Provisional translation

Principles for Responsible Institutional Investors
≪Japan's Stewardship Code≫

Summary of Comments on the Draft of the Revised Version of the Code and Our View

No.	Summary of Comments	Our View
● **Revision of the Stewardship Code**		
1	The Draft of the Revised Code (hereinafter, "the Draft") is based on the Opinion Statement of the Follow-up Council, and we consider that what is needed to be reviewed is appropriately reflected in the Draft. However, considering the fact that there are many institutional investors which have implemented the Code for form's sake, in order to more effectively utilize this opportunity for the revision after 3 years from the implementation, it is desirable to make revisions in a way to improve the effectiveness of the implementation. From such a perspective, we consider that you could take a more advancing stance toward the Draft.	We believe that it is important that each institutional investor deepen their stewardship activities, moving the focus from "form" to "substance". Based on discussions from such a perspective at the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code (hereinafter, "the Follow-up Council") as well as the Council of Experts on the Stewardship Code (hereafter, "this Council") , Japan's Stewardship Code (hereafter, "the Code") has been revised. We will continue to follow up on each institutional investor's response to the revision of the Code, and consider more advancing steps, as necessary.
● **Preamble**		
2	In the Preamble, the section titled "Aims of the Code" should describe the relationship between this Code and the Principles for Customer- Oriented Business Conduct. In doing so, it should be clarified that sustainable growth of the companies can overall be achieved by clients' and beneficiaries' selection and monitoring of institutional investors, which facilitate such sustainable growth.	We believe that the Financial Services Agency (hereinafter, "the FSA") will provide appropriate explanations on the relationship between these two in the future. Upon the revision of the Code, Guidance 5-3 requires institutional investors to disclose their voting records for each investee company on an individual agenda item basis, and Guidance 7-4 requires asset managers to disclose results of their self-evaluations with respect to the

		status of their implementation of principles, including guidance, of the Code. We believe that such disclosures will make it easier for clients and beneficiaries to evaluate each institutional investor.
3	In Preamble 12 of the Draft, the following description was added to the last paragraph: "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." However, as Principle 6 states that institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities to their clients and beneficiaries, we believe that providing such explanations should be regarded as an integral part of stewardship responsibilities in the Code, not merely as "beneficial". (Received another similar comment)	The last paragraph of Preamble 12 was written assuming a situation where each institutional investor which accepted the Code discloses the following information on its own website in accordance with the principles, including guidance, of the Code: specific information that is required to be disclosed by the principles, including guidance, of the Code, and an explanation of the non-compliance reason with some of the principles, including guidance, if any, according to the "comply or explain" approach. In discussions of this Council, it was pointed out to be beneficial for institutional investors to proactively explain their specific implementation activities on their websites, in the process of complying with the principles ("comply and explain"), for the purpose of earning sufficient understanding from their clients and beneficiaries. Therefore, we added this paragraph to the Draft. As for matters to be explained on their websites, institutional investors are expected to think of ways to obtain sufficient understanding from their clients and beneficiaries; and we believe that important matters should be incorporated into such disclosures as their reports to clients and beneficiaries concerning how institutional investors fulfill stewardship responsibilities as mentioned in Principle 6, and disclosures of self-evaluation results by asset managers with

		respect to the status of their implementation status of each principle, including guidance, of the Code as mentioned in Guidance 7-4, where necessary.
● **Principle 1 (Establishment of Basic Policy)**		
Guidance 1-3 (Asset Owners' Stewardship Activities)		
4	Guidance 1-3 states that asset owners should "instruct that their asset managers be engaged in effective stewardship activities on their behalf." In our understanding, this Guidance intends to facilitate dialogue between asset owners and asset managers in order to understand what stewardship activities asset managers are performing, and whether such activities are effectively working, and it does not mean that, for example, asset owners should mechanically urge asset managers to implement each principle/guidance. Is this understanding correct? If Guidance 1-3 officially states that asset owners should "instruct that their asset managers be engaged in effective stewardship activities on their behalf," it may be interpreted as if it negates the alternative for asset managers not to comply with certain principles by explaining reasons under the "comply or explain" approach. We'd like you to confirm that the above description does not mean to require asset managers to comply with all principles, but is intended to facilitate dialogue between asset owners and asset managers so that the former understand the latter's stewardship activities. In addition, we'd like you to provide a supplementary explanation about "effective stewardship activities" to clarify what this wording means.	As you pointed out, when asset owners instruct asset managers to conduct stewardship activities, we believe it is important for asset owners to specify issues and principles to be addressed, and have appropriate communications with asset managers in order to ensure the effectiveness of such activities, instead of looking at the wording of the Code's principles and guidance superficially and requiring asset managers to implement them in an overly mechanical way. We also believe that, as stated in Preamble 7, asset managers are required to understand such asset owners' intention and conduct stewardship activities. In this way, both parties are expected to properly share a common perception, thus deepening their understanding of what "effective stewardship activities" means.

