

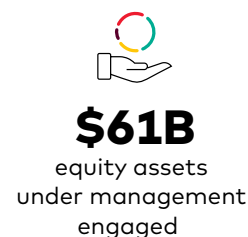
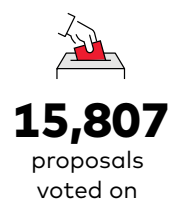
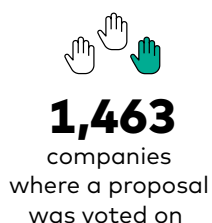
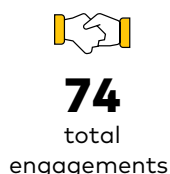
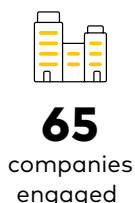
# Japan Regional Brief

This Regional Brief reports on the corporate governance topics and trends Vanguard’s Investment Stewardship team observed across portfolio companies domiciled in Japan during the 2024 proxy year; it includes data on the proxy votes cast by the Vanguard-advised funds during the period.<sup>1</sup> We provide this brief, and other publications and reports, to provide Vanguard fund investors and other market participants an understanding of the engagement and proxy voting activities we conduct on behalf of Vanguard-advised funds.

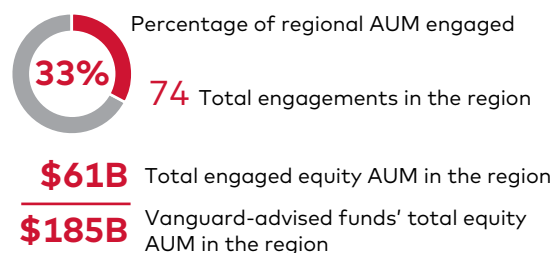
Vanguard’s Investment Stewardship team conducts proxy voting and engagement on behalf of the Vanguard-advised funds. Our approach to evaluating portfolio companies’ corporate governance practices is centered on four pillars of good corporate governance, which are used to organize this brief: board composition and effectiveness, board oversight of strategy and risk, executive pay, and shareholder rights.

During the 2024 proxy year (July 1, 2023, through June 30, 2024), the team conducted 74 engagements related to 65 companies in Japan, representing \$61 billion in equity assets under management (AUM) of the \$185 billion in Vanguard-advised funds’ total equity AUM in the region. The funds voted on 15,807 proposals across 1,463 companies in the region.

## At a glance



## Regional AUM engaged



<sup>1</sup> Vanguard’s Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, “Vanguard-advised funds”). Vanguard’s externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, “we” and “the funds” are used to refer to Vanguard’s Investment Stewardship program and Vanguard-advised funds, respectively.



## Board composition and effectiveness

Good governance begins with a company's board of directors. Our primary focus when evaluating a company's corporate governance profile is on understanding to what extent the individuals who serve as board members are appropriately independent, capable, experienced, and equipped to represent the interests of all shareholders.

### Board independence

Japanese boards have historically been dominated by executive directors, referred to in the Japanese market as "inside directors." In recent years, companies have been increasing the number of nonexecutive directors (known as "outside directors"). However, we have observed that many outside directors maintain professional relationships and/or affiliations that may impact their independence and objectivity.

In the 2024 proxy year, we prioritized engagement with representatives and leaders at Japanese companies where we had questions about board and committee independence, irrespective of board structure (see "Board Structure in Japan" for additional information). Specifically, we sought to understand boards' processes for evaluating outside directors' independence.

#### Board structure in Japan

Three types of board structures are permitted under Japanese corporate law: a one-tier board with three committees (audit, nomination, and compensation); a one-tier board with an audit committee; or a two-tier board (composed of a board of directors and a board of statutory auditors). We believe that boards are generally best positioned to determine which board structure is appropriate for their company.

In these engagements, we encouraged increased disclosure of board processes and/or details behind certain directors' professional relationships, transactions, or other affiliations so that shareholders could make informed decisions regarding each director's independence when voting.

At the 2024 annual meeting of **Nintendo Co., Ltd. (Nintendo)**, we identified some potential board independence concerns, including some that involved an incumbent independent director whose business relationship with one of Nintendo's business partners seemed to raise questions regarding their independence. After engaging with company directors and reviewing the disclosures provided in the meeting materials, however, we determined that board independence levels had increased overall and were aligned with the Vanguard-advised funds' policy. The Vanguard-advised funds thus supported the election of all directors at the company's 2024 annual meeting.

