(Provisional translation)

The First Meeting of the Expert Panel on the Stewardship Code (2024)

1. Date and Time: Friday, October 18, 2024, 10:00 - 12:00
2. Venue: Common Special Conference Room No.1, 13th floor, Common Government Office No.7

[Kansaku, Chair]

Good morning. Now, I would like to open the 1st meeting of the Expert Panel on the Stewardship Code. Thank you very much for taking time out of your busy schedule to attend.

I am Kansaku from Gakushuin University, and I will serve as the chair of this Expert Panel. It is my pleasure to be working with you.

First of all, Mr. Yufu, Director-General, Policy and Markets Bureau of the FSA will make opening remarks. Mr. Yufu, please go ahead.

[Yufu, Director-General, Policy and Markets Bureau, FSA]

I am Yufu, and I have been appointed as the Director-General, Policy and Markets Bureau since July. In the Financial Services Agency, we have various subcommittees and working groups, such as the Financial Services Council and the Business Accounting Council, but it is actually very rare for the director-general of the bureau to make a speech. In most cases, he or she remains seated. I was asked to make a speech this time, and I was wondering why, and I looked it up. When the very first meeting of this Stewardship Code Expert Council was held in August 11 years ago, I was Director, Corporate Accounting and Disclosure Division. There are a number of members from that time, including Chair Kansaku. At the first meeting that August, I seem to have asked the Director-General at that time to deliver a speech, and I guess it’s my turn and that’s why I’m here to make a speech this time.

The Financial Services Agency puts great importance on the implementation of the corporate governance reforms based on voluntary changes in corporate and investor awareness. As you know, we also hold the Council of Experts for the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code, and the Action Program for Corporate Governance Reform 2024 was published in June. In this program, from the perspective of promoting dialogue with constructive objectives, recommendations are made for reviewing the Stewardship Code, including efforts to promote collaborative engagement and improve transparency of beneficial shareholders.

Following to this action program, today we hold this Expert Panel again. We hope to compile a revised draft by the end of this fiscal year. As I mentioned earlier, I would like to ask you to discuss adding, for example, collaborative engagement and improvement of transparency of beneficial shareholders at this meeting, but I would like to make a slightly different point.

The Stewardship Code has been revised twice since it was formulated, and at the time of the second revision, I was in charge of the revision as Deputy Director-General. Whenever we revise the Code, we ask you to make additional items every time, so the amount to be written increases. Of course, I believe that this increased content is all necessary. For example, I think that the statements on sustainability and the creation of a new chapter on proxy advisors were all essential, but on the other hand, I feel that the number of entries continues to increase.

As you know, the double codes are principle-based documents, and they are not laws and regulations at all. But, from the perspective of those to whom these codes apply - in the case of the Corporate Governance Code, this would be listed companies - as they start talking about compliance fatigue, I believe the essential significance of the codes is somehow misunderstood.

This time again, we ask you to discuss the inclusion of new items, but first, I would like you to keep in mind that the additional wording should be principle-based when discussing it. Secondly, this is a more difficult point, but it is merely a request as a direction, if there are any parts of the existing wording that can be simplified or there is overlapping content, and if we could take this opportunity to streamline them even a little, it would help to alleviate compliance fatigue and misunderstandings that prioritize form over substance, and I believe it would also send a good message that the Code is, in the first place, a principle-based, comply-or-explain document. This is a very difficult point of view, but I would like the discussions to be based on this point of view.

Given this context, I am talking about our new administration. As you know, Prime Minister Ishiba announced in his policy speech that he would take over the Policy Plan for Promoting Japan as a Leading Asset Management Center that encourages people to build their own assets by ensuring a steady flow from savings to investment, and that he would take measures to make Japan an investment powerhouse where bold investments are made in industry. To that end, it is very important that institutional investors promote corporate governance and management reforms through constructive stewardship activities, thereby encouraging investment in, for example, human capital and growth sectors. I would like to ask all members to actively participate in discussions towards an effective revision of the Stewardship Code. I appreciate your cooperation.

[Kansaku, Chair]

Thank you very much. Now, at this point, I would like to ask the members of the press to leave, please.

(Press leave the room)

[Kansaku, Chair]

Next, the Secretariat would like to introduce the members.

[Nozaki, Director, Corporate Accounting and Disclosure Division, FSA]

My name is Nozaki from the Corporate Accounting and Disclosure Division, and I assume responsibilities as the Secretariat.

First, let me introduce you, the members, according to the seating order.

Starting from your right hand side, Mr. Hideaki Tsukuda.

Mr. George Iguchi.

Mr. Hiroki Sampei.

Ms. Yoshiko Takayama.

Mr. Kazuhiro Takei.

Mr. Wataru Tanaka.

Mr. Yoshiaki Nishimura.

Mr. Nobuto Fujimoto.

Ms. Naomi Matsuoka.

Mr. Koichi Matsushita.

Also, Ms. Ryoko Ueda, Ms. Akiyoshi Oba, and Ms. Yuri Okina are participating online today. Ms. Okina is going to leave during the meeting on business.

Ms. Jen Sisson and Mr. Kenichiro Hokugo are also our members as shown in the member list, although both are absent today.

Next, I would like to introduce you, the observers. Mr. Watanabe, Head of the Listing Department, Tokyo Stock Exchange, Inc.

Mr. Fujii, Chairman of the Operation Committee, the Trust Companies Association of Japan.

Mr. Watanabe, Counsellor of the Ministry of Justice.

Mr. Enoki, Head of the Fund Actuarial Affairs Office, the Ministry of Health, Labour and Welfare.

Mr. Nakanishi, Director, Corporate System Division, the Ministry of Economy, Trade and Industry.

Mr. Anchi, Chairman of the Planning Committee, the Japanese Bankers Association, is participating online today.

Today, Mr. Shiomura, Managing Director of ESG & Stewardship Department of GPIF is attending the meeting. Later, he will give us a presentation on the analysis of the evaluation on the effects of engagement.

As for the Secretariat members, please refer to the seating list you have instead of introductions.

[Kansaku, Chair]

Thank you very much for the introductions. Next, I would like the Secretariat to explain the draft of the operating guidelines and the points to be noted regarding the meeting.

[Nozaki, Director, Corporate Accounting and Disclosure Division, FSA]

The proposed operating guidelines are as described in Material 3. I will omit the explanation owing to time constraints.

Next, I would like to explain the points to be noted at the meeting. In today's meeting, we are also using a Web conference system. For online participants, when you wish to speak, please enter your name in the conference system chat for all participants. Also, for members who are attending in person, if you put up a plaque with your name, the chair will appoint you.

[Kansaku, Chair]

Thank you very much. Is this all right with everyone?

(There were voices saying “no objection.”)

[Kansaku, Chair]

Thank you. Then, I will proceed as such. Now, let's move on to the agenda. As described in Material 1, the purpose of this Expert Panel is to revise the Stewardship Code. As for the Stewardship Code, the Council of Experts for the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code, which is jointly organized by the FSA and the Tokyo Stock Exchange, compiled the Action Program for Corporate Governance Reform 2024 in June this year, in which recommendations were made to revise the Code.

In order to hold a plenary meeting for the revision of the Code, I would first like to ask the

Secretariat to explain the status of the Stewardship Code since the previous revision, as well as the current issues. Please!

[Nozaki, Director, Corporate Accounting and Disclosure Division, FSA]

Certainly. Then, I would like to explain in accordance with Material 4.

First of all, regarding the structure of the explanatory material prepared by the Secretariat, please open it and look at the table of contents. The first half contains various material that will be used as a reference for today's discussion, and the last part contains the “Issues for Discussion” that we would like you to discuss today.

First, you will find the outline of the Stewardship Code on page 2, the outline of the 2020 revision on pages 3 and 4, and the change in the number of institutions accepting the Stewardship Code on page 5.

Page 6 is about the Report of Working Group on Capital Market Regulations and Asset Management Task Force, which was issued at the end of last year. It mentioned the promotion of collaborative engagement in the second paragraph as a part of efforts for effective implementation of stewardship activities.

Moving on to page 7. As part of discussions mainly on the system, the TOB Working Group report that was issued at the end of last year made recommendations on important proposals for the Large Shareholding Reporting System, clarification of the concept of joint holders, and the necessity of efforts to improve the transparency of beneficial shareholders.

On page 8. Based on these recommendations, the relevant law was revised in May this year in order to clarify the scope of joint holders under the Large Shareholding Reporting System.

On pages 9 and 10, the Action Program 2024, which was introduced by Chair Kansaku earlier, as shown in the red box, says that we should consider reviewing the Stewardship Code to promote collaborative engagement and ensure transparency of beneficial shareholders, in order to promote dialogue with a constructive purpose.

Next is page 11. As the latest development, we announced the Asset Owner Principles at the end of August this year. The supplementary principles of Principle 5 thereof also mentions “stewardship responsibilities” as well as “accepting Japan’s Stewardship Code.”

Page 12 shows international trends. In the United Kingdom, they are currently working for the third revision of the Code. Page 13 refers to the direction of the review of the Code in the UK. As indicated by the asterisk (*), there were strong opinions that the institutional investors' burden of reporting on stewardship was becoming excessive in the previous revision in 2020. Therefore, the matters listed in the lower left, including the streamlining of the principles, are being raised as the main themes of the review.

Next is page 14. Here, the ICGN also revised its global stewardship principles this September and has been streamlining the structure of the principles.

Moving on to page 16. These are the results of a survey on the actual status of stewardship activities by institutional investors that was conducted last year on a consignment basis. Issues about resources for engagement and the lack of incentives for engagement activities, etc. are mentioned.
Next is page 17. As for the future direction, a wide range of cooperative efforts among investment institutions and asset owners, and the necessity for follow-up by administrative authorities have been proposed.

