



ICGN

International Corporate Governance Network

Council of Experts on the Stewardship Code
Corporate Accounting and Disclosure Division
Financial Service Agency
Tokyo, Japan

Via email: stewardship2017-2@fsa.go.jp

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ICGN response to Japan Stewardship Code Revisions

Dear Council Members,

The International Corporate Governance Network (ICGN) welcomes the opportunity to provide comment to the proposed revisions to the Japanese Stewardship Code (Code), as presented in its consultation document dated 28 March 2017. ICGN is an investor-led organisation of governance professionals with Members which include institutional investors responsible for assets under management in excess of \$26 trillion. Many of our Members have significant shareholdings in Japanese companies.

Our mission is to promote effective standards of corporate governance and investor stewardship to advance efficient financial markets and sustainable economies worldwide. ICGN's Global Governance Principles call both for companies to have high standards of corporate governance, and for investors to have responsible investment practices, given their fiduciary duty of providing sustainable returns on capital to their ultimate beneficiaries – typically pension funds and long term savers.

You will note from our past correspondence on the Code that ICGN has been a strong supporter of the Financial Services Authority's (FSA) initiative to develop the Code in Japan, and it has been my personal honour to serve on the Council of Experts on the Stewardship Code, convened by the FSA. It is one of ICGN's top policy priorities to make successful stewardship a reality in markets around the world. Our own Global Stewardship Principles¹, which are translated into Japanese, were launched in 2016, and serve as a global framework and point of reference for developers of stewardship codes in many jurisdictions.

As an overarching comment we think the proposed revisions to the Code are sensible, and we applaud the FSA for continuing to focus on stewardship and to propose refinements to the very good Code that was first introduced in 2014. We do not have many comments, but would like to present our relatively few observations, as presented in the Code's Principles.

Principle 1

It is useful to elaborate on the relationship between asset owners and asset managers in Guidance sections 1-3, 1-4 and 1-5. The asset owner plays a critical role in shaping mandates for asset managers, and it is helpful to differentiate the asset owner's

¹ See ICGN Global Stewardship Principles: <http://icgn.flpbks.com/icgn-global-stewardship-principles/#p=1>

responsibilities from those of the asset manager. As a small drafting suggestion, we recommend that you consider changing the verb in section 1-3 to “instruct” from “request”, to clarify that it is the asset owner’s expectation for asset managers to be engaged in effective stewardship activities on behalf of the asset owner and its beneficiaries.

In section 1-4, we recommend that you eliminate the word “large” from the second sentence, as there may not be clarity on what defines a “large” asset owner; indeed we believe that all asset owners should promote stewardship for their investment holdings.

Principle 2

We are supportive of the revised language in sections 2-2, 2-3 and 2-4 that place emphasis on the institutional investor’s own internal governance. This is consistent with the spirit of ICGN’s first Global Stewardship Principle, which emphasises the importance of investor governance and avoiding or elimination conflicts of interest.

Principle 3

We strongly support the reference to environmental, social and governance (ESG) factors in section 3-3 as an area of focus for both investors and companies. We believe that sustainable growth of companies depends on proper consideration of ESG issues. We also agree with the wording change that frames ESG issues as both risks and opportunities. We note that ESG integration is one of ICGN’s seven core stewardship principles. While it is positive to see reference to ESG in this latest revision, we believe there may be scope for further exploration of ESG when the Japanese Stewardship Code comes up for revision the next time.

Given the potential complexities of prioritising companies for monitoring and engagement-- particularly for institutional investors with large numbers of companies in their investment portfolios-- you may wish to consider adding further guidance in this area. As an example, we share with you section 3-2 of ICGN’s own Global Stewardship Principles: “Investors should develop methods or risk based tools to identify and prioritise portfolio companies for further analysis and engagement which can include environmental, social and governance and other stewardship issues. This is particularly important for asset owners and managers with passively run portfolios, where the number of companies held in portfolios may be large.”

Principle 4

We support the addition of section 4-2, which focuses on the importance of passive investment funds to ensure robust engagement and voting, given their limited options to sell shares of companies that are included in market indices.

We are very pleased to see the introduction of section 4-4 relating to investor collaboration and collective engagement, and congratulate the FSA for putting this forward. This may be the most important new change that is proposed in the revised Code. Collective engagement is an important feature of ICGN’s own Global Stewardship Principles (ICGN GSP Principle 4, entitled “Engaging companies and investor collaboration”). This is a positive development, but believe that the FSA can go even further; perhaps when the Japan Stewardship Code is next up for revision there can be

further consideration given to introducing more explicitly investor collaboration in the overarching Principle and not only in the Guidance.

Principle 5

We are also supportive of the new language inserted in section 5-3 that elaborates on investor vote disclosure on an individual company/individual agenda item basis. We believe this represents best practice in stewardship.

We also support the introduction of section 5-5 that expands the scope of the Code to include proxy advisors, both with regard to resourcing, quality control and disclosures.

We hope our comments are useful for the purposes of the Council of Experts. Please do not hesitate to contact us should you have any further questions about our letter and we wish you a successful meeting.

Yours faithfully,



Kerrie Waring
Executive Director, ICGN

Copy: George Dallas, ICGN Policy Director, Erik Breen, ICGN Board Chairman