

19th April 2025

To,
Corporate Disclosure Division
Planning and Market Bureau,
Financial Services Agency (FSA)
Central Government Building No. 7,
3-2-1 Kasumigaseki, Chiyoda-ku
Tokyo 100-8967, Japan

Jstewardship@fsa.go.jp

Re: Response to Public Consultation on Proposed Revisions to Japan's Stewardship Code

Dear Sir/Madam,

The Asian Corporate Governance Association (ACGA) appreciates the opportunity to comment on the proposed revisions to Japan's Stewardship Code. Below, we address the consultation questions outlined in the *Draft Revisions for Public Consultation* (dated March 21, 2025) and provide recommendations informed by global best practices and regional insights.

Japan's Stewardship Code has evolved significantly since its 2014 introduction, reflecting global trends in stewardship while retaining unique domestic characteristics. As of December 31, 2024, there were 333 institutional investor signatories to Japan's Stewardship Code. This figure includes trust banks, investment managers, insurance companies, pension funds, and other service providers.¹

Japan's Stewardship Code and related governance reforms like FSA's "Action Program for Accelerating Corporate Governance Reform: From Form to Substance," published on April 26, 2023, and TSE's "Action on Cost of Capital-Conscious Management and Other Requests" issued on March 31, 2023, have driven tangible progress in reducing cross-shareholdings, enhancing board independence, improving management consciousness for capital efficiency, and increasing gender diversity. We have also seen 94 de-listings from the TSE in 2024 in a drive for quality, the highest number since 2013 and the first ever decrease in the total number of companies in the market.²

Consequently, we approach any revisions with the utmost seriousness and undertake thorough, deliberate consideration to ensure their alignment with objectives and values representing long-term oriented global investors. ACGA and its members are supportive of the objectives of the Stewardship Code amendments and would like to give some specific comments as outlined below.

¹ <https://www.fsa.go.jp/en/refer/councils/stewardship/20160315.html>

² <https://am.jpmorgan.com/fi/en/asset-management/adv/insights/etf-perspectives/japan-corporate-governance-shareholder-value/>

Specific comments

1. Increasing Transparency of Beneficial Shareholders [Principle 4]

Q1-1: What is your view on replacing part of Note 16 with new Guidance 4-2 stating “in order to support constructive dialogue with investee companies, institutional investors should, in response to requests from investee companies, explain how many shares they own/ hold in the company”? Please also provide reasons if any.

Answer: ACGA in principle supports replacing part of Note 16 with **Guidance 4-2**, which requires institutional investors to disclose shareholdings upon request. This aligns with global trends (e.g., the UK Stewardship Code’s emphasis on ownership transparency). However, we would like to outline the following concerns below:

- a) Equitable Treatment of Shareholders: While the Code emphasizes equitable treatment of shareholders, ACGA notes that disclosing specific shareholdings may potentially create an uneven playing field. The FSA should consider any risk that engagement with smaller shareholders may be deprioritized by corporates in response to disclosure of holdings and that investors with smaller declared holdings might be disadvantaged in terms of corporate access. We therefore propose that FSA consider moving Footnote 16 “*Constructive dialogue between institutional investors and investee companies should not be merely driven by size of shareholdings*” to the main Guidance to supplement Code 4-2.
- b) Ensure secure data protocols: While article 4-2 mentions the purpose of the data collected is “In order to support constructive dialogue” ACGA believes it is important to introduce safeguards to ensure the companies use the data collected only for legitimate purposes and to avoid or prevent misuse. As an example, the EU Shareholder Rights Directive II (SRD II) mandates ISO 20022 standards for transmitting shareholder identity data, with strict access controls and 12-month retention limits to prevent misuse of shareholder registers.
- c) Operational costs: Asset managers across many jurisdictions may find it operationally burdensome and costly to aggregate the data across multiple strategies and portfolios, with different approaches to voting and engagement. Whilst ACGA supports the intent of the article, we would recommend adding “*on a best effort basis*” so that investors can have some flexibility to respond to requests practically and within reasonable costs.

As the FSA is already working on legalizing this requirement by amending Company Law in the Legislative Council, we believe that standardizing the process and building required systems later will be helpful. Various parties including ICJ, a subsidiary of Tokyo Stock Exchange that provides an electronic voting system, or Broadridge can provide a system for asset managers and companies to detail holdings upon request, which seems to be a cost-effective approach to providing the data.

- d) Encouraging transparency in communications with shareholders: Often there is a time-gap between engaging and investing and asset managers hope that companies do not use this clause potentially to not engage. It is important to encourage corporates to be more transparent in their communication with shareholders, and to accept engagement can also be a critical “pre-investment” strategy for many investors.

At the same time, we note requirements for confidentiality between asset managers and underlying clients and would emphasize that requirements to provide information on shareholdings should not require disclosure of underlying beneficial ownership.

