

A Study on Japan's Stewardship Code under a Long-term Bear Stock Market Hypothesis

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Abstract

This study examines the effectiveness of one of Abenomics' solutions, "Japan's Stewardship Code," from an academic perspective. The Code aims to both enhance returns for investors and foster the corporate value and sustainable growth of investee companies. The purpose of this study is, first, to clarify the relationship between stock prices and earnings-to-price ratios in the Japanese stock market, reflecting the worst performance period of 1989–2014, when stock prices continuously declined. The second is to judge whether it is meaningful to carry out the Code from a long-term investors' perspective. I used an approach by Brealey, Myers, and Allen (2006), where a discount dividend model and the net present value of future-growth opportunities are discussed.

Keywords: Abenomics, conflicts of interest, earnings to price ratio, investment

I. Introduction

1. Rationale behind the study

Abenomics is a policy mix that was designed and introduced by Liberal Democratic Party (LDP) in Japan. It aims to revive the Japanese economy and has been advocated by Prime Minister Shinzo Abe and his Cabinet since December 2012. According to the LDP's "Japan Revitalization Strategy," which was revised in June 2014, one of the three key policy measures¹⁾ to restore Japanese firms' earning power is to enhance corporate governance. Japan's Stewardship Code, 2013 (the Code, hereafter) is an unfamiliar concept to the Japanese. Nevertheless, it is one of the solutions that is expected to strengthen corporate governance. Other solutions include the revision of Japan's Companies Act that imposes accountability on firms with no outside directors, and the restructuring of the Government Pension Investment Fund (GPIF).²⁾ Each solution may not be evaluated as an independent policy, but rather judged as an element of the policy-mix effects, if such effects exist, in line with an economic theory.

From an academic perspective, in relation to the Code, there are several controversial points that should be discussed in relation to the revitalization of firms' earnings. My research question is whether the Code is theoretically meaningful in terms of increasing

earnings per share (EPS) under the Japanese long-term downtrend of stock prices.

2. What are Stewardship responsibilities?

By definition³⁾, the Code states that “Stewardship responsibilities” refers to the responsibilities of institutional investors to enhance the medium-to long-term investment return of their clients and beneficiaries, including ultimate beneficiaries. They are to do so by improving and fostering the investee companies’ corporate value and sustainable growth, through constructive engagement or purposeful dialogue, based on in-depth knowledge of the companies and their business environment.

3. Purpose of the study

In this prolonged explanation, two kinds of conflicts of interest seem to exist. The first one is located between (1) “enhancing return for clients” and (2) “improving and fostering the investee companies’ corporate value.” Economically, (1) and (2) are completely different, but the Code aims at a “win-win” relationship. My intuition is that enhancing investee companies’ corporate earnings by utilizing investors’ power may not work in the short term, or it might take a long time to work. Looking back over the overall negative stock market performances of the past 25 years, institutional investors have suffered and will still be facing difficulties in raising both their own returns and firms’ return on equity (ROE). In addition, investors are obliged to take for granted a huge market risk over a longer investment period, and may lose money in the end. The second conflict of interest is the so-called “principal-agency”⁴⁾ problem where investors-agencies face information asymmetry, where less-informed investors conduct both (3) constructive engagement and (4) acquire in-depth knowledge of the investee companies.

In a long-term period when overall stock prices are declining, is this Code really compensating for the capital losses and the costs associated with these engagements, and hence worth investing in Japan?

This study only deals with the first conflict of interest.

The purpose of this study is, first, to clarify the relationship between stock prices and EPS in the Japanese stock market from 1989 to 2014: the period of the market’s worst performance, when stock prices were declining. The second is to judge whether conducting the Code is meaningful from a long-term investors’ perspective.

II. History of Stewardship

1. In Europe and UK

According to the Oxford Learner’s Dictionary⁵⁾, stewardship is defined as the act of taking care of or managing something, for example, property, an organization, money or valuable objects. Robledo and Lopez (2006) state that stewardship was a term used in the 13th to 19th centuries in Spain to describe an economic relationship between the landlord and the manager (agent), where fiduciary duty was established. In addition, according to

Frankel (2010), in Medieval England, the terms “use,” “charity,” and “trust” were embodied examples of the fiduciary duties of preserving and protecting the landlord’s assets against a third party. Even earlier, estate and inheritance law existed in the Roman Era and derives further back to the earlier periods of the 17th and 18th centuries BC, when the establishment of the laws of Hammurabi and Eshnunna are said to have marked the beginning of fiduciary duties.

