Provisional translation

February 17, 2017
Industrial Growth Platform, Inc.
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Opinion Statement on Revision of the Stewardship Code

1. Efforts should be made so that stable shareholders will not obstruct effective dialogue

   No matter how much efforts institutional investors make to promote constructive dialogue with investee, stable shareholders (those who own cross-shareholdings) who support the management unconditionally hinder the effectiveness of the dialogue.

   To prevent this kind of situation, it is necessary to stipulate in the text of the Stewardship Code the need for collective engagement with multiple investors cooperating to carry out dialogue (while paying attention to matters concerning the application of related laws and regulations such as the Financial Instruments and Exchange Act) rather than institutional investors taking action on their own.

   On the other hand, though the Corporate Governance Code states that holders of cross-shareholdings have a responsibility to provide an explanation, they should also require them to fulfill their responsibility in exercising voting rights. Furthermore, it would be worthwhile to discuss the possibility of policy measures to reduce cross-shareholdings such as reducing taxation on profit on stock transfer when mutual shareholdings are sold.

2. Governance that focuses on the actual state of conflicts of interest of institutional investors should be strengthened

   Institutional investors face many cases of conflicts of interest confronting stakeholders. As most asset managers belong to a financial institutional group, they may give priority to the intention of the parent company (or other departments of the same company). On the other hand, in the case of asset owners, if a pension fund invests in the parent organization or a client company of the parent organization, a conflict of interest will occur. These conflicts of interest are expected to have a significant impact on the employees within the organization, so they should be protected by going one step further to describe the contents set out in Principle 2, Guidance 2-1, 2-2.

   Even if a conflict of interest is something that is unavoidable due to the make-up

of a company, the following should be stipulated in the text of the guidance so that the fulfillment of fiduciary duty does not get obstructed due to a conflict of interest.

- Management of situations in which there is a potential conflict of interest, and more detailed formulation of guidelines for action.
- Ensuring the independence of human resources and compensation systems
- Ensuring the independence of the decision-making process
- Company-level disclosure of voting activity

3. Investment of resources for the purpose of raising the 'quality' of the content of dialogue should be strongly encouraged

   From the perspective of company managers, unfortunately they are often dissatisfied with the dialogues with institutional investors due to the fact that they cannot gain any meaningful 'findings' or 'indications' that will lead to an improvement in corporate value. This is because institutional investors do not have skills or capabilities to develop insights on the profit structure or market/competitive environment from a global or mid to long-term perspective.

   In the first place, for institutional investors who don't have any experience at the frontline of real management, it is necessary to make active investments of resources to build up their capabilities so that they can discuss matters from the same perspective as company managers and make suggestions.

   Even in the case of passive management, although one may want to be selective in carrying out engagement activities from the perspective of keeping costs down, it is not necessarily the case that there is no need to work on engagement activities per se. Due to the nature of passive management, considering that the possibility of increasing the value of assets through portfolio selection is limited, the idea of aiming to increase the value of assets through engagement activities also holds water.

   This kind of effort comes with a cost, and we should consider the appropriate distribution and sharing of the required cost.

4. The evaluation of stewardship activities should be "made visible" with a focus on the substantial aspects

   Although there is a common understanding that the performance evaluation of stewardship activities should not be made on the basis of formal criteria such as frequency and time, as to how evaluation should actually be carried out, a concrete methodology has not been established, and in fact asset owners are still searching

it.

Therefore, to promote the establishment of useful self-evaluation methods of asset managers in a competitive environment, first, it is crucial to clarify ("make visible") the goals and targets when implementing stewardship activities in the same way as self-evaluation concerning effectiveness of the board in the Corporate Governance Code.

5. Collective engagement should be promoted

As I have already discussed in my first point above, from the perspective of securing effectiveness of the Stewardship Code, it will be effective for institutional investors to increase their presence and influence as "responsible investors."

Collective engagement by multiple investors has already been described in stewardship codes overseas, and actual business practices have also been developed. In the same way in Japan, we should take Principle 7, Guidance 7-3 a step further, and set rules on collective engagement for the sake of securing efficiency and effectiveness in engagement activities. There is a strong need for such rules particularly in Japan where stable shareholders (holders of cross-shareholdings) exist as described earlier.

We should upgrade the environment for extensively promoting collective engagement, such as reviewing the scope and depth of collective engagement in business practices and building platforms, while paying attention to the rules of the Financial Instruments and Exchange Act.

6. The quality of advice from proxy advisors should be secured

With the increasing presence of overseas institutional investors in recent years, the influence of proxy advisors keeps rising, and in such an environment, the question of whether this kind of advice is appropriately given becomes a problem.

In my personal experience, several years ago, a certain proxy advisor recommended voting against my appointment as an external director at Omron due to doubts of my independence. Later, Omron took a proactive approach to engage the proxy advisor in constructive dialogue, which produced results, and the proxy advisor switched to approval in the following year. I think this is a good example that hints at the importance of substantial constructive dialogue. On the other hand, it appeared that initially the proxy advisor had given a stereotypical response that "We opposed the appointment because of failure to satisfy formal criteria." As the recommendation of the proxy advisor changed after proper dialogue was carried

out, I thought, “So it was okay after all, wasn’t it? That being the case, why didn’t they engage in more substantial discussion in the first place?” And I also thought, “What kind of professional would give advice that has a major impact simply on the grounds of formal criteria?” “If they can simply get away with that, then what is the state of governance in the proxy advisor company itself?” That’s why in the first place, we need to consider carefully whether there are any problems with the governance in proxy advisor companies, and whether the advice is appropriately given (in particular, whether voting criteria in the US have been applied in Japan without giving careful consideration to differences in the company laws in each country, whether there are overly mechanical or formal decisions that stand out, whether the structure for providing proxy advice services, particularly in Japan, is inadequate in terms of human resource, among other things).

In the current Stewardship Code, there is a section that applies to proxy advisors in item 8 of the Introduction (Aims of the Code), but in Principle 5, Guidance 5-4, it should also be stipulated in the text that proxy advisors should provide services appropriately after making adequate investments in management resources, and developing an accurate understanding of the specific conditions in each case. Furthermore, depending on the circumstances, as in the draft of a bill (H.R.5983) that was submitted to Capitol Hill in the US, it will be good to consider enforcing a certain level of discipline including legal regulation.