- e) Loss of competitive positioning for some strategies: For some activist and alternative strategies, revealing the number of shares before the AGM can lead to loss of competitive edge and sensitive information. In addition, the number of votable shares may be fluid especially in the run up to a shareholder meeting where there are contested proposals and can change rapidly on a day-to-day basis. Hence, these strategies should be able to provide an indicative response rather than precise number of shares held.

Q1-2: What is your view on adding “[institutional investors] should disclose in advance a policy on how they will respond to such requests from investee companies” to Guideline 4-2? Please also provide reasons, if any.

Answer: ACGA is supportive of expanding the guidance to include disclosure of policies for responding to shareholding inquiries but given many investors are based in different jurisdictions and have different proxy voting and engagement strategies, we believe specifying disclosure “*on a best effort basis*” will allow signatories to follow the directives to best of their capacity, without undue cost or operational burden. Additionally, we note that there is no explicit regulatory requirement in other jurisdictions mandating asset managers to publicly disclose a policy on how they will respond to requests from investee companies regarding the number of shares they hold.

2. Collective/Collaborative Engagement [Principle 4]

Q2-1: What is your view on revising Guidance 4-5 to “[i]n addition to institutional investors engaging with investee companies independently, engaging with investee companies in collaboration with other institutional investors (collaborative engagement) is also an important option. When considering methods for dialogue, it should be kept in mind whether they will lead to constructive dialogue that contributes to sustainable growth of investee companies”? Please also provide reasons, if any.

Answer: We are supportive of adding “dialogue that contributes to the sustainable growth of investee companies,” as that implies the mid-to-long term horizon of engagement over short-term behaviour.

Inclusion of the term “constructive” may be more nuanced and could lead to differences in opinion. When evaluating approaches to investor dialogue, it is important to recognize that investors, like companies themselves, are diverse in their perspectives and methods. Some may offer candid or critical feedback with the genuine intention of supporting the company’s growth and value creation. If a company were to dismiss such input as “unconstructive” and consequently exclude these investors from

further dialogue, it risks incurring significant opportunity costs by foregoing potentially valuable insights. Ultimately, as publicly listed entities, companies have a responsibility to remain open and responsive to all investors, ensuring that a broad spectrum of viewpoints is considered in the pursuit of long-term corporate value enhancement.

We are concerned that describing collaborative engagement as “an *important option*” might give the impression collaborative engagement is “optional” which is not FSA’s intention as Article 7-3 reiterates that Collaborative engagement is an important part of the Code. We are aware this could be a Japanese English translation issue as the Japanese version does not imply collaborative engagement to be optional. For the English version of the Code, we suggest “*collaborative engagement is also an important part of stewardship activities*”. We believe that maintaining practical flexibility to use various engagement methods is important to give the Code flexibility to accommodate various stewardship approaches.

ACGA would like to reiterate the recommendation in our [response](#) to the Stewardship Code dated February 7, 2020 and we note that the UK Stewardship Code provides guidance for signatories to report on outcomes in a way that aligns with their long-term stewardship goals. In the UK, signatories are expected to submit an annual Activities and Outcomes Report, detailing how they have applied stewardship principles through their activities and the resulting outcomes. This approach focuses on outcomes and not just principles. We believe Japan’s Stewardship Code could also include Guidance to encourage reporting on mid- to long-term outcomes to reflect stewardship commitment.

Q2-2: Are there any points that institutional investors should bear in mind when conducting collective/collaborative engagements? Please provide reasons, if any.

Answer: On 17 December 2024, ACGA sent the Financial Services Agency (FSA) some case studies and illustration of ACGA efforts on collaborative engagement, together with our findings on arrangements for these meetings that have had successful outcomes, and others where the outcomes were not successful. Collaborative engagement requires careful planning between investors but can play a pivotal role through bringing together the views of both international and domestic investors to help unlock shareholder value.

However positive outcomes require planning and coordination as we highlight in [this](#) presentation and as we follow in our Working Groups. We have highlighted below some of our recommendations for good practice in collaborative engagement, based on our experience in coordinating investors stewardship activity.

ACGA's recommendations for successful collaborative engagements

ACGA is a unique collaborative platform that combines diverse members from many different countries, backgrounds (legal, stewardship officials, portfolio managers) to share common areas of concern. From our experience, below are recommendations for successful collaborative engagements:

Investors

- Have preparatory calls ahead of the meeting for comprehensive planning: allocate sub-group members to individual topics for the meeting
- Focus on key issues for company engagement (pre-determine speakers and focus questions for the meeting rather than laundry-list approach)
- Facilitate collaborative engagement that includes voices outside of Japan and recommendations in line with global best practices
- Two-way conversation for all meetings: allocate time at end of discussion for companies to ask questions
- Have sequential meetings with managers, directors over a period of 2-3 years
- Meet the company in-person at least once a year to build trust with the company
- Respect Acting in Concert rules and make sure to provide agenda of potential discussion topics that make this clear
- No one member to dictate the narrative, discuss investors' common priority areas before the call with the corporate
- Set short term and mid term KPIs for the engagement process and update after each engagement meeting