Recently in Europe, to prevent fraudulent conduct by firms’ directors, the possibility of institutional investors’ active involvement in investees’ board activities has been actively discussed. The UK has a more than 20-year history of statutory corporate governance design. For instance, the Cadbury Report (1992) introduced the “comply or explain”⁶⁾ approach to institutional investors; the Hampel Report (1998) recommended a relational framework for the roles of directors, investors, and auditors. After the Lehman Brothers’ default in 2008 and the subsequent financial crisis, the Walker Review (2009) established the notion of the engagement of institutional investors to monitor board remuneration and the risk-taking activities of firms, especially in the UK banking industry. In 2010, the first draft of the UK Stewardship Code was completed, in line with the revised UK Corporate Governance Code enacted by the Financial Reporting Council⁷⁾. In 2012, the UK Stewardship Code was also revised in line with the Kay Review (2012).

2. In Japan

In Japan, there are few records of activists’ discussions⁸⁾ presenting evidence of whether the Code will have positive impacts on corporate earnings, EPS, or an increase in particular stock prices. Academic researchers as well as business practitioners have not reached any conclusion or consensus on the controversial issue of how institutional investors affect corporate financial strategy, earnings, and payout policy.

Nevertheless, Japan imitated the UK Stewardship Code and introduced it in 2013. This is perhaps due to the pressure that resulted from the AIJ investment firm fraud⁹⁾ that occurred in 2012 in addition to outside pressures that came from Europe. An OECD report (2010) severely criticized the inefficient system of the GPIF. Its report argued that there was low profitability and short-termism. All these things accelerated introduction of Japan’s Code by the Japan’s Financial Services Agency, in December 2013. Unlike a law that is an enforceable governmental norm, the “Code” is a voluntary standard or principle, where the self-accountability rule was introduced, and no penalty clause has been attached to nonparticipation.

III. Hypothesis

1. Data

I use the following data.

- (1) Stock Index — Japanese TOPIX (1989–2014, year end prices); a simple arithmetic average annual yield is minus 2.0%; Tokyo Stock Exchange data
- (2) Japanese Government Bond (JGB): (1989–2014) Duration 25 years; a simple

arithmetic annual average yield = 1.2%; Ministry of Finance data, as of January 5, 2015).

- (3) Other Stock Indices; American NASDAQ & Dow Jones Industrial Average (Dow), German DAX, Global Morgan Stanley Capital Index (MSCI)

2. Former studies and assumptions

- F. Modigliani and M. Miller (1958, 1963), MM proposition I and II

They hypothesized that in proposition I based on the condition of no transaction or agency costs, in an efficient market with free short selling, etc., the value of a firm is unaffected and irrelevant to how that firm is financed, either by debt or equity. This is so called the MM proposition I. Further, in proposition II they argue that the value of a firm stays the same regardless of dividend payout policy.

- M. Jensen (1986)

He argued that, with active monitoring, firms become more likely to pay out their free cash flow, but this does not necessarily mean that payout dividends are always increasing because conflicts of interest occur between shareholders and corporate managers. Free cash flow is cash flow in excess of that required to fund all projects that have a positive net present value (NPV). Corporate managers are the agents of shareholders, a relationship fraught with conflicting interests.

- E. Fama and K. French (1992)

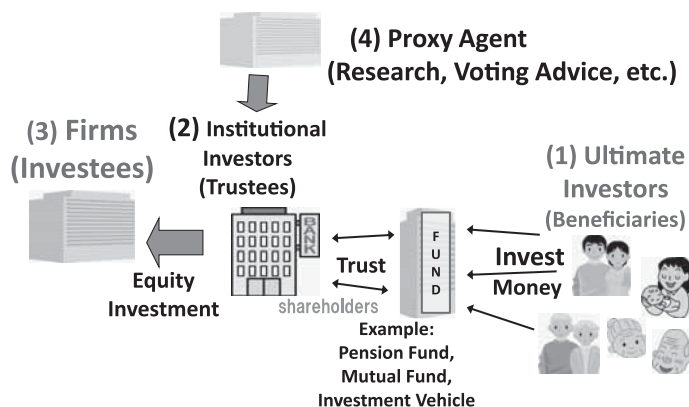
They chose 12 different types of portfolios, each which consists of values of US stocks ranging from about US\$2 billion to US\$8 billion, for the period 1963–1990. Their aim was to examine whether there was any relationship between the stock return (r) and the earnings-to-price ratio (EPS/P). They discovered that, on average, the larger the EPS/P, the larger r becomes.