Guidance 1-4 (Specifying Issues and Principles Which Asset Owners Require of Asset Managers in Conducting Stewardship Activities)		
5	Guidance 1-4 refers to "issuing mandates to asset managers." Is it necessary to specify requirements and principles concerning stewardship activities in contracts and related documents, etc. between asset owners and asset managers?	We consider that such specification does not necessarily have to take the form of documents, including contracts. However, for the purpose of securing the interests of ultimate beneficiaries, it is considered appropriate that asset owners clearly specify issues and principles which need to be addressed relating to stewardship activities, and communicate them to asset managers in an explicit way.
6	The first sentence of Guidance 1-4 should clarify who is expected to conduct "effective stewardship activities" – whether they are asset owners or asset managers. Furthermore, the first sentence should also clarify to whom "should clearly specify issues and principles to be required" applies, and the expression should be consistent with the one in the second sentence: "clearly specify issues and principles."	*[Note: This comment focuses on some Japanese expressions in Guidance 1-4. While we modified the expressions in the Draft taking the comment into account, the English translation is not affected by the modification.]*
7	Concerning asset owners' monitoring of asset managers, Guidance 1-5 requires asset owners to put emphasis on the "quality", not the form. However, there is a concern that asset owners may impose an excessive burden, which is far from effective, on asset managers, for example, by requiring them to provide documents or data to report a large number of matters in detail. To secure the effectiveness of monitoring, we believe that it is essential that asset owners properly understand the intention of this Guidance and put it into practice.	As shown in Guidance 6-1, asset managers are required to properly report to asset owners on how they fulfill their stewardship responsibilities, in light of the asset owners' intention. Furthermore, when monitoring asset managers, each asset owner may conduct a quantitative evaluation by devising indicators which would help realize effective stewardship activities by their own judgment. We consider that such an evaluation method is not necessarily excluded. At the same time, when asset owners carry out such monitoring or receive reports from asset managers, it is important to encourage asset managers to engage in effective stewardship

	We'd like you to confirm that what is required of asset owners in Guidance 1-5 is understanding of asset managers' stewardship activities, not such monitoring for form's sake as quantifying asset managers' activities or conducting formalized surveys.	activities, and put emphasis on the "quality" of dialogue, instead of checking detailed matters for form's sake.
● **Principle 2 (Management of Conflicts of Interest)**		
Guidance 2-1 (Appropriate Management of Conflicts of Interest)		
8	Guidance 2-1 states that institutional investors "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." However, the fundamental idea of stewardship responsibilities is described in the first sentence as follows: "institutional investors should put the interest of client and beneficiary first." Accordingly, we consider that it is appropriate to change the above-mentioned part [i.e., the second sentence] to such an expression as "should appropriately manage such conflicts of interest."	We will draw on your comment when we examine descriptions of each Guidance under Principle 2 in the future. In this Draft, Principle 2 is structured as follows: Guidance 2-1 first describes the importance of appropriate management of conflicts of interest – that should be a perception to be shared by institutional investors; and then Guidance 2-2 to 2-4 list specific efforts to be made under this perception. Through such efforts stated in Guidance 2-2, which includes an additional description upon this revision, as well as newly added Guidance 2-3 and 2-4, appropriate management of conflicts of interests, on which Guidance 2-1 places importance, will be realized by institutional investors.
Guidance 2-2 (Establishment and Disclosure of Clear Policy for Managing Conflicts of Interest)		
9	We support Guidance 2-2, which requires asset managers to identify specific circumstances that may give rise to conflicts of interest, as well as to set out and disclose specific policies on measures for avoiding such conflicts and eliminating their influence of such conflicts. Disclosed information on measures for managing conflicts of interest should be compared and aggregated for the purpose of facilitating competition among institutional investors. (Received another comment supporting the revised Guidance)	We appreciate your support for the intent of the revision. We assume that institutional investors' disclosures of their policies for managing conflicts of interest under Guidance 2-2 will allow asset owners and clients and beneficiaries to compare such disclosed information, etc.

10	In the first sentence of Guidance 2-2, it is stated, "…put in place …a clear policy on how they manage key categories of possible conflicts of interest". Similar to the second sentence, the term "effectively" should be added to this part, in order to clarify that they are required to effectively manage conflicts of interest.	Taking your comment into account, we will add the term "effectively" to the first sentence of Guidance 2-2 as well for the purpose of clarification.
11	The second sentence of Guidance 2-2, starting from "In particular," states asset managers' management of conflicts of interest. Are life insurance companies included in "asset managers"? Life insurance companies should fulfill their stewardship responsibilities for insurance policyholders, and thus should be required to manage conflicts of interest in a similar manner.	We consider that each institutional investor should appropriately judge whether they fall under the category of "asset managers" or "asset owners". Discussions at the Follow-up Council as well as this Council were based on the assumption that life insurance companies are mostly regarded as "asset managers".
Guidance 2-3 (Establishment of Governance Structure of Asset Managers)		
12	In Guidance 2-3, we consider that it is desirable to clarify the significance of "independent" board of directors – specifically, what they should be independent from. Guidance 2-3 refers to third party committees, in addition to an independent board of directors, as examples of governance structures to be established by asset managers. However, there may be some cases where a third party committee has a problem with its independence, as the selection of committee members itself can be manipulated.	As for the significance of "independence" which you pointed out, the Opinion Statement of the Follow-up Council (3) (published on November 30, 2016) (hereinafter, "the Opinion Statement of the Follow-up Council") describes the matter as follows: "…with respect to asset managers which belong to financial groups, although they may have in place measures to avoid conflicts of interest between their parent companies and their own clients and eliminate the influence of such conflicts, there are many cases where such measures are not necessarily working well. Accordingly, it has been pointed out that they need to address conflicts of interest in a more finely-tuned manner." When the Guidance refers to "independence", there is an underlying assumption that such

