(Provisional translation)

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

1. Date and Time: Monday, November 18, 2024, 14:00 to 16:00
2. Venue: Common Special Conference Room No.1, 13th floor, Common Government Office No.7

[Kansaku, Chair]

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

This meeting is held both on a face-to-face basis and via a web conference system. Today's meeting is being broadcast live on the web like last time. The minutes of the meeting will be prepared as usual and published on the Financial Services Agency website at a later date.

As we begin the meeting, the Secretariat will explain the points to be noted at the meeting. Please go ahead.

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

I am Nozaki in charge of the Secretariat. I appreciate your cooperation.

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. After checking it, the chairperson will designate you. Also, please mention your name at the beginning of your remarks. For members who are attending in person, if you put up a plaque with your name, the chair will designate you. Also, when using the microphone, please do not adjust the angle of the microphone and just press the ON/OFF button, to prevent the sound from cracking during the transmission.

[Kansaku, Chair]

Thank you very much.

Now, let's move on to the agenda. Today, the Secretariat will explain the Materials first, and then Ms. Sisson will make a presentation and we will have a discussion.

First, as the Secretariat, the Financial Services Agency will explain the Materials.

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

I will explain in line with the Secretariat's explanatory material. Today, I would like to ask you to discuss the transparency of beneficial shareholders and collaborative engagement, including concrete proposals to revise the Code.

First of all, pages 2 to 4 show the main opinions you made at the previous meeting. You gave us various opinions on the collaborative engagement and transparency of beneficial shareholders, which are today's themes, as well as the corporate governance reform in general and the effective implementation of stewardship activities.

The part from page 6 relates to the discussion on the transparency of beneficial shareholders. Page 6 shows an overview of the parties involved in the management of the institutional investor shareholder registry as a premise for discussion. The diagram shows how beneficial shareholders on the right side who have the right to give instructions on voting rights and the right to invest are connected to the issuing company on the left.

Page 7 is an excerpt of the report of the Working Group on Tender Offer Rule and Large Shareholding Reporting Rule of the Financial System Council, as I mentioned in the last meeting. The Working Group examined the systems in the United States and Europe, and they mention in the report, as mentioned in the lower part, that the systems in European countries are designed to communicate the information on the status of holdings of beneficial shareholders to issuer companies and, they believe, are more suitable for the purpose of promoting dialogue between companies and shareholders/investors. They recommend that relevant authorities should work on initiatives to develop appropriate rules using the system in European countries as a guide and that, first of all, calling on institutional investors to respond when issuer companies ask them about the status of their holdings by clearly stating the principles of conduct for institutional investors as soon as possible and subsequently making such responses mandatory under law should be considered.

Pages 8 to 10 show the details of the systems in the United States, the United Kingdom, and Europe that I have just mentioned.

The part from page 12 relates to collaborative engagement. Regarding collaborative engagement, as you can see at the end of the second paragraph, the Report of Working Group on Capital Market Regulations and Asset Management Task Force, which was issued at the end of last year, mentions that it is also considered useful to actively utilize collaborative engagement initiatives from the perspective of supplementing qualitative and quantitative resources and reducing costs. In May last

year, the amended FIEA was established, which incorporates the perspective of promoting collaborative engagement, as described on page 14.

The part from page 15 shows the trends in foreign countries regarding collaborative engagement. First, the FRC's Stewardship Code of the United Kingdom and the Global Stewardship Principles of the ICGN, who is attending this meeting, are described. The FRC of the United Kingdom launched a public consultation on a proposal to revise this code exactly one week ago, on November 11. Specifically, the outline of such proposal (UK Stewardship Code Consultation) is summarized on pages 16 to 18.

Next, page 17 refers to the part relating to the collaborative engagement. Previously, this was mentioned as an independent clause, “Principle 10.” However, in the revised proposal, whose original English text is shown on page 17, the FRC proposes that it should be brought together with Principle 9 under the concept that, as shown in the third line from the top, “Collaborative engagement can be an important and effective stewardship tool. However, not every signatory will have the opportunity to engage collaboratively each year.”

The last part from page 21 onward summarizes the “Issues for Discussion,” which we would like you to discuss today. Issue (1) is about improving transparency of beneficial shareholders. In Japan, there is no system for companies to identify their beneficial shareholders, except in cases that are subject to the Large Shareholding Reporting System. From the perspective of promoting the building of a relationship of trust between companies and institutional investors and making it easier for companies to request dialogue with institutional investors, we would like to hear your thoughts on making it clear that investors should explain to companies the extent of their share holdings upon request from investee companies, as mentioned in the proposed revision below.

In addition, as for the specific response of institutional investors as mentioned in the third box, although it is not stated in the current proposed revision that it is desirable to announce in advance the response policy when there is a request from an investee company, we ask you to discuss what you think about adding such intent to the proposal.

Next, on page 22, this is Issue (2) of the “Issues for Discussion,” promotion of collaborative engagement. As mentioned here, there are various points of attention and issues in addition to the advantages, which you are asked to discuss today.

In light of this, as mentioned on page 23, while stating that collaborative engagement should be

considered as an option, we have presented a proposed revision that includes the phase “it should be kept in mind whether it will lead to constructive dialogue that contributes to the sustainable growth of investee companies” as a point of attention. I would like you to discuss these proposed revisions.

That's all from me.

[Kansaku, Chair]

Thank you very much for your explanations.

Next, I would like to move on to the explanation from the members. Member Ms. Sisson will make a presentation of about 10 minutes. Ms. Sisson has prepared Material 2 and her explanation will be interpreted word-for-word.

Ms. Sisson, please go ahead.

[Sisson, Member]

Thank you very much for the opportunity to address the meeting today,

I have very pleased to be able to offer the perspectives of ICGN and the members on the very interesting and complex topic of collaborate engagement.

Next slide. So, start with ICGN Global Stewardship Principles. They are aspirational frameworks from members to consider and useful reference of international good principles for national stewardship codes. The principles can be applied in the flexible manner as progressives circumstances of asset owners and asset managers and others. The ICGN Principles complement national codes by providing an international framework of high standards of stewardship policies, processes and practices. Principle 3 is about monitoring and engagement. Ensuring constructive engagement to mitigate risks and enhance opportunities to create long term value for beneficially and clients. Relevant section of collaborate engagement is 3.7 which states investors may consider collaborating with other investors to engage with companies and issuers on pacific issues as appropriate. So, investors should disclose collaborations, engagement objectives time frames, key milestones of outcomes as appropriate and should respect “acting in concert” and market abuse regulations, confidentiality, client interest and show the voting decisions on made individually.

Next slide please. There are also many other examples of best practice codes guidance for collaborative engagement aimed at investors around the world.

I have highlighted some examples here. They talk about collaborative engagement both with companies and other policy matters.

