



The Expert Panel on the Stewardship Code
Japan Financial Services Agency (FSA)
Meeting on the revisions of the Japanese Stewardship Code

10th October 2024

ICGN Statement to the Expert Panel on the Stewardship Code (the “Panel”)

Dear Fellow Panel Members,

Thank you for the opportunity to provide comments and remarks to this discussion. I am pleased to provide ICGN's comments on the items noted in the agenda for the next Panel Meeting taking place on 18th October 2024.

Led by investors responsible for assets under management of \$77 trillion, ICGN is a global authority on the highest standards of corporate governance and investor stewardship. These standards are defined in ICGN's Global Governance Principles and Global Stewardship Principles. As such, our commentary is based on these standards, together with ICGN's Japan Governance Recommendations.

Issue 1: Making stewardship activities more effective

Effective stewardship enhances overall financial market stability and economic growth, focusing on long-term value creation, and is an example of the constructive dialogue we want to see more of between boards and shareholders.

In order to make stewardship activities more effective, we need to build understanding inside companies about the goals of stewardship and investor expectations. We must remember that we all share the same goals, and that good engagement and stewardship should be seeking to be constructive and not combative. Companies should approach stewardship engagements with an open mind and willingness to listen to their investor's views.

There are some practices that can help engagement discussions be more effective:

1) Timely (and high quality) disclosures of company information ahead of the AGM:

Enhancing the quality and timeliness of company disclosures would help promote better dialogue. This includes the publication of annual securities reports (Yuho) before the AGM. Current practice in Japan is highly unusual, as the only market where the annual securities report is published after the GAM. This is a hinderance to informed dialogue between companies and their investors. Earlier publication of the Yuho will help investors in their stewardship activities, including engagement and voting. We understand that this would likely require regulatory adjustments (e.g., streamlining Company Act and FIEA and audit requirements, extending AGM window from record date, etc) and/or a push to separate the record date from the fiscal year end to make the change more realistic for Japanese companies and audit firms.

2) Clarity of purpose of the meeting and ensuring that the right people are involved, from both the company and investor side.

Engagement meetings encompass a wide range of discussions and goals. So, there is not a one size fits all list of people who should attend. Clear agendas and priorities, laid out between investors and their investee companies can be helpful. At various times, CEOs,

CFOs, Heads of Departments and or Board members may be best placed to engage on different issues. In many cases, we would appreciate the presence of Board members in engagement meetings covering key governance and other issues. There are many cases in Japan where access to Boards through investor relations teams is still limited. Promoting further understanding of the Board's (or lead independent director's, if any) role in engaging with investors would help make engagements effective. Investors would particularly value the opportunity to have more engagement with the outside Board members.

In terms of better efficiency of the initial steps of the engagement process, it would help investors if companies would disclose their investor relations email addresses on their website.

Additional training for Board members and investor relations teams to help them to communicate in English with international investors may also be beneficial in some cases.

3) Promoting an understanding that there are a range of approaches to Stewardship, and there is no single “correct” way to do it.

Different asset managers and asset owners will approach stewardship with different objectives and expected outcomes. The Japanese Stewardship Code provides such flexibility, and it is right that stewardship - just like investing - is not a homogenous process. We believe that good stewardship activities are not limited to any one investment style, and that all investors, including index-based investors and fundamental stock picking strategies can and should carry out effective stewardship as part of their investment approach. Ensuring that stewardship activities are adequately resourced is very important, and finding ways to encourage that to be properly funded is key.

4) Removing real or perceived barriers to collaborative engagement is also important.

It is not always necessary for asset managers and asset owners to undertake collaborative engagement, however there are instances where this can be a useful tool. We welcome the revision of Financial Instruments and Exchange Act (FIEA) to enable effective investor collaboration, clarifying the definition of “joint holders” to exclude asset managers making agreement of exercising shareholder rights including proxy voting rights not for the purpose of jointly proposing “the act of a material proposal”. However, we believe it would be helpful to clarify in regulation that engaging with companies in the context of stewardship activities is not considered as an “act of a material proposal” and that investors participating in a collaborative engagement on governance and sustainability matters will not be seen as ‘joint holders’ (i.e. there needs to be a safe harbour). We believe that further clarification in the Stewardship Code revision would be helpful to promote the use of collaborative engagement practices where appropriate.

5) Individual company and systemic stewardship practices are both useful tools.

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

Issue 2: Transparency of beneficial shareholders

We generally agree that good transparency is important and can aid the efficiency of the engagement process. We support management teams efforts to be proactive in reaching out to engage with their investee companies.

We would also ask for companies to make AGMs more accessible and inclusive. In Japan, beneficial/substantial shareholders holding their shares through custodians (and therefore not on the shareholder registry) are often not allowed to attend AGMs. It is up to the company to define 'shareholders' in their internal policies, meaning it is up to the discretion of companies to decide which investor can attend (and ask questions).

Issue 3: Streamlining the Stewardship Code

We agree that there may be opportunities to streamline the content and principles of the code – to remove duplication and to simplify expectations.

However, we strongly believe that streamlining should not lead to “watering down” the Code or a reduction in the overall expectations of signatories’ stewardship. The code must still promote a high standard of investor stewardship.

Additionally, we believe that there is an opportunity for the Code to enhance its expectations around conflicts of interests, we would consider the framing of conflicts of interest in the UK Stewardship Code to be a good point of reference for the FSAs consideration.

Thank you for the opportunity to provide these comments, we look forward to continuing our participation in these discussions.



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