	Concerning governance structures required in Guidance 2-3, it is considered to be insufficient to have in place a mere formal structure, so it is appropriate to clarify that a third party committee needs to secure its independence.	governance structures should be independent from their parent companies, etc., including the independence from the management team, whose members are sent from their parent companies, etc. In any case, please note that Guidance 2-3 refers to "an independent board of directors or third party committees for decision-making or oversight of voting" as examples for illustrative purposes. Depending on specific conditions and situations of asset managers, governance structures necessary for securing interests of clients and beneficiaries or preventing conflicts of interest may vary. Accordingly, this Guidance was written with an intention that the details of governance structures are up to each asset managers' ingenuity and judgment. When an asset manager establishes "an independent board of directors," we believe that it is important to secure its independence effectively by contriving ways for enabling the board to conduct stewardship activities without any interference from its parent company, etc. instead of merely establishing the board for form's sake. Concerning "third party committees," as you pointed out, they need to have appropriate independence for the purposes of securing interests of clients and beneficiaries and preventing conflicts of interest. For example, in selecting committee members, we believe that it is important for each asset manager to take measures in light of the intention of this Guidance, including establishing a selection process serving these purposes.

Guidance 2-4 (Roles and Responsibilities of the Management of Asset Managers)		
13	Is Guidance 2-4 based on an assessment that management teams of asset managers do not sufficiently recognize their roles and responsibilities compared to management teams of asset owners? We consider this Guidance is unnecessary, and thus should be deleted.	This Guidance is not intended to compare management teams of asset managers with those of asset owners. As stated in the second sentence of Guidance 2-2 and Guidance 2-3, asset managers particularly need to work on managing conflicts of interest and establishing necessary governance structures. In line with the above, this Guidance is added for the purpose of urging the management of asset managers to take action on such issues upon recognizing their roles and responsibilities.
● **Principle 3 (Monitoring Investee Companies)**		
Guidance 3-3 (Factors to Be Monitored)		
14	In Guidance 3-3, it is meaningful that factors to be monitored by institutional investors are specified as follows: "business risks and opportunities (including risks and opportunities arising from social and environmental matters), and how the companies address them." Corporate social responsibility has been of increasing importance; and it is expected that, through efforts under the Code, companies, institutional investors, and clients and beneficiaries will deepen their understanding of, and efforts to address, business risks and opportunities arising from social and environmental issues. (Received another similar comment)	We assume that factors which institutional investors should monitor in order to fulfill their stewardship responsibilities may vary, depending on their investment policies, and business risks and opportunities arising from social and environmental issues may be included in such factors. Therefore, we believe that it is important that deeper understanding of business risks and opportunities, including those arising from social and environmental issues, is developed.

● **Principle 4 (Constructive Engagement with Investee Companies)**		
15	In order for institutional investors to engage in constructive engagement with investee companies through stewardship activities, enhanced disclosure of information by the companies is indispensable. Especially at the time of general shareholders' meeting, securing information disclosure and time for dialogue is a key challenge. In parallel with the revision of the Code, we'd like to request you to continue to work on addressing such a challenge.	With regard to your point, the Corporate Governance Code states that listed companies should take appropriate measures to ensure the exercise of shareholders rights at general shareholder meetings, for example, by enhanced information disclosure and early sending of convening notice, etc. These are key challenges for deepening dialogue between companies and investors as well, so we expect that efforts to address these challenges will continue to be encouraged through the Follow-up Council, etc. Furthermore, in light of the Report by the "Working Group on Corporate Disclosure" of the Financial System Council (published in April 2016), we have been considering such measures as unifying entries across different disclosure documents, and enhancing the flexibility in setting general shareholder meeting dates.
Guidance 4-2 (Engagement, etc. of Passive Managers)		
16	With regard to Guidance 4-2, we agree about the part that passive managers should actively take charge of engagement and voting from a medium- to long-term perspective. (Received another similar comment)	We appreciate your support for the intent of the revision.
17	Principle 4 is about institutional investors' engagement, but Guidance 4-2 refers to voting, by stating that passive managers "should actively take charge of engagement and voting from a medium- to long-term perspective." Because voting is discussed in Principle 5, we assume that Guidance 4-2 could simply state "should take charge of engagement." What is the intention of referring to voting here?	As shown in Guidance 4-2, because passive management provides limited options to sell investee companies' shares and needs to promote their medium- to long-term increase of corporate value, we believe that it is important for institutional investors to conduct stewardship activities. To increase corporate value, the exercise of voting rights is as important as engagement. Accordingly, in addition to Principle 5, this Guidance pertaining to passive management refers to voting.

