"General Shareholders' Meeting", focusing on dialogue with investors

"General Shareholders' Meeting" for the companies whose financial year ends in March is in full swing this week. A "General Shareholders' Meeting" usually means an "Annual General Meeting (AGM)", and approval of financial statements, distribution of surplus and election of directors are voted there. On the other hand, an "Extraordinary Shareholders' Meeting" is held when important agenda such as an approval of merger or capital increase comes up. This is the first year that "Corporate Governance Code" has become effective and applies to AGMs.

Point 1

Two "Codes" are expected to enhance dialogue between corporations and investors

Aiming at mid-to-long term growth of corporate value

- The "Corporate Governance Code" is a standard for corporations to pursue their responsibility as public companies, applicable from June 1st this year. Public companies are now required to submit the management plan and to disclose appropriate information for investors as well as to secure transparency of the management by electing outside directors on board.
- Meanwhile, many institutional investors such as life insurers and investment managers adopted "Stewardship Code" in 2014. This code is a standard for institutional investors to act as responsible shareholders to improve corporate value and promote sustainable business growth through dialogue with corporations.
- By having these two "Codes" in place, "General Shareholders' Meeting" is expected to provide ground for active dialogue between corporations and investors rather than to be held as a rite.

Point 2

Urging management reform through proxy voting

Improvement of corporate management is expected

- Proxy voting plays an important role for institutional investors to promote companies mid-to-long term growth through dialogue with them. For example, an institutional investor might vote against an election of directors if ROE (Return on Equity) does not reach a certain level, as a means of urging them to improve management.
- Improvement of corporate management can be expected too, as corporations are required to explain their thoughts on corporate governance in the "Corporate Governance Report" after "General Shareholders' Meeting".

Future Outlook

Restoring corporation's "earning power" through change of mindset of corporations and shareholders is expected

■ More outside directors sit on the board

According to Tokyo Stock Exchange (TSE), 92% of the companies in TSE First Section are expected to elect outside directors as board members, increased from 74% in last year. Those companies would enjoy the benefit of improving corporate value by the objective opinions from outside directors on the management decisions.

■ From "Silent shareholder" to "Active shareholder"

In the past, Japanese institutional investors were known as "silent shareholders," which would be one of the reasons Japanese corporations have generated lower return on shareholders' equity. The change happening on the mindset and behaviour of corporations and institutional investors is expected to strengthen corporation's "earning power" in a long run, through an improvement of the management quality and capital efficiency.

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