- Key assumptions of the modern portfolio theory¹⁰⁾

In a long-term recessionary period, where overall EPS are either very low or negative, and where the earnings-to-price ratio $\left(\frac{EPS}{P}\right)$ is hardly increasing, investors are risk averse.

Naturally under these conditions, from the long-term perspective, investors will wish to sell portfolio stocks. However, for the last two years (i.e., 2012 to 2014) the Japanese stock market index rebounded (TOPIX, year-end), assuming that Japan's overall stock prices are still on a longer-term (25-year) downtrend. In the next model, I denote a price of a typical stock, P , and the rate of return on that stock is denoted by r .

The Japanese TOPIX chart will clearly indicate its downtrend as compared with the major relevant indices of the US and other countries (Figure 3 and Figure 4, at the end of



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Figure 1 Four-Party Stewardship Relationships

this paper).

Finally, stewardship in this thesis is limited to the tri-party relationships among ultimate investors (beneficiaries), institutional investors (trustees, trusted by beneficiaries), and firms (investees). Yet, other various types of stewardship exist, for example, four-party-relationships among (1) beneficiaries, (2) trustees, (3) investees and (4) trustees' proxy agents (Figure 1).

IV. Analysis

1. Method

Examination: The relationship between stock price and EPS

I now adopt the approach of the NPV of future growth opportunities (NPV of G), written by R. Brealey, S. Myers, and F. Allen (2006) as follows:

Investors often denote the terms growth stocks and income (or value) stocks. Investors buy growth stocks mainly for their capital-gain expectations when they hope for the future growth of earnings, rather than dividends. In contrast, investors buy income stocks mainly for their cash dividends when they expect low or negative future growth of earnings. (NPV of G) is useful in determining the net intrinsic value of a new project or an acquisition of another firm. It is calculated by taking, for example, the net cash inflow, discounted at the firm's cost of capital, less the present value of a new business or a purchased venture firm.

2. Analysis and findings

To cover all possibilities, I categorized Japanese firms into three different types of cases: (1) the case of the no-growth firm, (2) the case of the growth firm, and (3) the case

of the negative-growth firm.

(Case 1) The case of the no-growth firm,
where the NPV of growth opportunities (NPV of G) = 0

Background Information;

In (Case 1), Firm X does not grow at all. X does not plow back any earnings and simply produces a constant stream of dividends, where D_1 is the one-year dividend paid in Year 1. Here, $D_1 = D_2 = D_3 = D_n$. In the real world, X may not always pay a dividend higher than D_1 . Therefore, an overall average dividend level in any year will be regarded as an average dividend, D_1 , as long as X survives for a long period of time, like a perpetual bond. In a long-term recessionary period, say 25 years, the firm overall does not grow nor is it expected to grow, even in the future, as a market consensus. Yet, investors still expect to receive at least the same amount of dividends as before. Hence, although the firm's stock price has fallen to less than half of the original purchase price, these investors are satisfied with this firm's long-term strategy. For multiple fiscal years, these investors depreciated the stock's book value to the current market price by realizing accounting capital losses annually, and they no longer expect the stock price to recover to the original purchase price.

Solution to the investor's return;

Let an investor's expected rate of return on stock X denote r , the present value of stock X denote P_{nogrowth} (= Stock price of X), and the earnings-to-price ratio denote EPS.

In this "case of the no-growth firm," I use a dividend discount model.

$$P_{\text{nogrowth}} = \frac{D_1}{1+r} + \frac{D_2}{(1+r)^2} + \frac{D_3}{(1+r)^3} + \dots + \frac{D_n}{(1+r)^n}$$

Here, $D_1 = D_2 = D_3 = D_n$ constant, and $n \rightarrow \infty$ then, $P = \frac{D_1}{r}$ will be induced.