Next slide please. Collaborative engagement can be very useful tool. However, there are number of important factors to consider. In many markets, there are “acting in concert” and regulatory constraint that need to be managed. Various actual unperceived values exist in different markets. In many cases, even the perceived risk of regulatory issues of litigation may prevent institutional investors from participating collaborative engagement. Different asset owners and asset managers may find collaboration useful in different circumstances. For example, very large asset managers may find more effective and efficient to engage bilaterally with their investee companies. For smaller managers, you might otherwise struggle to get access to board’s management may find it helpful. Alternatively, large asset owners who are universal owners may see broad benefit from collaborative policy of company engagement where small boutiques with concentrated holdings may not. There is not one correct way to do stewardship or to manage engagement. Different approaches may be more affective depending on the goal of the engagement.

Next slide please There are many different collaborative engagement initiatives around the world. To illustrate some different approaches, I would like to present a few examples. Firstly, The Investor Forum based in the UK. The forum, set up following the stewardship reforms after the financial crisis, exists to facilitate collective engagement between institutional investors and UK listed companies. The forum operates under its Collective Engagement Framework, which is designed to create safe and secure environment in which to facilitate collective engagement. The Forum acts as a trusted facilitator, and not an advisor to, Members. Members retain full voting and other investment right in respective in shareholdings. No control is ceded to the Forum or other Members. Members must agree they will not, while participating, form a concert party in respective relevant company.

Next slide please. This framework has been set up specifically to address actual unperceived issues regarding competition law “act in concert” regulations, U.S regulatory considerations and inside information and inside trading rules. The forum has been learning for ten years and has engaged with 51 U.K companies. The range of considerations addressed has been wide. Transparency is important to the forum so each year they published results and update some engagement which can be found on their web site.

Next slide please. Another notable example is CA100+. CA100+ is coordinated by five investor networks and supported by global steering committee. Climate Action 100+ garnered immediate worldwide attention. It has since become largest ever global investor’s engagement initiatives on

climate change with growing influence and impact. It was initially launched as five-year initiative but in 2022 announced that it would run to 2030. In 2023, it announced its Phase 2 strategy,

Next slide please. Asset owners can join as investors supporter or investor participants. Asset managers and other investor participates are responsible for participating directly in CA100+ engagements. They can join as lead company investors with the main role to lead and drive the engagement agenda with focus companies. And contributing company investors with the main role of proactively supporting lead company investors and their engagements. Or as an individual engagement where they may formally engage with focus companies on their own without participating in meetings that include signatories. Engagements focus on the CA100+ benchmark indicators, which investors use to measure the progress of target companies on various climate related measures. It is notable that a number of investor members have left CA100+ this year, following increased regulatory and political scrutiny around climate related engagement in the U.S.

Next slide please. My final example is the Australian Council of Superannuation Investors (ACSI). ACSI members include Australian and international asset owners. On their behalf, ACSI engages with listed companies with the collective voice of its members to influence companies and financial markets in the interested of long term of investors. Each year they hold over 250 meetings with Australian companies aimed at enhancing long term shareholder value. They publish the governance guidelines which outline the key issues they focus on and factors they take into consideration when making voting recommendation.

Next slide please. Each year ACSI publishes a stewardship report. They give the examples of their engagement work on behalf of their members. This is an interesting example about engaging with Qantas. There are of course a of lots similar engagement initiatives in different markets, for example Eumedion in the Netherlands and Asian Corporate Governance Association.

Next slide please. In addition to looking at lobal practices, we must consider how to make this work here in Japan. We welcome the revision of the Financial Instruments and Exchange Act to enable affective investor collaboration to clarify the definition of “Joint holders” to exclude asset managers making agreement of exercising shareholder’s right and proxy voting rights. However, in order for global investors to engage with the investee companies in Japan collectively, we still need clarification of the definition of the “an act of a material proposal”. We believe it would be helpful to clarify in the regulation the engaging with the companies in the context of stewardship activities

is not considered “an act of a material proposal” and the investors participating in a collaborating engagement on governance and sustainability matters will not be seen in the joint holders. Essentially, they need to be a safe harbor. We must keep on focus on what makes good engagement and work we can do to help that be most effective. It is important that engagement is approached with the long-term mindset, and that there are clear goals and objectives for the engagement. Companies must also play their part. Engagement should be two-way exchange views, and we would like to see companies share their views but also listen to the views of shareholders and take theirs board as they make decisions. International investors want to see senior management in board directors engaging with their investors not only investors relations teams. And the broader areas of focused on governance improvement, are also key factors ensuring investors have accessed timely information to inform engagement and voting is key.

Next slide please. Finally, on beneficial ownership transparency. We generally agree that good transparency is important and can aide the efficiency of the engagement process. We support management team’s effort to be proactive in reaching out to engage with their investors. We would also ask for companies to make AGMs more accessible and inclusive. In Japan, beneficial or substantial shareholders holding their shares through custodians are often not allowed to attend AGMs. It is up to the companies to define the shareholders in internal policies, meaning it is up to the discussion of companies to decide which investor can attend and ask questions. Encouraging best practices in the Stewardship Code may be useful way to promote the transparency. We also believe it was helpful to revise Japanese Companies Act to allow companies to request disclosure of beneficial shareholders similar to the U.K Company Act or the European SRD II and other country laws.

Thank you again for the opportunity and I hope that has been helpful.

[Kansaku, Chair]

Ms. Sisson, thank you very much for your presentation.

Now, I would like to take the time to hear the opinions and questions of the members. I am happy to hear the opinions of all members. Although we have a limited time. I would appreciate it if each member could speak within about four minutes. As with the last meeting, when four minutes pass after you start speaking, the Secretariat will ring the bell as a signal to let you know that your time is up.

Anyone is welcome. I would like to hear your opinions.

Mr. Matsushita, please.

[Matsushita, Member]

I am Matsushita from The Investment Trusts Association. Thank you for giving me the opportunity to speak. I would like to express my opinion about the “Issues for Discussion” in the Secretariat Material.

First of all, regarding the improvement of transparency of beneficial shareholders, as I mentioned at the last meeting, I agree with the improvement of transparency from the perspective of promoting dialogue between investee companies and institutional investors. However, I think there are some points to keep in mind.

The proposed revision to the Code indicates that institutional investors should respond to questions about their holdings when asked by issuing companies. If this is intended to require investors to answer the holding status while an engagement has already taken place, it should be noted that communicating the holding status to the issuing company does not necessarily lead to a dialogue. For example, investment trust products have different investment policies, so even if they are managed by the same asset management company, it may continue to hold shares in one investment trust and sell them in another. If the asset management company reduces its shareholdings while it has already started engagement with investee companies, it will inevitably worsen the confidence of investee companies and it may be difficult to continue engagement in the future. The proposed revision says "should explain," but taking these points into consideration, I believe that one option would be to maintain the previous statement saying "desirable to explain."

On the other hand, if the proposed revision is intended to provide responses to inquiries made by telephone or email without any guarantee that they are from investee companies, we believe that careful judgment is necessary in view of the fact that the holding status is important information related to the investment strategy and that communicating it to a third party other than the beneficiaries could have a negative impact on information management and the profits of beneficiaries. In this regard, I have heard that in Europe, information on beneficial shareholders has been stored in a database, and an easy-to-use infrastructure has been developed for both users and disclosers. From the viewpoint of ensuring the authenticity of inquirers and the efficiency in responding to the status of shareholdings, it is also most effective to establish a beneficial shareholder

database in Japan. Without such infrastructural measures, there is a risk of hesitating to explain the status of shareholdings even if requested by investee companies.

