investors, with this definition applying to the preamble hereafter). For example, the manner in which the Code is implemented may differ, depending on such factors as the investor’s size and investment policies (e.g., whether the policies are oriented toward long-term or short-term returns, or active or passive strategies).

~~12.8.~~ To allow for such flexibility, the Code adopts a principles-based approach instead of a rule-based approach; a principles-based approach in this context expects institutional investors to fulfill their stewardship responsibilities focusing on substance, while a rule-based approach would prescribe actions to be taken by investors in detail. The significance of a principles-based approach is as follows: even if principles may look abstract and broad on the surface, they can work effectively if relevant parties confirm and share the aim and spirit of the principles, and review their activities against the aim and spirit, not necessarily against the letter of the principles. In implementing the Code, institutional investors should respect such intent of the principles-based approach.

~~13.9.~~ The Code is not a law or a legally binding regulation. ~~The Councils~~ The Financial Services Agency expects that those institutional investors who support the Code and are prepared to accept it to publicly disclose their intention.

~~14.10.~~ The Code adopts the “comply or explain” (comply with the principles or explain why they are not complied with) approach. If an institutional investor finds that some of the principles of the Code are not suitable for it, then by explaining a sufficient reason, the investor can choose not to comply with them. In other words, an institutional investor who made its intention to accept the Code public does not have to comply with all of the principles uniformly. Institutional investors, when they make the aforementioned explanation, should aim to articulate to clients and beneficiaries the approach they chose to adopt in lieu of the principles they have decided not to comply with. Both institutional investors and clients and beneficiaries are encouraged to familiarize themselves with the “comply or explain” approach. In particular, due regard should be paid

to the specific situations of the institutional investors who made their intention to accept the Code public; it is not appropriate to focus on the letter of the Code and automatically consider that an investor who does not comply with a part of it is not fulfilling its stewardship responsibilities.

In order for institutional investors to earn sufficient understanding from their clients and beneficiaries, in the process of complying with the principles, it is considered beneficial for institutional investors to proactively explain their specific implementation activities.

~~15.11.~~ To make institutional investors' acceptance of the Code transparent, ~~the Councils~~the Financial Services Agency expects institutional investors who accept the Code to:

- publicly disclose on their website:
 - their intention to accept the Code; and
 - disclosure items based on the principles, including guidance, of the Code as below:
 - (i) specific information that is required to be disclosed by the principles, including guidance, of the Code, such as the policy on how they fulfill the stewardship responsibilities; and
 - (ii) if they do not comply with some of the principles, including guidance⁴, an explanation of the reason;
- annually review and update the disclosed information and publicly disclose such update if it takes place; and
- notify the Financial Services Agency of the address of their website (the URL) used to disclose the information above.

~~The Councils also expect t~~The Financial Services Agency ~~to~~ will publish the information about the institutional investors who have made the disclosure in a tabular form.

~~16.12.~~ ~~The Councils expect that the Code~~The Financial Services Agency will continue to ~~be~~ improved the Code in response to the progress in the implementation of the Code by institutional investors (including progress in acceptance and disclosure of required information) and in light of global developments. ~~The Councils expect the Financial Services Agency to take appropriate steps so that the Code will be reviewed periodically, about once every three years.~~ Reviewing the Code ~~periodically~~ is supposed to enable institutional investors and their clients and beneficiaries to be better versed in the stewardship responsibilities, and help the Code to become more widely accepted in Japan.

⁴ Guidance may not necessarily specify that certain actions should (or should not) be taken, and it is not necessarily required to explain the reason not to implement such guidance.

The Principles of the Code

So as to promote sustainable growth of the investee company and enhance the medium- and long-term investment return of clients and beneficiaries,

- 1. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.**
- 2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.**
- 3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.**
- 4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.**
- 5. Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.**
- 6. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.**
- 7. To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.**
- 8. Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.**

Principle 1

Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

Guidance

1-1. Institutional investors should aim to enhance the medium- to long-term return on investments for their clients and beneficiaries by improving and fostering investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue⁵, based on in-depth knowledge of the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors⁶)⁷ consistent with their investment management strategies.

