

Japan's Financial Services Agency has revised the Stewardship Code: A look at the highlights

Voting disclosure is a major element of the revision to the code

by **Kazutaka Kuroda** | July 31st, 2017

The Financial Services Agency (FSA) in Japan released the revised Stewardship Code. It highlighted the major revisions on the following issues:

- Effective oversight by asset owners;
- Asset managers' governance and management of their conflicts of interest;
- Engagement in passive investment;
- Enhanced disclosure of voting records; and
- Self-evaluation of asset managers.

Of these, enhanced disclosure of voting records, or disclosure of voting records for each investee company on an individual agenda basis, is one of the main features (See Guidance 5.3 below). This would be the basis of institutional investors' action and comes as the Government Pension Investment Fund (GPIF) has requested such disclosure from its asset managers. This article will illustrate the state on this practice by the signatories to Japan's Stewardship Code at the end of June 2017 — and outline room for improvement. The number of the signatories, as of December 2016, is 214. This consists of 159 asset managers (seven trust banks and 152 investment managers), 48 asset owners (18 life insurance companies, four non-life insurance companies, and 26 pension funds) and seven service providers. This article mainly discusses the practices of asset managers and owners. At the end of June 2017, 17 signatories provided voting records on an agenda basis. Thirteen out of 17 signatories are non-Japanese signatories famous for excellent disclosure such as AXA Investment Managers, Henderson Global Investors as asset managers, and CalPERS and Railpen as asset owners. Therefore four Japanese signatories disclosed voting records on an agenda basis. Of these Strategic Capital, which invests in a concentrated portfolio of eight to 12 companies, disclosed their voting records on an agenda basis before the launch of the Stewardship Code. It is totally different from the practice of most Japanese asset managers and owners. In other words, they disclose summaries of voting records by agenda category, such as nomination of board directors and executive remuneration, in August or later. Therefore the following three asset managers started disclosing voting records in response to the Stewardship Code revision:

- At the end of April 2017, Nomura Asset Management disclosed voting records on an agenda basis for companies which held AGMs in the first quarter 2017. The disclosed document includes 2,635 voting records on an agenda basis and summary table by agenda category and comment.
- Daiwa Asset Management disclosed two monthly voting reports for companies which held AGMs in April and May 2017. They cover 97 and 441 voting records respectively and include summary tables.
- At the end of May 2017, Mitsubishi UFJ Trust Banking Corporation disclosed voting records on an agenda basis for companies which held AGMs during the period from July 2016 to April 2017. The disclosed document includes 1,529 voting records on an agenda basis and summary table by agenda category and comment. It will disclose voting records in the same way in August 2017 for companies which held AGMs in May and June 2017.

For sure, the practices of these three asset managers were proactive, since they started the disclosure before the launch of revised Stewardship Code. However there are three areas for improvement. Firstly, they did not describe the reasons for their 'abstain' and 'against' decisions on an agenda basis. They briefly summarised the reasons for their decisions in the summary comment. But disclosure of the reasons on an agenda basis is best practice to meet fiduciary duty to asset owners and ultimately beneficiaries. Secondly, they did not disclose potential conflicts of interest with companies in the disclosure. Most Japanese asset managers are a part of larger financial groups, i.e., not they're considered as independent from financial groups' businesses. So they should have explained this in the disclosures. Finally, their disclosure is limited to records on Japanese companies. If they respect the Code's spirit, they should disclose voting records at non-Japanese companies as the aforementioned 13 global asset managers and owners.

Revised Stewardship Code Guidance 5.3

Institutional investors should at a minimum aggregate their voting records into each main kind of proposal, and publicly disclose them. Furthermore, to enhance the visibility of the consistency of their voting activities with their stewardship policy, institutional investors should disclose voting records for each investee company on an individual agenda item basis. If there is a reason to believe it inappropriate to disclose such company-specific voting records on an individual agenda item basis due to the specific circumstances of an investor, the investor should proactively explain the reason. At the time of their voting

records disclosures, it is also considered beneficial in enhancing visibility for institutional investors, to explicitly explain the reasons why they voted for or against an agenda item.

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