Next, from page 18, we have the results of interviews with companies about the actual status of engagement, which the FSA conducted this spring. You can see specific results from page 19. Companies that are actively working on corporate governance reform have commented that they highly appreciate the sharing of reference cases from other companies according to the circumstances of the companies, and the continuous engagement by those who are familiar with their business. However, as you can see in the gray column at the bottom, and as you can also see in the gray column on page 20, various issues have been pointed out.

Moving on to page 21. The FSA has exchanged opinions with stakeholders, including overseas investors, and this page shows an overview of their comments.
Page 22 is an excerpt of the part of the current Code relating to collaborative engagement and transparency of beneficial shareholders.

Page 24 and thereafter are references related to collaborative engagement efforts. Here, we introduce the efforts in Japan and the initiatives of the Investor Forum in the UK.

Next is page 25. This is a reference that shows the framework of soft laws and systems related to collaborative engagement in foreign countries.

Next is page 26. I touched on the incentive for engagement activities earlier. For example, GPIF has adopted an engagement-strengthening mechanism for passive management. This page shows an overview of such approach.

Page 27 shows the efforts of asset owners to jointly monitor investment institutions and the efforts of MFA, Inc. to support engagement.

The final part is the “Issues for Discussion” that we would like you to discuss based on the above. Moving on to page 29. First, regarding corporate governance reform in general, I would like you to discuss the role of the Stewardship Code and future issues. Next, regarding the effective implementation of stewardship activities, I would like you to discuss the grant of incentives and the cost-sharing in a situation where the ratio of passive investment is increasing, various initiatives to enhance stewardship activities, and initiatives to promote stewardship activities by a wider range of actors.

Finally, page 30. These items also include the issue of transparency of beneficial shareholders, which we would like you to discuss next time and thereafter. I would also like you to discuss the streamlining of the Code as seen in the example of the UK’s code and the ICGN Code, which was mentioned by the Director-General earlier, as well as other issues.

That's all from the Secretariat.

[Kansaku, Chair]

Thank you very much for your explanation. Next, as the Secretariat introduced to us earlier, Mr. Shiomura of GPIF will make a presentation about the evaluation analysis of effects of engagement in about 10 minutes. Mr. Shiomura has prepared Material 5. Please go ahead?

[Shiomura, Managing Director of ESG & Stewardship Department of GPIF]

My name is Shiomura from GPIF. Thank you very much for giving me the wonderful opportunity to make the presentation today. I would like to inform the essence of the evaluation of the effects of engagement as fully as possible within 10 minutes, so I may need to move quite fast, for which I appreciate your understanding. The full results of this evaluation can be accessed via the QR code on the cover, so please review them at your convenience.

Please refer to page 1. First of all, I would like to explain why we started this evaluation of effects of engagement. Thanks to the efforts of the Financial Services Agency and those here today, I believe the importance of engagement has been widely recognized. However, engagement takes place behind closed doors between asset managers and investee companies. As a result, it is difficult-even for us to know what themes are being addressed through engagement in Japan and what outcomes are being achieved. In addition, since we cannot conduct a social experiment to test the effects of engagement versus non-engagement, as illustrated in the figure on the left, we have no way of observing how the Japanese market might have evolved in the absence of engagement. Therefore, our aim is to improve the β-value through engagement but it is actually quite difficult to measure that.

However, despite these challenges, both asset managers and investee companies are devoting considerable management resources to engagement activities. We have undertaken this project in recognition of the importance of demonstrating the effectiveness of these efforts, and of analyzing the state of engagement in order to implement the PDCA cycle. Without properly assessing the outcomes, it would naturally be difficult to justify the continued allocation of appropriate management resources. From that standpoint as well, we considered this a highly important initiative and proceeded accordingly..

Please refer to page 2. In this analysis, we collected all the engagement records from GPIF`s 21 domestic equity asset managers, from FY 2017 through FY 2022 (up to the end of December 2022.). We carefully reviewed about 27,000 engagements. Since a single engagement may address multiple themes, we further categorized them based on the specific topics. This classification resulted in 38 themes. When counted by theme, the total number of engagements amounts to approximately 48,000 themes. The thematic categories are shown on the right side of the page.

Please refer to the next page. This shows the chronological change of the dialogue themes addressed by asset managers. As you can see on the right, themes such as G1 “Board Structure, Self-evaluation,” and B1 “Management & Business Strategies consistently account for a very large proportion across all fiscal years. Also, as a chronological change, you can see an increase in engagement related to E1 “Climate Change.”

Please refer to the next slide. This presents the composition of engagement themes by industry. Dialogue on B1 “Management & Business Strategies” and G1 “Board Structure, Self-evaluation” account for a particularly high proportion for all industries. On the other hand, we observe industry-specific characteristics:, for instance, E1 'Climate Change' is a prominent theme in the energy resources and electricity & gas sectors; 'Biodiversity' is frequently addressed in the food industry; 'Supply Chains' in the retail sector; and 'Capital Efficiency' in the banking industry. These findings suggest that asset managers are tailoring their dialogues based on the materiality of each investee company.

Please refer to the next slide. This shows the number of dialogues categorized by the type of representative from the investee companies . The number of dialogues is shown on the left and the corresponding percentages are shown on the right. First, please take a look at the dialogue percentage on the right. We can observe a year-on-year percentage increase of engagements involving the president, chairperson, board directors and executive officers. In particular, when comparing active and passive funds, engagements involving presidents and chairpersons are more prevalent in active funds. While the absolute number is still low, engagements with outside directors are also on the rise, particularly in passive funds.

Please refer to the next slide. This table shows which engagement themes are being discussed, categorized by the type of corporate representative participating in the dialogue. In terms of dialogue with the president or chairperson, the most common theme is B1 "Management & Business Strategies." And as you can see in the middle, regarding dialogue with outside directors, G1 "Board Structure, Self-evaluation" and G5-3 "Corporate Governance (Others)" are prominent. As "Others" here includes succession plans, indicating that asset managers are discussing these kinds of topics with outside directors. I think it's a logical outcome.

Please refer to the next slide. The next analysis uses a statistical method called Probit analysis to see what characteristics make companies more likely to be selected for engagement. The coefficients in this table mean the probability of having dialogue. In other words, it shows likeliness to be chosen for engagement by asset managers. Figures in red are statistically significant positive values, while figures in blue are statistically significant negative values. A positive value means an increase in the variable on the left, which means an increase the probability of dialogue.

To be more specific, all the figures in the line of "Ratio of Shares Held by Controlling Company" are blue. This means that if the ownership ratio of a controlling company is high, less likely to have an engagement. This may be because it is difficult for investee companies to get their voice heard, or it may be because asset managers tend to think they should talk to their parent companies. Also, please refer to the second row from the top "Total Assets" that are all red. This indicates that the larger the total assets, the more likely a company is to receive a dialogue, confirming that engagements tend to take place at larger companies.

Next, I would like to introduce the core part of this analysis. Please refer to the next slide. We analyzed whether engagement activities actually contributed to increases in corporate value and improvements in various KPIs. While I will refrain from explaining the technical details of the methodology today, but as an intuitive explanation, we used analytical approach to compare changes in KPIs before and after engagement, between companies with engagement and those without engagement, and how much the difference is. This method is called the difference-in-differences (DID).

However, using the DID method alone would not be sufficient, as the companies with engagement and those without engagement naturally differ in fundamental characteristics, such as company size, as I mentioned earlier. In order to align these differences, we use a method called propensity score matching (PSM), and analyzed by combining the two methods. In other words, we compare companies that have engaged in dialogue with those that share similar characteristics but have not, to see, for example, how corporate value has changed as a result of the dialogue.

Please refer to the next slide. In this analysis, we focused on the 10 themes listed under the section labeled B1 in the KPI table on the right. We examined KPIs related to engagement aligned with those 10 themes. For example in the case of climate change, we look at whether the carbon intensity has improved or whether the number of companies with decarbonization targets has increased. In addition, we focused on common KPIs, mainly financial indicators and metrics reflecting corporate value, combined these with the theme-specific KPIs, and examined whether they improved as a result of engagement.

The result is shown in the next slide. This is a list of all the items that are statistically significant. For example, in terms of engagement on climate change, we have confirmed that “Presence of GHG Emissions Reduction Targets” increased by 8%. In addition, we have confirmed that PBR improved in terms of market evaluation, even if it is not directly related.

Similarly, in terms of engagement related to Board Structure, Self-evaluation, we have confirmed that the number of independent outside directors increased and the market capitalization increased. Although this 0.06 in Market Capitalization may seem small, that means 6%. We can confirm that there is a 6% difference in corporate value or, market capitalization, between companies that received engagement and those without engagement. To be more specific, in fiscal 2017, 256 companies received engagement concerning Board Structure, Self-evaluation, and their combined market capitalization value is 304 trillion yen, so considering these figures, we can say that 6% is quite large. I think this analysis shows that engagement is actually effective.

Please look at the next slide for future challenges. In this analysis, we continue to track how much the companies that have received engagement have changed in their KPIs since the first engagement. However, in terms of actual engagement, there are various cases, such as when multiple asset managers conduct engagement with the same company, or when the same asset manager engages with the same company over and over again. I believe that analyzing those different cases separately will be one of the challenges going forward. As the Secretariat explained earlier, there is increasing interest in collaborative engagement. So one theme we would like to deeply explore in the future is what effect arises when multiple asset managers conduct engagement on the same topic at the same time, even if they have not coordinated with each other.

