

RESPONSE TO THE FINANCIAL SERVICES AGENCY GUIDELINES FOR INVESTOR COMPANY ENGAGEMENT

INTRODUCTION

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 1900 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$70 trillion in assets under management. Over 60 of these signatories are based in Japan, managing USD \$7.2 trillion in assets under management.¹

Responsible investment explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors in investment decision-making for the long-term health and stability of financial markets. The PRI welcomes the opportunity to contribute views on the establishment of guidelines for investor and company engagement.²

ABOUT THE CONSULTATION

The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code (the Council) is jointly managed by the Financial Services Agency (FSA) and the Tokyo Stock Exchange (TSE). The Council has proposed the establishment of guidelines for investor and company engagement. The guidelines are a series of questions that investors may ask and companies may consider their response to, which are intended to supplement the Stewardship and Corporate Governance Codes and encourage institutional investors and companies to implement both Codes more effectively.³ The consultation has been launched to explore stakeholder views on the guidelines.

PRI'S SUMMARY RESPONSE

The PRI welcomes the Council of Experts seeking to provide resources for effective implementation of the Corporate Governance and Stewardship codes, and supports its emphasis on companies' sustainable growth to increase value over the long term.

¹ See <https://www.unpri.org/signatory-directory/>

² The PRI facilitates numerous collaborative engagement initiatives as part of its service offering. For more information, please see our [Introductory guide to collaborative engagement](#) / [協働エンゲージメントの 基本ガイド 企業との対話:における機関投資家間の 効果的な協働のための方策](#) or more information here: <https://www.unpri.org/esg-issues>

³ The Corporate Governance and Stewardship Codes are implemented on a comply or explain basis. The guidelines note that it is beneficial for companies to proactively explain their approach and implementation, even when there is compliance with specific principles of the Code.

The PRI recommends that the Code makes explicit reference to ESG issues in Board decision making and long-term value creation. This will ensure consistency with expansion of the Stewardship Code guidance to explicitly reference the importance of ESG factors.⁴

We recommend that the Council provide greater clarity about how these guidelines resource should be used by investors and companies in conjunction with the Stewardship Code and its principles and guidance, and the Corporate Governance Code and its general principles, supplementary principles and notes. For example, the guidelines could include introductory text on how they should be used, and cross reference principles in each of the Codes that these questions are designed to support. Our further answers below draw on specific expertise and evidence from the PRI's work.

PRI'S COMMENTS ON GUIDELINE QUESTIONS

Management decisions in response to changes in the business environment

Section 1.1

We welcome reference to sustainable growth and increase in corporate value over the mid to long term. We recommend that companies:

- disclose how the Board of directors has considered ESG issues in decision making and the formation of its strategy
- disclose how their business strategies are designed to support sustainable growth and long term value with regard to ESG issues
- clearly articulate their corporate purpose

Determination of management remuneration

Section 3.5

We welcome questions that focus on remuneration alignment with sustainable growth and increase in corporate value over the mid-long term with clear explanation on rationale for pay. We recommend that the Corporate Governance Code⁵ and questions in this guidance emphasise that companies should consider social and environmental factors when determining compensation. We believe that this is one means by which executive pay can be better be aligned with performance and to protect and create long-term value.

Responsibilities of the board

Section 3.6 & 3.7

We welcome questions that guide conversation on the board having appropriate knowledge, experience, skills and diversity, including gender and international experience. We welcome recognition that responsibilities of the board include evaluation of the board's effectiveness that should be clearly disclosed and explained. We recommend that companies describe, in their public reporting, how incumbent board members and new candidates enhance board diversity.

⁴ The Stewardship Code was updated in May 2017 following consultation.

⁵ See PRI response to the Revision of the Japan's Corporate Governance Code, April 2018.

Asset owners

Section 5.1

We welcome the inclusion of questions about corporate pension funds' stewardship activity and disclosure on measures taken, including on how the company ensures it has sufficient investment management and stewardship expertise to monitor asset managers. A key recommendation of the PRI's Fiduciary Duty in the 21st Century Japan Roadmap⁶ is that corporate pension plans should be encouraged to sign the Stewardship Code, noting that a limited number have signed up. We note the importance of pension funds stewardship activity to encourage mutual reinforcement high standards of corporate governance encourage consistency of higher standards of governance and stewardship throughout the investment chain.⁷

⁶ <https://www.fiduciaryduty21.org/japan.html>

⁷ For further recommendations on pension fund governance and stewardship see the PRI's publication: [How asset owners can drive responsible investment](#)