1-2. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities (hereafter, "stewardship policy") and publicly disclose it. The stewardship policy should cover how they define the responsibility and how they fulfill it, in view of their role in the investment chain running from their clients and beneficiaries to the investee companies⁸.

Institutional investors should clearly specify how they take the issues of sustainability into consideration in their policy, consistent with their investment management strategies.

⁵ "Purposeful dialogue" in this Code refers to "constructive dialogue with the aim of enhancing the companies' medium- to long-term value and capital efficiency, and promoting their sustainable growth" (see Principle 4, Guidance 4-1).

⁶ These indicate governance, social and environmental matters.

⁷ Note that the 17 Sustainable Development Goals (SDGs) were adopted at the September 2015 UN Summit.

⁸ The policy may differ depending on the role of the investors. For example, it may differ between institutional investors who mainly act as asset managers, and those who mainly act as asset owners.

- 1-3. Asset owners^{9,10}, in line with their size and capabilities, etc., should encourage asset managers to engage in effective stewardship activities to secure beneficial owners' interests while taking their viewpoints into consideration¹¹. When asset owners directly manage funds and exercise their voting rights, in line with their size and capabilities, etc., they should engage in stewardship activities, such as holding dialogues with investee companies.
- 1-4. When selecting or issuing mandates to asset managers, asset owners, in line with their size and capabilities, etc., should clearly specify issues and principles to be required in conducting stewardship activities including the exercise of voting rights, in order to ensure effective stewardship activities. In particular, large asset owners should proactively consider and clearly specify issues and principles to be required in conducting stewardship activities, including the exercise of voting rights, keeping in mind their positions and roles in the investment chain, instead of mechanically accepting asset managers' policies without any verification.
- 1-5. Asset owners, in line with their size and capabilities, etc., should monitor whether their asset managers conduct stewardship activities in line with asset owners' policies, for example, making use of asset managers' self-evaluations¹². In conducting such monitoring, asset owners should put emphasis on the "quality" of stewardship activities such as dialogue between asset managers and investee companies, etc., instead of mechanically checking the number of meetings held between them, the duration of such meetings and the "for" or "against" ratio of proxy voting, etc.

⁹ The Code essentially applies to defined benefits corporate pensions (fund-type corporate pensions and contract-type corporate pensions) and employees' pension funds (*kousei nenkin kikin*) as asset owners. While recognizing that in case of contract-type corporate pensions, the corporate pension and the sponsor company are a single entity, contract-type corporate pensions are expected to accept the Code as "a corporate pension" and not as "a sponsor company".

¹⁰ In the Corporate Governance Code (revised on ~~June 1, 2018~~ [June 11, 2021](#)) Principle 2.6., sponsoring companies of corporate pensions are expected to support their corporate pensions to improve human resources and operational practices, making sure that corporate pensions perform their roles as asset owners.

¹¹ When corporate pensions as asset owners neither directly manage funds nor exercise their voting rights, corporate pensions are expected to carry out measures, in line with their size and capabilities, etc., such as confirming asset managers' status responding to this Code. In particular, they are not necessarily expected to engage in dialogue (Principle 4) or exercise their voting rights and publicize their voting records (Principle 5).

¹² It is effective for asset owners to confirm whether asset managers engage in effective stewardship activities, including constructive dialogue with investee companies, and asset owners are not necessarily expected to make individual and specific instructions.

