
The Global Corporate Governance and Japan

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The 3rd annual general meeting of the International Corporate Governance Network (ICGN) was held between the 8th to 10th of July 1998. Those concerned in pension funds, fund management institutions and stock exchanges from 17 countries assembled. An exposure draft on the Global Corporate Governance was decided on, and the Global Share Voting Principles were adopted. Currently, the ICGN committee is updating the above two principles based on the thinking at the annual general meetings. It is likely that an exchange of opinions has started on these two principles.

In Japan, movements in the area of corporate governance are as follows. The final report “Corporate Governance Principles for Japan” was published by the Corporate Governance Forum of Japan at the end of May 1998. In June 1998, “Action Guidelines for the Exercise of Voting Rights” was published by the study committee appointed by the Pension Fund Association. It is desirable that a movement gets underway in which the various pension funds and fund management institutions should make haste to formulate and publish a policy on exercise of voting rights and relevant guidelines. Considerable attention and expectation overseas are focused on backup to promote corporate governance such as revision of laws and a review of the standards for listing of companies.

1. International Corporate Governance Network (ICGN)

At the general meeting of the International Corporate Governance Network (ICGN) held from July 8th to 10th 1998 those concerned from pension funds, fund management institutions and stock exchanges from 13 countries assembled¹, and reports were presented and discussions were held on the current status worldwide, the effects on regulations and the impact on the market.

ICGN is a non-profit making organization formed in 1995 as a result of an appeal by CalPERS (California Public Employee’s Retirement System) aimed at the institutional investors worldwide. The first annual meeting was held in London in 1996. Since then, through annual meetings and information exchanges, ICGN has expanded rapidly as an international network in the area of corporate governance activities of the institutional investors of various countries. At the second annual meeting held in Paris, it was proposed to formulate the principles of global corporate governance and the global exercise of voting rights.

After this meeting and prior to the third annual general meeting in San Francisco in 1998 work was implemented toward the adoption of these principles.

At the 3rd annual general meeting, prior to discussion on the principles of global corporate governance and the global exercise of voting rights, there was a report on the actual situation and the details of the reforms relating to corporate governance from institutional investor bodies and those concerned in stock exchanges from three countries. (Table 1)

According to the report on the current status of corporate governance from various countries two things emerged. In addition, in the UK and US where spontaneous discussions and activities in the area of corporate governance have emerged, measures are being advanced to support the maximization of shareholder profits. In Canada and Australia, reforms are being undertaken to introduce regulations on corporate governance in terms of laws and standards for listing of companies.

Table 1. Outline of the Program for the 3rd ICGN Annual Conference

Program	Panelists
(1) Current Status of Corporate Governance, Why?	Sweden (President, Swedish Shareholders Association) Brazil (Chairman, Brazilian Institute of Corporate Directors) Japan (Chairman, Corporate Governance Committee of the Corporate Governance Forum of Japan) USA (Executive Director, Council of Institutional Investors)
(2) How and Why Is Corporate Governance Changing Worldwide?	USA (United Food & Commercial Workers International Union) Canada (President, Toronto Stock Exchange) The Netherlands (Secretary, Committee on Corporate Governance) Japan (Corporate Senior Vice President, Sony Corporation) UK (Co-Managing Director, Pension Investment Research Consultants, Ltd.)
(3) Regulatory Influences on Corporate Governance	USA (General Council, Public Employees' Retirement Association of Colorado) USA (U.S. Ambassador to the Asian Development Bank) Belgium (Chief Executive Officer, Brussels Stock Exchange) Australia (Independent Shareholder Services)
(4) Market Influences on Corporate Governance	Germany (DSW, German Shareholders' Association) USA (Vice President, Corporate Governance of Pfizer Inc.) UK/USA (Principal, LENS Inc.) USA (Executive Vice President, Service Employees' International Union)
(5) Remarks	B. Crist (President, CalPERS) M. Viénot (Chairman, French Committee on Corporate Governance) P. Jaffré (Chairman/CEO, Elf Aquitaine) I. Millstein (Chairman, The Business Advisory Group on Corporate Governance of OECD)

Source: ICGN data

1 CalPERS, TIAA-CREF, Association of British Insurers (ABI), UK National Association of Pension Funds (NAPF), Guardian and Lens, such as institutional investor bodies, Paris Stock Exchange (SBF), German Stock Exchange and Toronto Stock Exchange. Some 20 people also participated from Japan such as institutional investors, the corporate sector and academics.

