

Results of CFA Society Japan and CFA Institute (APAC) survey regarding amendments on the Revised Draft of Japan's Stewardship Code

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Introduction

In December 2019, the Japan Financial Services Authority (FSA), published the revised draft of Japan's Stewardship Code and called for public comments.

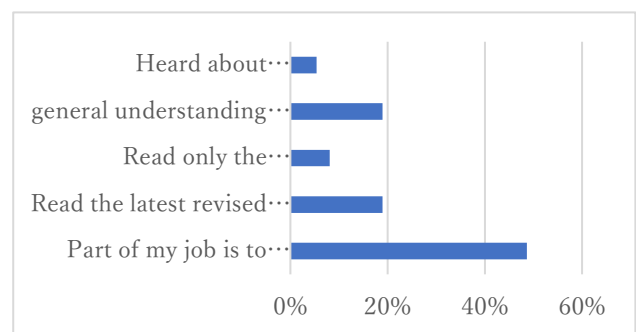
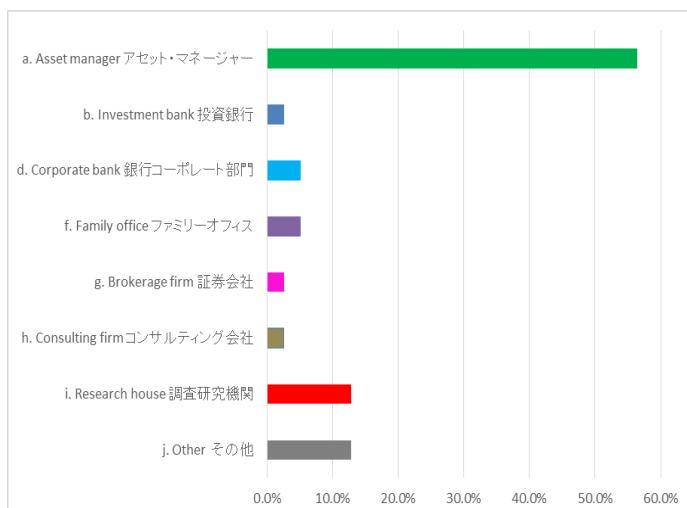
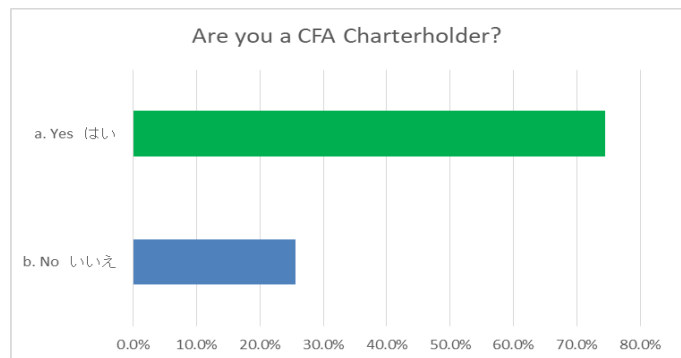
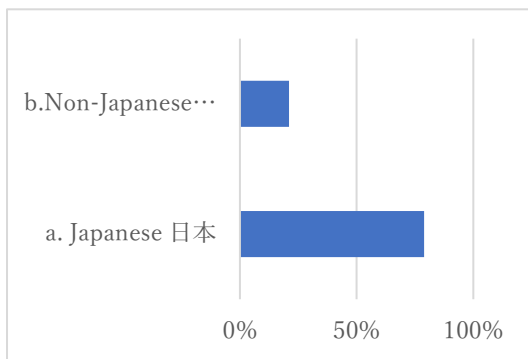
CFA Society Japan conducted a survey jointly with CFA Institute (APAC) from January 9th to 29th seeking to explore the opinion of Japan's investment professionals on the revised Stewardship Code and collected 24 respondents.