It was a bit rushed, but that's all for my explanation.

[Kansaku, Chair]

Thank you very much. Next, I would like members to make presentations. Mr. Iguchi will explain in approx. 10 minutes about the current state of engagement practice from the standpoint of an investment institution. He has submitted Material 6. Mr. Iguchi, please go ahead.

[Iguchi, Member]

Thank you. Thank you very much for this opportunity today. I would like to make a presentation on the approach to stewardship activities. Today, I would like to express my personal opinion. I have been responsible for stewardship activities at Nissay Asset Management for more than 10 years. As many of my ideas are incorporated in our company's efforts, I will use our company's disclosure materials in today's explanation. However, this is not an advertisement for an asset management company, so I would appreciate your understanding in this regard.

Next slide, please. In terms of improving the effectiveness of stewardship activities, which I will talk about today, I think the eight points listed here are necessary. Today, I will explain specifically how these points are incorporated into our company's policies and activities.

Next slide, please. The first part is about the policy on stewardship activities as described in Principle 1. First, the purpose of stewardship activities is to improve the medium- to long-term returns of beneficiaries. This is, of course, aimed at enhancing the corporate value of investee companies over the medium to long term. As the starting point for achieving this purpose, I believe a deep understanding and insight into corporate activities, namely corporate research, is essential to initiate effective stewardship activities.

Next slide please. This section describes the dialogue process in steps (1) through (5), although it is a little more detailed. At the very beginning, we conduct a corporate analysis in step (1) on the left to properly understand the corporate situation. The area where the arrow under (1) is pointing shows the company analysis. I will omit the details owing to time constraints, but we prepare business performance forecasts of investees from a medium- to long-term perspective after identifying sustainability factors that affect their future cash flow. Through this corporate analysis, as mentioned in (3), we can discover the company's weaknesses, areas for improvement, and issues to improve corporate value. In (4), we set up these issues as a dialogue agenda, and in (5), we will have a dialogue on these issues. “Progress management” is mentioned in (5) at the end, but I would like to explain this later.

In these kind of stewardship activities based on medium- to long-term corporate analysis, I believe that the ability to read and understand sustainability-related financial information disclosed by the ISSB and SSBJ standards will become important in improving effectiveness.

Next slide, please. This is how we conduct stewardship activities. As I explained earlier, we believe it is important to understand the situation of companies, so at our company, analysts conducting research also carry out the stewardship activities on the same companies. As explained by GPIF earlier, the percentage of the dialogue agenda is shown in the pie chart on the right. As a result of the dialogue process that I just mentioned, the ratio of governance including management issues is the highest.

Next slide, please. This is about the progress management of the dialogue that I mentioned a little earlier. As you can see in the slide, we manage the progress using the steps from the setting-up of new dialogue agenda to the completion of dialogue, but I believe that the progress management of the dialogue is not just limited to the management of the dialogue, but also important in ensuring timely and appropriate dialogue. On the other hand, with this method, we have to have a dialogue with each individual company, and as the agenda for increasing corporate value varies from company to company, it will be difficult to manage. Therefore, as described on the right, we have established a team to promote the advancement of dialogue. However, this field is still developing and needs to be developed.

Next slide please. I apologize for the small text, but here are examples of dialogues. We disclose this kind of information so that not only asset owners but also investee companies with whom we have dialogue can understand how we conduct dialogue, which enables us to have smooth dialogue.

Examples include the background of setting up the dialogue agenda, the outline of the dialogue, and its results and progress in order to improve the level of understanding.

Next slide, please. This page is about the exercise of voting rights. In order to make an effective decision, an analyst who understands the investee's situation makes a primary decision, and I make a final decision on all cases. In addition, as explained at the start of the policy, we defined the exercise of voting rights as one of the means of dialogue. Therefore, in formulating the criteria for the exercise of voting rights, we have clearly defined the issues of which we are in favor and against so that the investor's message can be clearly conveyed. On the other hand, although we are disciplined, we may make decisions outside the standards or override certain proposals, but we recognize that it is effective to conduct dialogue after overriding. However, I believe that it is necessary to clarify the exercise criteria when engaging in such dialogue.

Next slide, please. Another thing we are doing from the perspective of improving the effectiveness of the exercise of voting rights is to formulate and publicize standards one year before they are applied in the event of a major change in the standards, and to encourage investees to change by holding dialogue during the period until they are applied. This slide shows change in the standards concerning the composition of the Board of Directors and capital cost, which will be applied from the General Meeting of Shareholders in June 2025 next year. These standards were formulated and announced in February 2024 this year. Since they will not be applied immediately, the opposition rate will not increase. I believe it is one of the effective measures.

Next slide, please. This is just for your reference.

Next slide, please. This is about the collaborative dialogue. There are two types of collaborative dialogue direct collaborative dialogue in which we approach individual companies, and indirect collaborative dialogue in which we influence the behavior of investors and share basic ideas with them while delegating individual decisions to the investors. While we believe that both types of collaborative dialogue are useful, we think that useful forms of collaborative dialogue will vary depending on investors' investment strategies, themes, and resources available for dialogue.

In our case, as I have been a director of the ICGN since 2015, I have adopted many of the ideas of the ICGN in the indirect collaborative dialogue. On the other hand, in terms of direct collaborative dialogue, we participate in thematic dialogue, for example, sophisticated collaborative dialogue such as CA100+, which deals with climate change. As shown in this slide, we also disclose our approach to collaborative dialogue. While we believe that in the future not only thematic dialogues but also direct collaborative dialogues with individual companies may be utilized for issues that are easy to gain consensus among investors, such as capital efficiency, or for stocks held only through passive management, the current situation is like this.

Also, perhaps this is a side effect of collaborative dialogue, but I believe that collaborative dialogue has educational benefits. Based on my experience, I believe that collaborative dialogue with global institutional investor organizations is effective because it provides opportunities for discussion with global investors and outstanding investors. In this sense, I think it is desirable to encourage active participation in ICGN or PRI activities in order to improve the effectiveness of stewardship activities.

Next slide, please. This shows one of the major challenges in stewardship activities. I don't think this is only an issue for our company. The problem is how to deal with investee companies whose shares are held only as passive investment. In our case, the methods I have explained so far can cover about 80% of the total market capitalization basis, but it can only cover about 30% of the total number of investee companies. I believe that disclosure by investors is one way to solve this issue.

As you can see on the left side of the slide, the Sustainability Report includes a review of our stewardship activities and disclosure of our self-evaluation. In the disclosure, we give as much consideration as possible to ease of understanding. You can also find more easy-to-understand material on the right. In addition, as I mentioned earlier, we will make efforts to clarify whether we approve or disapprove of the criteria for exercising voting rights, and we will firmly communicate investors' expectations. In this way, we believe that disclosure by investors is not only useful for asset owners to whom companies cannot explain directly, but also for companies who cannot directly access asset owners.

Next slide, please. This slide shows the governance structure for stewardship activities. As shown in the slide, we have established the Supervisory Committee on Responsible Investment as an organization to supervise stewardship activities. The Committee is mainly composed of four independent outside directors of our company. Through the discussion in the Committee, outside directors understand the status of stewardship activities, and I believe that it is practically possible to supervise from the board of directors to execution. I feel that such a governance organization for stewardship activities centered on outside directors is essential for an asset manager’s sustainable stewardship activities.

Next slide, please. We are also working to make our governance structure more transparent. As you can see on the left side of the slide, we have disclosed the date and agenda of the meeting of the Committee. In addition, the contents of the dialogue with outside directors who are members of the Committee are disclosed every year as our efforts for better understanding.

Next slide, please. The last slide is about our response to service providers for institutional investors. As stated in Principle 8, I believe that the influence of service providers on stewardship activities is increasing as various kinds of services are increasingly used in stewardship activities in addition to proxy voting advisory services. For example, when we choose a dialogue partner for climate change, we use or purchase data on greenhouse gas emissions, but if this data is inaccurate, we may have different dialogue partners. In our company, we also refer to the Code of Conduct for ESG Evaluation and Data Providers formulated by the FSA in our efforts to engage in dialogue.

That's all for my presentation. Thank you very much.

[Kansaku, Chair]

Thank you very much. We will now have a discussion. Before moving on to the discussion, member Ms. Jen Sisson, who is absent today, has submitted a written opinion as Material 7-1 (English) and Material 7-2 (Japanese Translation). The Secretariat will briefly introduce these materials.

[Nozaki, Director, Corporate Accounting and Disclosure Division, FSA]

I see. Now, I would like to explain the written opinion received from Ms. Jen Sisson according to Material 7-2 written in Japanese.

First of all, Issue 1 Making stewardship activities more effective. In order to make stewardship activities more effective, we need to build understanding inside companies about the goals of stewardship and investor expectations. We must remember that good engagement and stewardship should seek to be constructive and not combative.

There are some practices that can help engagement discussions to be more effective. 1) Timely (and high-quality) disclosure of company information ahead of the AGM. Current practice in Japan is highly unusual as the only market where the annual securities report is published after the AGM. This is a hinderance to informed dialogue between companies and their investors. Earlier publication of the annual securities report will help investors in their stewardship activities, including engagement and voting.

2) Clarity of purpose of the meeting and ensuring that the right people are involved, from both the company and investor side. Engagement meetings encompass a wide range of discussions and goals. So, there is not a one-size-fits-all list of people who should attend. Clear agendas and priorities laid out between investors and their investee companies can be helpful. At various times, CEOs, CFOs, heads of departments and or Board members may be best placed to engage on different issues.