If you intend to improve the transparency of beneficial shareholders only by revising the Code without any infrastructural measures, I believe it is necessary to standardize the specific methods and content of inquiries, taking into account the practical viewpoint, and to incorporate them into the Code. If these points are not clear, it may be difficult for issuers to use this scheme, and institutional investors may have to respond to inquiries in different ways and with different content depending on the issuing company, which could result in a huge amount of administrative work.

Next is about promoting collaborative engagement. At the last meeting, I mentioned that collaborative engagement should be regarded as one method of engagement. As the proposed revision reflects this intent, I have no particular objection to it. As stated in the Materials, considering that it is difficult for investors to continuously hold collaborative engagement on a shared understanding, I believe it is important to first establish a place for dialogue in which many institutional investors can participate. While I recognize that such efforts are being made mainly through the approach of institutional investors, I expect that the collaborative engagement will be promoted through the approach of both institutional investors and issuing companies, such as establishing a place for dialogue led by issuing companies.

That's all from me.

[Kansaku, Chair]

Thank you very much. Next, Mr. Tanaka, who is participating online, would you please speak?

[Tanaka, Member]

Thank you for giving me the opportunity to speak. I will speak early because I am leaving the meeting early.

First, regarding the improvement of transparency mentioned in (1) of the “Issues for Discussion,” as I support the approach of the UK Companies Act, which states that issuing companies have the right to know their beneficial shareholders, I agree to the insertion of a principle in the Stewardship Code that requires institutional investors to disclose their shareholdings upon request from issuing companies.

In relation to this, in order to introduce a scheme in which companies investigate their beneficial

shareholders and investors respond to them, I think it is necessary to create a system in which custodians or trust banks holding shares disclose the beneficial shareholders through it, and issuing companies can access beneficial shareholder information through the system.

Under the current law, it is possible for a trust bank to inform an issuing company of whom it holds its shares for if the trustor agrees to do so, so I believe that it is not impossible to establish such a system under the current law. On the other hand, in the near future, it is expected that a system will be created to allow companies to investigate their beneficial shareholders through the amendment of the Companies Act. It may be appropriate to create such a system in accordance with the amendment of the same Act. Anyway, I would like you to make efforts to build such a system even without waiting for the amendment of the Act.

As someone pointed out earlier, if we impose a principle requiring investors to respond to inquiries from investee companies regarding their shareholdings respectively without a system in place, it raises the question that unless investors have developed an environment in which they respond to inquiries from investee companies at any time, they may not have complied with the principle. Depending on how the principle is interpreted, administrative costs may be extremely high. Therefore, in parallel with the introduction of such a principle of the Code, I would like all parties concerned to use their wisdom to develop a system whereby information on beneficial shareholders will be provided through the system.

Next, my second comment about collaborative engagement. I agree that there should be a principle that investors should consider engaging collaboratively as appropriate, a principle that includes the phrase "should." For small investors in particular, it may be difficult to engage in dialogue with individual investee companies independently or to make influential proposals to them, so I believe that collaborative engagement is often an effective means of engagement. Therefore, I would like you to positively consider incorporating this guideline.

On that basis, under the proposed revision to the guideline 4-6, it reads: "Delete note 20." In regard to this, I mentioned last time that the current Code has too many notes, so it would be better to consider rearranging them. Note 20 here is “Clarification of Legal Issues Related to the Development of the Japan’s Stewardship Code” published in February 2014. This clarification of legal issues addresses the interpretation of what constitutes an agreement to jointly exercise shareholder rights. In this regard, there will be an amendment to the government ordinance on the Tender Offer Rule

and Large Shareholding Reporting Rule, which is designed to create a safe harbor in which even if there is an agreement on the exercise of shareholder rights, if it is not an agreement on important management policies, such shareholders do not equate to joint holders. Naturally, the question of when an agreement is reached regarding the exercise of shareholder rights is likely to remain a matter of interpretation even after the revision of the government ordinance. At that point, this "clarification of legal issues" remains important. Therefore, even if the clarification announced in February 2014 itself is not to be retained, I would like to request that the clarification concerning the interpretation of the laws be retained in the form of amending the wording as appropriate in accordance with the recent revision of the Large Shareholding Reporting Rule.

That's all for my opinion.

[Kansaku, Chair]

Thank you very much. Next, Mr. Hokugo, who is participating online, would you please speak?

[Hokugo, Member]

Thank you. I am Ken Hokugo of the Pension Fund Association. I am sorry that I was absent at the first meeting.

First of all, regarding the improvement of the transparency of beneficial shareholders, I agree with this direction. However, we have received concerns from some institutional investors, so I would like to make two comments on the proposed revision on page 21.

The first one is that institutional investors are trading on a daily basis, so it is difficult to explain accurate figures on a daily basis. They have concerns that if they have to explain it all the time, it will be a cost burden. From the perspective of eliminating such concerns, I suggest clarifying that depending on the circumstances of the investor, it may be acceptable to provide explanations in round numbers, or on a monthly or quarterly basis, or even the number of shares held by a single investment management company (in cases such investment management companies are part of the larger financial groups which in some sister companies may have additional shares of the company), by using the phrase "within reasonable extent" at the end of the proposed revision to Guideline 4-2, such as "should explain to a reasonable extent." As the Code is a principle-based one, it may be self-evident, but many institutional investors are serious about it, and I would appreciate it if you could consider this in order to relieve their anxiety.

The second point. We have heard that in some cases the explanation of the number of shares held

may violate confidentiality obligations with asset owners. In such a case, they are assumed to explain the reason for non-compliance. I understand that they don't need to make a detailed explanation that would violate the confidentiality obligation when explaining, but just to be sure, please let me confirm if that is the correct understanding. Or I would like you to write such a note.

Next, about collaborative dialogue. I myself participate in the activities of the Institutional Investors Collective Engagement Forum (IICEF), so I would like to make some comments from that perspective.

First of all, as a premise, I believe that there are two main effects that can be achieved through collaborative dialogue. One is an escalation perspective. Collaborative dialogue on the specific issues of individual companies allows investors to communicate their views more effectively than individual dialogue. The other is an efficiency perspective. Since individual dialogues by individual investors can inevitably become inefficient, it is possible to improve the efficiency of dialogues by presenting common views of investors to a wide range of companies especially with small and medium-sized companies. In fact, we have received favorable feedback from many companies expressing appreciation for the facts and content that they were able to discuss in the collaborative dialogue.

On page 22 of the explanatory Materials of the Secretariat, some disadvantages are pointed out, but from our point of view, these disadvantages seem to be aimed at relatively short-term active fund managers. The IICEF is composed of institutional investors who manage a wide range of assets from medium- to long-term or ultra-long-term perspectives, and we share the same objective of increasing medium- to long-term investment returns, so we have not experienced any of the disadvantages described here.

