

Results of CFA Society Japan and CFA Institute survey regarding amendments to the Foreign Exchange and Foreign Trade Act

Introduction

On October 8, 2019, the Ministry of Finance (MOF) in Japan, unveiled a proposed amendment to the Foreign Exchange and Foreign Trade Act (FEFTA). This amendment lowers the ownership threshold in companies deemed to be nationally sensitive from 10% to 1% before government pre-approval is required for foreign shareholders. Subsequently, the MOF has included provisions to exempt investors that are neither 1) seeking board seats nor 2) looking to propose shareholder resolutions on sales or divestments, from this 1% pre-notification requirement. For these investors only a post-investment report will be required. In the public letter issued by MOF in the Financial Times on November 11, 2019, Yoshiki Takeuchi Vice-Minister of Finance for International Affairs, Japan notes:

“Shareholders are free to exercise any other rights or engagement. In addition, investors can take actions in 1) and 2) after pre-screening. This process is not lengthy or prohibitive, and will be completed within five days if there are no national security concerns.”

As this amendment is of significant importance to the investor community both in Japan and overseas, from November 15, 2019 to November 27, 2019, CFA Society Japan and CFA Institute conducted a survey of professionals in the investment industry in order to gauge their understanding and concerns on the amendment to FEFTA. We summarize our survey findings below.

Survey results summary

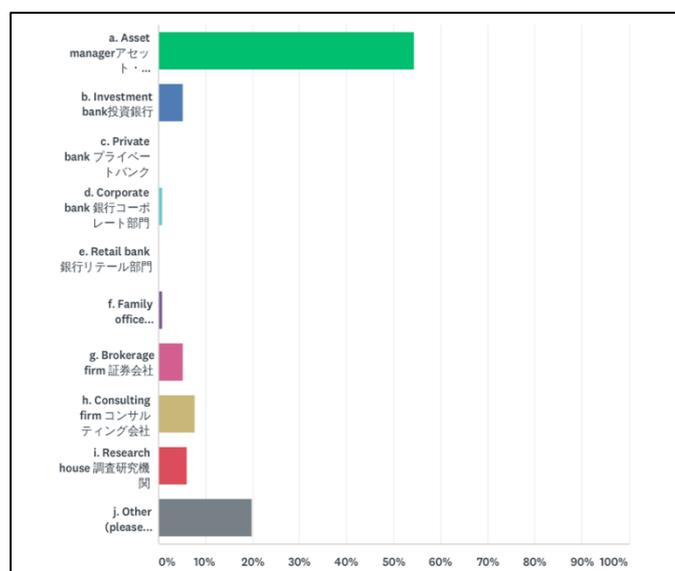
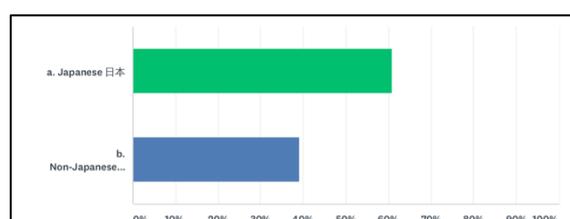
Almost 70% of respondents do not agree with the amendment and 86% showed their concern that the amendment might give a negative impact on the investment into the Japanese equity market.

1. Who responded?

Over 50 % are from asset managers.

Approximately 60% are from Japanese institutions.

54 % of respondents are CFA charterholders.



2. Familiarity with the amendment of FEFTA

Weighted average is 3.72. Non-Japanese respondents are more familiar with the amendment of FEFTA.

On a scale of 1 to 5, where 5 denotes the highest level of familiarity	Average Familiarity (1-5)
Japanese	3.51
Non-Japanese	4.08

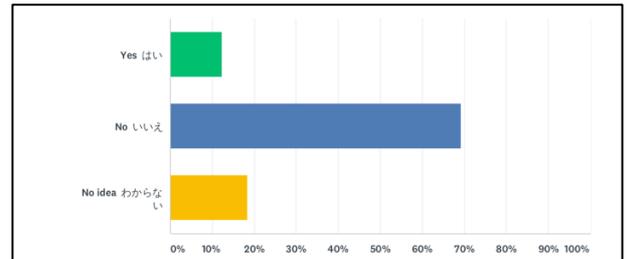
Note: Non-Japanese means those who answered themselves as foreign investors. (The same applies to the following)

3. Do they agree with the amendment of FEFTA?

70% answered “No”, almost 20 % said “No idea”.

The ratio of Disagree from Non-Japanese is higher(81%) than from Japanese(60%).

The more familiar with the amendment of FEFTA, the higher the ratio of Disagree. The less familiar, the higher ratio of No Idea.