3) Promoting an understanding that there are a range of approaches to Stewardship and there is no single correct way to do it. Different asset managers and asset owners will approach stewardship with different objectives and expected outcomes. It is right that stewardship, just like investing, is not a homogenous process. And the last sentence saying that ensuring that stewardship activities are adequately resourced is very important, and finding ways to encourage that to be properly funded is key.

4) Removing real or perceived barriers to collaborative engagement is also important. It is not always necessary for asset managers and asset owners to undertake collaborative engagement. However, there are instances where this can be a useful tool. We welcome the revision of Financial Instruments and Exchange Act (FIEA) to enable effective investor collaboration, clarifying the definition of "joint holders." And as mentioned in the bottom, we believe that further clarification in the Stewardship Code revision would be helpful to promote the use of collaborative engagement practices where appropriate.

5) Individual company and systemic stewardship practices are both useful tools. We note that the Japan's Stewardship Code has a focus on individual company capital management and allocation, we also believe it is important that stewardship from a Universal Owner perspective (which looks across the market as a whole) is also recognized as being a valuable tool, which can lead to benefits for the companies, and the broader markets in which those company's operate; and for the long-term asset owner.

Issue 2 Transparency of beneficial shareholders. We generally agree that good transparency is important and can aide the efficiency of the engagement process. In Japan, beneficial shareholders holding their shares through custodians (and therefore not on the shareholder registry) are often not allowed to attend AGMs. It is up to the company to define 'shareholders' in their internal policies, meaning it is up to the discretion of companies to decide which investors can attend (and ask questions).

Issue 3 Streamline the Stewardship Code. We agree that there may be opportunities to streamline the content and principles of the code – to remove duplication and to simplify expectations. The second is the burden of reporting and expectations of signatories. However, we strongly believe that streamlining should not lead to watering down the Code or a reduction in the overall expectations of signatories' stewardship.

That's all.

[Kansaku, Chair]

Thank you very much. Now, I would like to take the time to hear the opinions and questions of the members. As today is our first meeting, please feel free to offer any opinions you might have on any issues including questions on explanations from the Secretariat and members, and how to proceed with this meeting. I am happy to hear a wide range of opinions from you.

As time is limited, I would appreciate it if each member could speak within about four minutes so that we can secure time for other members to speak. When four minutes pass after you start speaking, the Secretariat will ring the bell as a signal.

Anyone is welcome. Why don't we start? I would like to hear your opinions. Mr. Tsukuda, please.

[Tsukuda, Member]

As the Chair Kansaku mentioned, today is the first day, so I would like to address issues related to stewardship in general. I have opportunities to meet with CEOs and executives of listed companies, and I also have opportunities to have constructive dialogue with institutional investors and to exchange views on the exercise of voting rights in my capacity. I would like to comment on some issues from such a standpoint.

First of all, now that more than 10 years have passed since the Stewardship Code was introduced, I think it is a good opportunity to reflect on what was the purpose of constructive dialogue. The other day, I had the opportunity to participate in a symposium as a commentator to discuss the issues of dialogue and proxy voting. A major institutional investor in Japan said, "The reality is that many asset managers are being forced to devote more energy and resources to stewardship activities whose cost cannot be covered by the current small management fees."

This comment shows that institutional investors are spending a large amount of money and time on dialogue and are making sincere efforts to engage in dialogue. However, neither listed companies

nor institutional investors have felt that they are receiving sufficient returns to meet the costs incurred. Furthermore, they do not expect that if they continued their current efforts to engage in dialogue, they might be able to earn returns that would lead to an increase in corporate value in the future.
I think there is a fundamental question of why we continue the dialogue and for what purpose we continue the dialogue. Of course, we continue dialogue with the aim of increasing corporate value, but is the direction we are heading right? To give an example, as mentioned in GPIF's material earlier, it's about a dialogue partner. Is the composition of the current dialogue partners desirable? The answer is "no".Nearly 50% of the people they talk to are manager level or even lower level people. I often hear from institutional investors that their requests to meet with top management or independent outside directors are ignored. According to GPIF's data, the ratio of dialogue with outside directors is mere 1.4%, which is almost non-existent. I think there is a question of whether it is appropriate to continue the dialogue with the current composition ratio.

Of the top 100 companies by market capitalization in Japan, currently, more than 40 companies have a majority of outside directors on their boards, with outside directors playing a leading role on the boards. In companies the majority of whose board of directors is composed of outside directors, I believe that outside directors should always be included in the dialogue with institutional investors. This may be addressed in the revision of the Corporate Governance Code, but I believe it is necessary to strongly encourage dialogue between outside directors and institutional investors at listed companies. What is the purpose of the dialogue? Who is the right partner for the dialogue? What can be expected after the dialogue? Will effective dialogue lead to effective exercise of voting rights? I believe this is a good opportunity to reconsider these important questions.

Next, I would like to point out the problem of formalism among institutional investors, particularly domestic institutional investors. I hear from CEOs and executives of several Japanese and overseas asset managers that Japanese asset managers have unfortunately not evolved enough compared to 10 years ago. In addition, I hear that managers of listed companies have criticized engagement with Japanese institutional investors because they are too formal. Many of the listed companies have expressed harsh opinions, such as the fact that they are trying to fulfill their accountability through dialogue regarding the criteria for the independence of outside directors, the length of their tenure, and the number of concurrent positions, but in the end, institutional investors exercise their voting rights in a formality, which makes listed companies feel that their efforts for dialogue are futile.

Looking at the presentation that GPIF made earlier, I cannot help but sympathize with institutional investors, who have to cover so many dialogue topics, and I think that when they try to cover so many topics, they inevitably and naturally end up falling into formalism. However, in order to get a return on engagement that exceeds the cost, institutional investors have to either improve the quality of the dialogue or choose not to engage. When they choose dialogue, it seems impossible to impart awareness to managements of listed companies unless they have a good understanding of the business model of investee companies, an insight into the management issues, an accurate assessment of the leadership quality of the managements, and a high level of competence and insight to ask appropriate questions. I believe that improving the quality of dialogue among institutional investors, as well as developing human resources and the capacity for this purpose, is an urgent issue.

It’s time. I’ll end here. Thank you very much.

[Kansaku, Chair]

Thank you very much. Next, Ms. Okina, who is participating online, please.

[Okina, Member]

I am Okina. Thank you very much for your explanation. As the reform of financial markets has progressed, I believe that it is highly evaluated by foreign investors. Amidst this, I think that it is a very important issue to make stewardship activities more effective.

I would like to say a few things. First of all, regarding the acceptance of the Stewardship Code, there is a graph on page 5 of the Secretariat’s Material. The numbers are increasing, but even though the population is very large, there are still a large number of asset owners who do not accept the Stewardship Code, which remains a major challenge. I therefore believe it is extremely important to expand this.

Also, as for how to enhance engagement amid the spread of passive investment, as shown in the Secretariat’s Material, for example, asset owners are taking initiatives to change their compensation incentives, etc., and to undertake collaborative engagement as needed. I think it is also important to expand such efforts.

Also, regarding how to make the stewardship activities more effective, while various presentations by GPIF and Mr. Iguchi were very helpful, I agree with Mr. Tsukuda's opinion. Analyzing various topics by theme is important in itself, but I think it is important to be able to have a dialogue to discuss how sustainability transformation can be achieved, and how changes to business models can be made to improve corporate value in the end. This will result in improvements in financial indicators. Although thematic analysis is important, I think that it is extremely important to integrate the themes to discuss business models and improving corporate value in order to make the activities more effective. In that sense, I think it is important to be able to have substantive discussions with top management, and in that regard, I was very interested in Nissay Asset Management's efforts.

I also believe that organic link with the exercise of voting rights is extremely important. Regarding the collaborative engagement that Mr. Iguchi introduced, there were suggestions such as collaborative dialogues with PRI and ICGN, but I think that there is room for consideration about working in conjunction with such global movements.

That's all. I heard that improvement in the transparency of beneficial shareholders and streamlining of the Code will be discussed next time. I agree with the major direction. That's all for my presentation.

[Kansaku, Chair]

Ms. Okina, thank you very much. Next, Mr. Matsushita, would you please speak?

[Matsushita, Member]

Thank you for this opportunity to speak. I am Matsushita from The Investment Trusts Association. I would like to make some comments from the perspective of institutional investors regarding the opinions and the "Issues for Discussion" mentioned on the explanatory materials of the Secretariat.

First, about the grant of appropriate incentives for effective stewardship activities. Institutional investors are striving to improve their internal systems to resolve ESG issues faced by investee companies through stewardship activities. These issues are becoming more sophisticated and diversified year by year, and together with this, the content of activities that institutional investors report to asset owners has increased significantly. In light of these circumstances, it is not appropriate to position stewardship activities as just ancillary operations, especially in passive management, and we believe that it will be difficult to enhance these activities at the current compensation rate.

Some asset owners bear expenses under the name of “engagement-enhanced passive funds.” However, from the perspective of improving the functions of the entire investment chain, asset owners also have a responsibility to promote stewardship activities. In order to maintain and improve effective and appropriate stewardship activities by institutional investors, we would like asset owners to understand how expenses related to such activities should be borne.

In addition, the reality is that we cut time for dialogue with investee companies to prepare reporting materials, which are used for reporting to asset owners. In order to further enhance stewardship activities, it is effective to reduce the burden of preparing materials by standardizing reporting formats such as smart formats. I think that using such common formats will reduce the burden on asset owners, and that communicating between asset owners and institutional investors as necessary will lead to greater understanding of stewardship activities.