Basic Equation: An expected rate of return on stock X = dividend yield = EPS/P

$$r = \frac{D_1}{P} = \frac{EPS}{P}$$

(One example: When $P = 50$, $D_1 = EPS = 2.5$, then r is calculated as 0.05, which is 5%)

(Case 2) The case of the growth firm

In this case, P_{growth} , the stock price of X_{growth} is a value of the no-growth stock X plus the NPV of the growth opportunities, (NPV of G).

$P_{\text{growth}} = \frac{EPS}{r} + (\text{NPV of G})$, then the earnings-to-price ratio will be as follows:

$$\frac{EPS}{P} = r \left(1 - \frac{NPV \text{ of } G}{P} \right) \quad \text{Here, } NPV \text{ of } G < P \quad \dots \text{Equation(1)}$$

To solve for the relationship between P and EPS, I prepare two more cases below by utilizing the Equation(1), for the better understanding.

(Case 2, with a positive NPG) The case of the growth firm, where (NPG of G) > 0
 In Stewardship Code activities, investors hold dialogues about the future growth of the firm with the firm's directors, and they possibly request the board to raise the (NPV of G).

If the (NPV of G) increases and if it gets closer to the value of P,
 then the value of $\left(1 - \frac{NPV \text{ of } G}{P} \right)$ decreases.

As "(NPV of G) gets closer to the value of P" means that the constant portion of its dividend becomes relatively smaller than the NPV of its future growth.

Here, $0 < NPV \text{ of } G < P$, $\Delta NPV \text{ of } G = \Delta P$, and the dividend in any year is constant.

Then, obviously, $0 < \Delta \frac{NPV \text{ of } G}{P} < 1$, and $\frac{NPV \text{ of } G}{P}$ is increasing.

Here, Δ is a differential coefficient called Delta (Δ).

For example, if $P_{\text{nogrowth}} = 50$, $P = 60$, $\Delta P = 10$,

$NPV \text{ of } G: 0 \text{ (nogrowth)} \rightarrow 10$, $\Delta(NPV \text{ of } G) = 10$, then $\frac{NPV \text{ of } G}{P} = 10/50 \rightarrow 20/60$.

As a result, the value of $\frac{EPS}{P}$ is also decreasing, if r stays constant.

We can find that $\frac{EPS}{P}$ and (NPV of G) go in opposite directions, and are reversely related.

Findings:
 We find an important fact. As a result of Stewardship Code activities,
 If $\frac{NPV \text{ of } G}{P}$ increases, $\frac{EPS}{P}$ is decreasing, that is, PER is increasing.
 Also, if P constantly decreases for a long time, then the value of EPS decreases at a faster speed than P's decline, by the definition of Equation(1).

(Case 2, Alternative) Growth case, where (NPG of G) > 0 and r is increasing:
 In (Case 2), some people may argue that an assumption that $r = \text{constant}$ is unlikely. Therefore, let me propose a case where r is not constant, but increasing. Here, an incremental value of r is smaller than that of $\frac{EPS}{P}$ of by Equation(1).

$$r_{t \rightarrow t+1} < \Delta \frac{EPS}{P}$$

In a recessionary period, where $\frac{EPS}{P}$ is hardly increasing,

Findings:

In a recession, it is much more difficult to increase r , since Δr is smaller than $\Delta \frac{EPS}{P}$. Therefore, in this alternative Case 2, an endeavor to increase $\frac{EPS}{P}$ will not easily take place.

Small investors may seek to sell this stock to exit, or fairly large investors simply hold their existing portfolio as it is, without any Stewardship Code activities to increase $\frac{EPS}{P}$.

(Case 3) The case of the negative-growth firm, where (NPG of G) < 0

Let us consider the Japanese stock market and economic situations in the period 1989–2014. Consider that (NPV of G) decreases, passes zero and dips into the negative — value zone. Then, the value of $\left(1 - \frac{NPV \text{ of } G}{P}\right)$ increases, just as we have seen in (Case 2).