Principle 2

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

Guidance

- 2-1. While institutional investors should put the interest of their client and beneficiary first in conducting stewardship activities, they inevitably face the issue of conflicts of interest from time to time, for example when voting on matters affecting both the business group the institutional investor belongs to and a client or beneficiary. It is important for institutional investors to appropriately manage such conflicts.
- 2-2. Institutional investors should put in place and publicly disclose a clear and specific policy on how theythe effectively managemanagement of key categories of possible conflicts of interest, including circumstances that may give rise to conflicts of interest that may significantly influence the exercise of voting rights and/or dialogue with companies by asset managers, to secure the interests of clients and beneficiaries by effectively eliminating and avoiding the influence of such conflicts.
In particular, asset managers should identify specific circumstances that may give rise to conflicts of interest which may significantly influence the exercise of voting rights and/or dialogue with companies, and set out and disclose specific policies on measures for effectively eliminating the influence of such conflicts including avoiding such conflicts, thus securing the interests of clients and beneficiaries.
- 2-3. Asset managers should establish and disclose governance structures, such as an independent board of directors or third party committees for decision-making or oversight of voting, in order to secure the interests of clients and beneficiaries and prevent conflicts of interest.
- ~~2-4. The management of asset managers should recognize that they themselves have important roles and responsibilities in strengthening the governance of asset managers and managing conflicts of interest, and should take action on such issues.~~

Principle 3

Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

Guidance

- 3-1. Institutional investors should appropriately monitor investee companies so that institutional investors can fulfill their stewardship responsibility with the aim of enhancing the medium- to long-term corporate value and capital efficiency and supporting the sustainable growth of the companies.
- 3-2. Institutional investors should monitor investee companies continuously and review as appropriate the effectiveness of the monitoring.
- 3-3. When investors monitor investee companies, a variety of factors, including non-financial ones, may be considered as relevant. Factors may include, for example, the investee companies' governance, strategy, performance, capital structure, business risks and opportunities (including risks and opportunities arising from social and environmental matters), and how the companies address them. Relevance of a factor may depend on each investor's investment management strategy and may differ according to specific investee companies. Institutional investors need to use their own judgment in choosing which factors to focus on in light of their stewardship responsibilities. They should endeavor to identify at an early stage issues that may result in a material loss in the value of investee companies.

Principle 4

Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

Guidance

- 4-1. Institutional investors should endeavor to arrive at an understanding in common^{13,14} with investee companies through constructive dialogue^{15,16,17} with the aim of enhancing the companies' medium- to long-term value and capital efficiency, and promoting their sustainable growth. In case a risk of possible loss in corporate value is identified through the monitoring of and dialogue with companies, institutional investors should endeavor to arrive at a more in-depth common understanding by requesting further explanation from the companies and to solve the problem¹⁸.
- 4-2. In order to support constructive dialogue with investee companies, institutional investors should, in response to requests from investee companies, explain how many shares they own/hold in the company and should disclose in advance a policy on how they will respond to such requests from investee companies.
- 4-23. When they engage in the issues of sustainability, institutional investors, should consciously engage in dialogue that is consistent with their investment management strategies and that leads to the medium- to long-term increase of corporate value and the sustainable growth of companies.
- 4-34. Because passive management provides limited options to sell investee companies' shares and needs to promote their medium- to long-term increase of corporate value, institutional investors should actively take charge of engagement and voting from a medium- to long-term perspective.

¹³ The effort to arrive at an understanding in common may result in an agreement to disagree, but may provide a better understanding on why they disagree.

¹⁴ In order to arrive at a common understanding with an investee company on priority issues of the management policy including governance structure (use of independent officers, etc.) and review of business portfolio, it is considered beneficial that institutional investors have dialogue with non-executive officers (independent outside directors and *kansayaku* (audit and supervisory board members), etc.) of the company.

¹⁵ When institutional investors have an engagement team dedicated to dialogue with investee companies, internal communication with other teams is important.

¹⁶ Constructive dialogue between institutional investors and investee companies should not be merely driven by the size of shareholdings. ~~That being said, there are cases when it is appropriate for institutional investors to explain to investee companies how many shares they own/hold.~~

¹⁷ Institutional investors should not fall into formalism, such as to regard having a dialogue itself as the aim.