Next is collaborative engagement. As some institutional investors have already made active efforts, I welcome the development of an environment for collaborative engagement, such as the establishment of a forum and the clarification of the scope of joint holders under the Large Shareholding Reporting System, recently introduced. On the other hand, according to a survey conducted with the members of our association, about 40% of the asset managers responded that they are implementing collaborative engagement. Reasons given for not implementing it include that there is no need for it or that it would be difficult to coordinate opinions with other companies. Considering that each institutional investor and each fund has different management philosophies and objectives, I believe that collaborative engagement should be regarded as one of the engagement methods and that it is important that constructive dialogue from diverse perspectives and efficient and effective dialogue conducted by each asset manager not be impeded.

Next, regarding the transparency of beneficial shareholders, dialogue between companies and investors is important, and while I agree with the idea of improving the transparency of beneficial shareholders from the perspective of promoting it, I believe that certain attention should be paid to how to do this. For example, in today's Material, there is a statement that institutional investors should respond to questions about their shareholdings when asked by issuing companies. However, there are more than 2,000 companies that hold a general meeting of shareholders in late June, so I think it would be difficult to respond to these companies every time. In addition, the shareholding status is a matter that also affects the interests of beneficiaries, and I believe that it would be extremely difficult from the viewpoint of fiduciary duty to answer this question without confirming the authenticity of the counterparty. To put it the other way around, I think that even if we revise the Code without addressing these issues, we will not be able to improve the transparency of beneficial shareholders.

Lastly, I would like to comment on Principle 8 of the current Stewardship Code as an item under

“Other.” Principle 8 relates to service providers for institutional investors. However, at present, major ESG information providers are not qualified as signatories, and their effectiveness is not necessarily sufficient. As for ESG information providers, the Code of Conduct for ESG Evaluation and Data Providers was established, and some of them have signed this Code. Given the increasing influence of ESG information on stewardship activities and the increasing weight of passive strategies in the overall market, the responsibility of ESG information providers is becoming heavier in a manner similar to a fiduciary responsibility, and I believe it is also an idea to encourage them to sign the Code.

My comments are these four points.

[Kansaku, Chair]

Thank you very much. Ms. Matsuoka, would you please speak, next?

[Matsuoka, Member]

Thank you very much for giving me the opportunity to make comments. I am Matsuoka. I also serve as Chair of the Sub-Committee on Capital Market, the Committee on Financial and Capital Markets of Keidanren, and my remarks will focus on the "Issues for Discussion" of the FSA Secretariat’s Material.

First, I believe that further enhancement of the quality of stewardship activities is essential to promote effective corporate governance reforms. Issuing companies have raised concerns that the stewardship activities of certain asset managers are merely formalistic in nature, or that the personnel and systems involved in stewardship activities are insufficient. From this perspective, rather than changing the content of the Stewardship Code, it is necessary for the FSA and the Tokyo Stock Exchange (TSE) to rigorously monitor and ensure compliance with the Code. If this is not the case, for example, it is necessary to take some measures, such as publicizing the name of a non-complying institution on the FSA website or imposing a sanction, or consider measures for improvement, such as considering incentives and cost reductions for asset managers to engage in stewardship activities.

In particular, issuing companies recognize two issues regarding the exercise of voting rights by asset managers. The first is about a voting advisory company. There have been a number of complaints about the quality of dialogue, as well as criticism that dialogue is not conducted and that evaluations are biased.

The second relates to the exercise of voting rights by asset managers. While some asset managers exercise their voting rights based on future-oriented and medium- to long-term corporate value, there are also asset managers who exercise their voting rights in a perfunctory manner, solely based on historical performance, such as voting against the appointment of directors, etc. Regarding cross-shareholdings, if the policy of reducing cross-shareholdings over a period of several years is not evaluated, and if the reduction in cross-shareholdings ratio to a certain level is evaluated, there are concerns about the impact on the prices of cross-shareholdings shares, for example, when such shares are sold at once. Concerns have also been raised about following the advice of advisory firms that automatically indicate their approval or disapproval of proposals according to formal criteria, and I believe that the process for exercising voting rights by asset managers needs to be more appropriate and effective.

To solve this problem, I believe that one direction is for asset owners to strengthen their monitoring of asset managers by thoroughly implementing the Asset Owner Principles. On the 3rd of this month, the Keidanren held the Asset Owner Roundtable with the GPIF, where four pension funds have presented their action plans based on the Asset Owner Principles. We would like asset owners to encourage asset managers to engage in constructive dialogue with companies.

At this round table, we plan to hear from asset managers about their efforts from the next round. I believe the FSA could consider taking measures such as publishing best practices of asset managers that place emphasis on engagement with companies. In any event, Keidanren would like to build an investment chain in which all stakeholders can take action to enhance corporate value over the medium to long term, and will continue to engage in dialogue with various stakeholders.

Lastly, I would like to talk about transparency of beneficial shareholders. As discussed just now, in order to have a constructive dialogue with shareholders, companies need to accurately ascertain the views of investors who hold their shares and the number of shares they hold. At present, however, many listed companies regularly conduct surveys to identify beneficiary shareholders at enormous cost using private survey firms, but the reality is that there are limitations to the extent they can research. In addition, there are many cases in which institutional investors do not answer questions about the number of shares held, if asked.

In light of this practical situation, I believe it is necessary to clarify the obligation of institutional investors to provide the number of shares they hold. From the viewpoint of ensuring its effectiveness, it is desirable to stipulate the obligation to respond to nominee shareholders and beneficial shareholders by law. However, since it will take time to revise the laws, I respectfully request that the obligation of institutional investors to respond be clearly articulated through the revision of the Code.

That is all. Thank you very much.

[Kansaku, Chair]

Thank you very much. Mr. Sampei, would you please speak next?

[Sampei, Member]

Thank you for appointing me. I would also like to talk along the lines of "Issues for Discussion" on pages 29 and 30 of Material 4.

First, the outline of the Stewardship Code is written on the 2nd page of this Material. It clearly states, "Fulfill stewardship responsibilities through constructive dialogue to achieve sustainable corporate growth and increase medium- to long-term investment returns for clients and beneficiaries." However, according to Material 5 presented earlier, the average number of dialogues conducted by the fund managers commissioned by GPIF alone is 4,600 per year. Despite this, as of the end of September this year, of the approximately 1,600 companies listed on the Prime market, 45% still have a PBR of less than 1. In short, even with all these efforts for dialogue, those companies have yet to deserve sufficient market valuation. I just used the term “market valuation.” The term "improving corporate value" is often used, but such words are interpreted in many ways and somewhat vague. Therefore, I prefer to use “increasing market valuation” because this term is clearer in showing a valuation of a company seen by the market and includes expectations for the future potential of a company. This point is also an issue.

So what should we do for this? That’s the second point of the issues. The UK FRC published its Guidance in November 2021, in which it pointed out the importance of "distinguishing between monitoring and engagement." In Japan’s Stewardship Code, Principle 3 states that "Institutional investors should monitor investee companies…" This corresponds to monitoring. However, in the UK’s counterpart states that engagement is different from regular information gathering or meetings with investee companies as part of monitoring under principle 3, and that engagement is an interaction seeking for change with a clear purpose and should be distinguished from activities aimed at gathering information. As mentioned in Issue 1-2) of the ICGN Statement presented earlier, "Clarity of the purpose of engagement" is extremely important. The purpose here is to seek change from companies that are currently facing some challenges.

About the passive issue next, in the case of passive investment engagement, it often goes to thematic engagement or engagement for exercising voting rights. This is somewhat natural or understandable considering their business model. However, although passive managers have conducted so many engagements, the changes they seek are limited to "improvement of non-financial disclosure" or "achievement of independence and diversity standards." These are only intermediate purposes in terms of improving market valuation. Therefore, I would like them to engage in dialogue considering how these will translate into effective financial performance and risk management in order to truly deserve higher market valuation.

Then, what about the skills and costs to do it? Regarding collaborative engagement, on page 13 or page 25 of this Material, it says that collaborative engagement should be conducted as needed in the case of the UK. This brief expression, "as needed," has a very deep meaning. In the 2021 Guidance by the UK’s FRC, it says, "It may be more effective for investors to actively and significantly contribute to a smaller number of initiatives than to sign on to a larger number of initiatives." In other words, there is an English expression "less is more", but it is exactly what it means in terms of effective engagement. Therefore, it is important for asset managers to select themes and initiatives that they are good at and can contribute significantly to in order to have effective dialogue. It does not mean that they should conduct a lot of engagements or do every kind of engagement.

In order to promote this kind of thing, I think that people who lead and carry out various dialogues in Japan need to develop their skills considerably. I think there are roughly three skills. First, investment decisions, company valuation skills, second, knowledge of sustainability, understanding of trends, and third, engagement skills themselves. The last is like negotiation skills. These are especially necessary for asset owners. I think it goes wrong if asset owners do not understand or acknowledge them and the Stewardship Code encourages asset owners to strengthen the monitoring of asset managers.

In addition, I would like the FSA to think about how to promote improving these skills. How about collecting success cases and failure cases from asset owners, asset managers, and companies, and formulating good practices or something like this? I think they can improve themselves toward good examples.

Finally, I would like to mention two points in other issues. Overseas counterparties are expanding the scope of the stewardship to asset classes other than stocks. About this point, we feel we are still lagging behind when it comes to Japan's stewardship, which is only applicable to stocks despite Japan aiming at being a Leading Asset Management Center. Therefore, although this matter is written in the preamble now, I think it is better to write more specifically somewhere in the main text.

One more thing about Public Policy Advocacy in ICGN Principle 5. This means an approach reaching out more broadly regarding systemic risks, etc. Although it may be incorporated in initiatives, it includes, for example, dialogue with the government's administration, ministries and agencies. Or, as Mr. Iguchi explained earlier, it also includes dialogue with service providers. In short, I think it would be possible to write somewhere that dialogue should be understood more broadly and be undertaken in various fields, and that it has a wide range of applications. Even if it is not written in the principles, I think there is a way to call for the application of dialogue in whatever manner in the preamble.