Based on that, it seems that many of other investor organizations that are engaged in collaborative dialogue are dealing with "E" (environment) and "S" (sustainability) as the main themes of collaborative dialogue, though I can't say for sure because I don't know the content of their activities. However, going back to the starting point, the purpose of the Stewardship Code and the Corporate Governance Code is to enhance the corporate value of listed companies. Especially in our country, more important issues such as capital efficiency and governance are still left unaddressed. I believe that institutional investors should work together to address these important issues effectively and efficiently.

In this sense, the second sentence of the proposed revision of the Guideline 4-6, which states "sustainable growth of investee companies," reminds many investors of environment and sustainability and they tend to associate “sustainable growth” with E and S, so why not change it to "enhancement of corporate value of investee companies"? I don't think we should take concerns of issuing companies’ side into consideration more than necessary.

In addition, from the perspective of promoting effective collaborative engagement, I think it would be a good idea to add wording to encourage disclosure and explanation relating to collaborative engagement, as in the UK Code. At the IICEF, we have already done so on our website, though it may not be sufficient.

As for the details, the proposed revision states that "should consider as an option as needed." However, it is too irresponsible not to consider this as an option despite the fact that the method of collaborative engagement has been established internationally. Therefore, I think that the phrase "as needed" may be deleted.

Additionally, the proposed revision includes the phrase "in addition to engaging in such dialogue independently.” But if effective responses can be implemented, I believe that there is an option of holding only collaborative engagement. In that sense, it would be a good idea to delete the phrase "in addition to engaging in such dialogue independently." It also helps slimming down of the Code.
Sorry, my comment was a little long. I am sorry to say the same thing every time, but in order to enhance the effectiveness of the Stewardship Code, it is essential to strengthen the firepower, that is, the "louder of voices." I strongly urge that the Stewardship Code should be mandatory for banks and general corporations, and in particular that the Asset Owner Principles should become mandatory for banks. Even if all institutional investors take on the challenge with the flag of the Stewardship Code, though it has not been effectively implemented, investors’ fatigue and feelings of powerlessness are at their peak due to the current Stewardship Code, which places a heavy burden solely on institutional investors, who own just under 20% of the Tokyo Stock Exchange. For example, over the past 10 years, investors have spent a considerable amount of time and resources in engaging and communicating with investee companies, but their efforts have been ignored. The reality is however that with a single word from the TSE, companies will immediately put this into practice. The current Stewardship Code is not and cannot be an effective and powerful tool to encourage companies to promote corporate governance reform.

That's all from me.

[Kansaku, Chair]

Thank you very much. Next, Mr. Sampei, who is participating in person, would you please speak?

[Sampei, Member]

I'm Sampei. I would like to make comments about the two Issues for Discussion, too.

First, I have no objection to improving the transparency of beneficial shareholders. However, the status of shareholdings is changing daily for multiple reasons as another member pointed out. Therefore, I think it necessary to prepare a practical response such as who in the management company should answer the shareholdings at which moment. For example, it is necessary for each management company to prepare for development of an operational environment or a system that periodically totals data at the end of every quarter or every month and builds a database for inquiries.

There is a requirement to announce compliance or explain about the new part of the Code within six months after the announcement of the revision of the Code. If investors are required to develop such an operational environment or system, I think it would be good to give some allowance to them, including a range of writing styles, such as how they intend to comply but it is still being developed, taking into consideration not only the lead time but also their burden. I think this relates to the "It is desirable to announce the response policy in advance" written in Dot 3 on page 21.

Next, regarding the collaborative engagement of the "Issues for Discussion (2)", the word "promote" is described here, which means to promote collaborative engagement. This is a little uncomfortable for me. I think "consider as an option" is enough. As another member mentioned just before, the UK Code and ICGN Principles consider collaborative engagement as one means of escalation. So, for example, comparing the 2010 version of the UK Code with its 2020 version, both of which have escalation and collaborative engagement clauses, they use "where necessary" in 2020, instead of "should" in 2010, meaning it is a little milder. For the ICGN Principles, comparing the 2016 version with its 2024 version, escalation has been mitigated from "should" to "might be escalated", and collaborative engagement has been mitigated from "should" to "may consider."

I think that the proposed revision of the UK Code, on pages 16 and 17, which you explained today, also encourages signatories to choose various forms of engagement thoughtfully, rather than simply turning to collaborative engagement. Therefore, I feel that it is a bit off the mark that Japan is rushing on promoting this scheme a little behind others. In this proposed revision, the underlined section,

"should consider as an option," means that it has already been decided to be considered, so I think it would be better to just say "should think about it as an option."

In the previous discussion, we had opinions that there were too many notes and that they should be deleted, but I think it's permissible to add notes about the points to keep in mind when choosing collaborative engagement or making it meaningful. For example, points to keep in mind may include the give-and-take balance between participants in a collaborative engagement. You don't want to participate if you only give. But the people who want to participate are those who only want to take. This doesn't work at all, so the balance here is important.

And it's very important to align the perspective of the outcomes sought by each investor in collaborative engagement. In terms of "a material proposal" on page 13, for example, this means the purpose of the proposal. If the perspectives here are not properly aligned among investors, the collaborative engagement will fail along the way.

Engagements can take place multiple times and may span several years. Taking these into consideration, we should also consider the time frame they can commit to and the resources they can put into it. Also, when progress is not good and prolonged, what kind of escalation should there be in that case? In terms of "a material proposal" on page 13, this is the form of the proposal. If there is a gap again here, it won't go well. Therefore, I think it is a good idea to write in the notes that such things need to be confirmed before participating, or that they need to be considered as conditions for participation.

That's all.

[Kansaku, Chair]

Thank you very much.

Mr. Iguchi, would you please speak next?

[Iguchi, Member]

Thank you. First, thank you very much for the explanation. I would like to express my opinion in line with the "Issues for Discussion" in the Secretariat Material.

Regarding the first point about the beneficial shareholders, I understood that the purport that transparency is required not only from companies but also from investors in order to have a constructive dialogue. However, for investors, including myself, I think the essence of stewardship

activities is not to engage in dialogue based on the number of shares held, but to enrich the content of dialogue, and for that, to strive to improve ourselves as well as to increase the corporate value of investees through stewardship activities. Also, some advanced companies have publicly stated that they will engage in dialogue with investors who can engage in constructive dialogue, regardless of the number of shares they hold. As a matter of fact, I have never been asked by any investee company about the number of shares held. On the other hand, there are some investors who try to influence investee companies by the number of shares they hold, and I understand that from a regulatory perspective, greater transparency is required for all investors.

Based on this view, I agree with the disclosure of shareholdings. However, the beginning part of Note 16 of the current Guideline 4-1, stating that “Constructive dialogue between institutional investors and investee companies should not be merely driven by the size of shareholdings." is an important point, and I believe it should be included in 4-2 or remain as a note.

Also, regarding whether or not to disclose the response policy in the third box, as Mr. Sampei mentioned a little earlier, I think it will be a meaningful disclosure in the sense that it can supplement the frequency and methods in totaling the number of shares held.