2. The Public Release of an Exposure Draft on the Global Corporate Governance Principles

The major focus of attention at the 3rd ICGN annual general meeting was the adoption of the Global Corporate Governance Principles and the Global Share Voting Principles. At the 2nd ICGN annual general meeting, a working group was formed to formulate rough draft of both principles.

At the 3rd general meeting the Global Corporate Governance Principles and best practices which indicate concrete applications were proposed.

However, the circumstance of various countries regarding corporate governance differ in terms of regulations, practices and culture, and so the opinion that it is still too early to adopt the Global Corporate Governance principles was supported. After the general meeting at a member meeting, this was adopted as an exposure draft for open publication. Regarding this ICGN exposure draft, discussions are being held in various countries, and a revised proposal based on these results will be once again discussed at the next 4th general meeting to be held in Frankfurt.

The Global Share Voting Principles was adopted. However, regarding best practices which point the way as concrete guidelines, this has been made an exposure draft. At the next annual general meeting, it is intended to adopt a revised version of the proposal.

Currently, the ICGN committee is updating the above two principles based on the thinking at the annual general meetings. It is likely that an exchange of opinions has started on these two principles.

1) Exposure Draft on Governance Principles

Based on a study of the principles of corporate governance in various countries, in the period from April to July 1998, the working group formulated a basic proposal. At the general meeting, a proposal on the principles of corporate governance was made. However, the proposal was not adopted and was presented as an exposure draft as it was thought too early to adopt a joint statement on principles for the following reasons; 1) the Anglo American system is the basis of the principles²; 2) the progress in debating the corporate governance principles differs from country to country. (Table 2)

Table 2 shows the exposure draft. Regarding the introduction of these principles, it should be up to each country to make decisions on a case by case basis reflecting the laws and market conditions in each country. Each country is enthusiastically engaged in the issue of corporate governance.

However, the various ways of thinking and behavior patterns are slightly different due to the culture and legal systems of each country. In order to be able to adopt a principle on corporate governance common to the world, it appears that much more discussion is needed.

² A leading example is the one tier board in which the shareholders select the board of directors. In Germany, a two-tier board system is used in which the shareholders select the auditors and the auditors select the directors through a joint decision method.

Table 2. Exposure Draft of the Global Corporate Governance Principles

<p>1 CORPORATE COMMUNICATIONS Corporations shall disclose adequate and timely information, so as to allow investors to make informed decisions about the acquisition, ownership obligations, and sale of their stock.</p> <p>2 VOTING RIGHTS All shareholders shall be treated equally and according to their capital at risk. Corporations shall act to ensure the owners' rights to vote. Fiduciary owners have a responsibility to vote. Regulators and law should serve to facilitate voting rights.</p> <p>3 CORPORATE BOARDS The board of directors as an entity, and each director as an individual, is a fiduciary for all shareholders, and must be accountable to the shareholder body as a whole.</p> <p>4 CORPORATE REMUNERATION Remuneration of corporate officials, including officers and directors, shall be congruent with the interests of shareholders.</p> <p>5 SHAREHOLDER RETURNS The basic goal of a company shall be to optimize the economic return to shareowners over the long term.</p> <p>6 CORPORATE CITIZENSHIP Corporations shall act ethically and adhere to all applicable laws of the jurisdiction in which they operate. They shall also endeavor to contribute to the development of sustainable economies.</p> <p>7 INVESTMENT DIALOGUE Shareowners, corporate officials, and other concerned parties shall exert their best efforts to avoid confrontation and / or litigation, by maintaining ongoing dialogues. Dissension should, whenever possible, be resolved through negotiation, mediation or arbitration.</p>
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Source: ICGN data

2) OECD Minimum Standards

International level discussions and formulation of regulations is also being carried out by the OECD. The OECD Business Sector Advisory Group commenced discussions on corporate governance from 1996. At the Ministerial Committee held in April 1998, agreement was reached on the formulation of minimum international standards on corporate governance.³