Survey results summary

- 64% agree with the revision that the Code apply not only to Japanese equity but also other asset classes.
- 77% agree with the revision that the Code should incorporate considerations of “sustainability” in their investment strategies.
- 77% agree that the corporate pensions operating as asset owners to participate in stewardship activities

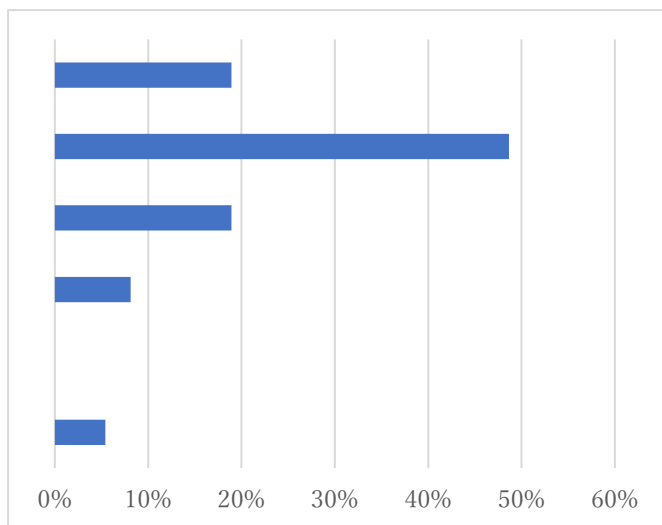
1. Who responded?

79% are from Japanese institutions. 74% of respondents are CFA charterholders. 56 % are from asset managers. 49% responded “Part of my job is to cover topics and word on initiatives related to Japan’s Stewardship Code”



2. Widening of asset classes

Strongly agree 19%, Agree 49%, Neutral 19% Disagree 8%, Strongly disagree 0%, Not sure 5%.



Neutral

- Depending on the nation and the type of assets, the focus of fiduciary duty could be different

Should apply to entity based in Japan

- In principle it should be the case, but not easy to implement

Disagree

- Engagement does not work without proxy voting

Strongly agree

- Japanese equity is just one of the assets and expand to overseas assets, private assets, fixed income
- It is natural to expand it
- No reason to limit it to Japanese equity
- Philosophy of stewardship should be applied to other asset classes as well

Agree

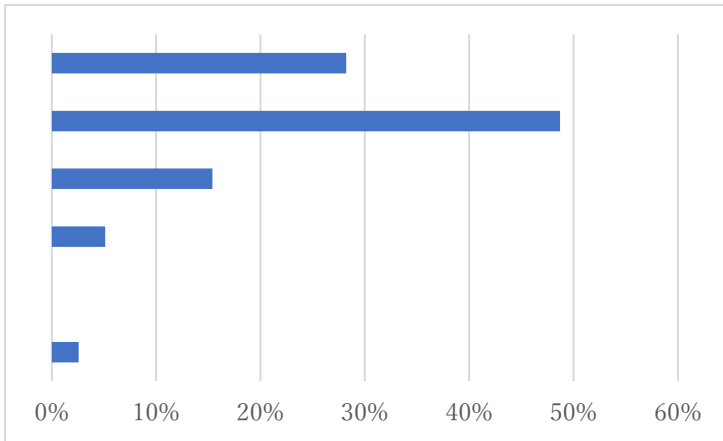
- Expanding Stewardship activities to various asset classes is a global trend.
- No difference in terms of stewardship responsibility other than Japanese equity such as infrastructure and P/E
- The clients seem to have more interest to alternative assets as well
- It is suitable to widen for wider stake holders
- Other assets also have impact on its governance It should be applied to other asset classes because the stewardship code aims for long term well-being of the society
- In principle I agree because corporations should act for the well-being of the society

Any additional points before they apply to other assets.

- Not sure how far investors apply to overseas assets and real estates
- Possibility to induce conflict of interest in case of Long-Short Strategy
- Clarification of the purpose, meaning and policy should be done first
- Long term focus
- Duty of care regarding the lack of disclosure as well as liquidity if they are private assets
- What if it conflicts with regulation, rule or code in another country?
- Engagement does not work without proxy voting. It is not realistic for bondholders to join.
- It is advisable for fixed income analysts to accompany equity analysts for the engagement
- Potential conflicts between equity and fixed income
- Possibility of different way in case of fixed income and private assets
- Variability of principle by investors when apply it.
- It should be noted that necessary actions must be taken for the growth of listed companies as a whole
- Secure disclosure similar to stock
- -Conflicts of interest between stocks and bonds
- -Equity investors who have common interests and other investors who do not have common rights have different approaches to investing in them. In addition, interests are not uniform. (Conflicts of interest may occur with Shareholder and Debt holder)
- Effectiveness of other asset classes is doubtful

3. Sustainability

Strongly agree 28%, Agree 49%, Neutral 15% Disagree 4%, Strongly disagree 0%, Not sure 3%.