¹⁸ ~~Institutional investors may select investee companies with which they intend to engage with more in-depth dialogue in light of the outcome of previous dialogue.~~

- 4-45. Institutional investors should have a clear policy in advance on how they design dialogue with investee companies in various possible situations¹⁹.
- 4-56. In addition to institutional investors engaging with investee companies independently, ~~it would be beneficial for them to~~ engage with investee companies in collaboration with other institutional investors (collaborative engagement) ~~is also an important option as necessary~~²⁰. When considering methods for dialogue, it should be kept in mind whether they will lead to constructive dialogue that contributes to the sustainable growth of investee companies.
- 4-67. ~~In principle, institutional investors can well have constructive dialogue with investee companies based on public information, without receiving information on undisclosed material facts. The “G20/OECD Principles of Corporate Governance” and the Tokyo Stock Exchange’s “Japan’s Corporate Governance Code” set the principle of the equitable treatment of shareholders, which applies to the handling of undisclosed material facts. Institutional investors that have dialogue with investee companies should be aware that and should~~ in essence be discreet in receiving information on undisclosed material facts, considering that investors can well have constructive dialogue with investee companies based on public information and that shareholders should be treated equally in handling undisclosed material facts²¹.

¹⁹ ~~The policy can differ between, for example, asset managers and asset owners.~~

²⁰ The Financial Services Agency ~~published “Clarification of Legal Issues Related to the Development of the Japan’s Stewardship Code” in February 2014 and clarified its interpretation as to when of the scope of how “joint holders” under the large shareholding reporting (and “a person in a special relationship” under the TOB rules) will be applied (see footnote 3).~~ ~~<http://www.fsa.go.jp/en/refer/councils/stewardship/20140226.pdf>~~ ~~<https://www.fsa.go.jp/en/refer/councils/stewardship/index.html> [to be updated]~~

²¹ The Financial Instruments and Exchange Act stipulates the fair disclosure rules from the perspective of ensuring fair information disclosure to investors. When an institutional investor needs to receive information on undisclosed material facts due to a special relationship with an investee company, it should first take necessary steps to secure compliance with insider trading regulations, such as the suspension of trade of the company’s stocks, before having a dialogue with the company.

Principle 5

Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of investee companies.

Guidance

- 5-1. Institutional investors should seek to vote on all shares held. They should decide on the vote in light of the results of the monitoring of investee companies and dialogue with them.
- 5-2. Institutional investors should have a clear policy on voting and publicly disclose it²². Institutional investors should try to articulate the policy as much as possible. The policy should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of the investee company.

- 5-3. Institutional investors should at a minimum aggregate the voting records into each major kind of proposal, and publicly disclose them.

Furthermore, to enhance visibility of the consistency of their voting activities with their stewardship policy, institutional investors should disclose voting records for each investee company on an individual agenda item basis²³. If there is a reason to believe it inappropriate to disclose such company-specific voting records on an individual agenda item basis due to the specific circumstances of an investor, the investor should proactively explain the reason.

At the time of their voting records disclosures, 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. In particular, institutional investors should disclose their voting rationale with respect to either “for” or “against” vote, which are considered important from the standpoint of constructive dialogue with the investee companies, including those perceived to have conflicts of interest or those which need explanation in light of the investors’ voting policy.

²² When they have a practice of lending stocks across the determination date of the voting right, their voting policy should include a policy on lending stocks.

²³ ~~Some concern has been expressed that company-specific voting disclosure on an individual agenda item basis may result in attracting excessive attention solely to the results of “for” or “against”, and it may prompt mechanical voting by institutional investors. However, it is important that asset managers enhance the transparency of their activities to their ultimate beneficiaries of the assets they manage. Furthermore, it is important that asset managers, who often belong to financial groups, disclose company-specific voting records on an individual agenda item basis in order to eliminate concerns that they may not take appropriate actions to manage conflicts of interest.~~

5-4. When institutional investors use the service of proxy advisors, it is important that they use the service based on an understanding of the voting recommendation process, including the human and operational resources of the advisors. They should not mechanically depend on the advisors' recommendations but should exercise their voting rights at their own responsibility and judgment based on the results of the monitoring of the investee companies and dialogue with them. When disclosing their voting activities, institutional investors using the service of proxy advisors should publicly disclose the name of the advisor and how they utilize the service in making voting judgments specifically.