Next, about the collaborative engagement of the “Issues for Discussion (2).” Thank you very much for taking into account the points to be noted which I mentioned in the presentation I made at the last meeting. I agree with the statement in Guideline 4-6. In addition, I would like to make two comments. The first is that, as in the presentation I made last time, there are two types of collaborative dialogues: one is a direct engagement in which an investor works directly on an individual investee, and the other is an indirect one in which an entity like the ICGN, who is attending today, and the PRI work on the behaviors of investors and delegate individual decisions to investors while sharing their basic ideas. I think it is good that this proposal clarifies collaborative dialogue with individual companies. However, I am concerned that if the current Guidelines 7-3 are deleted, the indirect collaborative dialogue that has greatly contributed to the improvement of stewardship activities in Japan may be completely omitted from the Code. I believe, therefore, that the content of Guideline 7-3 or the description of indirect collaborative dialogues should be retained in some form. I think it is acceptable to consolidate them in Guideline 4-6 of the revised proposal.

The second comment is about the deletion of Note 20. As Professor Tanaka pointed out, the FSA has clarified the matters relating to “a material proposal” and “joint holdings” as explained on page

13, but I think investors still have an obligation to follow these rules. As I understand that the ICGN's principle on the collaborative engagement at the bottom of the last page of the Material also reminds us of “act in concert,” I think it would be better to add some wording about “a material proposal” and “joint holdings” in the current Guideline 4-6 as a reminder or a means of raising awareness.

That's all. Thank you very much.

[Kansaku, Chair]

Thank you very much.

Ms. Matsuoka, would you please speak next?

[Matsuoka, Member]

I'm Matsuoka. Thank you very much for giving me an opportunity to make comments.

With regard to the proposed revision of the Stewardship Code, which aims to enhance the transparency of beneficial shareholders, I believe that it is important to promote dialogue between companies and shareholders as well as to ensure the transparency of shareholdings in the market and a sound approach grounded in information symmetry. In recent years, the activities of investors including activists and hedge funds have become active. In August last year, the Ministry of Economy, Trade and Industry published the Guidelines for Corporate Takeovers. As overseas investors become increasingly willing to invest in Japanese companies through M&A, I believe that a highly transparent process related to shareholder ownership will contribute to a healthy capital market, not only for these investors but also for target companies, existing shareholders and other investors.

Ideally, companies should be able to identify their beneficial shareholders, examine their growth strategies, and prepare and execute timely and effective engagements when investors offer to buy them. I contend that in scenarios such as corporate acquisitions, it is beneficial and healthy not only for the target company but also for the proposers and the capital market as a whole to create an environment in which existing shareholders, after identifying what kind of investor the proposer is, can sincerely consider the proposals and opinions of both the proposer and the company and have dialogue with each other.

In this sense, as in the proposed revision, it is natural that institutional investors should respond to requests from investee companies regarding their shareholdings, and I respectfully request that the proposed revision incorporate a statement to the effect that institutional investors are expected to disclose their shareholdings on a regular basis. This scheme has already been implemented in the

United States, and I believe, can be considered in Japan.

In addition, an issuing company may want to directly confirm the shareholding status with institutional investors or may want to confirm the person with authority to give instructions with a nominee shareholder listed in the shareholder registry. Therefore, in order for issuing companies to effectively and efficiently grasp information on beneficial shareholders, I request that the relevant parties to consider measures aimed at minimizing the practical burden, including for systems.

Next, regarding the proposed revision of the Code for collaborative engagement, we believe that the term "medium- to long-term" should be included in the part "contributing to the sustainable growth of investee companies," for example, "sustainable medium- to long-term growth." This is because we believe that there may be cases in which the expected growth time horizons differ among institutional investors holding collaborative engagements. In the previous example, while activists and some hedge funds tend to be relatively short-term profit-oriented, some investors are oriented toward medium- to long-term corporate growth. In view of the purpose of this Code, I believe that we should stick to medium- to long-term growth.

Also, I would like the FSA to share best practices and methodologies for cases where collaborative engagement is effective so that the purpose of the revision of the Code is thoroughly achieved.
In addition, in order to dispel concerns of companies about excessive collaborative engagements that do not seem to have reached a sufficient agreement among asset managers, I would like the FSA to take follow-up measures such as establishing a contact point for reporting from companies, so that collaborative engagements are correctly operated.

I appreciate your continued efforts. That's all.

[Kansaku, Chair]

Thank you very much.

Next, Ms. Takayama, who is participating online, would you please speak?

[Takayama, Member]

Thank you for this opportunity to speak. I would like to express my opinion about improving the transparency of beneficial shareholders.

First, I support the idea that the Stewardship Code should specify that institutional investors should respond to questions about their holdings when asked by issuing companies. This is because the status of investors' shareholdings is important and indispensable information for companies when

they hold a dialogue with investors. This approach is expected to further improve the quality of dialogue.

Second, I also support the proposal to add a statement to the Code saying that it is desirable for institutional investors to disclose in advance how they will respond if requested by investee companies. The extent to which investors are complying with the Code is difficult to judge from the outside. However, I think that we will be able to understand the actual situation to some extent if investors disclose how they are responding. Such information is also very useful for companies to communicate with investors. However, at this stage, I believe it is desirable to leave it up to each investor to decide on specific measures to be taken. This will enable investors to respond within an appropriate scope.

That's all from me.

[Kansaku, Chair]

Thank you very much.

Mr. Fujimoto, could you please speak next?

[Fujimoto, Member]

I am Fujimoto of Nippon Life Insurance. Thank you for giving me the opportunity to speak. Regarding the two topics of the “Issues for Discussion,” I would like to make comments from the perspective of a life insurance company as a medium- to long-term investor, though some points overlap with the opinions I have heard so far.

The first point is about improving the transparency of beneficial shareholders. As I mentioned last time, I believe that it is important to support efforts toward sustainable growth of investee companies while maintaining a relationship of trust with them in the dialogue. Therefore, I understand that from the perspective of maintaining a relationship of trust, it is important for investors to inform investee companies of the number of shares they hold in response to requests from companies.

On the other hand, in such a case, it is assumed that investors will have to respond to each request from each company one by one. Specifically, there are concerns that inquiries will be concentrated during busy periods as well as that investors need to identify the inquiring party as to whether the inquiry is truly from the investee company. In addition, it is expected that they receive various requests such as when and how the number of shares should be answered and by when, etc. I recognize that the burden on investors may become considerable in some cases.

Amidst these practical issues, it is difficult at this point to establish a policy for responding to requests from investee companies. Given the purpose of the scheme, which is to foster a relationship of trust between companies and investors for constructive dialogue, I believe that it would be more desirable to leave room for responding to requests to the extent practicable.