Disagree

- The most important part of fiduciary duty is to preserve the assets and maximize the return given the strategy. Not sure whether ESG factors would contribute for its purpose or not
- Disagree because the investment strategy should be diversified and it is not appropriate to lead in a particular direction

Strongly agree

- In the process of investment, the consideration of sustainability including ESG factors is indispensable
- Global trend and must follow to see the improvement of corporate values and better investment performance
- Sustainability is the most important concept in investment.
- It is indispensable for the future investment
- On condition that it does not scarify the return
- Since the negative impacts of climate change affect our everyday lives, everyone needs to think about sustainability

Agree

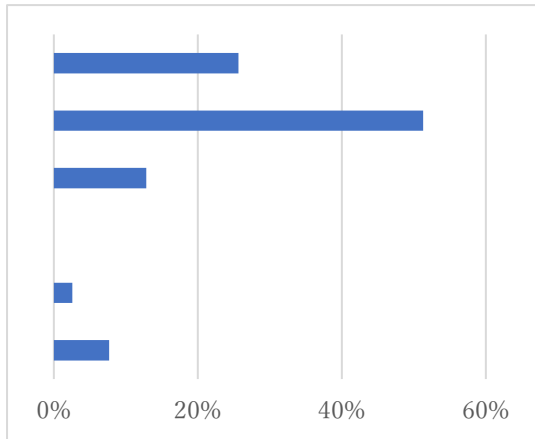
- Long term investment is equal to the sustainability because it assumes the investee companies to keep its business soundly
- Agree with its philosophy
- Will work in the medium to long term
- Boost ESG attitude
- Since companies work for well-being of the society, it should be right

Neutral

- "ESG element" sounds too vague in practice
- Originally, the definition and attention of sustainability should differ depending on the investment style, etc., and is it appropriate to apply uniformly?
- Agree in general, but disagree because the definition of "Sustainability" is not clear, for example, is extending the life of a zombie company a sustainability?
- We have long considered ESG as an item in the investment decision process for many years. Despite the trend, it is hard to say that overemphasis on ESG alone is not correct

4. Participation of corporate pensions as asset owners

Strongly agree 26%, Agree 51%, Neutral 13%, Disagree 0%, Strongly disagree 3%, Not sure 8%.



Strongly agree

- AO is important because it is located at the top of the investment chain
- Necessary because AO has the ultimate voting power
- Corporate pensions should redefine their role not as an attachment to HR but AO.
- AO is the group who is the most intrinsic drivers of stewardship activity
- As long as AO keeps the assets of others, in particular the retirement assets of the employees, it is a must

Agree

- AO is important in the investment chain
- AM needs support from AO
- AO keeps its responsibility though they ask AM to manage their assets
- Consciousness of AO is important for asking AM to fulfill their duty
- AO is ultimately responsible for their employee as the steward

Neutral

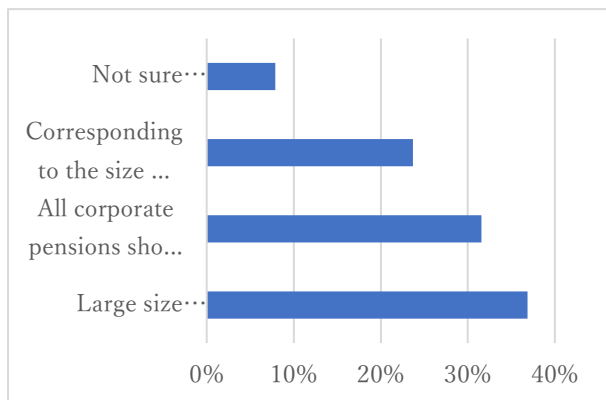
- Without understanding the principle, it might disguise participation for individual cases
- Given the limited resource in terms of HR and knowledge, it could cause excessive report requests from AM

Strongly disagree

- Because corporate pension funds do not assume legal fiduciary duties in Japan, they are not qualified to join the stewardship activities.