Principle 6

Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

Guidance

- 6-1. Asset managers should in principle report periodically to their direct clients on how they fulfill their stewardship responsibilities through their stewardship activities²⁴.
- 6-2. Asset owners should in principle report at least once a year to their beneficiaries on their stewardship policy and on how the policy is implemented²⁴.
- 6-3. When reporting to their clients and beneficiaries, institutional investors should choose the format and the content of the reports in light of any relevant agreement with the recipients and the recipients' convenience, and the costs associated with the reporting, and should aim to deliver effective and efficient reports^{25,26}.
- ~~6-4. Institutional investors should maintain a clear record of their stewardship activities, including voting activities, to the extent necessary to fulfill their stewardship responsibilities.~~

²⁴ However, this shall not apply in the case where recipients of an individual report indicate that they do not need it. Also, if issuing an individual report to clients and beneficiaries is impractical, institutional investors may choose to publicly disclose the information in place of sending a report.

²⁵ Disclosure of confidential information in asset management is not expected in the report.

²⁶ Institutional investors are assumed to maintain a clear record of their stewardship activities, including voting activities, to the extent necessary.

Principle 7

To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

Guidance

- 7-1. To make dialogue with investee companies constructive and beneficial, and to contribute to the sustainable growth of the companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the companies and their business environment and consideration of sustainability consistent with their investment management strategies.

Institutional investors should have the necessary internal structure to have appropriate engagements and make proper judgments.

- 7-2. In particular, the management of institutional investors should have appropriate capability and experience to effectively fulfill their stewardship responsibilities, and should be constituted independently and without bias, in particular from their affiliated financial groups.

The management of institutional investors should also recognize that they themselves have important roles and responsibilities to carry out stewardship activities such as enhancing dialogue, structure their organizations and develop human resources, and take action on these issues. [The management of asset managers should additionally recognize that they have important roles and responsibilities in strengthening their governance and managing conflicts of interest, and take action on these issues.](#)

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

7-4. Institutional investors should endeavor to improve their policies based on the Code and the quality of their stewardship activities by reviewing at an appropriate timing the status of their implementation of each principle, including guidance.

In particular, asset managers should regularly conduct self-evaluations with respect to the status of their implementation of each principle, including guidance, disclose the results toward continued improvement of their governance structures, conflicts of interest management, and stewardship activities, etc., and disclose such results together with the results of their stewardship activities including dialogue with companies²⁷. In doing so, asset managers should be conscious that these are consistent with their investment management strategies and lead to the medium- to long-term increase of corporate value and the sustainable growth of companies.

²⁷ Disclosure of results of such self-evaluation and stewardship activity helps asset owners in selecting and evaluating asset managers.

Principle 8

Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.

Guidance

- 8-1. Service providers for institutional investors²⁸ including proxy advisors and investment consultants for pensions should identify specific circumstances that may give rise to conflicts of interest, put in place a clear policy how to manage them effectively, develop structures for conflicts of interest management, and disclose such measures.
- 8-2. Proxy advisors should develop appropriate and sufficient human and operational resources to effectively communicate with stakeholders, including companies, including by setting up a business establishment in Japan in order to provide asset managers with proxy recommendations based on accurate information on specific companies. They should also disclose with specificity the voting recommendation process²⁹, including the above measures to assure transparency³⁰.
- 8-3. In providing proxy recommendations, proxy advisors should rely upon corporate disclosure, and actively exchange views with companies upon necessity. Upon the request from a company that is the subject of a proxy recommendation, it is considered to contribute to secure accuracy of the information that is the basis for the recommendation and transparency that the proxy advisors provide the company with an opportunity to confirm whether such information is accurate, etc., and provide the submitted opinion of the company to their clients together with the recommendation.