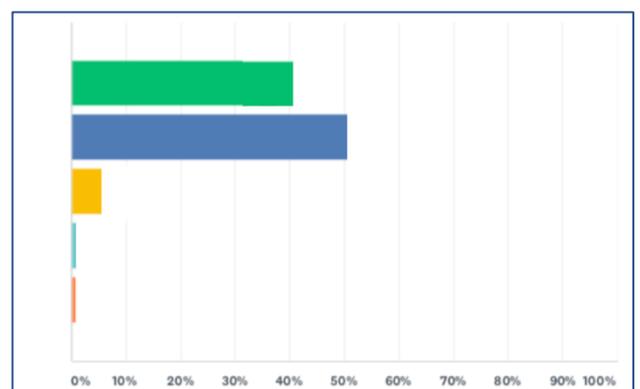
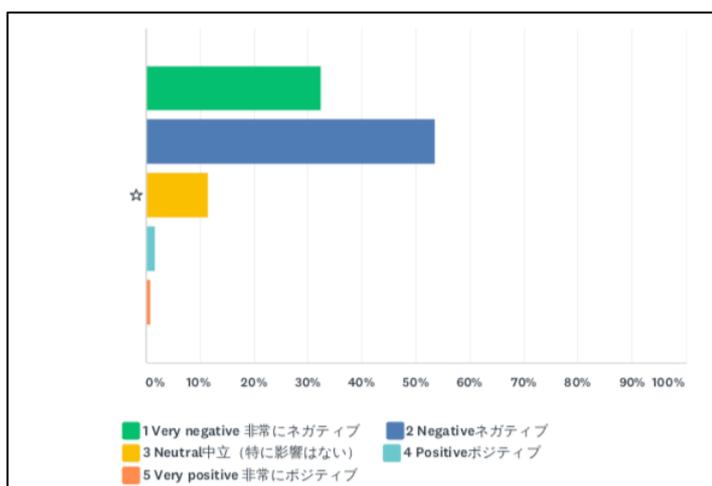
Familiarity	Opinion on the amendment		
	Agree	No idea	Disagree
1	33%	66%	0%
2	9%	45%	45%
3	4%	21%	75%
4	14%	12%	71%
5	13%	6%	78%

4. The impact of the amendment on foreign investment flows into Japan

86% respondents answered “Negative” or “very negative”.

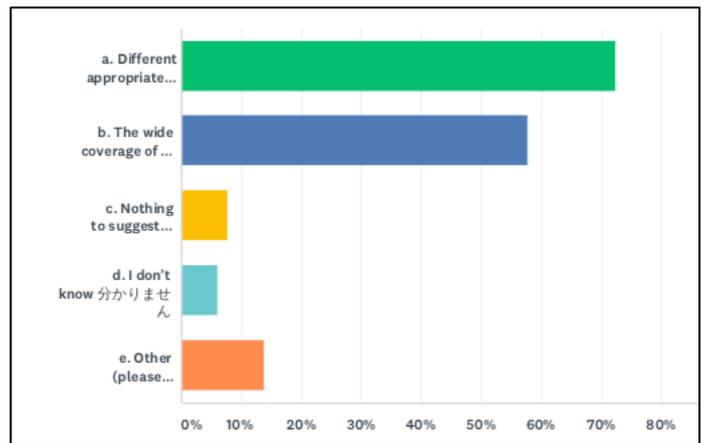
Focusing on the respondents whose familiarity

is higher (the scale is 4 or 5), “Negative” plus “Very Negative” becomes over 90 %.



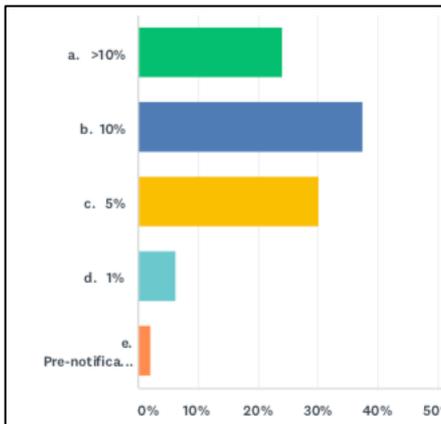
5. The parts of the amendment that respondents are concerned (Multiple answers allowed)

72% said “Different appropriate threshold”
 58% said “The wide coverage of the industry”