Those who responded “All corporate pensions should participate in stewardship activities” is limited to 32%.

37% said “Large size and capable corporate pensions” should and 24% said “Corresponding to the size and capacity, smaller ones should decide themselves” and “not sure” is 8%.



[Large size should participate]

- Asset owners have significant role in the investment chain. At least large owners should be participating.
- For those large-scale ones such as Toyota and Hitachi, they should participate at least.
- In principle it should be for all, however, smaller ones lack the resource which is reality.

[All pensions should participate]

- In order to enhance return for beneficiaries AO should participate
- As far as there is the beneficiary, they should participate
- As an agent they have stewardship responsibility

[Not sure]

- Because corporate pension funds do not assume legal fiduciary duties, they are not qualified to join the stewardship activities.

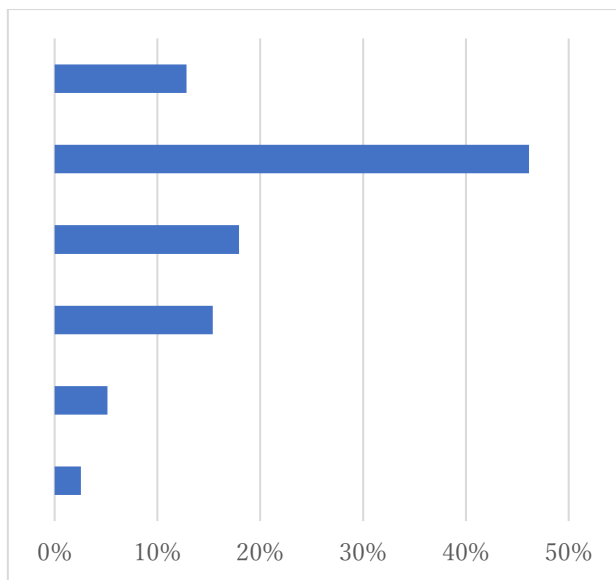
The measures to encourage AO to participate more

- More capable staff members in AO, in particular make them more professional on finance
- Educate staffs and plan members regarding the importance of the stewardship activities.
- More disclosure
- Higher weight of ESG mandate
- Investment principle
- Manager evaluation standard
- Compensation, Working KPI, Other rewards
- Tax on anti-environment activities.
- Criminal penalty on anti-environment activities
- Hold the management responsible for the whole entity.

- Movement in the society
- Spontaneous behavior
- Legal bindings
- Change of responsible department of AO from Human Resource to Finance
- Ban on cross-holding shares
- Amend related laws and regulations to make them assume legal fiduciary duties
- Hire excellent AM who is capable of the activities
- Monitoring AM regarding their activities
- The way of engagement and proxy voting
- The revision of investment guideline, benchmark
- Let the general public know the significance of stewardship code
- ESG

5. The institutional investors should disclose the reasons of votes

Strongly agree 13%, Agree 46%, Neutral 18%, Disagree 15%, Strongly disagree 5% not sure 3%.



- Disclosing many proposals with detailed reasons without errors is an overburden on AM
- For whom? meaningless. Just complacent
- Reason disclosure is too much. It is unnecessary

Strongly disagree

- Since it is often related to investment judgements, it should not be disclosed

Strongly agree

- In order to fulfill fiduciary responsibility
- If not, one cannot detect whether AM fulfills their stewardship responsibility
- Voting is the only visible action
- Should clarify the decision making

Agree

- One of the obligations of reporting to AO
- Useful for investment judgements
- It is the base of Engagements between institutional investors and investee corporations