²⁸ Service providers for institutional investors are particularly understood here to be proxy advisers and investment consultants for pensions, however, institutions, including institutional investors, which provide services at the request of institutional investors, etc. to contribute to the institutional investors' effective execution of stewardship activities are also considered to be service providers for institutional investors.

²⁹ For example, in terms of overall process disclosure, major information sources, whether proxy advisor engages in dialogues with companies, and the nature of such dialogue could be disclosed. The specific contents of dialogue with respect to individual agenda items are not envisioned herein.

³⁰ When proxy advisors put in place their policy for proxy recommendations, they should endeavor to articulate the policy as much as possible. The policy should not be comprised only of a mechanical checklist; it should be designed to contribute to sustainable growth of the subject company.

Background

1. In December 2012, the government established the Headquarters for Japan's Economic Revitalization within the cabinet to formulate necessary economic policy measures and growth strategies, aiming to revitalize the Japanese economy, breaking it away from the prolonged yen appreciation and deflation. In January 2013, the government established the Industrial Competitiveness Council under the auspices of the Headquarters, with the mandate to deliberate on growth strategies and their implementation, which would strengthen Japan's industrial competitiveness and business activities abroad. Based on the discussions in the Council, and at a meeting of the Headquarters, the Prime Minister, in his role as the chief of the Headquarters, instructed the Minister for Financial Services to coordinate with other relevant ministers and consider, with the aim of promoting the sustainable growth of companies, principles for a wide range of institutional investors to appropriately discharge their stewardship responsibilities¹.
2. The Cabinet approved in June 2013 the Japan Revitalization Strategy, which defines the growth strategy, or "the third arrow" of the economic policy of the current administration. The Strategy states that "principles (the Japanese Version of the Stewardship Code) for institutional investors to fulfill their fiduciary responsibilities, e.g. by promoting medium- to long-term growth of companies through engagements," that is, "the principles for a wide range of institutional investors to appropriately discharge their stewardship responsibilities, with the aim of promoting sustainable growth of investee companies, through constructive dialogue with them" should be discussed and drafted by the end of the year.
3. Implementing the instruction by the Prime Minister and the Strategy, the Financial Services Agency established the Council of Experts on Japan's Stewardship Code in August 2013. ~~After this month, T~~his Council met six times after August, and it produced~~discussed and developed~~ "Principles for Responsible Institutional Investors" «Japan's Stewardship Code» on February 26, 2014. ~~Before finalizing the Code, the Council published an exposure draft both in Japanese and English and received valuable suggestions from 26 individuals/entities to the Japanese draft and 19 individuals/entities to the English translation. Taking these suggestions into account, this Council reviewed and finalized the Code.~~
4. Thereafter, the Follow-up Council of Experts concerning Japan's Stewardship Code and Japan's Corporate Governance Code (hereafter, "the Follow-up Council"), established jointly by the Financial Services Agency and the Tokyo Stock Exchange, publicized an opinion statement entitled "Effective Stewardship Activities of Institutional Investors" in November 2016 in order to enhance the effectiveness of corporate governance reform based on this Code and the Corporate Governance Code (effective on June 1, 2015, and revised on June 1, 2018).

¹ The sixth meeting of the Headquarters for Japan's Economic Revitalization (April 2, 2013).

In response to the opinion statement, the Council of Experts on the Stewardship Code was convened, and the Code was revised on May 29, 2017.

After the above revision of the Code, the Follow-up Council continued discussions with respect to measures to further promote corporate governance reform, and publicized an opinion statement entitled “Recommended Directions for Further Promotion of Corporate Governance Reform” on April 24, 2019. In response to the Opinion Statement, the Council of Experts on the Stewardship Code (FY2019) met ~~3 times from October 2019 onward~~ to discuss the Code’s revision, and the Code was revised on March 24, 2020.

5. On June 7, 2024, the Follow-up Council publicized an opinion statement titled the “Action Program for Corporate Governance Reform 2024: Principles into Practice,” on the basis of which the Expert Panel on the Stewardship Code (2024) discussed the review. The third revision of the Code was completed in XX 2025.