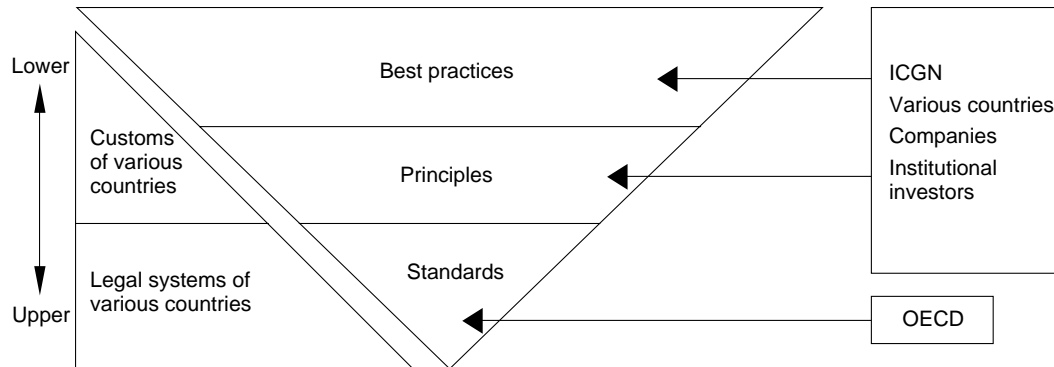
(1) Governance Standards Which Show a Basic Framework for Governance Principles

The OECD Business Sector Advisory Group is made up of academics and government personnel. ICGN is made up of institutional investors. The governance principles being studied here are expected to be adopted by the ICGN, and this was of considerable reference value for creating the corporate governance standards of the OECD as an international basic agreement of the institu-

3 OECD "Corporate Governance-Improving Competitiveness and Access to Capital in Global Markets" (April 1998)

tional investors. In terms of the theoretical structure of corporate governance, the corporate governance standard based on the instructions of the government officials of various countries is positioned above the principle and the practice. (Fig. 1)

Figure 1. A Theoretical Structure for Corporate Governance and the Response of Various Entities



Source: Nomura Research Institute

(2) *The Minimum Standards of the OECD Will Come into Concrete Form*

In 1996 a Business Sector Advisory Group on Corporate Governance (Chairman I. Millstein) was set up by the OECD to carry out surveys and analysis on corporate governance. This Group issued a report on April 2, 1998 “Corporate Governance - Improving Competitiveness and Access to Capital in Global Markets”. This report proposes that the OECD should recommend five items which would formalize the minimum international standards for corporate governance. (Table 3)

The minimum international standards involve 1) fairness, 2) transparency, 3) accountability, and 4) responsibility.⁴

In the case of corporate governance, the approach of “one size fits all” is not adopted, and the OECD supports multiplicity and suitability.

On April 28, 1998, the OECD Ministerial Committee accepted the Business Sector Advisory Group’s report and required the Business Sector Advisory Group to create minimum standards for international corporate governance by April 1999.

⁴ The six major principles of corporate governance proposed by CalPERS are as follows: 1) Accountability, 2) transparency, 3) fairness, 4) improvement in the exercise of voting rights, 5) best practices, and 6) long-term vision.

Table 3. Recommendations by the Business Sector Advisory Group to the OECD Ministerial Committee

1. To encourage Member countries to adapt their corporate governance regulatory frameworks to changing competitive and market forces
2. To formulate minimum international standards of corporate governance designed to promote fairness, transparency, accountability and responsibility
3. To issue suggested guidelines for voluntary “best practices” for boards to improve accountability, as well as encompass board independence
4. To encourage common principles for addressing the comparability, reliability, and enforcement of corporate disclosure
5. To emphasize the impact which changes in corporate governance practices would have on society at large, and on the need to clarify responsibilities between the public and private sector

Source: OECD data.

3) The Final Report of the Corporate Governance Forum of Japan (CGFJ)

At the 3rd ICGN meeting, the CGFJ final report published in May 1998 was presented describing the current situation in Japan regarding corporate governance. This report was presented by Mr. Tadao Suzuki, the Committee Chairperson (President of Mercian Corporation) of the Corporate Governance Principal Formulation Committee of CGFJ. Mr. Masayoshi Morimoto, a senior executive director of Sony Corporation presented a report on the introduction of a pioneering management organization employing “an executive officer system” in Japan and the trend towards placing emphasis on the shareholders among Japanese companies from the viewpoint of the high level of stock ownership by overseas entities and diversified group management.