The second comment is about promoting collaborative engagement. In making dialogue effective and sophisticated, it is necessary to develop an environment allowing each investor to make diverse efforts with originality and ingenuity while taking into account their own policies, stances, resources, and dialogue themes. The proposed revision for collaborative engagement includes wording such as "consider as an option as needed," and I don't think it limits options for investors. As for the cooperative engagement of the Life Insurance Association of Japan, which I mentioned last time, we conducted it for about 150 companies in the previous fiscal year. We send a paper in the joint names of the member companies to investees in advance, and then the members engage in dialogues dividing the work burden among them. We feel that the benefit is that we can approach many companies as a whole while reducing the burden on each individual member.

Currently, we focus on the themes of shareholder returns, integrated disclosure of financial and non-financial information, and enhanced disclosure of climate change information. These dialogue themes are able to be addressed on an ongoing basis because the participating life insurance companies have relatively similar investment philosophies and investment horizons, making it unlikely that differences in perception will arise. As for the outcome, in the following year, about 30% of the investees responded to requests on the themes of shareholder return and integrated disclosure, and over 90% of the investees responded to requests on the theme of enhancing information disclosure on climate change, too. In addition, we confirmed in the dialogue that all the non-responding investees are willing to improve.

In this way, we believe that collaborative engagement can be a useful tool of dialogue by taking into account the views and stances of investors and dialogue themes. The Life Insurance Association of Japan will continue to make efforts to materialize and enhance the themes of dialogue and support the efforts of investee companies toward sustainable growth while maintaining a relationship of trust with them.

That's all.

[Kansaku, Chair]

Thank you very much.

Next, Mr. Nishimura, could you please speak?

[Nishimura, Member]

Thank you. I am Nishimura of Sumitomo Riko Company Limited. I would like to make comments from the standpoint of corporate management.

First of all, as I mentioned last time, from the perspective of promoting multi-stakeholder management as a premise, I think it would be effective to add consideration for various stakeholders other than shareholders to the Stewardship Code. Furthermore, in order to achieve the objectives of the corporate governance reform, it is essential for investors to comply with the Stewardship Code, and from that point of view, I believe that a system to regularly monitor their compliance with the Code is also necessary.

Now, as for today's discussion, first, regarding ensuring the transparency of beneficial shareholders, I think it is important to design a scheme that must target overseas investors in identifying beneficial shareholders. According to a survey on the ownership of shares released by the Japan Exchange Group, Inc., the percentage of shares held by foreign corporations is 31.8%, which is the highest ever since fiscal 1970, when comparable data was made available. The total amount of shares held by them was 320,475 billion yen, up about 40% from the previous year. Under such circumstances, we are concerned that unless we cover so-called global custodians, who settle and keep securities in foreign markets, and overseas investors, we will not be able to make progress in identifying companies' actual shareholders. To that end, I would like to request the establishment of such a system that will ensure the transparency of beneficial shareholders by granting the legal authority to investigate beneficial shareholders to trust banks and banks and securities companies which are said to be standing proxies, and by imposing the obligation to respond on global custodians and overseas investors, through development of legal systems rather than a principles-based stewardship code, which I believe is moving in that direction, though.

Next, about collaborative engagement. The utilization of collaborative engagement is being discussed as a useful approach from the perspective of making up for the current lack of resources for investors. We think that collaborative engagement will be held in such a manner that multiple investors have dialogue with a single company, or representatives of multiple investors have dialogue with a company. In either case, there may be a concern that excessive pressure will be placed on

investee companies. We would like to request that the FSA set up a consultation desk, etc. and put in place a system for dealing with investors who engage in coercive dialogue.

In addition, although it is a slightly different issue from ensuring transparency of beneficial shareholders, I believe that it is also very important to address the problem of the so-called Japanese Wolf Pack. According to past court cases, when activists and others conspired with multiple investors to secretly buy up a company's shares, there were problems such as delays in reporting large shareholdings or failures to report joint holders under the Large Shareholding Reporting System. In this regard, I would like to ask the FSA to consider strengthening the current regulations, such as by suspending the voting rights of investors who violate the regulations, referring to the examples of Germany and other countries, and establishing a system where enforcement actually works.

In addition, in the future, I think it will be necessary for the FSA to list investors who have maliciously violated the Large Shareholding Reporting System and add business flow which enables to search for investors who have violated the Large Shareholding Reporting Rule, for example, at the timing when checking for anti-social activities or money laundering when overseas investors who intend to invest in Japanese companies use so-called global custodians. It would be highly appreciated if the FSA could draw up guidelines and take the lead as a flag bearer.

That's all from me. Thank you very much.

[Kansaku, Chair]

Thank you very much.

Ms. Ueda, could you please speak next?

[Ueda, Member]

Thank you for asking me. Also thank you very much for the explanations. I would like to comment in line with the “Issues for Discussion,” too.

First, about improving the transparency of beneficial shareholders. I agree with the wording of the proposed revision. However, when we discussed this issue before, I remember there was an opinion from the investors’ side that it is a heavy burden to ascertain daily transactions, which has also been commented on by other investors today. Therefore, in order to ensure effectiveness, it is important to promote dialogue with companies while understanding the burden on investors to a certain extent. To prevent issuing companies from making excessive inquiries, such as asking for yesterday's figures, investors should establish policies in advance regarding the frequency of information provision, for

example at the end of each month, and the method and other necessary matters, including dealing with agents who may be used by companies in making inquiries to hundreds of investors, and then publish such policies in advance, which I think would make communication smoother.

It seems that there was concern from investors about the use of agents, which I mentioned, but this kind of practice is used overseas, so I think that if it can be put into practice, it wouldn't be too much of a burden. There is concern that this kind of content will increase rapidly as a supplementary principle, but I think it is possible to create such a policy.

Also, I heard that the revision of the Companies Act is now under way. I understand that this revision of the Stewardship Code is an initiative in the process of revising the Act and that the approach using the Code is to encourage the current dialogue-based efforts to the extent possible. I feel, however, that the Code is less enforceable in terms of the provision of information, and I also hear that the mechanism of the UK's Companies Act does not always force the provision of information mainly from overseas funds. In that sense, there is a way to use Euroclear in Europe, or a report on the Large Shareholding Report Rule. The report from the FSA says that it will not do so, but I think there is a possibility to use the disclosure base in the United States. In the future this may be comprehensively handled through legal revision, including the perspective of what to do with systems and databases, but I think it will be necessary to clarify the positioning of a communication-based and dialogue-based approach in the process.

It is true that the Code, which is soft law, may be weak in its enforcement. However, although investors strongly request investee companies to disclose various information, conversely, when investors are requested to disclose their own information, they refuse to do so. Such a dishonest reputation will be evaluated in the stewardship market. I think this is a kind of discipline. In this sense, I think that it has an effect because it is Code.

In relation to this, apart from today’s discussion, I think that enforcement and monitoring power are a little weak in the Large Holding Reporting Rule. This is not a point of discussion at this meeting, but I believe that the whole scheme will improve if you give it some consideration in the future.