That's all.

[Kansaku, Chair]

Thank you very much. Mr. Nishimura, would you please speak next?

[Nishimura, member]

Thank you very much for that explanation. I am Nishimura of Sumitomo Riko Company Limited. I am serving as the vice chairperson of the Corporate Legislation Committee of the Kankeiren (Kansai Economic Federation), and I would like to give an explanation from the perspective of a corporate executive.

First of all, regarding the issue of corporate governance reform and approach to the Stewardship Code, I believe that the Japanese economy is currently moving from a prolonged deflationary economy to a so-called inflationary economy in which appropriate wage increases, price pass-through, and fair price increases are accepted. Under such circumstances, I believe that companies will increase added value and appropriately distribute it to diverse stakeholders, thereby contributing to the medium- to long-term development of companies and, more broadly, to Japan's GDP growth. However, looking at the distribution of added value by Japanese companies in the past, according to Honorary Professor Itami of Hitotsubashi University, for example, large Japanese companies with capital of 1 billion yen or more paid dividends of 2.8 trillion yen in fiscal 1992 immediately after the burst of the bubble economy. At that time, as capital investment was 28.2 trillion yen, dividends accounted for about 10% of this. But in 2012, dividends were 10.6 trillion yen, which accounted for 60% of the capital investment of 17.6 trillion yen. Then, in fiscal 2022, the amount of dividends was 24.7 trillion yen while the amount of capital investment was 22 trillion yen. The amount of dividends exceeded capital investment by more than 10%.

In addition, the ratio of dividends to total personnel costs at large companies was around 6% until around 2001, but the ratio of dividends to total personnel costs rose to 47% in 2022. At medium and small companies with capital of less than 1 billion yen, many of which are unlisted, such a tendency to place too much emphasis on dividends is not seen. Given these trends, I believe that the corporate governance reforms that have been implemented thus far, which have been aimed at sustainable growth and medium- to long-term corporate value and business performance, have not achieved their intended purpose, and that, at present, the only thing that has resulted is an increase in dividends to shareholders.

Based on this reality, as for the effective implementation of so-called stewardship activities, in order to achieve the purposes of the corporate governance reforms that I mentioned earlier, I believe that it is essential for investors to comply with the Stewardship Code. I think it is necessary to have a system to monitor the compliance status of investors on a regular basis, so I would like the FSA to consider this.

Also, proxy voting advisory companies, which mainly have a strong influence on institutional investors, automatically make recommendations based on many perfunctory requirements such as ROE levels. This is causing companies to take easy measures such as share buybacks. I am concerned that this is putting great pressure on corporate behavior. I believe that investors should make efforts to improve their capabilities so that they can judge a company's value based on in-depth analysis and then engage in constructive dialogue, taking into consideration not only financial indicators based on corporate finance such as ROE, but also factors such as the company's overall financial stability, market share, technological capabilities, ESG, and contributions to diverse stakeholders from multiple perspectives. And we ask them to make these efforts.

Now we are discussing effective approach and collaborative engagement in order to make up for the current lack of resources for investors. I think such approach is a little accentable as it is. But on the other hand, collaborative engagement involves multiple investors having a dialogue with a single company, or representatives of multiple investors having a dialogue with a company. In either case, I think there is a possibility that excessive pressure may be placed on companies. So, I would like to ask the FSA to set up a consultation desk and take some kind of action against investors who are pressing or engaging in coercive dialogue.

As for ensuring the transparency of beneficiary shareholders, I believe that the cooperation of overseas investors in the survey of beneficiary shareholders is essential. I would like to request the establishment of a system to ensure the transparency of beneficiary shareholders by granting the legal authority to investigate beneficiary shareholders to trust banks through the development of legal systems.

In addition, although it is a different issue from the transparency of beneficiary shareholders, I think it is necessary to address the problem of the so-called Japanese Wolf Pack, in which activists and others conspire with multiple investors to secretly buy up a company's shares in violation of the Large Shareholding Reporting System. On this point, I would like you to take examples from countries such as Germany as a reference and establish a system that allows for effective enforcement, such as suspending the voting rights of investors who violate the rules. Also, in the future, I would like the FSA to take the lead in creating guidelines, etc. to prohibit the use of trust accounts by investors who maliciously violate the Large Shareholding Reporting System.

That's all.

[Kansaku, Chair]

Thank you very much. Mr. Tanaka, would you please speak next?

[Tanaka, Member]

Thank you for giving me the opportunity to speak. At the beginning of the meeting, Mr. Tsukuda expressed a rather harsh opinion on the current situation regarding the Stewardship Code.

The question of whether institutional investors, particularly passive fund investors, have sufficient incentives for engagement is a problem that has been widely pointed out overseas since around the 2010s, and has not necessarily been resolved. In particular, according to the U.S. corporate law that I am studying, it is difficult for mainstream institutional investors, particularly passive funds, to actively undertake engagement. It is active investors who invest heavily in investee companies that engage in such behavior. I think a fairly promising model is for mainstream institutional investors to contribute to improving the corporate value of their investee companies by considering proposals from such active investors, and then expressing their support or opposition to those proposals.

However, in Japan, activists are highly praised and criticized, so it may be difficult to incorporate these ideas that are found in the U.S. corporate law in the Code. With that in mind, I have one suggestion. Currently, there is no principle in the Code that relates to shareholder proposals. So, I think it would be a good idea to include a principle such as "When a shareholder proposal is submitted, investors should consider its pros and cons from the perspective of whether it will truly increase corporate value." If corporate value improves, it will lead to a high market valuation of stocks, which in turn will benefit beneficiaries. Therefore, I do not mind using the expression "corporate value" in the Code. Although the inclusion of these new principles is inconsistent with the request for streamlining, I believe that they can be justified to some extent from the perspective of incorporating highly necessary principles.

Also, I was hesitating whether to say this owing to time constraints, but I would like you to consider how investors will respond to the M&A proposal. Currently, it is becoming a significant problem that index funds are not applying for tender offers. In particular, this seems to be one reason for the situation that while it is relatively common overseas to impose a majority-of-minority (MoM) requirement (the tender offer shall be successful on the condition that a majority of shareholders without conflicts of interest tender their shares) on M&A deals involving conflicts of interest, this is difficult to do in Japan.

If the MoM requirement is imposed on a tender offer and the passive fund's institutional investors apply for it and when the MoM is met, the shares will be excluded from the index anyway because they are almost guaranteed to go private. Conversely, if the MoM condition is not met, the tender offer will be withdrawn and the shares will be returned to passive investors. Therefore, even if passive fund investors subscribe to the tender offer, the problem that the composition of their holdings diverges from the index should not arise, especially when the tender offer is subject to MoM conditions. Therefore, I do not think it is rational not to apply for the tender offer for fear that the composition of the shares held will diverge from the index. Including this, I would like you to include something to the effect that investors should act rationally on the M&A proposals.

And the last one is about streamlining. I don't have a specific plan for this, but looking at the current code, I think there are too many footnotes. I also tend to write lengthy notes in my papers, so I cannot speak about others, but as a principle-based code, I think there are a few too many notes. From today's point of view, there may be some things written that go without saying, so I think we should review the notes from a zero-base perspective and delete the ones that are not necessary.

[Kansaku, Chair]

Thank you very much. Next, Ms. Takayama, would you please speak?

[Takayama, Member]

Thank you for this opportunity to speak. I would like to focus on the positive aspects on the outcomes of corporate governance reform as well as the impact of the Stewardship Code on the first page of the "Issues for Discussion."

I myself have worked for many years on improving the effectiveness of the board of directors of Japanese companies and in engaging in dialogue between companies and investors. From this perspective, I have been watching discussions at the board of directors of Japanese companies for more than a decade. In the last 10 years, I think the content of discussions at board meetings has changed considerably. To be more specific, I think that there has been a significant increase in board agendas and topics of discussion relating to how the capital markets and investors view the company. Also, the content has changed. For example, when both codes were established, about 10 years ago, when it came to the content of reports and discussions on capital markets raised at board meetings, it seemed that in many cases a few reports by sales-side analysts were presented and briefly mentioned. Other information remained on the executive side and did not appear at board meetings. But it has changed a lot. How investors evaluate business and financial strategies has also become a frequent topic on the board of directors' agenda. Also, looking at the trends during the last three or four years, perhaps due in part to the inclusion of the content in both Codes, there has been a significant increase in the agenda regarding corporate governance systems, the relationship between sustainability and a company's corporate value, and how investors view their company. And, naturally, there is a growing number of discussions about whether companies’ own perceptions on their value differ from the valuation given by the stock market, and if so, why.

This does not simply mean that companies made such a report or that they conducted such an analysis. Companies review their long-term vision and mid-term business plan once every few years or build a new plan. In making decisions on such important plans, they place great importance not only on their own situation but also on the external environment. For example, companies consider not only how various business environments surrounding them are, but also how investors and shareholders evaluate their company as an important factor. Therefore, I think that the current situation is that the thinking of investors and capital markets has a great influence on important decision-making by corporate boards of directors. I believe this is because dialogue between investors and companies has been enhanced under both Codes.

As for the future, it is important to continuously improve the quality of dialogue, and this requires efforts from both companies and investors. Also, in order to further enhance the quality of dialogue, I believe it is essential to ensure the transparency of beneficial shareholders. I think this point will be discussed in the future in this meeting, and I would like to express my opinion at that time.

That's all from me.

