

Analysis of voting results of shareholder proposals: How did Japanese institutional investors vote in three major Japanese financial groups

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● Focusing on the specific disclosure of voting results in three major Japanese financial groups

Proxy voting, such as board appointment at the general meeting of shareholders, refers to evaluating the investee company's business performance or the mid- and long-term firm strategy. From the shareholder model standpoint, it also means judging whether the management has managed the company to maximize shareholders' return, and whether corporate governance has functioned properly.

The Japanese Financial Services Agency requires institutional investors to disclose specific voting records in the Japanese stewardship code revised in May 2017. Moreover, the Government Pension Investment Fund, the largest pension fund globally, expects their investment managers to comply with the stewardship code in the stewardship principles published in June 2017. As a result, Japanese investment managers have started to disclose individual voting results of investee companies, making this investigation possible.

In this report, we analyzed individual voting records of Japanese institutional investors for shareholder proposals which were suggested to three major Japanese financial groups, Mitsubishi UFJ Financial Group (the "Company"-Ticker Code:8306, MUFG), Resona Holdings (8308, Resona), and Mizuho Financial Group (8411, Mizuho), at their annual general meetings of shareholders (AGM) in June 2017.

There are two main reasons for focusing on these financial groups. First, their shareholders posed propositions focusing on issues of corporate governance, such as (i) prohibiting chief executive officers (CEO) to act concurrently as the chairman of the board of directors, and (ii) requiring the establishment of a policy which instructs financially-related subsidiaries to exercise voting rights of shares held for strategic reasons. Second, as the same shareholder proposals were suggested to the three financial groups, we could compare how Japanese institutional investors exercised proxy voting for each of them, including the concern of voting attitude toward the same financial group.

In particular, we have a specific interest in Japanese institutional investors' behavior toward

shareholder proposals related to corporate governance. We analyzed the voting records of 17 Japanese institutional investors who have signed the “Principles for Responsible Investment” and have disclosed specific voting results for every investee companies (fiscal year period) as of the end of August 2017.

- **Corporate governance-related shareholder proposals to the three major financial groups**

The shareholders posed 52 proposals, including overlapping contents, to the three financial groups at their respective AGMs in June 2017. Eleven investment managers agreed with them at least once. However, six investment managers opposed all the proposals.

We classified the proposals into 10 categories by selecting corporate governance-related shareholder proposals from the 52 propositions and reorganizing them. For example, Table 1 shows the summary list where proposal 1 was only put forward to Mizuho (3rd), and proposal 2 was the same content suggested to MUFG (3rd), Resona (4th), and Mizuho (5th).

Japanese institutional investors exclusively approved proposals 1, 2, 3 and 4 out of the 10 categories. In addition, Institutional Shareholder Services (ISS), a proxy advisory firm, also recommended the acceptance of the above four proposals. Global institutional investors recognize them as better or the best practices, although the Japanese corporate governance code does not require these practices.

The summary of proposals 1 through 4 is as follows. Proposal 1 suggested a change in the Article of Incorporation requiring that the company should determine the distribution of dividends from surplus not only by a resolution of the board of directors, but also by a resolution of the AGM. Proposal 2 suggested the inclusion of a provision to the Article of Incorporation requiring that the company should disclose the amounts and details of compensation to individual officers on a Japanese yen basis. Proposal 3 suggested the inclusion of a provision to the Article of Incorporation requiring that the company should prohibit the chairman of the board of directors to act concurrently as the CEO in principle and only an outside director should act as the chairman of the board of directors. Proposal 4 suggested the inclusion of a provision to the Article of Incorporation requiring that the company should instruct its subsidiaries of banks and securities to appropriately exercise voting rights of shares held for strategic reasons by means of seeking opinions from independent proxy advisers.

Table 1: Corporate governance-related shareholder proposals to three financial groups