Neutral

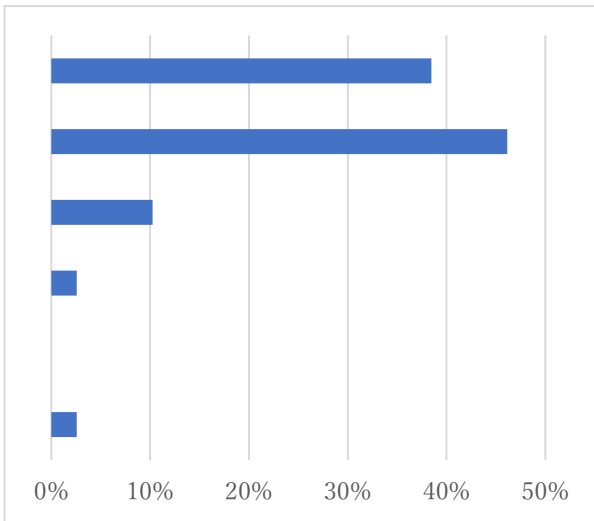
- Creates cost for it and it will be paid by investors at the end. Cost-efficient way should be found
- The results of the individual company's exercises of voting are inherently confidential and should not be publicly disclosed. It would be better to have just the ratio of pros and cons or reasons for disagreement

Disagree

- Asset managers tells the reasons through engagements.
- Disclosing detailed reasons of all votes for so many proposals without any mistake is too heavy burden to institutional investors
- To avoid pressure

6. Service providers and investment consultants should develop structures for conflicts of interest management

Strongly agree 39%, Agree 46%, Neutral 10%, Disagree 3%, Strongly disagree 0%, Not sure 3%.



Strongly Agree

- It is essential in order not to have twisted motivation
- It seems that they don't have tight enough management so far
- The influence has been bigger than before
- It was strange why they didn't have it before
- Clarity is important
- Conflict of interest management should be considered essential

Agree

- They have obligation to disclose it
- It seems necessary
- Even gold merchants with multiple industries are required by law to manage conflicts of interest

Neutral

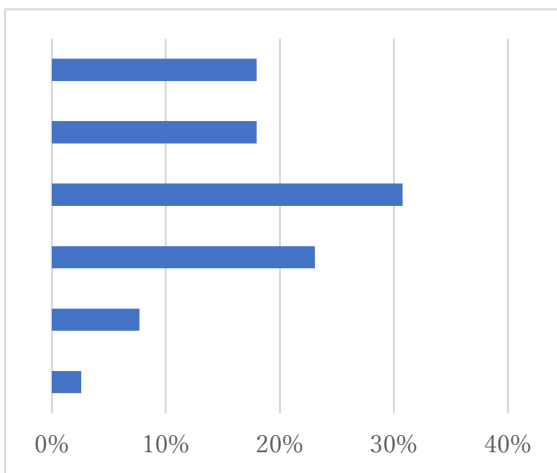
- Competition should work better

Disagree

- Not necessary because they are just advisors.

7. Service providers should have business establishment in Japan

Strongly agree 18%, Agree 18%, Neutral 31%, Disagree 23%, Strongly disagree 8%, Not sure 3%.



Strongly Agree

- Without an office in Japan they cannot offer proper services to institutional investors
- In principle it is difficult to make proper judgement without an office in Japan
- Face to face relationship is important

Agree

- In order to have better understanding, it is useful
- For better advice

Neutral

- It is not minimum requirement.
- Since Japanese people use such a question as a confirmation item as to whether they have a Japanese base, there is a concern that it may be necessary to actually have it

Disagree

- Not necessary to have a physical office in Japan
- Should not judge whether they have an office or not in Japan

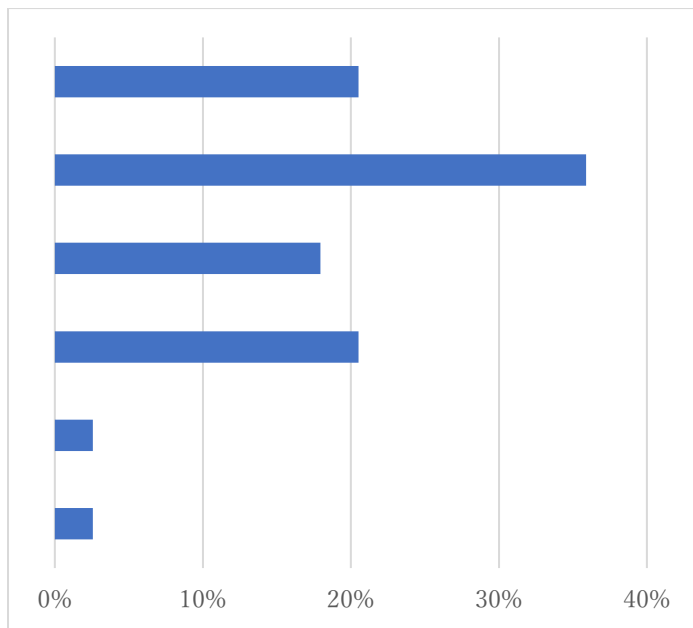
- No need because Japanese corporations are more globalized
- Not necessary because they are just advisors.
- Geographic factors are not absolute obstacles

