

The Council of Experts on the Stewardship Code

December 11, 2019

Dear Fellow Council Members,

Opinion Statement for the 3rd Meeting of the Council of Experts on the Stewardship Code

Due to work-related reasons, I am unable to attend today's meeting of the Council, so I am submitting my opinions in writing.

For the sake of convenience, in the text that follows I will refer to the draft of the 2020 revised version of the Stewardship Code, which will be discussed at the 3rd meeting, as "the draft."

1. Overall: "consideration of sustainability corresponding to investment strategy"

In light of the discussions at the 2nd meeting, the expression "consideration of sustainability corresponding to investment strategy" has been included here and there, and I wish to thank the Secretariat for that.

Regarding "investment strategy" and "sustainability," there are concerns about whether the intentions behind the draft will be adequately conveyed to the asset managers etc. that receive it, so I would like it to be provided from a discussion standpoint.

- For example, in English the term "investment strategy," and I confirmed this with a native English speaker at our firm, tends to be associated with a fairly concrete strategy for a certain market environment and specific period. So "investment strategy" sounds as though the intended meaning is at the level of the individual funds that make investments. But fundamentally at least, I think it requires action at the level of the entities that express their acceptance of the Code, so I think it might be a good idea to make that point clearer.

- The context of “investment strategy” as used in the draft and the language used in the 2020 version of the U.K. Code, which was likely written with a similar intention, can be seen in “aligned with their own business model and strategy” (8th line in INTRODUCTION on p.4) and “signatories differ by size, type, business model and investment approach” (16th-15th line from the bottom in HOW TO REPORT on p.6).
- And when “consideration of sustainability” is included, there’s the expression “Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society” (Principle 1, p.8). However, “investment beliefs” expresses such things as approaches to investment based on religion and culture, and in some cases, it is seen as an expression that goes beyond the investment philosophy of a single asset manager, so caution is required as to the question of how to define sustainability also comes into play.
- So the definition of “sustainability” is important, and I therefore feel that it’s peculiar that it finally appears on p.8 It’s in Guidance 1-1 on p.8. And because similar expressions appear here and there from the explanation of the purpose of the Code in the box on p.1, I think there should be more clarification at an early stage about what sort of “sustainability” we’re talking about.

I think that the expression used in the overview explanation in the 2020 U.K. Code is more or less the same, and it goes like this: “There are new expectations about how investment and stewardship is integrated, including environmental, social and governance (ESG) issues.”

- My understanding is that if a few words were added to the addition to Guidance 1-2, it would read as follows:
 “Institutional investors should clearly specify in their policy whether issues related to the long-term sustainability of the economy, environment, and society, including ESG factors, are taken into account, and if they are, how appropriate capital allocation, capital efficiency, assessment of benefits, and investment behavior that contributes to addressing sustainability issues are taken into account.”

If, throughout the Code, the “consideration of sustainability corresponding to investment strategy” refers to responsibility at the level of entities that have stated their acceptance of the Code, “**investment management strategy**”

might be more appropriate than "investment strategy," which can be read as referring to the level of individual funds.

<Reference>

Investment philosophy: starting point

Expressions positioned between investment philosophy and investment process:
investment style, investment discipline, investment approach

Investment process: practical embodiment of investment philosophy

Investment beliefs: approaches to investment based on religious beliefs, doctrines and culture

2. Principle 7: "consistent with their investment strategy"

Regarding the expression "investment strategy," which I discussed in 1. Above, I think that "**investment management strategy**" might also be the appropriate expression in Guidance 7-4.

3. Principle 8

a. "setting up a business establishment in Japan"

I think the phrase "The proxy advisors should develop ... setting up a business establishment in Japan" might be going too far. Given recent remote work styles, the proliferation of web-based services, and needs from an international standpoint, such as improving the international competitiveness of Japanese markets and bringing corporate governance up to global standards, I think there is still scope for discussion about whether the establishment of an office in Japan should be made a prerequisite. However, during busy periods, the telephone needs to be answered in the same time zone, for example, so realistic measures are already being taken, and I think disclosure, for example, could be sufficient as a means of gaining understanding. Of course, even in such cases it will be important to fully understand and abide by domestic laws, ordinances, guidelines, etc.

b. Guidance 8-3

I don't feel there's anything especially peculiar about the direction of footnote 27 to Guidance 8-2, but regarding the phrase "whether they have dialogues with companies, and the nature of such dialogues are considered to be subject to disclosure." the current schedule and process of shareholders meeting should be

adequately taken into account. The amendment of the Companies Act during the 200th Parliamentary session may bring the disclosure of convocation notices forward a little, but attention needs to be paid to the fact that the service provided by proxy advisors (i.e. advice on voting) is only valuable for a short period of time. When implementing Guidance 8-3, the requirement to “provide the submitted opinion of the company to its clients together with the recommendation” could often be difficult to achieve unless the disclosure of convocation notices is made considerably earlier. Going forward, I think that it will be necessary to make improvements, which could mean further reconsideration to the nature of shareholders meeting process itself.

I hope that you will take the above into account when preparing the draft.

Yours faithfully,

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