18	While engagement incurs significant costs, passive managers tend to face cost constraints. From the perspective of efficiency, it is important to select targets of their stewardship activities, and consider how to share engagement costs (including how to address the free-rider problem). (Received another similar comment)	As stated in Preamble 7 of the Code, we believe that institutional investors and their clients and beneficiaries should recognize that costs associated with stewardship activities are an indispensable element in asset management. As for specific methods of engagement and cost-sharing with respect to engagement activities, the Follow-up Council had an intensive discussion. The Follow-up Council pointed out that relevant parties should discuss these matters, and we expect that such discussion will take place.
Guidance 4-4 (Collective Engagement)		
19	We consider that adding new Guidance about collective engagement is a major advance. However, such a modest expression as "it would be beneficial" is not sufficient. We suggest that this part should be modified, for example, as follows: "Collective engagement is beneficial," or "In addition to engaging with investee companies independently, institutional investors should consider possible situations where engaging with investee companies in collaboration with other institutional investors (collective engagement) can be an effective means, and establish a policy concerning collective engagement." (Received another similar comment)	During discussion at this Council, as written in the section titled "Revision of the Stewardship Code," it was pointed out that, in carrying out collective engagement, it may be necessary to give attention that the engagement is not mechanical, together with a similar point to yours. Specific manners of collective engagement may vary. Taking such issues into account, we included collective engagement as one option of engagement.
20	We appreciate newly added Guidance 4-4, because it incorporated views on collective engagement at the similar level to those in other countries, and because it is considered that collective engagement would contribute to passive managers' engagement activities.	Concerning the points you raised, the FSA's "Clarification of Legal Issues Related to the Development of the Japan's Stewardship Code" (published on February 26, 2014) (hereinafter, "Clarification of Legal Issues") clarified the legal interpretation pertaining to collective

	According to the FSA's "Clarification of Legal Issues Related to the Development of the Japan's Stewardship Code," in the situation where an agreement between an investor and "another investor" "remains within the scope of shareholders' general activities that are unrelated to the exercise of legal rights," or "basically," in the situation where an investor, in discussions with "another investor," communicates their plan for the exercise of voting rights, which represent "legal rights of shareholders," and finds that the plan is the same as the other investor, the other investor will unlikely be considered a "Joint Holder." We consider that these explanations are adequate, but there still remains room for a different interpretation – for example, such an expression as "basically." We'd like you to give due consideration to ensuring that authorities' judgments on applicability to "Joint Holder" will not confuse or discourage institutional investors' collective engagement in line with the intention of this revision. Furthermore, the above-mentioned paper also includes a view on the relationship between so-called "Act of Making Important Suggestions" and "dialogue with investee companies." For example, suppose a case where investors collectively have a dialogue with an investee company concerning its governance structure, including the board composition. We assume that it may not always be easy to judge whether such a collective engagement activity is classified as a "suggestion" "intended to cause material changes to or materially influence the investee company's business activities" under Article 14-8-2 (iv) (important changes in the constitution of officers) of the Order for Enforcement of	engagement under the large shareholding reporting system. Specifically, concerning (1) Under what circumstances an investor is deemed as a "Joint Holder"; and (2) What actions are considered as an "Act of Making Important Suggestions", the following clarification was provided: (1) Whether to be considered as "Joint Holder" As a point at issue in conducting collective engagement, an investor is deemed as "Joint Holder" if the investor "agrees" with another investor to "execute voting rights and other shareholder rights jointly." The "voting rights and other shareholder rights" most likely include the legal rights of shareholders; and the agreement referred hereto means an agreement containing the element of a mutual or unilateral promise to act in future, and differs from a mere exchange of views. Such an interpretation is provided in the Clarification of Legal Issues with specific examples. (2) Whether to be considered as "Act of Making Important Suggestions" "The act of sharing knowledge with the investee company" is not considered as "suggestion", and is basically highly unlikely to be considered as "Act of Making Important Suggestions". Also, among acts which are considered to be "suggestions", there may be some

	the Financial Instruments and Exchange Act. In order to facilitate collective engagement activities concerning such matters, we suggest that you should take such measures as officially presenting specific examples of acts which are "not classified as an Act of Making Important Suggestions". As for responses to the large shareholding reporting system arising from or related to collective engagement, the FSA's "Clarification of Legal Issues Related to the Development of the Japan's Stewardship Code" still allows for interpretation. Accordingly, if (1) multiple institutional investors physically stayed in proximity to each other; and (2) such institutional investors supported similar suggestions to a certain company, there will be a reputation risk where they may be one-sidedly judged ex-post to be "Joint Holders" based on the appearance, and administrative monetary penalty, etc. may be imposed on them. Considering such a risk, we believe that it is inappropriate to describe collective engagement in Guidance.	cases which are less likely to be regarded as "Act of Making Important Suggestions", depending on the individual situation. Such an interpretation is provided in the Clarification of Legal Issues with specific examples. In this way, we believe that the Clarification of Legal Issues sufficiently clarified the interpretation. Even in the case of being considered "Joint Holder" or "Act of Making Important Suggestions", it will not prohibit the collective engagement itself, although an applicable investor is required to take into account the ownership of other investors in complying with the large shareholding reporting system, or is not eligible for using the special reporting system. In discussions on collective engagement at this Council, it was pointed out that the absence of the term "collective engagement" in the Code may have created a general perception that collective engagement is not allowed, and thus the Code should describe the fact that collective engagement is one of the options for engagement. We don't think that they cannot conduct collective engagement under the current Code or legal system in the first place, but taking such a suggestion into account, we decided to include descriptions of collective engagement for confirmation in the revised Code.
21	Most principles and guidance are described by using such an expression as "should," and require explanations of reasons for non-compliance. However, Guidance 4-4 uses such an expression as "it	Your understanding is correct. With regard to this point, please note that footnote No. 4 in the Preamble clearly states, "Guidance may not necessarily specify that certain actions should (or should not) be taken