Shareholder proposal 1		
Mizuho	3th	It is proposed that Article 47 of the Articles of Incorporation be changed as described below: · Current version The Company shall determine the distribution of dividends from surplus and other matters provided for in each item of Article 459, Paragraph 1 of the Companies Act, not by a resolution of a general meeting of shareholders, but by a resolution of the Board of Directors, unless otherwise provided for in laws or regulations. · Proposed version The Company may determine the distribution of dividends from surplus and other matters provided for in each item of Article 459, Paragraph 1 of the Companies Act, by a resolution of the Board of Directors, unless otherwise provided for in laws or regulations.
Shareholder proposal 2		
Mitsubishi UFJ	3th	It is proposed that the following provision be added to the Articles of Incorporation:
Resona	4th	The Company shall be obliged to disclose annually in its Business Report and Annual Securities Report the amounts and details of compensation for individual officers and each of the disclosed amounts that was evaluated on a Japanese yen basis.
Mizuho	5th	
Shareholder proposal 3		
Mitsubishi UFJ	4th	It is proposed that the following provision be added to the Articles of Incorporation:
Resona	5th	In principle, the Chairman of the Board of Directors is prohibited from acting concurrently as CEO, and only an Outside Director shall act as the Chairman of the Board of Directors. With regard to an exception in special circumstances that allows such concurrent duties, a written disclosure to shareholders in a convocation notice of a general meeting of shareholders or reference materials for a general meeting of shareholders is necessary explaining why it is in the best interests of shareholders to allow such concurrent duties. In such cases, an instructive Outside Director must be appointed. The role of the instructive Outside Director shall be determined by the Board of Directors and disclosed to the shareholders.
Mizuho	6th	
Shareholder proposal 4		
Mitsubishi UFJ	6th	It is proposed that the following provision be added to the Articles of Incorporation:
Resona	7th	The Company shall instruct its subsidiaries that the Company administers, such as bank subsidiaries and securities companies subsidiaries, in exercising voting rights of shares held for strategic reasons, exercise their voting rights appropriately by means such as seeking opinions from independent proxy advisers.
Mizuho	4th	
Shareholder proposal 5		
Mitsubishi UFJ	7th	It is proposed that the following provision be added to the Articles of Incorporation:
Resona	8th	The policy regarding officer training provided by the Company and its consolidated subsidiaries shall be disclosed.
Mizuho	8th	
Shareholder proposal 6		
Mitsubishi UFJ	8th	It is proposed that the following provision be added to the Articles of Incorporation:
Resona	9th	The Company shall establish a system through which any shareholder who has important concerns may directly communicate with any individual Director including Outside Director(s), as well as the Nominating Committee, Compensation Committee, and Audit Committee without the knowledge of internal directors. Communication between shareholder(s) and individual Director(s) through Executive Officer(s), or employee(s) who are in the reporting line of such Executive Officer(s) should be avoided, except for the case where the purpose thereof is for record-keeping. In the case of record-keeping, the procedures for delivery of communications from the reception to the Board of Directors or each committee and for recording responses thereto shall be maintained and submitted upon the request of shareholders.
Mizuho	9th	
Shareholder proposal 7		
Mitsubishi UFJ	9th	It is proposed that the following provision be added to the Articles of Incorporation:
Resona	10th	Shareholders may directly recommend candidates for Directorship to the Nominating Committee without the knowledge of Executive Officers. The process thereof shall be made public and the candidates nominated by the shareholders shall be evaluated by the same standards as those used for the candidates independently nominated by the Nominating Committee.
Mizuho	10th	
Shareholder proposal 8		
Mitsubishi UFJ	11th	It is proposed that the following provision be added to the Articles of Incorporation:
Resona	12th	A liaison for whistle-blowing within and from outside the Company with respect to the Board of Directors, Executive Officers and employees of the Company shall be established at the Audit Committee, and the process thereof shall be disclosed inside and outside the Company. In-house members of the Board of Directors, Executive Officers and employees who are under the chain of command of in-house members of the Board of Directors or Executive Officers may not engage in the process and handling of whistle-blowing.
Mizuho	12th	
Shareholder proposal 9		
Mitsubishi UFJ	12th	It is proposed that the following provision be added to the Articles of Incorporation:
Resona	13th	The Board of Directors shall hold executive management committee meeting(s) consisting of only Outside Directors, at which the representative directors or the Executive Officer(s) are not present, once or more a year, and report the activities thereof to the shareholders at least once a year.
Mizuho	13th	
Shareholder proposal 10		
Mitsubishi UFJ	14th	It is proposed that the following provision be added to the Articles of Incorporation:
Resona	15th	The Company shall not engage in discriminatory treatment of activist investors and shall direct its subsidiaries so that they do not engage in discriminatory treatment of activist investors.
Mizuho	15th	

Source: Prepared by the Nikko Research Center based on the notices of AGMs of the three financial groups, mainly of Mizuho.

- **Japanese institutional investors who favored shareholder proposals based on global standards**

A maximum of nine institutional investors accepted proposal 1, which was only subject to Mizuho, seven institutional investors accepted proposal 2, five accepted proposal 3, and five accepted proposal 4 (see Table 2). It should be emphasized that a certain number of Japanese institutional investors accepted those shareholder proposals. Furthermore, it shows that they view corporate governance based on global standards.

While the overall approval rates of proposals 1 through 4 are approximately 25% to 43%, those of proposals 5 through 10 are merely 3% to 7%. This gap between the former and the latter groups could be explained as foreign investors seem to favor proposals 1 through 4 in accordance with global consensus of corporate governance. Meanwhile, only two Japanese institutional investors approved all the proposals (1 through 4), while seven Japanese institutional investors opposed all the proposals (1 through 4) in all the three financial groups. Assuming that the Japanese institutional managers voted on the ground of their own policies, there appears to be no consensus on the practices of corporate governance among Japanese institutional managers.