The final report of the CGFJ was published containing 16 principles divided into 3 sections, the directors’ meeting, the corporate auditors, and the shareholders’ general meeting based on the mechanism of the Commercial Code. It was recommended that these principles should be introduced in two stages depending on the time of implementation and the necessity of legal reforms. This report calls for reforms of the Commercial Code and introduction of corporate governance principles in the stock exchange regulations.

Currently, a progressive attitude is prevailing regarding the introduction of these principles in the stock exchange regulations.

Table 4. Outline of the Final Report of the Corporate Governance Forum of Japan

Board of Directors and Directors	Board of Auditors	Shareholders' Meeting
1A Adequate accountability to shareholders 2A Timely information disclosure 3A Introduction of international accounting standards 4A Publication of environment-related reports, a major social responsibility of stakeholders 5A Appointment of independent directors outside the company 6A Adequate number of directors to facilitate sufficient discussion and accurate and rapid decision making 7A Clear distinction between the decision-making body and the business execution 8B Over half the directors should be people outside the company. 9B Committees should be established within the board of 10B directors and over half should be made up of people outside the company. (All receiving remuneration) 10B The chairperson of the board of directors and the business execution officers should be separate people. When these two functions are combined, an explanation should be offered to the shareholders.	11A The agreement of the auditors is required for the appointment of several external auditors. The "Five year rule" is abolished. 12A The reports formulated by auditors should contain the decision-making activities of the directors. 13B At the point when over half of the directors are independent, external people, an audit committee should be created within the board of directors. (In this case, the auditing system can be abolished.)	14A The annual general meeting should be effectively utilized and a concentration of such meetings should be avoided. 15A The provision of detailed explanations to the major shareholders. 16B The resolutions of the shareholders meeting should be limited.

Note 1: A is explained as the principles which should be expedited with the exception of some which require legal reforms.
 B is explained as principles for which implementation is aimed at in the early 21st century. However, the market state at that time should be observed and these principles may require adjustment, or some principles may require major legal reforms.

Source: Formulated by NRI based on the Final Report of the CGFJ

3. The Global Share Voting Principles

1) The Global Share Voting Principles

The working group on global exercise of voting rights announced these principles and best practices showing the guidelines. At the members' meeting, only the Global Share Voting Principles were adopted and the best practices were positioned as an exposure draft. It appears that this was tabled for further discussions after revision at the 4th General Meeting in 1999. Regarding observance in various countries it was decided to verify this again in July 2001.

Regarding institutional shareholders who engaged in internationally diversified investment, if they are not in an equal position with domestic shareholders in terms of exercising voting rights, this cannot be seen to be real equality among the shareholders. The international common principles to ensure smooth exercising of voting rights by overseas entities are a focus of great interest in terms of practical applications to entities such as the custodians who link the shareholders and the companies and those who provide services relating to the exercise of voting rights.

Table 5. Global Share Voting Principles

1. EQUAL AND FAIR VOTING RIGHTS

The same voting rights should attach to shares regardless of how much equity a shareholder holds, or how geographically distant a shareholder may be from the company. Votes should be cast only according to instructions by the owner or the owner's agent.

2. MEETING NOTICES

Company law, corporate articles and/or voluntary coordination among companies should allow firms to structure their reporting calendar and notice distribution so as to give priority to creating a reasonable time for shareholders to receive meeting agendas, consider voting items, make arrangements to attend the meeting if they so desire, and vote in time for the ballot to count. The notice should be clear as to the actual date and location of the meeting and it should be distributed as widely as possible so as to reach investors.

3. MEETING AGENDAS

Meeting agendas should be presented in such a way that shareholders can understand and ascertain which items are to be voted. Companies should faithfully present the principal purpose of each resolution. Voting items should be numbered in the order in which they will be taken up at the meeting.

4. VOTING DEADLINES

Companies should set the voting deadline for mailed ballots as close to the meeting as is practical, with the emphasis on ease of share voting. At the same time, custodians, voting agents and depository institutions (for instruments such as Global Depository Receipts and American Depository Receipts) should move their own voting deadlines as close as practical to the company deadline date.

5. BLOCKING/DEPOSITING SHARES

Shareholders should be able to vote at companies they own without facing the cost and inconvenience of having their shares blocked from trading or deposited in a designated institution for a period of time. But at the same time, companies should be assured that investors casting ballots are legitimate owners eligible to cast a specific number of votes. Each market should seek solutions that reconcile these two needs.