Corporates

- Encourage having more company officials hear the view of investor members; ensure investor concerns are discussed at the board level for effective implementation
- Align targets with investor dialogues and not just box-ticking; awareness of financial terms including valuations, ROE, cost of capital through director and key management personnel training
- Disclosures and transparency on recognized areas for improvement, including transparency on board evaluations

Relevant rules and regulations that need to be followed in process of collaborative engagement



- **Compliance with Competition Law:** Attendees must adhere to competition laws and avoid agreements or practices that prevent, restrict, or distort competition.
- **Prohibition on sensitive information exchange:** Attendees must not disclose or exchange strategic or competition-sensitive information about their businesses, such as pricing, volumes, costs, customer or supplier details, business strategies, or investment plans.
- **Avoid coordination:** Attendees must not coordinate views or actions that could restrict competition or result in concerted action between members or investment companies.
- **Information exchange caution:** Any inadvertent exchanges of information that could breach competition law must be avoided.
- **Legal compliance:** Participation in meetings requires full compliance with competition law. Attendees subject to legal or regulatory regimes must ensure they comply with their obligations, including public disclosure requirements.
- **No financial, legal or investment advice:** ACGA's and the Japan Working Group (JWG) inputs do not include financial, legal or investment advice.

3. Streamlining the Code [Overall]

Q3: What is your view on streamlining the Code, as shown in the draft, by removing, consolidating, and simplifying the parts that have permeated stewardship practices since the Code was developed and revised? Please also provide any reasons you may have for your view.

Answer: In principle we support efforts to streamline and simplify the Code, noting that the number of footnotes has been reduced by around 25% and that the three-year period for review has been removed, making the Code more dynamic and ensuring its evolution to reflect current practices and requirements.

- i) In particular, we support the addition of Footnote 4 which references the fiduciary duties of asset owners through the “Asset Owner Principles” and the deletion of Footnote 8 and Footnote 19 regarding stewardship policies that may differ between asset owners and asset managers.
- ii) We recommend Footnote 18 should be retained as in many situations, investment managers may engage initially with investee companies before selecting those with which to have in-depth dialogues, given the size and diversity of their portfolios.

4. Other Issues [Overall]

- i) **Japan’s Stewardship Code Principle 4:** Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

ACGA believes the primary function of the Board is to ensure a company prospers and grows in the long term. Boards should be equipped with adequate skills to deal with crisis and guide the management as well as communicate to investors effectively.

Principle 5 of Japan’s [Corporate Governance Code](#) (2021) states: *During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.*

In order to strengthen constructive dialogue between shareholders and the Board and especially with independent directors, we would recommend the inclusion of an additional clause in the Draft Revision of the Stewardship code under Principle 4. Our recommendation is to add clause 4.8:

“Where relevant, institutional investors should seek to meet with board members, and in particular with designated independent directors, to have a better understanding of how the boards of investee companies function.”

This is referenced at Footnote 14, and we recommend including it in the Guidance as an additional clause to stress its importance and communicate the necessity for engagement to take place at a senior level.

Rationale: If regulators are encouraging greater and more meaningful dialogue between corporates and investors, this should be included in both the Corporate Governance Code as well as the Stewardship Code. If the stewardship reports also indicate the number of meetings with independent directors and topics discussed, it would be a good indicator of how serious the stewardship effort of the asset manager/ asset owner is.

- ii) ACGA supports the intent of Article 8-2, ensuring that proxy advisors have adequately skilled personnel to communicate with different stakeholders and support engagement efforts. However, we would respectfully point out that the concentration of AGMs in Japan, as

quoted in our open [letter](#) on 17th October 2024, makes it difficult for both investors and proxy advisors to manage their resources. We look forward to proposals from the FSA and METI enabling AGMs to be distributed over a longer time period, potentially alleviating service provider staffing issues.

- iii) We also advocate that all FSA consultations be made available in English to support accessibility and effective engagement with international institutional investors. We are encouraged by the following news article published in Nikkei on March 31, 2025 proposing that the [Tokyo Exchange mandate English disclosure to lure overseas investors - Nikkei Asia](#) and hope that this practice will also be adopted by regulators.

Conclusion

ACGA commends the FSA's efforts to balance flexibility and accountability in the revised Stewardship Code. Japan is already the regional leader on stewardship practices, and we hope these amendments will further advance stewardship practices in the market. We encourage the FSA to consider the above recommendations to further align the Code with international benchmarks while preserving its unique focus on dialogue and sustainability.

Yours sincerely,

Amar Gill
Secretary General, ACGA
amar@acga-asia.org

Kei Okamura
Portfolio Manager, Neuberger Berman
ACGA Japan Working Group Chair
Kei.Okamura@nb.com

Haonan Wu
Associate Director - Asia & GEMs, Federated Hermes Limited
ACGA Japan Working Group Deputy Chair
Haonan.Wu@FederatedHermes.com

Anuja Agarwal
Research Head, Japan and India, ACGA
anuja@acga-asia.org