



Better Dialogue with Shareholders and Related Disclosure

Exchange & beyond
Tokyo Stock Exchange, Inc.

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Background

- Japan's Corporate Governance Code states that companies should engage in constructive dialogue with shareholders in order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term (General Principle 5). Specifically, the Code states that "taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management, directors, including outside directors, and kansayaku, should have a basic position to engage in dialogue with shareholders," and that "the board should establish, approve and disclose policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders" (Principle 5-1).
- The importance of dialogue with investors has also been reiterated at the "Council of Experts Concerning the Follow-up of Market Restructuring," in the sense that it is important for enabling companies to gain insight into how to improve their management capabilities.
- On the other hand, at the Follow-up Council, it was noted that some companies remain reluctant to engage in such dialogue, and that in order to promote this, TSE should require companies listed on the Prime Market, which are expected to put constructive dialogue at the center of efforts to improve their corporate value, to disclose on how much dialogue has taken place between management and investors and the content of this dialogue.

Purpose

- Based on the above, it is important for companies listed on the Prime Market to develop measures and organizational structures aimed at promoting constructive dialogue with shareholders, and to respond sincerely to requests for dialogue from shareholders.
- In addition, this document requests that companies who have engaged with shareholders disclose on this fact and other relevant information.

Companies Subject to Request

- All companies listed on the Prime Market

Outline of Disclosure

- Please disclose information about dialogue with shareholders during the most recent business year.

Suggested disclosure items:

- ✓ Main personnel carrying out dialogue with shareholders
- ✓ Overview of shareholders with whom dialogue was held (e.g. domestic/foreign, active/passive, investment style such as growth/value/dividend oriented, areas of responsibility of counterparties (fund manager, analyst, ESG, voting, etc.))
- ✓ Main topics of dialogue and items of interest to shareholders
 - Especially, cases of dialogue that was insightful for the company or dialogue where shareholder understanding was gained through explanation from the company management
- ✓ Whether feedback was given to management or the board on shareholders' views and concerns learned through dialogue
- ✓ Actions taken based on the dialogue and later feedback, if any etc.

Note 1: The items listed above are examples of items that could be appropriate for disclosure as part of measures to improve the effectiveness of dialogue with shareholders, based on the contents of Japan's Corporate Governance Code. Regardless of the above, companies are not necessarily required to disclose all of the above items, and should disclose other information where this is considered necessary.

Note 2: Companies that have not carried out dialogue with shareholders during the most recent business year may disclose on the progress of measures and organizational structures aimed at promoting constructive dialogue with shareholders.

Note 3: If a company engages in dialogue with investors regarding its efforts to improve profitability based on the balance sheet and stock price, based on Document 1, "Action to Implement Management that is Conscious of Cost of Capital and Stock Price," it is expected to also disclose about this dialogue.

Form of Disclosure

- Although TSE is not specifying any type of document or format for disclosing information about dialogue between management and shareholders, companies could disclose such information in, for example, annual reports, or the company's website.
- No matter how the information is disclosed, to make it easier for investors to find, please state that the company is disclosing the information and how to access it (e.g. a website URL) in the "Disclosure Based on each Principle of the Corporate Governance Code" section of the Corporate Governance Report.

Start Date

- TSE requests as prompt a response as possible.

Note 1: For example, a company listed in the Prime Market could disclose promptly about its dialogue in the fiscal year ending after the release of this document, and then state that disclosure has been made in the corporate governance report that is updated after the annual shareholders' meeting.

Note 2: TSE expects disclosure contents as well as corporate governance reports to be updated after the end of each fiscal year.

Japan's Corporate Governance Code (Revised June 2021)

General Principle 5

In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, **companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting.**

During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.

Notes

With the establishment of Japan's Stewardship Code, institutional investors are encouraged to engage in purposeful dialogue (engagement) based on the in-depth knowledge of investee companies and their business environment.

Regularly engaging in dialogue with shareholders to gain their understanding of specific business strategies and business plans and taking appropriate action when there are concerns are extraordinarily useful for companies to strengthen the foundations of management legitimacy and support their efforts to generate sustainable growth.

Although the management and directors have opportunities to interact and exchange views with employees, business partners and financial institutions on a daily basis, these stakeholders are all creditors. In contrast, the management and directors typically have limited interactions with shareholders. **If the senior management and directors give due attention to the views of shareholders through dialogue, they can absorb views and analyses of business management from the perspective of capital providers. Dialogue with shareholders should also inspire healthy entrepreneurship in the management and directors and thereby contribute to sustainable corporate growth.**

Japan's Corporate Governance Code (Revised June 2021)

Principle 5.1 Policy for Constructive Dialogue with Shareholders

Companies should, positively and to the extent reasonable, respond to the requests from shareholders to engage in dialogue (management meetings) so as to support sustainable growth and increase corporate value over the mid- to long-term. The board should establish, approve and disclose policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders.

Supplementary Principles

5.1.1 Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management, directors, including outside directors, and kansayaku, should have a basic position to engage in dialogue (management meetings) with shareholders.

5.1.2 At minimum, policies for promoting constructive dialogue with shareholders should include the following:

- i) Appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place, including the matters stated in items ii) to v) below;
- ii) Measures to ensure positive cooperation between internal departments such as investor relations, corporate planning, general affairs, corporate finance, accounting and legal affairs with the aim of **supporting dialogue**;
- iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities);
- iv) **Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board**; and
- v) Measures to control insider information when engaging in dialogue.

5.1.3 Companies should endeavor to identify their shareholder ownership structure as necessary, and it is desirable for shareholders to cooperate as much as possible in this process.