As a result, the direction of $\frac{EPS}{P}$ is also increasing, when the r level stays the same, of which the phenomena means, in other words, that investors want to keep the same rate of return of r as the previous year's. Here, r is obviously not increasing.

Findings:

$\frac{EPS}{P}$ has to be increasing, otherwise investors are unable to keep the same r rate as before, since investors want at least a stable and unchanged rate of r .

Therefore, $\frac{EPS}{P}$ has to be increasing, even in the depression period of 1989–2014 to keep the same rate of return r .

In due course, it is natural that investors urge the firm's directors to increase EPS, by repurchasing the existing number of shares issued.

As to the EPS itself, it is difficult to increase earnings. As a result, the number of shares has to be decreasing. Also, the denominator, P, the stock price, has to be decreasing in order to increase the $\frac{EPS}{P}$. In other words, earnings and number of shares are reversely related to keep the same EPS level.

Now, by way of introducing the Code, the Japanese Government generally tries to dis-

courage firms' management from undertaking a share repurchase activity, since a share repurchase activity reduces both retained earnings and reserves in capital accounts. For a firm, a share repurchase is a zero-NPV project. Suppose that the tradeoff is between running a risk of a new capital investment by the management and a share repurchase. Obviously, the shareholders will prefer a share repurchase to a negative NPV project. In Japan's long history of negative NPV of growth opportunities, Japanese firms were reluctant to accept negative-NPV projects.

Let's imagine a macro world:

$$f(x) = \text{Corporate Sector of GNP} = \alpha + \beta \sum_{n=1}^n (\text{Earnings}_n) + e$$

Here, e is a standardized error.

In a deteriorating economy, the corporate sector of GNP is decreasing, which means that earnings in each firm are, on average, becoming lower since the aggregate of earnings becomes low.

Findings:

The alternative way of increasing $\frac{EPS}{P}$ is to decrease P, on the condition that the relative decrease of EPS is smaller than the decrease in P.

That is, Δ of EPS < Δ of P

If stock prices are inevitably and continuously declining and if there is no proper way to sell off to exit from the stock market, then such an investor gives up worrying too much about the long-term decline of portfolio stock prices as long as those EPSs are not declining as much. Rather, investors hope portfolio stock prices surpass the competing benchmark index performance, which is also a negative performance.

This is what Japanese institutional investors have actually experienced for a very long period of time, since 1989, until recently. In other words, a "sell" strategy would have resulted in the best performance ever. However, these investors could not sell to exit because the size of their portfolios was already too enormous to sell out everything, as in the situation of the GPIF.

V. Concluding Remarks

I examined the role of EPS/P in returns. I used EPS/P because the earnings-to-price ratio is a link between the expected return on investment (r) and the fair value of a stock (P). In addition, it is easy to grab the relationship between EPS and P. Even more effectively, examining the relationship between EPS/P and r helps judge whether it is meaningful to carry out the Code from a long-term investors' perspective. If the r component is only a constant dividend, r will be exactly the same as the yearly dividend/price of the

stock, as we see in (Case 1). That is, $r = \frac{D_1}{P} = \frac{EPS}{P}$.

Next, I intentionally set up (Case 2), because Japan's Stewardship Code is said to enhance corporate earnings by growing and generating new cash in the long run. In other words, EPS/P is a measure of future growth. A notion of the net present value of growth opportunities is to evaluate whether the Code effectively generates cash for the firm through the activities of the investors. Here, in (Case 2), an interesting and meaningful result was induced. That is, when $\frac{NPV \text{ of } G}{P}$ increases, $\frac{EPS}{P}$ decreases; (NPV of G) and EPS are reversely related. In addition, investors will be reluctant to see the findings in (Case 2, alternative), where $\Delta r_{t \rightarrow t+1} < \Delta \frac{EPS}{P}$. This fact will discourage the Code promoters because the endeavor to increase the investment return r is not paying off, compared with the endeavor to increase $\frac{EPS}{P}$. Fama and French (1992) examined the role of the earnings-to-price ratio in returns in the USA on a long-term horizon from 1963 to 1990. They found a tendency for a larger r , given a larger EPS/P.