[Kansaku, Chair]

Thank you very much. Mr. Fujimoto, would you please speak next?

[Fujimoto, member]

I am Fujimoto of Nippon Life Insurance Company. I am here as a representative from The Life Insurance Association of Japan. Thank you for giving me the opportunity to speak. First of all, I would like to introduce the characteristics of life insurance companies' stewardship activities.

Life insurance companies are engaged in asset management with the mission of ensuring that they fulfill their long-term insurance responsibilities, such as whole life insurance and pension insurance, and pay more dividends in a stable manner. As part of this, we invest in domestic stocks with the aim of enjoying the benefits of stable shareholder returns and rising stock prices over the medium to long term through increasing the corporate value of investee companies. We believe that this approach is highly compatible with the concept of stewardship responsibility, which means the responsibility to increase the medium- to long-term investment returns of clients and beneficiaries by promoting the enhancement of corporate value and sustainable growth through engagement, etc.

This time, the effective implementation of stewardship activities has been raised as an issue. At Nippon Life Insurance, we place great importance on this effective implementation, and we have been constantly working to strengthen our stewardship activities from a medium- to long-term perspective, including the exercise of voting rights. Although there are still many issues to be addressed, we recognize that investors are expected to support companies' efforts toward sustainable growth while maintaining a win-win relationship based on mutual trust, taking into account the situation of individual companies, and we will continue our efforts.

Next, regarding collaborative engagement, which is one of the themes of this meeting, I would like to briefly introduce the initiatives of the Life Insurance Association of Japan, which is also mentioned in the Secretariat's Material. Collaborative engagement at our association started in fiscal 2017 and has been conducted at approximately 10 companies. As for the specific method of promoting engagement, first of all, we will coordinate the target themes and selection criteria. The themes and selection criteria have been discussed every year and updated little by little. Currently, our three themes are enhancing shareholder returns, integrated disclosure of financial and non-financial information, and climate change.

In the dialogue, we first review the results of the dialogue to date and discuss the dialogue policy based on the current situation of the target companies. After that, we send a paper in the joint names of the participating companies to inform the target companies of the issues in advance. We have recognized the progress of companies' efforts on each theme, and I have the feeling that certain results have been achieved.

For future discussions, I would like to talk frankly about how I feel after continuing collaborative engagement for several years. I feel that it is important that the participating companies have a similar investment philosophy and investment horizon in order to facilitate collaborative engagement. I believe that the collaborative engagement of our association is able to continue because, as with all life insurance companies, our investment philosophies and investment horizons are relatively similar. On the other hand, I feel that it is not easy to handle more in-depth themes, for example, improvement measures that should be tackled by investees, including corporate business strategies, for which even the same life insurance companies have different perceptions.

This is a brief explanation from the perspective of life insurance companies that manage assets from a medium- to long-term perspective. That's all for my presentation.

[Kansaku, Chair]

Thank you very much. Next, Ms. Ueda, who is participating online, would you please speak?

[Ueda, Member]

Thank you for appointing me. As this is my first time, let me comment from a slightly broader perspective in line with the "Issues for Discussion."

First, I would like to talk about corporate governance reform. The Stewardship Code has taken root, and since last year, the Government has formulated the Policy Plan for Promoting Japan as a Leading Asset Management Center, and it is said that the investment capabilities of institutional investors are increasing. Upon establishment of the Asset Owner Principles, I believe the investment chain is now connected all the way to the beneficiaries. Asset owners are the linchpin of the investment chain, and they are at the connecting point between individuals and the investment chain, and as such, they are responsible for keeping the entire chain sustainable. I believe that is exactly what GPIF said today.

On the other hand, as asset management has become more advanced, stewardship activities have become considerably more sophisticated and specific, and individual issues have become deeper, as many of you discussed today. In this situation, with labor costs rising across society, I believe we also need to be mindful of ensuring that the asset management industry and people involved can keep the chain running smoothly.

This is not direct content of the Stewardship Code, but it is clearly stated in the Asset Owner Principles. For example, GPIF pays high fees for dialogue-oriented passive funds taking this into consideration. However, if only GPIF is to bear all fees like the actual situation, as the results of the dialogue would be shared with other asset owners to some extent, it would be somewhat inappropriate for one single asset owner to bear all the fees. Then, I feel that others enjoy a free-ride situation in other fields, too. Therefore, this may not be direct content of the Stewardship Code, but I would like you to share the discussion in various places to raise awareness of cost sharing across the investment chain in the area of development of environments, and for us, the final beneficiaries, to bear the burden, too.

Next, about the quality of stewardship activities and accountability. Regarding stewardship activities, especially dialogue, as discussed today, I believe there is a strong demand from companies to have more substantive discussions with institutional investors and have this reflected in their voting. In other words, there is a strong demand from companies for institutional investors to vote in favor. I was also curious about this point, and when I looked into what kind of investors were making decisions on sustainability-related shareholder proposals that are of great interest to both companies and investors, I found that individual decisions were quite different depending on the investors, and the reasons were quite diverse.

I understand companies' wish for asset managers to agree with their agenda that they explained, but I think that investment managers probably tend to make objective judgments given their position and accountability to asset owners. On the other hand, when asset owners themselves exercise their rights, there is much room for flexible and free judgment. However, I feel that the external accountability of stewardship activities varies considerably from investor to investor. Some investors provide voting results in Excel via individual disclosure with a detailed explanation while others do not provide individual disclosure but give a detailed explanation of each case.

Regarding the Stewardship Code, I think that follow-up on the policies disclosed at the time of acceptance as well as review, monitoring and evaluation of the report on actual stewardship activities are not necessarily being done sufficiently. I think that detailed monitoring of individual companies or institutions accepting the Code, as in the UK, would impose a large social burden and cost. However, in order to encourage asset owners to accept the Code according to the Asset Owner Principles, I hope that this discussion will help us to consider ways to improve the effectiveness of reporting on stewardship activities. For example, I think there are measures that the FSA often takes, such as introducing good practices, as is used in improving the quality of the annual securities report. I hope that there are ways to make it easier for hard-working investors to reap the rewards, and for those who are not, to encourage them to make more efforts.

Also, I would like to mention one point about collaborative engagement, although I know the individual points will be discussed in the future. Collaborative engagement takes place not only with companies, but also with market authorities, such as the FSA, governments, and international organizations. I think that you are also working on engagement with companies under the Financial Instruments and Exchange Act. However, from an investor's point of view, I think it would be better to specify options that can be used as needed. I guess that the expression under the current code stating “it would be beneficial…” is the result of a lot of hard discussions and efforts. But I think it can be read as if it contains the views of the code creators, or perhaps this meeting or something. Therefore, I think it would be a good idea to provide options in a more neutral way so that investors can also accept or consider collaborative engagement as an option for dialogue.

I will briefly talk about beneficial shareholders. I assume that it will eventually take the form of legal reform, but from a practical point of view, there are various approaches in the United States, the United Kingdom, and Europe. It has a big impact on practical matters, and conversely, I think there are many options and benefits for companies such as the development of new services, so it would be good if we could have the specific discussion as soon as possible.

That's all for my presentation. Thank you.

[Kansaku, Chair]

Thank you very much. If there is anyone who has not yet spoken today, please go ahead. Mr. Takei, would you please speak?

[Takei, Member]

I am Takei. Thank you very much for your great presentations and opinions. Both GPIF and Mr. Iguchi’s presentations are very useful. I am truly glad to have heard such important talks today. The point that engagement creates added value, and also working out how to demonstrate added value in engagement, are very important, and I think they should be shared widely. With this in mind, I would like to make two points among various issues, including governance reform, lack of resources, and lack of incentives as mentioned in the beginning of the meeting.

The first point is regarding dialogue and engagement. I think it is important to perform the human capital reform properly, as others have mentioned. It's really showing in many ways that engagement has added value. Ten years have passed since the Code was introduced, and various empirical studies have been conducted, and the results are finally being demonstrated. Five or ten years ago, there might have been a recognition that there was no effect or meaning in doing so, and that it was no use devoting resources or money. However, over the last five or ten years, we have come to understand that we need to look at things over the medium to long term. Moreover, while the Steward Code was originally titled "Medium to Long Term," I think it has been shown that there is meaning in looking at it over the medium to long term. In that sense, it doesn't mean there's no point in doing it.

However, such kind of added value has intangible asset elements that cannot be seen, so how to allocate resources and money to such things is a fairly fundamental issue. I understand that what we are trying to change now is human capital reform. This means that human resources should be seen as capital or assets rather than personnel costs, so I think it is an important time to promote the idea of spending resources on such activities.

Also, this is the same as the recent sustainability issues, which are about the infrastructure of the whole of society and the economy. The challenges on how to develop the infrastructure and how to make it developed are not well solved by individual stakeholders using micro-economic rationality, which have resulted in market failure. So this is a question of how to share such negative costs and negative externalities with everyone, whether it's a matter of sustainability or not. This also applies to increasing passive investment, too. Some point out that it is a structural problem that the market function may be impaired because passive investment is increasing too much. In that sense, this is also an issue of infrastructure. To solve this, I think it is important to reiterate the importance and understanding of sharing resources, costs, and human capital to some extent as a whole.