6. LANGUAGE

Companies with internationally diversified ownership should ensure that agendas and notices are accessible to shareholders in at least one internationally-accepted language. Companies should ensure that translations are timely, accurate and complete, with the meaning and purpose of resolutions clear.

7. PROCEDURES

Procedures should be re-examined, simplified and updated with a view to enfranchising and facilitating share voting by investors. Companies should make available to shareholders a variety of voting methods, such as voting by mail, telephone, fax, Internet, Swift, and/or email.

8.VOTE COUNTS AND VERIFICATION

All votes should be counted regardless of whether they are received by proxy or other means, or cast by hand or voice at the meeting, and the results should be declared. Companies should ensure that a process exists by which shareholders can ascertain that their votes were correctly and officially cast at shareholder meetings.

9. COSTS

To the extent possible, share voting systems should be designed to minimize costs imposed on intermediaries and shareholders in exercising voting rights.

10. MARKET OVERSIGHT

There should be appropriate regulation or an effective mechanism to ensure that shareholder meeting agendas are released according to established rules and procedures, and that the correct amount and appropriate content of proxy information is distributed to shareholders.

11. PROMOTING THE PRINCIPLES

A relevant body or bodies in each market should pursue implementation of the ICGN share voting principles.

Source: ICGN data

2) Guidelines on Exercise of Voting Rights in Japan

The “Pension Fund Corporate Governance Study Group” is a study committee appointed by the Pension Fund Association. This Group announced a policy on the exercise of voting rights in June 1998. This is to clearly define the responsibility of the assignee of pension funds and concrete action guidelines for the fulfillment of the assignee’s responsibility. From the long-term viewpoint, the Group stressed the necessity for the establishment of a receptacle for asset management. In concrete terms, the proposal included four action guidelines for pension funds and seven viewpoints regarding the exercise of voting rights by the institutions receiving funds.

There are three features to this policy; 1) the necessity for corporate governance through the pension funds, 2) to induce action guidelines from the viewpoint of the “long-term investors”, and 3) stressing the effectiveness of the exercise of voting rights, that is to say seeking methods through the assignee institution.

It is stated that this policy is not to be forced onto the various pension funds and management assignees institutions. However, this policy has been proposed by a leading pension fund in Japan, and so they will have a heightened interest in this to a certain degree.

Table 6. Outline of Four Action Guidelines for Pension Funds and Seven Viewpoints of Fund Management Institutions

Action guidelines for pension funds
<p>Guideline 1: This is from the viewpoint of investors (pension funds) who engage in long term asset management. The pension fund has responsibility as a shareholder to monitor company activities based on the responsibility of the assignee.</p> <p>Guideline 2: The fund is required to conduct management in such as way as to place maximum emphasis on the returns of the shareholders. In the case of inappropriate conduct, the pension fund should be made to clearly determine the location of the responsibility.</p> <p>Guideline 3: In order to ensure that the board of directors provides adequate explanations to the shareholders, the pension fund should require the company to promote disclosure of information appropriately and as necessary.</p> <p>Guideline 4: For the time being, corporate governance activities should be conducted centered on the exercising of voting rights through the fund management institution. The fund management institution should exercise voting rights from the viewpoint of the responsibility of the institution based on appropriate decision standards reflecting the returns on pension funds.</p>
The Viewpoint of the Fund Management Institutions
<p>Viewpoint A: The composition of the board of directors should be made up of members able to make appropriate decisions. (It is desirable to include external directors)</p> <p>Viewpoint B: The board of directors should be maintained at an appropriate size to enable it to carry out decision making efficiently in terms of corporate operation. (The introduction of an executive director system is considered to be meaningful and is highly evaluated.)</p> <p>Viewpoint C: The board of directors should be suitable to represent the shareholders and able to provide adequate explanations.</p> <p>Viewpoint D: The auditors are required to audit the operations of the firm in place of the shareholders. Appropriate people should be appointed who are able to provide adequate explanations.</p> <p>Viewpoint E: There should be a proper balance between the overall remuneration of the directors, including stock options, and the total returns paid to the shareholders.</p> <p>Viewpoint F: Regarding corporate financial strategies and changes in operations, the decision of the board of directors should be respected while taking into account the return to the shareholders, and so resolutions should be made with adequate care.</p> <p>Viewpoint G: In the long-term, the fund management institution should take into account that the companies in which investments are made should be able to fulfill their social obligations and improve the corporate value. However, the fund management institution should not exercise its voting rights as a method of resolving specific social and political problems with no relation to the return on investment.</p>