Unlike the USA, Japan's stock prices for the period 1989–2014 have, on an average, been on a downtrend of about minus 2% annually. I examined a case of the negative-growth firm in (Case 3), where I assumed r is not increasing, but trying to remain at least in the same rate of r . This is typically a value stock investment, where retirement of the stock occurred due to the activity of the firm's management.

In (Case 3), a long-term growth in earnings is unlikely. Therefore, Japan will be unsuccessful in carrying out the Code under a long-term bear stock market. In a long-term recession period, M. Jensen's argument that firms become more likely to pay out their free cash flow with active monitoring such as the Code, shall not apply under the MM proposition II. A summary of all cases is located in (Figure 2).

Finally, as I have not examined any risk and cost analysis of the Code in this study, for example, in applying a typical principal-agency model or an efficient market hypothesis. In due course, further examination will be conducted in another academic study.

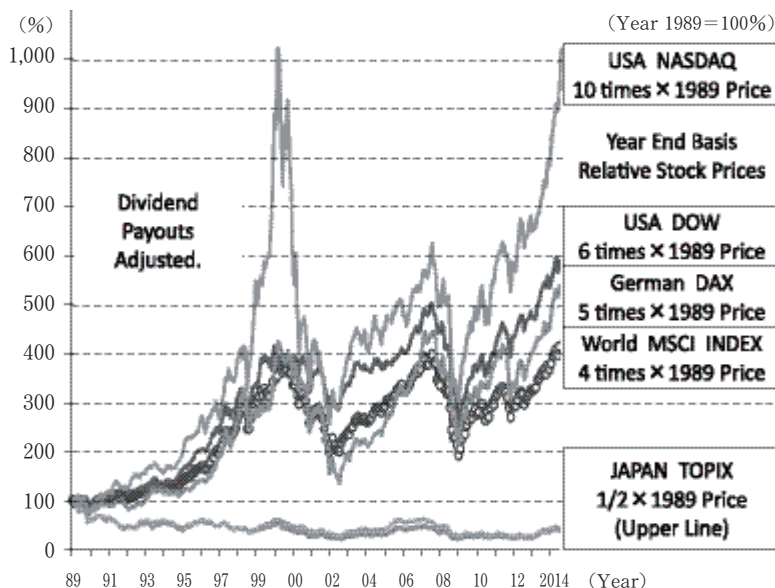
Figure 2 Summary: Link among rate of return, stock price and earnings to price ratio

| | |
|---|--|
| • Case 1 (No growth firm) | $EPS/P = r = \text{Dividend}/P$ |
| • Case 2 (Growth firm) | $EPS/P = r (1 - (\text{NPV of } G)/P)$ |
| • Case 2-Alternative (Growth firm, where r is increasing) | $\Delta r_{t \rightarrow t+1} < \Delta \frac{EPS}{P}$ |
| • Case 3 (Negative Growth firm) | Retirement of stocks occurs in order to increase EPS/P |

Table 1 Comparison between Japan's Stewardship Code and UK Stewardship Code

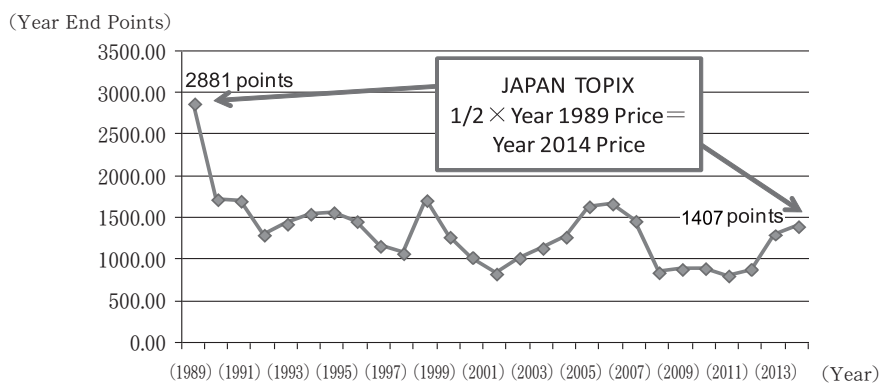
| Principle No. | Japan: The Principles of the Code | UK: The Principles of the Code |
|--|--|---|
| | Institutional investors should: | So as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should: |
| 1. Policy Disclosure | have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it. | publicly disclose their policy on how they will discharge their stewardship responsibilities. |
| 2. Conflicts of interest | have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it. | have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed. |
| 3. Monitoring | monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies. | monitor their investee companies. |
| 4. Engagement | seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies. | establish clear guidelines on when and how they will escalate their stewardship activities. |
| 5. Activities | have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies. | be willing to act collectively with other investors where appropriate. |
| 6. Voting | in principle report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries. | have a clear policy on voting and disclosure of voting activity. |
| 7. In-depth knowledge/ Reporting | have in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities to contribute positively to the sustainable growth of investee companies. | report periodically on their stewardship and voting activities. |

