

October 8, 2020

Engagement Agenda “Issues Concerning Corporate Governance of Parent-Subsidiary Listings”

Request for Engagement Meetings on Issues Concerning Corporate Governance of Parent-Subsidiary Listings

The Institutional Investors Collective Engagement Forum (hereinafter referred to as “IICEF”) together with the seven companies participating in the Collective Engagement Program, namely The Dai-ichi Life Insurance Company, Limited, Meiji Yasuda Asset Management Company, Ltd., Mitsubishi UJF Trust and Banking Corporation, Pension Fund Association, Resona Asset Management Co., Ltd., Sumitomo Mitsui DS Asset Management Company, Limited, and Sumitomo Mitsui Trust Asset Management Co., Ltd. (in alphabetical order) will send letters to multiple listed companies requesting collective engagement meetings on issues concerning parent-subsubsidiary listings.

1. Overview of the Agenda

There are some positive views on so-called parent-subsubsidiary listings (Note 1) in Japan in terms of bringing various benefits to management including benefits in fund-raising and securing human resources while also stressing the function of incubating companies inherent in the process of listing subsidiaries, etc. From the investors’ perspective, however, disadvantages have been pointed out, including the risk of certain “distortions” arising in the evaluation of stock prices as well as the propensity for the risk of conflicts of interest (especially among shareholders). In recent years, there has been a marked tendency among certain major corporate groups to significantly reduce the number of their listed subsidiaries, etc., while at the same time, cases have come to light of companies newly taking their operating subsidiaries public and disagreements coming to a head on the problem of directors election at listed subsidiaries, etc. The announcement by the Ministry of Economy, Trade and Industry (“METI”) in June 2019 of the “Group Guidelines” (Note 2) has also been attracting attention. Furthermore, there has been an increasing number of institutional investors who are working to revise their proxy voting guidelines for listed subsidiaries, etc. with controlling shareholders. As indicated above, the problem of parent-subsubsidiary listings has continued to be one of the topics of high interest among market participants.

In many cases, passive investors and other major institutional investors participating in IICEF's Collective Engagement Program continue to hold both the shares of the parent and the subsidiaries, etc., in principle due to the nature of their investments. As shareholders of the parent, they have a keen interest in whether maintaining a parent-subsidary listing is really the most valid option from the perspective of long-term management and value enhancement of the group as a whole. Additionally, as shareholders of the subsidiaries, etc., they cannot help but be concerned about the possibility of unfair impairment of the interests of minority shareholders of listed subsidiaries, etc. IICEF believes that having members of management of both the parent and the subsidiaries, etc. become aware of these perspectives and concerns of the investors, consider corporate governance measures to alleviate such concerns, and disclose relevant information as well as improve their explanations to the investors, will be immensely productive as its program's collective engagement agenda.

(Note 1) A study group of the Tokyo Stock Exchange (Study Group to review Minority Shareholder Protection and other Framework of Quasi-Controlled Listed Companies) defined "quasi-controlled listed companies" as "listed companies with shareholders who have substantial control based on the holdings of voting rights of listed companies" but thereafter we use the terms "parent-subsidary listing" and "(listed) subsidiaries, etc.," regardless of the accuracy of such terms.

(Note 2) Ministry of Economy, Trade and Industry, *Practical Guidelines for Group Governance Systems (Group Guidelines)*, published on June 28, 2019

2. Awareness of the issues among investors

Investors' awareness of the issues and primary concerns that should be re-acknowledged by members of management of listed companies facing the problem of parent-subsidary listings are described below. We are aware that they include issues that require discussions not only with members of management of the individual parent or the listed subsidiaries, etc., but also with members of management of both the parent and the listed subsidiaries, etc. taken together. When requesting the engagement dialogues, IICEF intends to hold dialogues concurrently with the members of management of both parent and the subsidiaries, etc. as much as possible.

- Wouldn't it cause some sort of disadvantage to the minority shareholders of the listed subsidiaries, etc.? Furthermore, wouldn't there be a risk that this fact is having an adverse effect on the evaluation of either the parent or the subsidiaries, etc. or both on the stock market?

- Are the advantages of the reality of a parent-subsidary listing great enough in terms of the respective managements and the value enhancement of the parent and the subsidiaries, etc.? Even if there were no problems in the past, couldn't a potential conflict of interests be exposed in the event of a "contingency"?
- Wouldn't the emergence of minority shareholders as a result of the listing of the subsidiaries, etc. become an obstacle for the optimum management strategies of the entire group?
- Some argue, "Parent-subsidary listings are publicly well-known facts and the investor with negative views on them can simply avoid investing." However, for example, such arguments cannot be applied to passive investors.

3. Specific questions

Questions for members of management and outside directors are listed below. In order to alleviate the concerns voiced by investors described above, IICEF asks for the opportunity to have dialogues with the members of management and outside directors in addition to further improvement of disclosures regarding these matters in the corporate governance reports and other documents.

[Questions for the parent company]

1. Is the reality of a parent-subsidary listing consistent with the basic direction of the entire group? Is the parent-subsidary listing an optimal situation in terms of the management strategy of the entire group? For example, why has the group chosen to maintain the listed subsidiaries, etc. rather than making them wholly-owned subsidiaries or disposing of their shares to third parties?
2. How does the parent recognize the risk of conflict of interests emerging between the controlling shareholders and the minority shareholders of the listed subsidiaries, etc.? Has it articulated a group governance philosophy or system which also takes into account the interests of the minority shareholders of the listed subsidiaries, etc.? What specific option does the parent consider valid in alleviating the investors' concerns?
3. What kind of discussions is being held at the board meetings regarding the issues described above? In particular, how are the independent outside directors recognizing this issue and the discussions at the board meetings?

[Questions for the listed subsidiaries, etc.]

1. How does the subsidiary, etc. feel about the risk of conflict of interests between the controlling shareholders and the minority shareholders? What specific option does the subsidiary, etc. consider valid in alleviating the investors' concerns?

2. How does the subsidiary, etc. feel about the options outlined in “the Group Guidelines” of METI? For example, raising the percentage of independent outside directors on the board; establishing committees comprising mainly of independent outside directors to deal with the risk of conflict of interests; appropriately designing organs for nominating members of management and determining their remuneration, etc.
3. Is the reality of a parent-subsiary listing consistent with the basic direction of the entire group? Is the parent-subsiary listing an optimal situation in terms of the management strategy of the entire group?
4. What kind of discussions is being held at the board meetings regarding the arguments described above? In particular, how are the independent outside directors recognizing this issue and the discussions at the board meetings?

Contact information:

Institutional Investors Collective Engagement Forum

Directors in charge: Yuki Kimura, Chairman; Naomi Yamazaki, Administration Manager; and Ryusuke Ohori, Executive Director

Address: Tokyo Entre Salon, Shinmaki-chou Building Annex 1, 3-2-14, Nihonbashi, Chuo-ku,
Tokyo 103-0027 JAPAN

E-mail: info@iicef.jp