Source: Compiled by NRI based on data from the report of the study committee appointed the Pension Fund Association

4. Suggestions to the Institutional Investors of Japan

1) The Formation of a Global Network in the Area of Governance Activities by the Institutional Investors

In line with the increase in internationally diversified investment by the US institutional investors in areas such as Europe, Canada and Australia where the investment amount is large, there is a rapid advance in discussion and activities relating to corporate governance. Looking back at this 3rd ICGN meeting, Japan appears to have become an underdeveloped nation in terms of corporate governance. In Japan, the system of outside corporate auditors and a board of corporate auditors were introduced in 1993. At that time, the US was way ahead in the lead in corporate governance, and there was little difference between the positions of Japan and Europe.

However, currently, the UK has caught up and is more or less on the same level as the US. This corporate governance system is rapidly gaining ground in Canada and Australia.

Looking at the global governance principles of ICGN and the global exercise of voting rights, if the institutional investors of various countries are engaged in governance activities using the same

standards, this would make it easy for companies to achieve a clear response. The best practices in terms of governance principles and the principle of the exercise of voting rights has been put up as an exposure draft. Through this it is expected that the unilateral declarations of some institutional investors will disappear, and there will be increased discussion and improved understanding of corporate governance in the countries of the world.

2) An Invitation to Voluntary Governance Activities by Institutional Investors

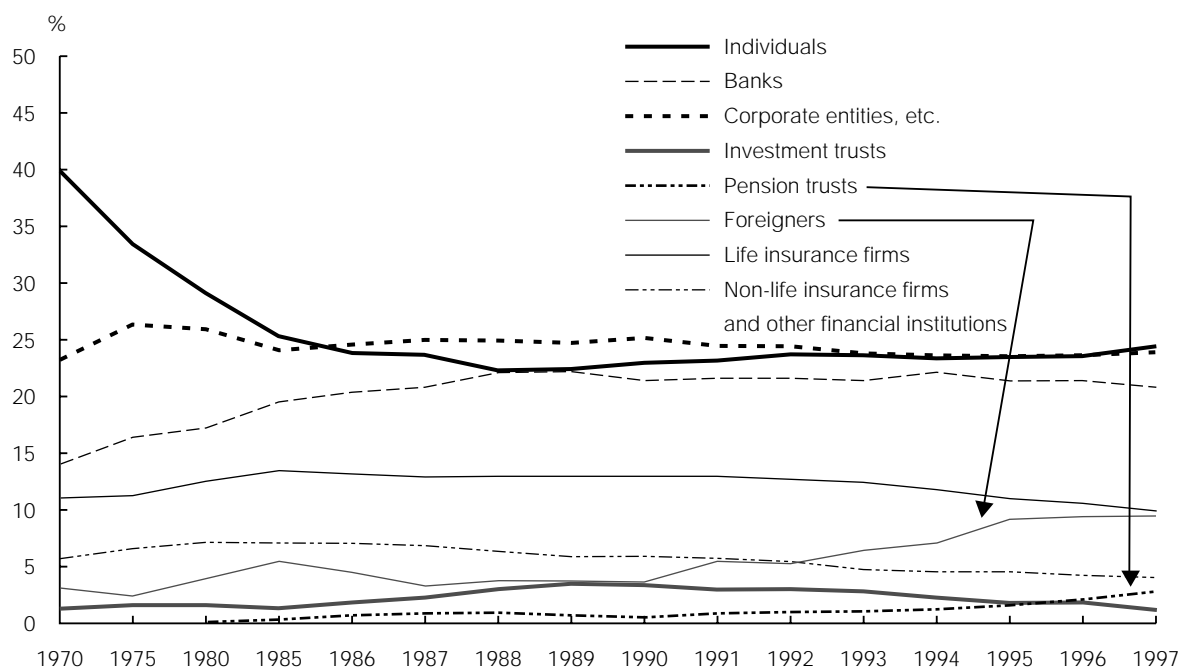
(1) A Steady Increase in the Ratio of Shareholding by Foreigners and Pension Funds

In line with the increase in assets entrusted by foreign institutional investors, there is a rapid increase in interest in corporate governance on the part of Japan's fund management assignee institutions.

