

December 23, 2024  
Institutional Investors Collective Engagement Forum

Opinion on the draft amendments to the "Cabinet Office Order on Disclosure of Corporate Affairs"  
(in regard to corporate disclosure on cross-shareholdings), etc. for public consultation

We, Institutional Investors Collective Engagement Forum (IICEF), have submitted the opinions of investors participating in the forum regarding the draft amendments to the "Cabinet Office Order on Disclosure of Corporate Affairs" (in regard to corporate disclosure on cross-shareholdings), etc. for public consultation. The details are as follows:

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- First, as background for this amendment, an explanation was provided stating, "Upon examining the disclosure status of shares whose purpose of holding has been changed from cross-shareholding to pure investment purposes, a challenge was identified where the situation was effectively no different from continuing to hold cross-shareholding". This point is a problem that investors have strongly concerned about, and we highly commend the Financial Services Agency for strongly recognizing this issue and formulating this amendment proposal.

We understand that the gist of this amendment proposal consists of the following two points:

- ① When the holding purpose is changed from cross-shareholding to "pure investment" purpose, for five business years, disclose the issuer's name, share unit, amounts recorded on the balance sheet, in addition to the year in which the purpose of shareholding changed, the reason for the purpose of shareholding and policy on holding or selling shares after the change.
- ② Explicitly define the concept of "pure investment purpose". Specifically, "pure investment purpose" means "to aim solely at receiving profits from fluctuations in stock value or from dividends related to shares". In this case, for example, shares where circumstances exist that hinder the submitting company's sale due to its relationship with the issuer, such as the issuer of said shares holding shares of the submitting company, or requiring the issuer's consent for the sale of said shares, are not considered to be held for pure investment purposes. This guideline was indicated.

Regarding the above amendment proposal, participating investors in this forum agree. Additionally, we would appreciate consideration of the following points:

- Within the concept of "pure investment purpose," it is stated that, for example, "the issuer of said shares holding shares of the submitting company" does not fall under pure investment purpose. Generally, we believe this applies when changing the holding purpose from "cross-shareholding" to "pure investment purpose" for entities in so-called "cross-shareholding relationships". However, in cases where the issuing company of shares held as investment targets by financial institutions, etc. that are already conducting "pure investment purpose" stock investment as part of their asset management, holds shares of said financial institution, etc., this is not considered to apply to the above. In such cases, it is desired that such financial institutions, etc. disclose that no circumstances exist that hinder sale.
- Regarding the concept of "pure investment purpose," it is considered to be aimed at stock investment returns (stock price fluctuation + dividends). The above guideline proposal states, "to aim solely at receiving profits from fluctuations in stock value or from dividends related to shares". However, with the expression "or," there is a possibility that companies may emerge that state they do not pursue "stock value fluctuations" (i.e., do not engage in stock trading) even for listed stocks, and "aim solely for profits from dividends". Therefore, we

believe it should be clarified that it is not appropriate to classify listed stocks as "pure investment" solely based on dividend expectations.

- Generally, from an investor's perspective, there is no rational reason for companies, whose main business is not stock investment, to engage in pure investment = listed stock investment. Furthermore, even when financial institutions, etc. newly undertake "pure investment" as part of their main business's asset management, sufficient explanation regarding the necessity from perspectives such as ALM (Asset Liability Management) is required. Therefore, for operating companies and financial institutions, etc. that change their classification to pure investment, prior to the reason for change in holding purpose shown in disclosure item ①, we believe that disclosure and explanation regarding "the reason and purpose of conducting stock investment and the expected outcomes in the first place, " Furthermore, the policy regarding subsequent holding or sale is extremely important, so we request sufficient verification to ensure it does not become a mere formal disclosure.
- Additionally, when a company holds shares for "pure investment" purposes, it is presumed that an internal system for buying and selling shares in response to market fluctuations, etc., will be established. From the perspective of clarifying whether the change to "pure investment" classification is accompanied by actual substance, it is appropriate to include the stock trading management system in the disclosure items.
- Furthermore, for operating companies and financial institutions, etc. that conduct "pure investment," we would like it to be indicated in the cautionary notes that it is desirable for them, as stock investment institutions equivalent to institutional investors, to undertake investor responses required by the Stewardship Code (such as formulating and publicly disclosing voting rights exercise standards, and disclosing voting rights exercise results).
- Moreover, as there are cases where disclosures of cross-shareholding remain formal comments, we request that verification, especially regarding the appropriateness of disclosures related to "pure investment purpose," be enhanced through Annual Securities Report reviews, etc..

End of Document

#### Contact information

Institutional Investors Collective Engagement Forum

Directors in charge: Yuki Kimura, Chairman; Naomi Yamazaki, Administration Manager; and

Ryusuke Ohori, Hiromitsu Kamata, and Daiji Ozawa, Executive Director

Address: Tokyo Entre Salon, Shinmaki-chou Building Annex 1, 3-2-14, Nihonbashi, Chuo-ku, Tokyo

103-0027 JAPAN

E-mail: [info@iicef.jp](mailto:info@iicef.jp)