Next is about collaborative engagement. I think collaborative engagement is basically a complementary approach to individual engagement. This means that it can be used selectively, especially when individual dialogue cannot achieve results. Specifically, when it comes to topics that have a large impact on the market as a whole or issues that have a social impact, there may be cases

in which they make specific proposals and cases in which they do not, but I think it is a matter of choice. I think that the level of requirements will converge to standard requirements rather than individual ones. Since the time when collaborative engagement was included in the Stewardship Code, the issue of “act in concert” was often voiced especially by investors in the United Kingdom. Therefore, at present, while this issue is being addressed through the hard laws and the FIEA, I think we are at the stage of discussing how to make collaborative engagement effective in the world of Code.

I feel a little strange about this because the current Code states that collaborative engagement is "beneficial," but, I think, as I mentioned, it should be a system to encourage investors more broadly to choose collaborative engagement as an option. The proposed revision says “should consider as an option,” which I feel means “must consider.” But here, I thought that this was a more careful way of expressing in Japanese the nuance that it is good to take it into consideration, that you can take it into consideration if necessary, and that you can choose. I looked at the English version, and I thought that "should consider as an option" was a bit strong, which can be understood as “must consider.” I thought that it is possible to consider it as an option, and that it is OK to consider it, so I understand the purpose here very well, but I also thought that it would be a good idea to revise it by, for example, writing notes or changing or adding the words or the text itself so that it will not cause any misunderstanding. I felt that it was a little strong.

In any case, I agree with the direction of the proposal, and I would like you to consider the wording so that it does not cause misunderstanding.

That's all.

[Kansaku, Chair]

Thank you very much.

Are there any members who have not spoken yet and would like to speak? Mr. Tsukuda, please.

[Tsukuda, Member]

Thank you. So regarding the first issue about the improvement in the transparency of beneficial shareholders, in recent discussions with various business companies, I have the impression that short-termism is rampant among institutional investors. In this context, improving transparency regarding beneficial shareholders will be a very important issue, and I am fundamentally in support of the proposed revisions. With this background, the proposal has a phrase that institutional investors

should explain to companies, which I think is basically good.

At the same time, as other members have pointed out, it will be necessary to develop relevant systems and databases.

In addition, as mentioned by Mr. Nishimura and Ms. Ueda, I believe that thorough monitoring and sanctions for violations of the Large Shareholding Reporting Rule will make this revision of the Code even more effective. That's the first point.

Regarding the second issue about collaborative engagement, I think that the proposed revision is basically acceptable. During the earlier discussion on the wording of the proposed revision on the “constructive dialogue that contributes to the sustainable growth of investee companies,” some members suggested that it should be changed to "improving corporate value," or it should include the phrase "medium- to long-term." On the cover page of the Corporate Governance Code, however, there is the title "For the sustainable growth of companies and the improvement of a medium- to long-term corporate value.” Since this phrasing has been imprinted in me, when I read it, I automatically assume that it encompasses the concepts of the medium- to long-term and improving corporate value. I think that perhaps it would be good to consider what the focus of this wording should be. I myself understand that it encompasses the improvement of corporate value as mentioned earlier, and that it also encompasses the medium to long term as a natural premise, but I think there is an issue as to how everyone perceives it.

Another issue is that when we consider the relationship between shareholders and investee companies, it is likely to be unequal, rather than an equal relationship because it is between those who exercise voting rights and those who are subject to the exercising of voting rights. As mentioned earlier by other members, companies may feel more pressure when investors hold collaborative engagement. Therefor I think it is necessary to have a safety net in place, such as setting up a consultation counter at the FSA.

That's all from me.

[Kansaku, Chair]

Thank you very much.

Ms. Okina, could you please speak next?

[Okina, Member]

Thank you very much for the explanations.

I am in favor of the proposed revision, too, regarding the improvement of transparency of beneficial shareholders. I believe it is very important not only from the perspective of promoting dialogue but also from the perspective of enhancing transparency and demonstrating market functions. In addition, there have been various movements recently, including those of overseas investors, so I believe that improving transparency will be beneficial for managing companies as well as for thinking about management strategies.

At the same time, as many members have said, I would like you to consider what is reasonable and not burdensome for institutional investors. Also, I would like you to carefully consider how to build a system in parallel under the current structure explained on page 6.

I also support the proposed revision for the second issue about collaborative engagement. Well-organized pros & cons are written here. It is certainly true in the sense of lack of resources. Also, in the current situation, where many investors have not yet committed to the Stewardship Code, I think there is an aspect of encouraging them to commit even a little. If it works effectively to improve medium- to long-term value, I think it is very beneficial.

On the other hand, I am concerned that it will become a formality, and what is very important is that investors and the market have diversity. I think that the market is meaningful when investors with different investment purposes and horizons engage in various dialogues and various evaluations. In that sense, I think it is very important that it is written as an option. I agree with such direction and that the proposed revision includes the wording “contributes to the sustainable growth of companies.”

That's all.

[Kansaku, Chair]

Thank you very much.

Mr. Takei, could you please speak?

[Takei, Member]

Thank you.

First, regarding the improvement of transparency of beneficial shareholders, I agree with the wording "should be explained" in the original proposed revision of Guideline 4-2, and I do not think it should be watered down by adding wording such as "it is desirable."

Also, I think the proposed revision should include the disclosure of the response policy when

receiving requests from investee companies, too.

As Ms. Ueda mentioned a little earlier, generally speaking, companies are required to be more transparent in various ways, and are disclosing a variety of information. However, when it comes to the transparency of investors, I am honestly a little concerned that, depending on how it is interpreted, they tend to make somewhat negative comments.

For example, they may say that they can’t disclose the number of shares held because they intend to sell them, because they have a confidentiality obligation, or because they haven't reached an agreement. If they start saying such things, the information will not come out. They could produce any number of such reasons. I feel that these actually show the more necessity to revise the code this time. In the world of soft law, I strongly feel that if the requirements are not written clearly like this, information will not come out in the end for various reasons. Also, I think the system to show the information of beneficial shareholders will be built up, but even if a system is developed, I am concerned that some will say that they cannot provide information for various reasons or that they cannot use the system, etc.

Therefore, although the Stewardship Code, which is a soft law, is designed to describe the content on a compliance-or-express basis, If investors say that they cannot do this, I think that if you do not write it as "it should be explained" in this soft law world, it will not work properly.

I also disagree with the revision of "reasonable extent." The proposed revision draft also only states "to what extent" in a fluffy way, so how much to disclose is actually a matter of falling into practice in the end. There are things that can be done and things that can't be done, and the act of signing up for the Stewardship Code, which is a soft law, should involve asking whether the things that are said to be impossible are really impossible, and let's do it together. If we tone down the wording because there are various excuses, there is a concern that investors will not provide information in various ways, so we should proceed with this proposal without toning down the wording.

Also, at the beginning, the phrase "dialogue should be held regardless of the number of shares held" should be deleted as originally proposed, too, if investors are willing to refrain from disclosing information where possible in the current situation. I think that some investors might say something like, "As long as I disclose my shareholding, you must meet me," so I think this sentence should be deleted as originally proposed.

As a way of thinking, when we want to do this together, the simple expression in the original draft is the easiest to understand, so I think we should do it in the original draft. In that sense, I think the FSA's original proposal is fine.