	would be beneficial for them to engage with investee companies in collaboration with other institutional investors (collective engagement) as necessary." We understand that even if we do not implement "collective engagement," we are not necessarily required to explain the reason for not implementing it. Is this correct?	and it is not necessarily required to explain the reason not to implement such guidance."
Guidance 4-5 (Receiving Information on Undisclosed Fact)		
22	Since an amendment bill pertaining to the adoption of so-called Fair Disclosure Rule was already submitted to the Diet, we consider that the first and second sentences of Guidance 4-5 should be deleted.	We'd like to explain the background of establishing Guidance 4-5. At the time of establishing Japan's Code, with regard to the handling of undisclosed material facts, the UK Stewardship Code assumes that selective disclosures are made to certain shareholders who wish to become insiders; but in Japan, there was an opinion stating that there were no requests to become insiders from the viewpoint of equitable treatment of shareholders. Taking into account such a discussion, this Guidance was established. At this moment, we don't think it is appropriate to reconsider this Guidance, but we understand that your comment was intended to address a possible change in shareholders' behaviors, and will take it into consideration in the future.
● **Principle 5 (Voting)**		
Guidance 5-3 (Disclosure of Voting Records)		
23	We support Guidance 5-3, which requires institutional investors to disclose their voting records for each investee company on an individual agenda item basis. (Received 2 more similar comments)	We appreciate your support for the intent of the revision.

	We cannot grasp the reality of voting under the current disclosure practice, where aggregate voting results are disclosed. In addition, disclosure of voting records for each investee company on an individual agenda item basis (hereinafter, "company-level voting disclosure") could play a significant role in eliminating conflicts of interest with financial institutions, especially insurance companies.	
24	Individual investors are extremely interested in investment returns from investee companies. However, as for company-level voting disclosures by institutional investors, to whom they entrust their investment management, it seems that possible effects of adopting such disclosures and causal relationships with such effects have not been considered sufficiently. On the other hand, for example, in the Opinion Statement (3) of the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code, the following challenge is pointed out: "company-level voting disclosures may result in attracting excessive attention solely to whether they cast "for" or "against" votes, encouraging asset managers to exercise their voting rights for form's sake and emphasizing adversarial positions that interfere with positive dialogue between companies and investors." Furthermore, we heard that even in the UK, an advanced country in terms of stewardship, only a half of institutional investors have made company-level voting disclosures. Taking the above situations into account, we believe that the FSA	Guidance 5-3 requires institutional investors to disclose their voting records for each investee company on an individual agenda item basis, from the perspective of enhancing the visibility of the consistency of their voting activities with their stewardship policies, and of eliminating concerns about conflicts of interest associated with voting. Considering the fact that institutional investors' conditions and situations vary, the "comply or explain" approach is applied to this Guidance similarly to other principles and guidance of the Code. As stated in this Guidance for the purpose of confirmation, we are of the opinion that if there is a reason to believe it inappropriate to disclose voting records for each investee company on an individual agenda item basis due to the specific circumstances of an institutional investor, they should proactively explain the reasons. As for specific methods of disclosures, in light of the above-mentioned intention of this Guidance, we believe that it is important for each institutional investor to use their ingenuity and make a judgment to ensure that such disclosures are easy to understand for relevant parties such as clients and beneficiaries (including ultimate

	should not virtually put pressure on institutional investors to make company-level voting disclosures, but instead should respect institutional investors' own judgment depending on such factors as their business operations and characteristics of investee companies. Furthermore, in the future, sufficient verification should be made concerning whether company-level voting disclosures contributed to an increase of investment returns, and whether company-level voting disclosures caused any inconvenience, etc. for institutional investors' business operations.	beneficiaries).
	Guidance 5-3 states that institutional investors "should disclose voting records for each investee company on an individual agenda item basis," and "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." We can fully understand the significance of such statements. Noticeably, however, large passive managers and the like invest in more than 2,000 companies; and the total number of agenda items could be 20,000 to 30,000, including sub-items under such agenda items as the election of directors. It would not always be appropriate to disclose all voting records and explicitly explain reasons why they voted for or against an agenda item, in terms of cost-efficiency (for facilitating dialogue). Instead, it is considered that detailed explanations on their voting standards, etc. would contribute to facilitating dialogue with companies. Therefore, concerning Guidance 5-3, we believe that disclosures and	

	explanations should be made in accordance with specific circumstances of each institutional investor. We'd like to confirm the intention of the Code in this regard. Guidance 5-3 states "institutional investors should disclose voting records for each investee company on an individual agenda item basis." May we assume that each institutional investor can decide on a specific method of disclosure, depending on their specific circumstances and view on stewardship responsibilities?	
25	In the section titled "Revision of the Stewardship Code," it is written that the Council expects that institutional investors will revise published terms of compliance in accordance with the Revised Code within 6 months after the revision of the Code. Accordingly, in the case institutional investors do not finish updating disclosure items in accordance with the Revised Code by general shareholders' meetings to be held in June 2017, we assume that they do not have to disclose their voting records for each investee company on an individual agenda item basis at the shareholders' meetings, and they are expected to make such company-level voting disclosures starting from agenda items of general shareholders' meetings to be held after they finish updating disclosure items. Is our understanding correct? Company-level voting disclosures require investors to modify their systems and secure human resources, so it is difficult to update disclosure items within 6 months after the revision of the Code. Therefore, we'd like you to extend the period up to 1 year.	We assume that the timing of starting to correspond with the revised Code may vary depending on specific conditions and situations of each institutional investor. In any case, however, we expect institutional investors to update disclosure items, based on the revision within 6 months from the publication of the Revised Code – i.e. by the end of November 2017. We set a 6-month time period from the finalization of the Revised Code to update disclosure items, taking into account the experience at the time of establishing the Code, as well as the fact that the Revised Code includes items which are likely to require certain time to comply with – for example, to establish a governance structure. The Code adopted the "comply or explain" approach, which is also applicable to disclosures of voting records. If institutional investors do not make company-level voting disclosures upon updating disclosure items, it is desirable that they provide relevant parties such as clients and beneficiaries (including ultimate beneficiaries) with explanations of their plan of the future response (if they plan to make such disclosures but face difficulties in doing so at that point, they could