- **Different voting results for shareholder proposals despite the same contents**

Based on scrutinizing the voting records of proposals 2 through 4, it can be observed that institutional investors perceived shareholder proposals differently despite them having the same contents (see Table 2). An institutional investor appeared to evaluate the proposals in a different manner, in his explanation, based on his own policy or in accordance with the ISS' advice to avoid conflict of interests. In addition, there appear to be two other reasons. First, the results merely varied among the analysts or managers who assessed shareholder proposals in the same institution. Second, certain institutional investors opposed shareholder proposals as a consequence of engagement. For example, the different characteristics of the chairman of the board could be a reason. While the senior president named "Kaicho" sits as the chair at MUFG, the CEO does at Resona. Only Mizuho has an independent chair in recent years. Global corporate governance code recommends that the chairman of the board should be independent. Thus, after the consideration of the current corporate governance system or the dialogue with the company, some institutional investors could deem that proposal 3 of Mizuho was unnecessary.

Given the fact that five institutional investors* belong to the three financial groups, there was a possibility to invoke conflict of interests by exercising voting rights. However, there was no

conflict of interests in the voting records of above five institutional investors. The evidence indicates that two institutional investors did not own the stock of the financial group they belong to in the first place, and the other three institutional investors voted consistently for the shareholder propositions which had similar contents in the three financial groups.

*An institutional investor, whose voting records were different from his own policy and in accordance with the ISS' advice, is excluded from the above five institutional investors, as he does not belong to the three financial groups.

Table2 Number of approval votes from institutional investors and approval rates at AGMs

Shareholder proposal	Number of approval votes from 17 institutional investors			Approval rates at the general meeting of shareholders		
	Mitsubishi UFJ	Resona	Mizuho	Mitsubishi UFJ	Resona	Mizuho
1	-	-	9	-	-	43.0%
2	7	6	6	37.7%	42.9%	35.0%
3	5	3	3	30.1%	36.9%	25.0%
4	5	2	3	30.4%	33.4%	27.0%
5	0	0	0	3.6%	3.8%	7.0%
6	0	0	0	3.3%	3.1%	6.0%
7	0	0	0	3.0%	2.8%	6.0%
8	0	0	0	3.2%	2.9%	6.0%
9	0	0	0	3.3%	3.2%	6.0%
10	0	0	0	2.9%	2.8%	6.0%

Source: Prepared by the Nikko Research Center based on the extraordinary reports of the three financial groups and the websites of the 17 institutional investors.

● The shareholders' messages to the companies conveyed through voting rights

The approval rates of proposals 1 through 10 were approximately 3% to 43% at the respective AGMs, and particularly those of proposals 1 through 4 were around 25% to 43%. All these shareholder proposals were extraordinary resolutions requiring a modification to the Articles of Incorporation. Therefore, a majority of shareholders must participate in the AGM. The three financial groups have changed the Article of Incorporation requiring that over one-third of the shareholders must participate in the AGM. Moreover, the extraordinary resolution has to be approved by over two-thirds of the shareholders who take part in the AGM. Consequently, proposals 1 through 10 were all rejected at the AGM of the three financial groups.

In the United States of America (the US), although a shareholder proposal is a non-binding advisory vote on an item that is not regarded as ordinary business operations, it appears that a company gives serious consideration to this voting result in terms of the shareholders' intentions that it represents. While only few shareholder proposals win majority support, companies respond in some manner to shareholder proposals with approval rates over 30%

(NIKKO RESEARCH CENTER 2016).

Since mostly over 30% of the shareholders supported proposals 1 through 4 at each AGM, this suggests that the three financial groups have a responsibility to take very seriously the voting results.

Although most Japanese shareholder proposals merely aimed to criticize a specific person or business material in a prior period, Japanese shareholders have increasingly started to pose corporate governance-related propositions. In addition, this survey shows that certain Japanese institutional investors actually evaluated corporate governance-related shareholder proposals along the lines of global standards.

In the US, many activists increased their presence by submitting meaningful shareholder proposals and gathering the support of other institutional investors to pursue corporate restructuring. Certain activists are likely to promote the same movement in Japan.

Even if private investors and activists are the first to submit propositions, many of the votes are of institutional managers who could express their intentions to the company through voting rights. Japanese institutional managers would presumably face more such occasions in the future. Furthermore, those shareholder proposals can be valuable materials for institutional managers to enable meaningful dialogues with the company.

Reference

NIKKO RESEARCH CENTER 2016, "ESG Integration and Shareholder Engagement in the United States"

<http://www.nikko-research.co.jp/en/wp-content/uploads/sites/2/2017/01/download20170119E.pdf>