Strongly disagree

- Why it should be in Japan? I don't understand why they need a Japanese base

8. Proxy advisors should exchange views actively with companies

Strongly agree 21%, Agree 36%, Neutral 18%, Disagree 21%, Strongly disagree 3%, Not sure 3%.



Strongly Agree

- Engagement is the necessity
- It is minimum responsibility
- If they have not done so, that is the problem
- It is essential in order to understand investees
- Strongly agree, but it is questionable whether it should be guided by Stewardship Code

Neutral

- It is more cost-effective to encourage disclosure
- Too many individual dialogues conflict with fair disclosure

Disagree

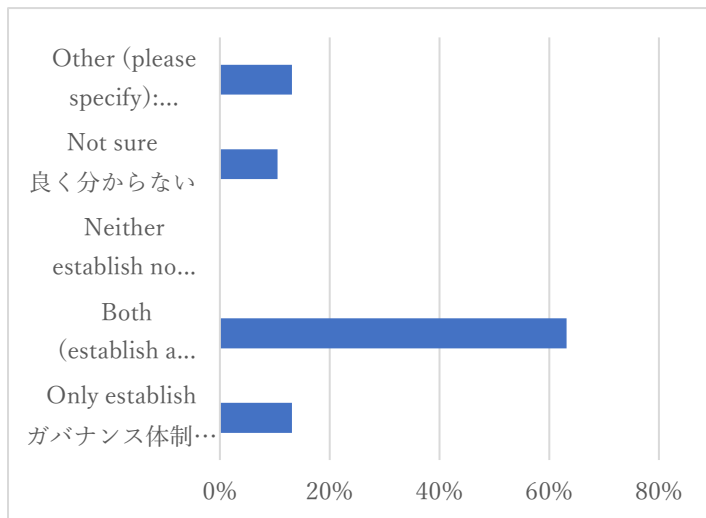
- Significant information which affect voting decision should be disclosed.
- Criminal penalty on anti-environment activities should be more effective
- Not necessary because they are just advisors.
- Questionable how far they should devote themselves
- If the advisor company itself engages, it must be on the same playing field as the investor in the form of investing in the company and taking risks as a shareholder
- Leave it to each company's policy
- Unless such information is properly disclosed to all shareholders, there is a risk that information will not be disclosed fairly to shareholders who do not use the voting company

Strongly disagree

- Could cause conflict of interest if they provide information service as well as advices both to institutional investors

9. AM should establish and disclose governance structures

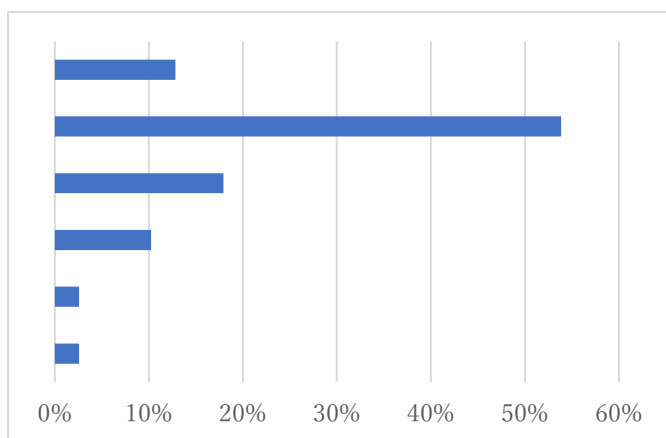
Only governance 13%, Both 62%, Neither 0%, Not sure 10%, Other 13%.