		explain such circumstances and the future plan for responding to the Revised Code) in an easy-to-understand manner.
26	Why do asset owners need to disclose their voting records? In Guidance 5-3, we consider that the subject of the sentence should be changed from "institutional investors" to "asset managers." There are cases where asset owners do not direct every single vote or exercise their voting rights on each agenda item (through asset managers/trust banks by clarifying whether they are for or against agenda items), and instead provide certain guidelines to asset managers, which will direct/cast votes (asset managers will later report voting results to asset owners). In these cases, requiring both asset managers and asset owners to compile and disclose their voting records seems to be a huge waste of money. We cannot see cost-effectiveness there. Disclosures only by asset managers would be sufficient. Furthermore, in these cases, since asset managers may receive different guidelines from multiple asset owners, the asset managers may need to vote "for" and "against" a single agenda item. Then do such asset managers need to disclose the numbers of voting rights corresponding to "for" and "against" votes?	We believe that asset owners also should disclose their voting records to beneficiaries from the perspective of enhancing the visibility of the consistency of their voting activities with their stewardship policies. Since specific conditions and situations of institutional investors vary, each institutional investor is supposed to use their ingenuity and make a judgment concerning a specific method of disclosing their voting records, including the point you raised, from the perspective of enhancing the visibility of the consistency of their voting activities with their stewardship policies, and of eliminating concerns about conflicts of interest associated with voting. When making disclosures, for example, if asset owners require asset managers to disclose their voting records for each company on an individual agenda item basis, the asset owner may disclose such a way of disclosure of voting records and the address of the websites (URLs) disclosing the voting records. We believe that it is important to ensure such disclosed information is sufficiently easy to understand for relevant parties such as clients and beneficiaries (including ultimate beneficiaries). Concerning how to make disclosure in case an asset manager voted "for" and "against" the same agenda item, each institutional investor should use their ingenuity and make their own judgment. In this case, the asset manager may disclose the fact that they cast both "for" and "against" votes; and if there is a reason to believe it contributes to enhancing the visibility of the consistency of their voting activities

		with their stewardship policies, they may also disclose percentages of "for" and "against" votes, etc.

27	Concerning disclosure of voting records for each investee company on an individual agenda item basis (Guidance 5-3), responses are different between "(publicly offered) investment trusts" and "accounts managed under discretionary investment contracts." In the case of the latter, a confidentiality clause is included in the contracts with clients, and asset managers cannot disclose voting results to the public without the clients' approval. Taking such a difference into account, the Follow-up Council's Opinion Statement (3) included a footnote stating "some asset owners concluded discretionary investment contracts with asset managers which do not provide for public disclosures of their company-level voting results…" in *Section II-2. Enhanced Disclosure of Voting Results,* in our understanding. Therefore, we'd like to request you to add a similar footnote to Guidance 5-3 of the Revised Code.	Under the circumstance which you pointed out, if they cannot obtain their clients' approval, they may "explain" such a fact. However, from the perspective of enhancing the visibility of the consistency of their voting activities with their stewardship policies, asset managers and asset owners are expected to proactively work on enhancing their voting disclosures, and appropriate communication between asset managers and their clients is also considered to be important.
28	While Guidance 5-3 refers to aggregating voting results into each major kind of proposal, what does "major kind of proposal" mean here? In this case, are institutional investors required to disclose voting results regarding election of every single director? When we aggregate voting results of an entire agenda item concerning election of directors of a certain company by showing the numbers of "for" and "against" votes, is it recognized as a "major kind of proposal"?	As for a "major kind of proposal," into which institutional investors aggregate their voting results, it is important that each institutional investor exercises ingenuity and makes judgments, based on the nature of agenda items, to ensure that such classification is sufficiently easy to understand for related parties such as clients and beneficiaries (including ultimate beneficiaries). At present, many institutional investors classify their voting results, for the purpose of aggregation, into such categories as appropriation of surplus, election of directors, and directors' remuneration. Guidance 5-3 requires institutional investors to disclose voting records on an individual agenda item basis. As for the agenda item