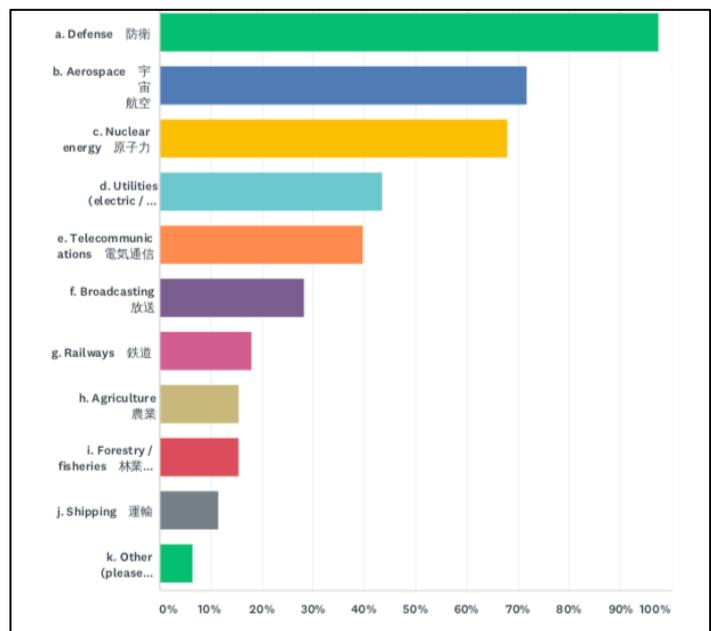
6. Different appropriate threshold

24% said that “over 10%” is appropriate.
 38% said that “10%” is appropriate.
 30% said that “5%” is appropriate.



7. Wide coverage of the industry

97% of respondents agree with “Defense”.
 But lower than 20 % agree with “Railways”
 “Agriculture”, “Forestry/fisheries” and
 “Shipping” industries.



8. Comments expressed by respondents

- There were 31 comments out of 115 respondents
- The average familiarity with the amendment by Non-Japanese respondents was higher than Japanese
- Those against the amendment were higher among Non-Japanese than Japanese
- There were a larger number of comments from Non-Japanese who were against the amendment

9. The following are the key focus points expressed by the respondents:

(1) Investment into Japan

After MOF released a subsequent Q&A, we have seen that non-Japanese investors feel the operational burdens for compliance were lower than previously expected. One of the respondents agreed with this amendment saying that he/she thinks that the impact is limited because if an investee company manages the firm in consideration of shareholders value and establishes strong governance and promotes information disclosure, investment by foreign investors is possible even if there are tighter regulations.

On the other hand, the majority of the comments expressed that there is a concern that the amendment of FEFTA could discourage investment in Japan. At least six respondents mentioned this issue. While some

respondents understand that the government sees scope to tighten the current regulations around nationally sensitive industries such as defense, they believe there should be other methods to do so. They mentioned that there are many small-cap companies in Japan where a 1% threshold would make these companies too difficult to invest in for global funds.

(2) Objective of the amendment

Four respondents showed their doubt with respect to the objective of the amendment. Some investors suggested that the amendment had another purpose, not only to protect nationally sensitive industries, but also to limit activist investors. One of the respondents said this change could be seen as protection against shareholder proposals.

(3) Engagement

Six respondents mentioned that there would be a negative impact on their engagement with these companies. Because the nomination of directors and filing shareholder proposals on business strategy are important rights of shareholders, there was a concern that this amendment would attempt to limit these rights. On the other hand, there was an opinion that those who find these issues unacceptable could still vote against these proposals as long as they themselves are not introducing the proposal. Therefore, in this sense the respondent believes that this amendment is not necessarily harmful for engagement.

(4) Corporate governance

Eight respondents also mentioned that the amendment to FEFTA could impact progress on improving corporate governance. Some respondents suggested this amendment could reverse the flow of the past decade of improvements to Japanese corporate governance. Two respondents mentioned that there is a concern that for those companies included in the list of stocks require pre-approval, the amendment might have negative impact on their stock prices.

About the Survey

Survey on amendment to the Foreign Exchange and Foreign Trade Act (FEFTA) was conducted by CFA Japan and CFA Institute seeking to explore the opinion of professionals investing in Japan at the end of November 2019. Thanks to the eagerness of our respondents to express their opinion on this matter we were able to collect 115 responses from individuals at not only from Japanese institutions (70) but also from non-Japanese institutions (45). The survey specifically requested that “all questions in this survey refer to your personal opinion,” though some respondents expressed that his/her answer rather represented the institution he/she belongs to.

About CFA Institute

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 168,000 CFA charterholders worldwide in 164 markets. CFA Institute has nine offices worldwide and there are 154 local member societies. For more information, visit www.cfainstitute.org or follow us on Twitter at [@CFAInstitute](https://twitter.com/CFAInstitute) and on [Facebook.com/CFAInstitute](https://www.facebook.com/CFAInstitute).