The Stewardship Code is inherently intended to improve the medium- to long-term corporate value of Japanese companies and to address issues that could not be solved by an aggregation of individual companies on a micro level, through soft law and principles, to encourage companies to think about it on a macro level. I think it is a good place to show this concept. Of course, we also have the Asset Owner Principles. So including them, it is important to show the idea that we all should devote these resources together and that, as the added value of engagement is macro, everyone should do something with added value in order to improve the Japanese economy. It is important to show such wide-scale vision in this revision as a place to promote sharing it with all. That's my first point. In that sense, I think that one of the things we should be focusing on this time in particular is creating an environment that makes it easy for asset managers, etc. to make various human capital investments. The second point is about the exercise of voting rights only according to the formality that Mr. Tsukuda mentioned earlier. This issue is often seen, and as we discussed about the independence standard earlier, there are many cases where sticking to the formality of the standards ends up deviating from the reality. One issue that is particularly problematic from the company side is the standard that states that an outside director is basically disqualified if he/she has served for more than 12 years. I think that how competent the outside director is, and how long and short his/her length of service is, are originally a kind of diversity of independent directors. Also, if all the outside directors have served the company for only a short time, there is a risk that the board is not properly supervised. And yet, asset managers tend to be against the reappointment proposal, believing that directors who have served for a long time will become too friendly with each other. This is a kind of imposition of own opinion. If asset managers unconditionally refuse such proposal, companies will think that there is no point in having a dialogue, and if there is no point in having a dialogue, companies think there is no point in having a board member participate in the dialogue. This will lead to a vicious cycle. In that sense, I think we can say that one of the reasons for the formality of the governance codes and compliance fatigue lies in institutional investors’ response prioritizing the formality.

Also, from the asset managers’ point of view, it is a hassle to explain to asset owners why the exercise decision differs from the standards despite setting the standard in advance, so they may be motivated to go along with the formality in order to avoid the trouble of having to explain. Including this, I think we need to consider the problems of micromanagement in the entire investment chain. At least in terms of standards for exercising voting rights, there are some issues. For example, when there is an issue of the length of service of directors, asset managers should not uniformly disagree, but if a certain director's tenure is long, both should have dialogue. If asset managers have a question as to why this happen, or if the director has served for long period, they should have substantive dialogue and then decide whether they vote for or against the reappointment proposal. It is fine that they have an issue of the serving years in tenure, but I think that this becomes more effective by having dialogue such as "We think twelve years service is long" or "How do you keep yourself positively engaged in your duties?". In that sense, as mentioned earlier, the burden of resources for increasing opportunities for dialogue is important.

Also, I wonder whether it is fiduciary duty or the responsibility of asset owners to micro-manage asset managers who have such various psychological resistance by saying why this happens. There are increasing expectations for asset owners in various aspects recently, but unless we clarify to some extent what their responsibilities are in relation to asset managers, I think a vicious circle will occur if they think their responsibilities are to micro-manage or speak out.

This happens throughout the investment chain, and there are similar issues at companies, relating to the relationship between management and the board. In that sense, nobody needs to think that to fulfill his/her own duty means engaging in micromanagement. Proper answer lies closer to the actual situation. In that sense it is important to work out what we need to be satisfied with, the content of accountability, including the process, and so on. I think we can prevent various vicious cycles by organizing such a way of thinking.

My comments are the above two points regarding micromanagement and human capital, including resources.

Lastly, I agree with the inclusion of the part about the transparency of beneficiary shareholders.

That's all.

[Kansaku, Chair]

Thank you very much. Mr. Iguchi, would you please speak?

[Iguchi, Member]

I'm sorry, I've had a lot to say, and I'd like to speak again. We have received severe comments from you, and I think there are some things we should reflect on as a domestic asset management company. What I would like to comment on this time is streamlining the Stewardship Code. I would like to briefly comment on four points about the Code, although this may not necessarily be the streamlining that Mr. Yufu mentioned.

The first is Principles 2 and 7. In Japan, major institutional investors like us belong to large financial groups. Therefore, it is understandable that the matter relating to conflict of interest management was considered one of the most important items and introduced in the Code as Principle 2 when the Code was first introduced in 2014. And I believe that this principle has made a great contribution to developing the environment encouraging each institutional investor to strictly manage conflict of interest.

I believe that the importance of conflict of interest management in stewardship activities will not change in the future, but while this concept has taken root among major institutional investors, I believe that the resource issues for stewardship activities that the Secretariat explained and other issues that Mr. Takei mentioned are also emerging. In light of this situation, from the perspective of maintaining sustainable stewardship activities, I think there is room for the consideration of combining Principles 2 and 7 and positioning them as governance of stewardship activities.

The second is Principle 6, which requires reporting to clients and beneficiaries. In this regard, I think, since the establishment of the Code, reporting to clients and beneficiaries, such as to asset owners, has taken root. I believe that reporting to asset owners will continue to be important in the future, but as I mentioned at the beginning of the meeting, I believe that disclosure by investors will become very important in having constructive dialogue with investee companies, especially for passive management. Therefore, I am not sure it should be included in Principle 6 or elsewhere, but I think there is room to consider the inclusion of disclosure by investors.

Although I am sorry it is so detailed, the third point is the factors to be monitored, which is mentioned in Principle 3-3. As Mr. Sampei mentioned as one of the three elements necessary for engagement, I also think that understanding sustainability is very important in stewardship activities. Under these circumstances, I think it would be better to include the terms such as sustainability-related financial information disclosed under the ISSB and SSBJ standards in the factors to be monitored mentioned in Principle 3-3. When we talk to companies that are planning to disclose information, we often feel that they strongly want to include this information in the scope of disclosure. The stewardship responsibilities set out at the beginning of the Code also state that constructive dialogue should be held based on consideration of sustainability, so I believe that this information will be essential.

As for the fourth and final point, as I mentioned at the beginning, the influence of service providers for institutional investors is growing, and I think it is necessary to approach institutional investors, who are users, with the condition of "as much as possible when necessary." At present, Principle 8 or 5-4 of Principle 5 refers to something similar to this, but I think there is room for consideration on how to position these matters in the Code.

That's all for my presentation. Thank you very much.

[Kansaku, Chair]

Thank you very much. Mr. Oba, who is participating online, if you have anything to say, please do.

[Oba, Member]

Well, as the time is limited, I would like to briefly mention five points. In relation to the effective implementation of the Code included in the "Issues for Discussion," I have briefly summarized the factors that are hindering the implementation of effective stewardship activities. You may consider them as the result of a questionnaire survey that our association held for asset managers.

The first point is asset managers. The biggest challenge for asset managers is that they need specialized human resources, but do not allocate enough management resources to them. As Mr. Tsukuda pointed out at the beginning, I think that the reason behind this is that management fees remain at an extremely low level.

The second point is investee companies. Many respondents mentioned that there were issues with the quality of information disclosure. This means that many suggested that although disclosure itself is sufficient, it is not linked to enhancing corporate value as a business strategy, relating to which there is room for improvement.

The third point is asset owners. Our survey shows that asset owners are less interested in stewardship activities. Rather, they seem to focus on returns. There are many asset owners, and of course some of them do not think like this, but more than 60% of the respondents said that they are not specifically required to conduct effective stewardship activities.

The fourth point, which was also pointed out by a large number of respondents, is that the presence of stable cross-shareowners remains significant. They assume that this may hinder the effectiveness of engagement.

The fifth point is the fact that, although we have continued the stewardship activities for 10 years, medium- to long-term money may have begun to shy away from investing in Japanese equities. I am sorry that this goes back to the first discussion. Recently, the amount of NISA saving plan money is clearly oriented overseas investments, and it is not going to Japanese equities. Besides, looking at the changes in the asset mix disclosed by the Pension Fund Association, we can see that investment in Japanese equities is on the decline. Therefore, as a whole, we can presume that how to improve this situation is becoming a major issue.

That's all from me.

[Kansaku, Chair]

Thank you very much. We received comments from all the members participating in this meeting today. Thank you very much.

We have some time, so if any of the observers wish to speak, please do. All right, then, the Trust Companies Association of Japan. please go ahead.

[Trust Companies Association of Japan]

I am Fujii of Sumitomo Mitsui Trust Group, Inc., and I serve as Chairman of the Operation Committee, the Trust Companies Association of Japan.

First of all, regarding the effective implementation of stewardship activities, which is mentioned in "Issues for Discussion," we also believe that the viewpoint of cost sharing is very important as the scope and amount of stewardship activities expand. In this, you mentioned that granting incentives and cost sharing are important. We, as the trust industry, which is often involved in the management of assets, expect that discussions are making great progress in these areas.

Also, regarding the transparency of beneficiary shareholders on page 30, I believe that improving the transparency of beneficiary shareholders is very important and desirable from the perspective of promoting dialogue between companies and investors. In addition, following the report of the Financial System Council last year, I recognize that discussions will be held regarding the mandatory scheme under the legal system. In any case, I believe that effective management is necessary while taking into account the needs of issuing companies. For example, if it is necessary to build an infrastructure for providing data of beneficial shareholders or to develop an operational system, I believe there are a wide variety of practical issues, including the burden.

In addition, I think that the scope of beneficial shareholders and the level at which they are identifiable will be a point of discussion. The confidentiality among related parties will become an issue too, and I think that it will be necessary to discuss these many points across industries. I hope that we, the trust industry, will engage in discussions positively.

That's all for my presentation.

[Kansaku, Chair]

Thank you very much. Are there any other observers who wish to speak? Is everybody okay with that, including those who are participating online?

Well, as we are approaching the scheduled time, I would like to conclude today's discussion here. Finally, if there is any communication from the Secretariat, please let us know.

[Nozaki, Director, Corporate Accounting and Disclosure Division, FSA]

Thank you. Regarding the schedule of the next meeting of this Expert Panel, we will inform you at a later date according to your convenience.

That's all from the Secretariat.

[Kansaku, Chair]

Thank you very much.

This concludes today's meeting of the Expert Panel. Again, thank you very much for taking time out of your busy schedule to have this constructive discussion.

-- End --