		concerning election of directors, shareholders vote on each candidate, and thus a proposal of each candidate is considered to be an individual agenda item.
29	Concerning disclosure of voting records for each investee company on an individual agenda item basis, our company plans to disclose names of investee companies in which we exercised voting rights, and whether or not we cast “against” votes. Meanwhile, we plan to provide information on specific details for individual company/agenda through our contact point. This is because we would like to sufficiently explain reasons why we voted for or against certain agenda items, and explore opportunities to encourage investee companies to have constructive dialogue with us. Our company uses an electronic voting platform, and companies participating in the same platform can use this platform to find details of our voting records for individual agenda items. We’d like to confirm whether such responses are adequate in light of the philosophy of the Code.	The method you proposed is considered to be different from the disclosure of voting records for each investee company on an individual agenda item basis required in Guidance 5-3. If you choose to “explain,” we consider that you should proactively explain reasons why you consider disclosure set forth in the above-mentioned Guidance is inappropriate in light of your specific circumstances, in a manner to win sufficient understanding of related parties such as clients and beneficiaries (including ultimate beneficiaries).
30	The Code now requires institutional investors to disclose voting records for each investee company on an individual agenda item basis, or explain the reasons for not making such disclosures. On the other hand, listed companies are required to analyze reasons behind opposing votes in certain cases, under Supplementary Principle 1.1.1 of the Corporate Governance Code. In this light, even if institutional investors choose not to publicly disclose their voting records for each investee company on an individual agenda item basis, the Revised Code should	Guidance 4-1 and footnote 9 of the Code state that institutional investors should endeavor to arrive at an understanding in common with investee companies; and even in the case of disagreement with investee companies, such efforts may provide a better understanding on why they disagree. We believe that your point should be addressed through such constructive dialogue.

	require them to disclose results of voting on proposals by listed companies; and if they cast an "against" vote (including abstention and non-exercise of voting rights), they should disclose the reasons, at least to the listed company in question (and if they do not disclose such information, they should disclose the reasons).	
31	In the shareholding structure of Japan, cross-shareholdings still account for a large part. Even if institutional investors exercise their voting rights according to a clear standard, when cross-holding companies' voting activities lack the transparency, we cannot expect an improvement of governance. Consequently, there is a concern about the failure to increase corporate value effectively through proper voting. We believe it is desirable that both institutional investors and investee companies disclose their voting records on an individual agenda item basis. To this end, you could facilitate enhanced disclosure, including more detailed explanations of views (on cross-shareholdings by business companies) in their Governance Reports, and company-level voting disclosure.	With regard to issues around cross-shareholdings, the Follow-up Council has been discussing the issues. We believe that these issues, including the points you raised, need to be discussed further in the future.
Guidance 5-5 (Proxy Advisors)		
32	Are proxy advisors regarded as institutional investors subject to the Code? In case a proxy advisor does not comply or explain, what action does the FSA assume to take?	As stated in Preamble 8, the Code also applies to proxy advisors. Considering the fact that institutional investors are expected to satisfy their commitment to the Code and publicly disclose their acceptance, we consider that it is important for the FSA to encourage institutional investors (including proxy advisors) which officially accepted the Code to take actions voluntarily and actively.

33	Concerning Guidance 5-5 which requires proxy advisors to disclose their activities, it is desirable that they disclose such information in the Japanese language, because such information is supposed to be consumed by Japanese listed companies and the general public as beneficiaries. As a result, it is desirable that proxy advisors are properly evaluated or selected by beneficiaries, etc.	Thank you for your valuable input.
● **Principle 7 (Skills and Resources Necessary for Appropriate Engagement and Judgment)**		
34	While Principle 7 states "institutional investors should have … skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities," there may have been an unconscious assumption, at the time of establishing the Code, that the Code applies to Japanese institutional investors, and that there was a doubt about whether they have such skills and resources. Considering the fact that more than 200 Japanese and foreign institutional investors have already publicly disclosed their acceptance of the Code, it seems better to reconsider the expression. We are not against the view that they need such skills and resources. However, if you consider that they can have such skills and resources through developing the necessary internal structure, please consider a change of the expression to something like "should have a necessary internal structure allowing appropriate engagement with the companies and making proper judgements in fulfilling their stewardship activities."	As you pointed out, the number of institutional investors which accepted the Code and disclosed their intention to accept the Code has been steadily increasing. On the other hand, we understand that it is often pointed out that their dialogue or engagement with companies is just for form's sake, and does not result in raising the companies' "awareness." Accordingly, we believe this Principle, which requires skills and resources needed to appropriately engage with investee companies and make proper judgements in conducting stewardship activities, remains to be important.

35	One of the obstacles to realizing enhancement of medium- to long-term corporate value through institutional investors' engagement with investee companies would be the fact that institutional investors are incentivized to focus on short-term performance. In order to change short-term orientated remuneration systems of institutional investors, Guidance should include disclosure of institutional investors' policies concerning remuneration systems for investment management personnel. Furthermore, self-evaluation from the long-term perspective and evaluation by a third-party organization should be included in Guidance 7-2.	Guidance 7-1 requires institutional investors to develop a necessary internal structure for having appropriate engagements with investee companies in a way to contribute to their sustainable growth, and making proper judgements associated with stewardship activities. Similarly, concerning the issue of their remuneration system, it is important for each institutional investor to appropriately address the issue, based on their specific conditions and situations. As for asset managers' self-evaluations on the status of their implementation of each principle, including guidance, of the Code, they are incorporated in Guidance 7-4 upon this revision. We believe that such self-evaluations should be made, taking into account the intention of the Code and for the purposes of investee companies' sustainable growth and an increase of medium- to long-term investment returns to their clients and beneficiaries. As for the evaluation by a third-party organization, it may be utilized at the discretion of each asset manager, but it is important to properly carry out self-evaluations first. Guidance 7-4 requires asset managers to disclose results of their self-evaluations. Such disclosure of self-evaluation results helps asset owners and clients and beneficiaries select and evaluate asset managers.
Guidance 7-2 (Roles and Responsibilities of Management)		
36	We assume that Guidance 7-2 should be applicable only to "asset managers" instead of "institutional investors." Is this an error? If you really mean "institutional investors" including asset owners, the	During discussion at this Council, it was pointed out that the management of asset owners also should have appropriate capability and experience, and carry out stewardship activities and promote