- Too much to ask to set up an "independent director" or "independent committee" for smaller AM
- Leave it to individual AM how they manage governance issues
- It is only to raise cost at smaller AM
- It is not feasible for our size

10. AM should regularly conduct self-evaluations with respect to the status of their implementation of each principle and disclose such results

Strongly agree 13%, Agree 54%, Neutral 18%, Disagree 10%, Strongly disagree 3%, Not sure 3%.



- Strongly disagree
- Strong doubt onto the "Self-assessment"

Only governance

- It is unrealistic to assume so many eligible candidates for third-party committees in the market
- Governance should be enforced according to their own standards
- -In the case of small and medium sized AM companies, it may be difficult to set up an "independent director" or "independent committee"

Both

- Important for Financial group AM. In particular, life insurers' governance issue has been neglected by FSA in such a long period. It should be reviewed by FSA
- Already asked by customers
- Build a structure and disclose to relevant customers

Not sure

- Depends on time horizon, the quality of conflicts will change

Other

- It is not wise to ask third-party committees uniformly

Strongly Agree

- It is already requested by customers
- It is valuable because it was covered so far
- It is essential to fulfill fiduciary responsibility

Agree

- Good for investment industry
- Not for the public but for regulator/clients

Neutral

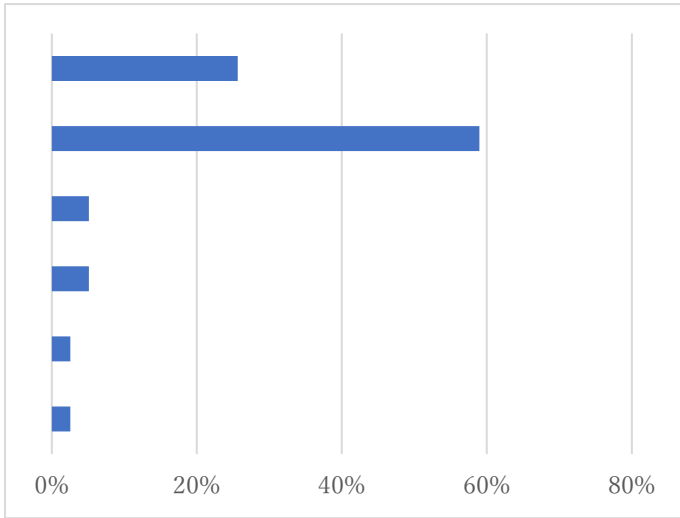
- Risk to promote short-termism (ex. One year)
- The quality of outcome is decisive

Disagree

- It looks childish as if they are learning in primary schools
- Who knows the result? Difficult to judge
- Not very meaningful. It is unclear whether the outcome is the result of the engagement or not. Is the result of voting an accomplishment?

11. In the engagement, institutional investors should promote dialogue that is not only consistent with their investment management strategies but also that leads to the medium- to long-term increase of corporate value of companies.

Strongly agree 26%, Agree 59%, Neutral 5%, Disagree 5%, Strongly disagree 3%, Not sure 3%.



Strongly disagree

- Other tools would be more effective like higher tax on short-term trades.

Strongly Agree

- Unless it leads to increase of corporate value, it does not mean they fulfill their fiduciary responsibility
- It links to the enhancement of risk adjusted return
- So far, the kind of topics of S of ESG did not generate the increase of corporate value
- To increase corporate values in the medium to long term is one of the purposes

Agree

- It is ideal to harmonize sustainability and increase of corporate value

Neutral

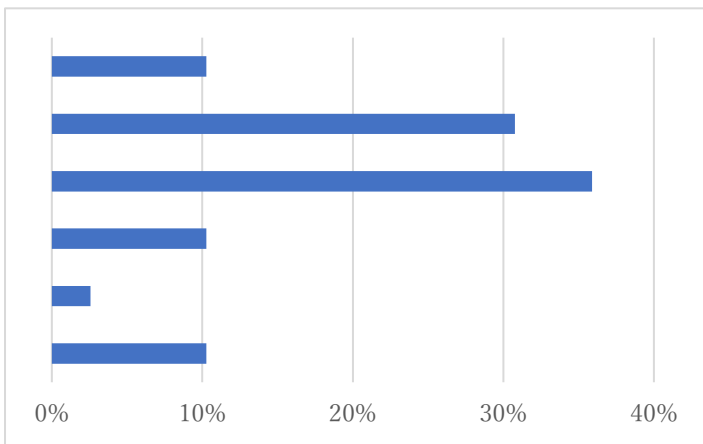
- Sustainability is not equal to the increase of corporate values

Disagree

- It binds investors' activities too much.

