

June 27, 2019

Collective Hearing Agenda

Key Issues Concerning Governance of Parent and Subsidiary Listed Companies

The Institutional Investors Collective Engagement Forum (hereinafter referred to as “IICEF”) considers “governance of parent and subsidiary listed companies” as an appropriate theme for the collective engagement agendas. The focus lies in what should be kept in mind from the standpoint mainly of corporate governance in order to improve corporate value of both the parent company and the subsidiary(ies) in the mid- to long-term. Aiming to make this theme an effective engagement agenda, IICEF started exchange of opinions (i.e., collective hearing) with companies in March 2019 in cooperation with ICJ, Inc. * as a preparation phase to summarize common views among investors.

As part of its efforts toward exchange of constructive opinions, IICEF has briefly summarized the key issues concerning awareness of the issues related to parent-subsidiary listings from the perspective of investors and particular matters that investors would like to ask companies as follows.

1. Awareness of the issues among investors

While there are diverse opinions concerning advantages and disadvantages of so-called parent-subsidiary listings, there are some doubts and concerns over them from the standpoint of investors, as follows.

(i) Wouldn't it cause disadvantage to minority shareholders?

Conflict of interest between minority shareholders and controlling shareholders may arise in a listed company with controlling shareholders (listed subsidiary). In such a case, is it possible to claim the interest of the minority shareholders is appropriately protected?

(ii) Are advantages of a parent-subsidiary listing adequate enough for both the parent company and the subsidiary(ies)?

Are advantages of a parent-subsidiary listing so great as to surpass disadvantages including concerns of investors? Is a parent-subsidiary listing advantageous in terms of improving corporate value as compared with options such as to make a company a wholly-owned subsidiary or to dissolve a parent-subsidiary relationship?

(iii) There is a risk that causes “distortion” in the stock price formation.

As indicated as a hypothetical example in “Note” below, parent-subsidiary listings are likely

to induce a stock price discount because it causes difficulty and complexity in the evaluation of the stock price.

(iv) “Don’t hold them if you don’t want to” would not work for passive investors.

Among the predominant counterarguments against the position of criticizing parent-subsidary listings are that “the fact of a parent-subsidary listing is in the public domain and each investor can decide how the fact should be evaluated” and that “you don’t have to invest in the company if you are not happy about its parent-subsidary listing.” However, it is difficult, for example, for passive investors to choose not to hold those shares. Portfolio structuring methods which final beneficiaries demand of asset managers are diverse, and if the asset managers adopt a passive portfolio strategy, it is part of the fiduciary responsibility to try to mitigate, to the extent possible, any risks which may be a negative contributor on the index as a whole.

2. Questions for companies

Based on the above-mentioned awareness of the issue, investors would like to ask companies (hereinafter, personified as “you”) specifically the questions as follows;

(i) What are the matters that you bear in mind or are struggling in connection to the reality of parent-subsidary listings?

Are there any special efforts or measures specific to parent-subsidary listings in terms of, for example, corporate governance? What about in terms of IR activities and information disclosure?

(ii) What do you think of advantages of parent-subsidary listings? What are disadvantages which may arise in the case of making a company a wholly-owned subsidiary or dissolving a parent-subsidary relationship?

In the first place, what are specific advantages of maintaining a state of parent-subsidary listings? What disadvantages would companies expect to arise when you make a company a wholly-owned subsidiary or dissolve a parent-subsidary relationship?

(iii) How do you think of disadvantages of parent-subsidary listings?

How do you honestly think of disadvantages arising from parent-subsidary listings and burdens of maintaining the listings?

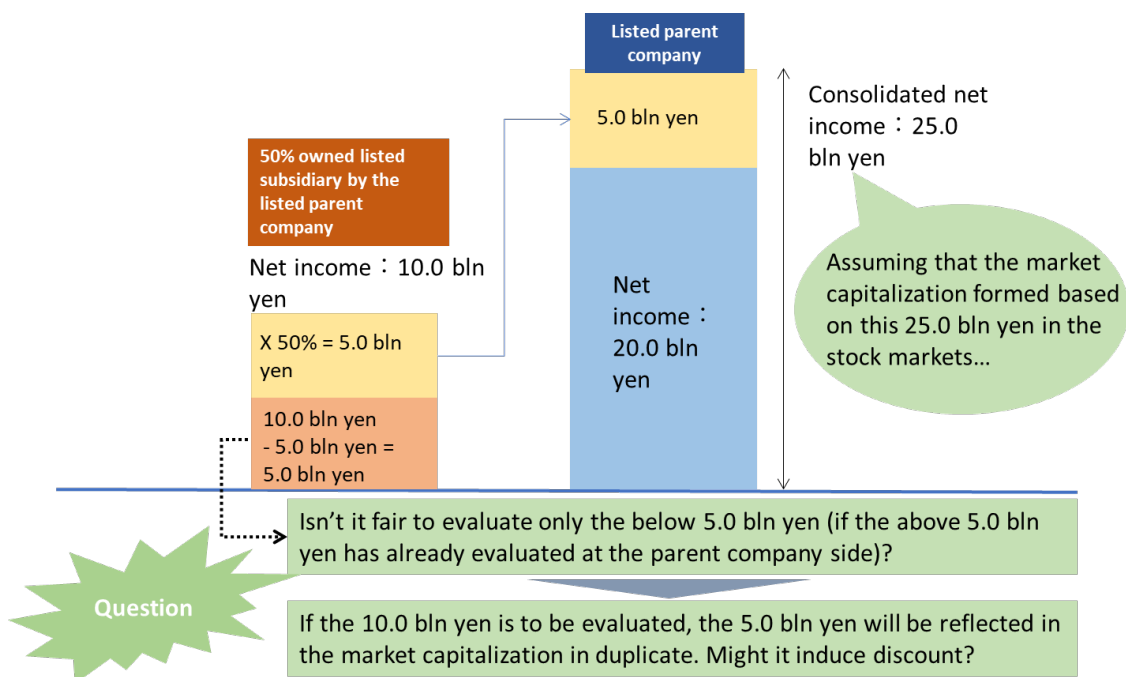
(iv) What are the measures to protect minority shareholders, which you think of in terms of corporate governance and the like?

What methods would be possible from the perspective of companies in terms of corporate governance and information disclosure in order to reduce investors’ concerns that interest of minority shareholders is being impaired.

(v) Do you feel that proxy-voting guidelines which require minimum percentage of outside directors in a board are effective as “disciplines” from the companies’ viewpoint?

At present, proxy-voting guidelines of some institutional investors have set a high bar concerning the number and the composition of directors of a listed company with controlling shareholders. Do you think that these criteria are effective to attain the contemplated purpose (to restraint to protect interest of minority shareholders)?

[Note: Hypothetical example of “distortion” in stock price formation (See 1-(iii) above)]



After summarizing the arguments as described above, IICEF started exchange of opinions (i.e., collective hearing) with companies. Based on the exchange of opinions, IICEF plans to sort out and separately disclose the common views as a collective engagement agenda.

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*About ICJ, Inc. (from its web site)

Business Description: Operating and Managing Electronic Voting System Platform

Founded: July 1, 2004

Shareholders: Tokyo Stock Exchange, Inc. (50%) and Broadridge Financial Solutions, Inc. (50%)