	wording should be modified in a way relevant to asset owners: for example, “decision-making body” instead of “the management”. If this Guidance is applicable to “institutional investors” including asset owners, we assume that many asset owners do not have “affiliated financial groups.” Should such asset owners explain such a fact?	efforts to address issues of structuring their organization and developing human resources necessary for such activities. Accordingly, Guidance 7-2 applies not only to asset managers, but also institutional investors including asset owners. We referred to “affiliated financial groups” as an illustrative example. We believe that the management of asset owners also should have appropriate capability and experience to effectively fulfill their stewardship responsibilities, and recognize that they have important roles and responsibilities to carry out stewardship activities such as a structure for necessary organization and develop human resources, and take action on these issues.
Guidance 7-3 (Exchange of Opinions among Institutional Investors)		
37	Guidance 7-3 refers to collective engagement. You could consider the possibility of integrating it into Guidance 4-4. Even if such integration will not be made, we consider that it is appropriate to encourage collective engagement by stating that institutional investors “should consider” exchanging views with other investors and so forth.	Guidance 7-3 shows possible ways to help institutional investors enhance their capabilities, and is the most relevant to Principle 7. Whether or not to carry out these activities is up to each institutional investor.
● Other		
38	We consider that this revision will make stewardship activities of institutional investors deeper and more effective, thus contributing to realizing increased corporate value and sustainable growth of investee companies. (Received another comment supporting the revision)	We appreciate your support for the intent of the revision.
39	In the published draft of the revised Stewardship Code, Guidance now covers such topics as asset owners’ monitoring, asset managers’	We appreciate your support for the intent of the revision. With regard to the concept of “comply or explain” which you mentioned,

	governance, monitoring of business risks and opportunities arising from ESG issues, the effectiveness of collective engagement, methods of voting disclosures, self-evaluations of stewardship activities by asset managers which signed up for the Code; and we consider that the revised Code is further enriched in content. Meanwhile, for institutional investors, which signed (will sign) up for the Code, we assume that it may not always be appropriate to implement all principles and guidance word for word, depending on their investment policies, size, characteristics, etc. We'd like to confirm that there are some cases where institutional investors choose to "explain" reasons for non-compliance with certain principles/guidance, depending on their characteristics. (Received another similar comment)	when they "explain" reasons for not implementing a certain principle and guidance of the Code, it is important to ensure such an explanation can earn sufficient understanding from their clients and beneficiaries.
40	We welcome periodical reviews of the Code. Upon checking whether the Code is effectively working, if it is found that the Code has been implemented effectively, you should further facilitate such implementation; and if there are areas for improvement, you should improve the Code to facilitate better implementation. We understand that the current Draft reflects intensive discussions at the Council of Experts on the Stewardship Code, which is an official venue, and we are in favor of the Draft, as it clarifies the objective of the Stewardship Code, and encourages various stakeholders to take actions in accordance with the intention of the Code.	We appreciate your support for the intent of the revision. As shown in Preamble 14 of the Code, this Council expects the FSA to take appropriate steps so that the Code will be reviewed periodically, about once every 3 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.

41	This Draft is considered to urge institutional investors to further fulfill their fiduciary duties, and to contribute to enhancing stewardship activities. We very much agree with this revision, because we can expect enhanced effectiveness of corporate governance in Japan through “constructive dialogue” between institutional investors and listed companies. The Stewardship Code, which is a code of conduct for institutional investors, and the Corporate Governance Code, which provides guidance to listed companies on corporate governance, have penetrated the Japanese economic society, and corporate governance in Japan has been changing under these two Codes. The future challenge would be to further continue and advance the on-going corporate governance reform. Upon finalizing the Revised Code, institutional investors, which signed up for the Stewardship Code, are expected to improve their stewardship activities through friendly competition, thus enhancing the effectiveness of stewardship activities. Such effects would accelerate listed companies’ initiatives under the Corporate Governance Code. Through listed companies’ continuous improvements as a result of self-inspection, we’d like to expect that many companies will manage to increase corporate value over the medium- to long-term. Finally, upon finalizing the Revised Code, we’d like to strongly suggest that the FSA should familiarize relevant parties with the background and significance of the revision of the Stewardship Code, as well as its content in an easy-to-understand manner.	We appreciate your support for the intent of the revision. This Council expects the FSA to continue its active efforts for familiarization and acceptance of the Code, including making the background and significance of the revision of the Code as well as the content well known.

	As in-depth implementation of the Code requires increased awareness and understanding from clients and beneficiaries, you should promote investor education and provide public information in an easy-to-understand manner.	
42	Does the Code fall under the category of “administrative guidance” under the Administrative Procedure Act?	The Code expects institutional investors, which support the Code, to publicly disclose their intention. Accordingly, the Code is not considered to be “administrative guidance” under the Administrative Procedure Act.