12. Escalation

Strongly agree 10%, Agree 31%, Neutral 36%, Disagree 10%, Strongly disagree 3%, Not sure 10%.



Disagree

- It binds investors' activities too much.

Strongly disagree

- Leave it to individual AM companies

Strongly Agree

- There are some cases where single engagement approach does not work well
- Now that Institutional Investors Collective Engagement Forum is established, it should be advocated
- It affects the way of engagement

Agree

- The government should think of the possibility of escalation by Chinese investors
- Encourage changes in corporate behavior

Neutral

- What is the definition of Escalation? Is that writing a letter, and/or collaborative - engagement? It looks like an activist. Is that OK?
- If there is a meaning it is free to do so
- It is vague whether there is a necessity or not

13. Other opinions

- In general, I agree with the progress
- These days sometime there is an added wording that suggests disclosing the number of shares held when meeting a company. Is this because companies want to select investors? The exclusion of new investors or the lack of meeting with smaller-holding investors could hinder the functioning of capital markets.
- I hope that “the stewardship debate” will continue without a break even when the stock market becomes a bear market, the fund loses money, and criticism of stock investment increases and stocks are sold. It is critical whether we can continue this discussion properly in a head wind because if that is the case we take root as a culture. It's strange that a mischievous manager talks about stewardship and ESG. Shouldn't we have a certain penalty box period?
- I think it is important to share the cost
- "Work-style reform" is a good example, but criminal penalties may be imposed on management for anti-environmental activities to achieve the goal more efficiently.

14. Summary

Since the total number of results was only 39, and the response from AM accounted for about half, consolidation of opinions as CFA Japan society is not necessarily accurate given the diversity of members of the association. But it is important to keep in mind that the following four points have been identified:

(1) 64% agree to extend the Code to non-Japanese equities.

In general, we agree, as exemplified by the opinion that the concept of stewardship liability does not change depending on the asset class in which it invests, but it seems that some respondents answered that they had no voting rights and no engagement when they invest in fixed income. In addition, it should be noted that there are some practical difficulties in applying stewardship responsibilities to other assets such as overseas and real estate investment.

(2) 77% agree that the Code considers sustainability issues.

As seen in the opinion that “evaluation of sustainability issues including ESG factors is indispensable in investment decisions”, it was taken as a global trend. On the other hand, there were comments that the definition was not yet clear enough.

(3) 77% agree with the participation of asset owners such as corporate pensions in stewardship activities

Much support was gained in that the participation of asset owners was necessary. In spite of the limited staff of small and medium-sized corporate pensions, many say that at least large-scale AO of major companies should play a major role in the investment chain.

(4) Awareness of excessive burden on AM

Be wary of the excessive burden of publishing the reasons for pros and cons of voting rights, and whether you should regularly self-evaluate the status of implementation and publish it along with the results of stewardship activities with investee companies.

About the Survey

The survey on “Revised Stewardship Code” was conducted in January 2020 by the Japan CFA Association and the CFA Association (Asia Pacific), primarily as a search for the opinion of our investment professionals. Many were enthusiastic about expressing their opinions, and received 39 responses, despite the short response period of 1 / 9-29. Although the number of responses seems to be small, it is possible that some of our members wanted to substitute by attending a lecture from the assistant director in charge of Revised Stewardship Code at the Financial Services Agency on Jan. 28th,

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 and on Facebook.com/CFAInstitute.

About CFA Society Japan

The CFA Society of Japan was established in 1999 as one of the societies of the CFA Institute in Japan, and was subsequently incorporated in April 2011. The society aims to disseminate expertise in investment management by conducting educational programs in cooperation with the CFA Institute. To this end, we work to promote ethical codes and standards of professional conduct, improve professional skills through CFA programs and continuing education, exchange information and opinions at home and abroad, and raise awareness of CFA qualifications and the investment industry.

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