

April 20, 2025
Institutional Investors Collective Engagement Forum

Opinions in Response to the Public Consultation on the “Proposed Revision to the Stewardship Code” by the Financial Service Agency

We, Institutional Investors Collective Engagement Forum (IICEF), have submitted the following opinions in response to the Public Consultation on the “Proposed Revision to the Stewardship Code” by the Financial Service Agency.

Collective/collaborative engagement [Principle 4]

Q2-1. What is your view on revising Guidance 4-5 to “[i]n addition to institutional investors engaging with investee companies independently, engaging with investee companies in collaboration with other institutional investors (collaborative engagement) is also an important option. When considering methods for dialogue, it should be kept in mind whether they will lead to constructive dialogue that contributes to the sustainable growth of investee companies”? Please also provide reasons, if any.

[Opinion]

As an organization that has hosted and supported collective engagement among Japanese institutional investors since the 2017 revision of the Stewardship Code, we agree with this revision in light of our experience.

[Reason]

We believe there are two major benefits that can be realized through collective engagement. One is from the perspective of dialogue effectiveness. Institutional investors have diverse perspectives. There are differences between domestic and foreign investors, differences in investment styles, investment time horizons, and focal points, and thus, perceptions regarding individual issues of individual companies may differ. Companies may, at times, feel that investors’ opinions are fragmented. Therefore, unlike so-called “small meetings” where institutional investors merely gather to dialogue with a company, collective engagement requires, first, a discussion among investors in advance to organize and clarify their understanding of the issues recognized regarding the agenda and target companies. Through this discussion process, investors gain new insights and discoveries from each other. Furthermore, in individual (non-collective) dialogues, a wide range of topics, including IR-related themes such as short-term performances, are often covered during meetings, limiting the time that can be spent on specific issues. In contrast, collective engagement allows investors to focus on issues they commonly recognize, which is expected to lead to deeper dialogue.

As a result, in collective engagement, institutional investors can deeply understand and share perceptions regarding issues they commonly concern, their reasons, and the company’s policies/plans with the background explanations.

The other is from the perspective of dialogue efficiency. Conducting dialogue incurs human, time, and administrative costs for both companies and institutional investors. Naturally, engaging in dialogue with more companies requires more costs. In contrast, collective engagement can

improve dialogue efficiency by allocating roles among institutional investors. This includes sending engagement letters that broadly convey common investor views to numerous companies, for example, hundreds to over a thousand companies, or engaging in dialogue with small- to mid-cap companies where the operational returns and costs may not be commensurate. Of course, for companies if they wish to put individual issues on the agenda, collective engagement is more efficient than conducting individual dialogues with many institutional investors.

Several concerns over collective engagement have been pointed out, but we consider them as follows:

First, there is a concern that “institutional investors incur considerable costs in analyzing investee companies, and it is difficult to share the details of their analyses with other investors. However, collective engagement conducted without sharing such information would inevitably be superficial and could promote formalistic stewardship activities.”

Certainly, some active fund managers possess the organizational capability to engage independently and prioritize sources of alpha (excess returns) discovered through their own research. Such investors may find it difficult to immediately perceive significant benefits from collective engagement, as sharing analysis results with other investors could lead to a reduction in their own competitive advantage. On the other hand, long-term stable active and passive fund managers who invest broadly across the entire Japanese stock market share the common objective of expanding medium- to long-term investment returns for the overall Japanese market. Moreover, the pre-discussion process for collective engagement provides new insights and discoveries, deepening investors’ perspectives. From this viewpoint, we believe that collective engagement truly becomes an “important option” for diverse investors.

Above all, it goes without saying that constructive dialogue should be conducted to avoid superficial and formalistic engagement to contribute to the improvement of corporate value and sustainable growth in the medium to long term. In Japan, many companies are still struggling with more direct and important specific issues such as with capital efficiency and corporate governance. Collective engagement is considered an effective tool for institutional investors to address such specific important issues effectively and efficiently. At very least, we are confident that constructive dialogue is being conducted in the collective engagements hosted and supported by us IICEF.

From that perspective, our suggestion is as follows. The second sentence of Guidance 4-6 draft revision states: “When considering methods for dialogue, it should be kept in mind whether they will lead to constructive dialogue that contributes to the sustainable growth of investee companies.” However, in accordance with Guidance 1-1, we believe it should be: “When considering methods for dialogue, the responsibility to aim for the expansion of customers’/beneficiaries’ medium- to long-term investment returns by promoting the improvement of investee companies’ corporate value and sustainable growth should be kept in mind.”

Second, there is also a concern that “it can sometimes be difficult to handle issues where investors’ investment objectives and investment time horizons differ, leading to differing perceptions among investors regarding improvement measures for business strategies, etc. Also, even if investors’ problem awareness aligns in the initial stages of dialogue, their positions regarding the extent, content, and timeline of subsequent dialogue may differ, making it difficult to continuously engage collectively.”

Collective engagement involves prior discussions among investors, so at that stage, if problem awareness differs or if it is judged that individual engagement would be more effective than collective one, participation may be declined. Furthermore, at later stage, one may withdraw if satisfied with changes in the company’s policies or initiatives. There is no need to view collective engagement rigidly; it is truly and “important option.”

Q2-2. Are there any points that institutional investors should bear in mind when conducting collective/collaborative engagements? Please provide reasons, if any.

[Opinion and Reason]

The fundamental premise for conducting collective engagement is as discussed in Principle 4: “Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.” The following four points are considered important to note in order to share problem awareness with investee companies and strive for improvement:

First, to make investee companies recognize the issues that investors perceive, investors must explain the background and reasons for their perspectives and encourage investee companies to proceed with reforms based on their own conviction. Therefore, it is meaningful to send an engagement letter, a document describing the investors’ understanding of the issues, their background, and reasons, to the investee company. The existence of such a document is important for many people, including management and various internal departments, to share problem awareness and for the investee company to shift its consciousness towards company-wide reform. Both investors and companies need to understand that collective engagement methods are not limited to oral exchange of opinions in meetings. Sending engagement letters is also regarded as one of the effective engagement methods overseas.

Second, when long-standing industry practices or legal systems/regulations significantly impact and pose problems common to Japanese companies as a whole, expressing opinions to form public opinion to correct these, so-called “public engagement,” is also considered one of the effective methods of collective engagement for consolidating the opinions of many institutional investors and leading to problem improvement. It is important to note that collective engagement is not limited to directly appealing to investee companies.

Third, even if initiated by some institutional investors, collective engagement requires soliciting participation from other investors, consolidating opinions, and coordinating with companies, and thus cannot be implemented immediately. To enable the effective and agile execution of the various methods and functions of collective engagement mentioned above, a permanent organization/platform responsible for planning, operation, and administrative functions is important.

Finally, collective engagement contributes to improving issues common to Japanese companies and expanding the overall Japanese capital market. To promote such collective engagement, it is crucial for all participants in the investment chain to appropriately evaluate and support the initiatives of asset managers who conduct collective engagement on behalf of all the participants of the investment chain.

End

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