Regarding collaborative engagement, almost all issues have already been raised not only on discussion but also on how to write this in the soft law wording, so I think it is up to the Secretariat to decide how to write this. As Mr. Sampei mentioned earlier, there are various practical aspects, including cases where collaborative engagements are effective or ineffective, and points to keep in mind. I think it is all about how to summarize these matters. Mr. Sampei mentioned the thoughts of institutional investors, and I think there are also issues that Ms. Matsuoka and Mr. Tsukuda mentioned about how to look from the viewpoint of companies. I think it is about how to show such points outside the Stewardship Code.

The Stewardship Code was supposed to be streamlined, so increasing the amount of text may put the cart before the horse. It is important to do it in the way of the FSA summarizing the points to be noted, and I think it is up to you how to write the wording of the Code itself based on that.

That's all.

[Kansaku, Chair]

Thank you very much.

Next, Mr. Oba, please.

[Oba, Member]

I would like to make three points.

First, basically, I agree with the proposed revision draft. The premise of this discussion is to create a virtuous cycle in the investment chain, so I think we should not forget that viewpoint. When we discuss this kind of theme, it will become more and more specific. Originally, the premise was to create a virtuous cycle investment society by utilizing money effectively in Japanese society, so I think we must not forget that.

Second, this is an opinion from all of you. I think that legal arrangements will eventually be necessary regarding beneficial shareholders. While there are practical problems, I think there will also be a issue of who bears the cost, the issuers or the investors?

Another practical issue regarding collaborative engagement is who should bear the management resources. I held a hearing in London, and everyone agreed with the purpose of collaborative

engagement. However, even based on the opinion in London, the discussion ends up as this point of issue. The issue is that it puts a burden on a lead organizer, and as a result, there are many free riders. The latter benefit from this scheme more. I think there is the possibility that this kind of issue will arise in practice. I'm not against the proposed revision, though.

Also, as for the opinions that did not come out at today's discussion, why we think it is difficult to hold this discussion in Japan is because, I feel, the investment target of Japanese investors is too wide. They probably invest based on the TOPIX, which consists of about 2,200 stocks. I don't hear of overseas counterparts investing in such a large number of investment targets. There are some, but the investment targets are narrowed down a little more. Since the range is very limited, I think they can have dialogue with a deep understanding of each other. In Japan, however, since the range of investment targets is a little too broad, I think this is an important viewpoint that we need to consider in the future, although you did not point it out.

That's all.

[Kansaku, Chair]

Thank you very much.

We received comments from all the members participating in this meeting today. Thank you. Next, if any of observers have an opinion, I would like you to speak as much as time allows. Does anyone wish to speak? All right, then, Trust Companies Association of Japan, please go ahead.

[Trust Companies Association of Japan]

I am from the Investment Trusts Association.

Our Association has a role of representing asset managers, so from that perspective, I would like to comment on the transparency of beneficial shareholders. This is similar to what you said, but from the standpoint of institutional investors, it is difficult to say that we can always respond to requests from a large number of companies at any given time, either in terms of cost or personnel. In that sense, I think there will be various settings for each institutional investor. As I listened to the discussion today, I felt that the level that companies are seeking is very high. On the other hand, I also think that the level that we envisioned as an institutional investor is slightly off.

In that sense, in the current situation where the Code is a soft law, I think that it should be allowed to be within a range that can be practically addressed. For example, I think institutional investors are thinking about answering questions on the number of shares for constructive dialogue, but it is hard

for them to receive and respond to many inquiries for research purposes. So it may be one option to write such things in the response guidelines.

I would like to make one more comment from the perspective of our position as an asset management bank. We, asset management banks, are engaged in the management of trust assets, but we have neither the authority to give instruction for voting rights nor the authority to invest. Therefore, I understand that we are not the direct beneficiaries under the Stewardship Code, but a shift to hard law is also being discussed, so we would like to contribute to the establishment of the framework, including infrastructure development, as a nominal shareholder.

Also, while some may say that the system should be immediately developed from now, we are not processing our business at each issuing company level at this point. Therefore, if we are going to do something now, we need to spend a considerable amount of money on system development and cost sharing. I think that we need to think about systematization after we have organized the whole situation, including what to do with foreign investors under hard law.

That's all of my comments.

[Kansaku, Chair]

Thank you very much.

Is there any other observer who wishes to speak? Is everybody all right?

There is still a little time left, so if you have any comments on the other issues discussed today, or if you have any additional comments or remarks after listening to other members' comments, please go ahead.

Thank you. Ms. Sisson, please.

[Sisson, Member]

Thank you, I want this to just register that I think regardless of this specific language used on collaborative engagement in the code. It won’t work on the issue to fix the safe harbor problem, because international investors have very sensitive regulatory concerns about acting in concern and to answer to that we can encourage what we have to create environmental where people feel safe. And, on the beneficial ownership points, I think it is also worth considering how to create the system that allows to understand who actually holds the voting right, because there will be many asset managers who have proportions to their clients who vote for their own investments and so there are two levels complexity that needs to be managed.

[Kansaku, Chair]

Ms. Sisson, thank you very much.

Anything else? If any of you wish to make additional remarks. please. All right, Mr. Ueda, please go ahead.

[Ueda, Member]

Thank you for appointing me again. As we have time, I would like to make one comment about what you added to today's Materials.

Recently, the UK Stewardship Code consultation was launched, and thank you very much for summarizing it so quickly. There is one point that we need to pay attention to here. On page 18, something is written about reducing the burden of reporting. This is true, but I'm afraid that you may have a wrong understanding by just seeing this. I would like you to pay attention to the following point.

In the UK, the current situation is that investment institutions first prepare massive reports of around 100 pages and then communicate closely with the FRC authorities, placing a burden on both the investment institutions and the authorities in monitoring and responses. Therefore, they are getting to think that it is better to put more effort into practical areas and that the burden of compliance costs is becoming too large. On the other hand, in Japan, each fund manager is currently making various reports through their own efforts. However, in many cases, the original policy will remain as announced at the beginning unless the Code is revised. As for the reporting of stewardship activities, it is left to the disclosure by each asset manager and asset owner, and this also means that no evaluation is made. This is not about trying to reduce the burden because it seems too great or because the Stewardship Code becomes more complex, but rather about putting effort into areas that are necessary to increase effectiveness. Thank you for giving me the time to explain this background.

Thank you very much.

[Kansaku, Chair]

Ms. Ueda, thank you for your valuable comments.

Does someone wish to speak? Is everybody all right?

Well, it is a little earlier than the scheduled time. Thank you very much for discussing such a lot at today's meeting. The Secretariat will summarize the results and shall we discuss this again. Finally, if there is any notice from the Secretariat, please let us know.

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

As for the schedule for the next meeting of this Expert Panel, we will fix the date based on your convenience and let you know. Please wait for our notice.

That's all from the Secretariat. Thank you.

[Kansaku, Chair]

Thank you very much.

This concludes today's meeting. Thank you very much for taking time out of your busy schedule to attend.

-- End --