Source: Japan's Financial Services Agency, *Principles for Responsible Institutional Investors (Japan's Stewardship Code)*, and UK FRC's UK Stewardship Code
 Edited by author



Source: Ito Review (2014)¹¹⁾ Amended by author
Original Data: Tokio Marine & Nichido Fire Insurance Co., Ltd.

Figure 3 Historical Relative Stock Prices



Produced by author

Figure 4 Japan TOPIX Data: Comparison between 1989 and 2014

Notes

- 1) Prime Minister Shinzo Abe and his Cabinet decided on the original strategy in June 2013. It was revised in 2014. The three key policy measures of Item 1 — restoring Japan's earning power, (1) companies to change” — are as follows: ①enhancing corporate governance, ②re-forming investment of public and quasi-public funds and ③accelerating industrial restructuring and venture businesses by promoting the provision of funds for growth.

- 2) Bloomberg reported on Feb 17, 2014 that the GPIF was the largest pension fund in the world, at 124 trillion Japanese yen. In addition, it reported that the Japanese equity investment portfolio portion of the GPIF amounted to 24% that year and is expected to increase.
- 3) The definition was found in the following document.
Financial Services Agency, *Principles for Responsible Institutional Investors (Japan's Stewardship Code) To promote the sustainable growth of companies through investment and dialogue*, The Council of Experts Concerning the Japanese version of Stewardship Code, 2014, p. 1
- 4) Regarding the principal-agency problems, Fama (1980), for example, attempts to explain how the separation of security ownership and control, typically in large corporations, can be an efficient form of economic organization. In my study, the principal is the owner (investors), and the agent is the firm's management.
- 5) The origin of the word "steward" is the old English "stiweard," a verb that dates back to the early 17th century, according to the Oxford Online Dictionary by Oxford University Press.
- 6) In the Cadbury Report, the so called "comply or explain" approach to institutional investors is explained in clause 3.7 of the Statement of Compliance as follows, "We recommend that listed companies reporting in respect to years ending after June 30, 1993, should state in the report and accounts whether they comply with the Code and identify and give reasons for any areas of non-compliance. The London Stock Exchange intends to require such a statement as one of its continuing listing obligations."
- 7) The Financial Reporting Council (FRC) is the UK's independent regulator for the accounting and actuarial professions, and is responsible for corporate governance.
- 8) Discussion examples are, the minutes of the 1st to 6th Councils of Experts concerning the Code. In addition, the Councils received comments from 26 individuals/entities in Japanese and from 19 individuals/entities in English on the draft of the Code. Based on the received comments, the Councils revised and finalized the Code on February 26, 2014. However, there are few serious discussion records on whether the Code would theoretically have positive impacts on corporate earnings. The final Japanese version is provided in Table 2, in comparison with the UK Stewardship Code.
- 9) On June 19, 2012, the UK's BBC online news reported that the president of AIJ Investment Advisors along with three others had been arrested for fraud relating to 109 billion yen of missing pension funds. The Japanese prosecutors said that 7 billion yen of the missing money was stolen from clients. More than 880,000 policy holders were affected by the losses.
- 10) Modern portfolio theory (MPT) is a finance theory said to have been first developed by Harry Markowitz in his paper "Portfolio Selection," *Journal of Finance*, 1952. He discusses how a risk averse investor can construct a securities portfolio to maximize an expected rate of return given that a certain level of risk is set.
- 11) This data was used in the following report. The Ministry of Economy Trade and Industry (MITI), "Final Report of the Ito Review: Competitiveness and Incentives for Sustainable Growth, MITI, 2014, p. 95.

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