On July 10, 1998, the results of a survey, "Stock Ownership Survey for fiscal 1997" conducted by National Stock Exchange Council was announced. This showed that the ratio of shareholdings by foreigners and pension funds reached the highest level since the surveys were commenced.

There is a sharp increase in the ratio of shareholding by foreigners and pension funds in the case of prime international companies such as Sony Corp. It is no longer unusual to see listed companies with over 30% of their issued stock being held by overseas shareholders.

Figure 2. Shareholding Ratio by Holders



Note 1: On a unit stock base from FY1985

Note 2: The financial institutions exclude investment trusts and pension trusts (However, before 1978, this included pension trusts)

Source: Compiled by NRI based on results of "Stock Ownership Survey for Fiscal 1997" conducted by National Stock Exchange Council

(2) New Movements in Corporate Governance at the General Meeting of June 1998

At the shareholders' general meeting of June 1998, it is said that Mitsui Trust & Banking abstained from voting on the issue of paying retirement benefits to retiring directors to companies which paid protection money to racketeers (in the case of companies of which it holds stock in the form of a pension trust account).⁵ In the case of Toyo Trust & Banking and Chuo Trust & Banking, they started to prepare to separate the ownership of the stock they hold and the stock they hold in trust⁶.

Seen from the viewpoint of a safety net, there is increasing interest in having separate accounts for assets held in trust. As a result of the reform of the trust sector law through reforms of the financial system law in 1998, the act of keeping assets held in trust separately was revised to become more practical and clearly defined (the revised Trust Business Law, paragraph 1 article 10).⁷ It appears that the keeping of securities held in trust separately is legally unstable. However, this is a measure which is practical and convenient. The responsibility of trust banks as assignees should be considered to have become more demanding. This kind of relaxation of regulations makes for a more professional approach in terms of responsibility.

(3) The Necessity for Guidelines on the Exercise of Voting Rights Specifically for Institutional Investors

In line with the expansion of the capital market, the internationalization of investor activities and the trend towards asset management, the discussions and activities relating to corporate governance are becoming even more important. Through international institutional investors are becoming more educated, and eventually they may link up with each other and confront the corporate sector.

Overseas, pension funds and fund management institutions both have their own independent detailed guidelines on the exercise of voting rights. Based on these guidelines, careful checks are carried out on the measures proposed by companies. A bulletin issued by the US Department of Labor states that the exercise of the right to vote is part of the assignee responsibility as laid down in the spirit of ERISA.

For the institutional shareholders who engage in internationally diversified investment, if they are not treated on an equal footing with the domestic shareholders in terms of exercising their right to vote, this cannot be considered to be real equality for all shareholders. In Japan, there is a movement underway for full-scale exercise of the right to vote. However, there are almost no signs of a movement to formulate and announce policies and guidelines in terms of the exercising the right to vote.

At the current general meeting, it was proposed that the 5th annual general meeting in the year 2000 should be held in Tokyo. The formal adoption of this proposal could take place at the next annual general meeting to be held in 1999. However, in the two years leading up to this event, it will be necessary to intensify the discussions on corporate governance in Japan. There is great

5 Front page of the morning edition of the *Nihon Keizai Shinbun* of June 24 1998.

6 Third page of the *Nikkei Kinyu Shinbun* of July 23 1998.

7 Regarding the separate custody of assets held in trust by trust banks, in the case of securities, it was necessary to make a public announcement through registering. However, this was very complex in term of administrative procedures and was almost never carried out. (paragraph 2, article 3 of the Trust Law).

attention and expectation focused on the need to revise laws and review the standards for listing as backup measures in order to promote corporate governance.

Regarding the corporate governance activities of institutional investors in Japan, there are fears that these may harm relations with the corporate sector or generate excessive costs. Corporate governance is a system to monitor the corporate sector mainly made up of institutional investors who hold a certain amount of stock. Looking at the Western markets, it is evident that these activities are achieving success. For example, a common awareness is emerging worldwide that in order to achieve transparent management it is necessary to have external monitoring and control.

In Japan, the institutional investors should rapidly formulate principles in the areas of corporate governance and guidelines for the exercising the right to vote. The institutional investors leaning towards corporate governance include not only pension funds but also fund management institutions such as investment advisory firms and trust banks. The philosophy of pension funds and fund management institutions toward corporate governance must be reflected in the guidelines for exercising the right to vote. This is manifestly the responsibility of shareholders who seek to maximize their return based on long-term investments.