### Board skills and experience

In recent years, we have seen an increase in the number of Japanese companies disclosing a board skills matrix. This increase is largely in response to the Japanese Corporate Governance Code, revised in 2021, which identified skills matrix disclosure as a corporate governance best practice. We find this type of disclosure helpful, as it provides details about individual directors as well as the board in aggregate and gives investors visibility into what skills and experiences the board views as important to oversee company strategy. In our engagements with Japanese

company leaders, we provided feedback on the importance of this type of disclosure and how we use skills matrices to inform our perspective. When we found that a board skills matrix was only disclosed in Japanese, we requested the company also disclose its board skills matrix in the English-language version of its annual meeting notice.

### **Contested director elections**

For the second consecutive proxy year, we saw a relatively high number of proposals related to director elections (proxy contests) in Japan. The funds voted on 69 director-related shareholder

proposals (proposals seeking to appoint new director candidates or to remove incumbent directors), compared to 76 in the 2023 proxy year and only 34 in the 2022 proxy year. We continued to observe a high degree of investor activism, with activists questioning companies' strategy, valuation, capital allocation, and governance practices. We engaged with the targeted companies and the shareholder proponents to better understand each perspective. In each case, to determine the funds' votes, we evaluated the case for change put forward by the proponent, the company's approach to governance, and the quality of the director nominees.



## Notable votes from the 2024 proxy year include:

At the August 2023 annual meeting of **Kusuri No Aoki Holdings Co., Ltd. (Kusuri No Aoki)**, a consumer staples company in the pharmaceutical sector, the Vanguard-advised funds voted against a management-proposed director nominee and supported a dissident director nominee proposed by one of the company's largest shareholders, Oasis Management. Oasis Management's rationale for the proxy contest was based on Kusuri No Aoki's long-term underperformance as well as concerns regarding independent oversight at the board level. We engaged with company leaders to understand their perspectives and to identify what processes and/or procedures were in place to enable independent directors to provide effective challenge to management. This engagement raised questions for us about the extent to which independent directors had the ability, procedurally, to debate matters outside the presence of nonindependent directors. We also learned that company practice was to not allow independent directors to engage with shareholders. Together, these factors raised questions for us regarding board independence and board entrenchment. The funds thus voted in favor of the dissident nominee. In our view, this new director would, in addition to increasing the number of independent directors on the board, add valuable M&A expertise that could help Kusuri No Aoki implement its business strategy. We will continue to engage with the company and monitor the evolution of its governance procedures and practices.

At the June 2024 annual meeting for **Mizuho Financial Group, Inc. (Mizuho)**, one of the three major banking groups of Japan, a consortium of shareholders submitted a proposal that asked the group to establish and disclose policies and processes for embedding climate change management and expertise within the board. We engaged with company leaders to understand their response to the proposal. Through this engagement and our analysis of disclosed materials, we determined that Mizuho demonstrated that its board already had a skills matrix in place that identified directors with sustainability-based skills and experience, and that the company had an established governance framework in place to provide board oversight of sustainability initiatives. Given the governance policies and procedures in place, and the company's clear disclosure of them, the Vanguard-advised funds did not support the shareholder proposal. We plan to continue engaging with Mizuho regarding the board's oversight of progress made by the company in executing its climate strategy.



## Board oversight of strategy and risk

Boards should be meaningfully involved in the formation and oversight of strategy and have ongoing oversight of material risks to their company. We work to understand how boards of directors are involved in strategy formation, how they oversee company strategy, and how they identify and govern material risks to long-term shareholder returns.

### Shareholder proposals

In Japan, shareholder proposals can be filed only in relation to items that normally get approved by shareholders. This rule affects how proposals are described on annual meeting agendas. For example, a shareholder proposal requesting that a company make additional disclosures will be identified on the annual meeting agenda as a proposal asking to amend the company's articles of association to state that the company produces a report disclosing certain information.

In the 2024 proxy year, the funds voted on 313 shareholder proposals at 69 companies, compared with 351 shareholder proposals at 67 companies in the 2023 proxy year. In our analysis of shareholder proposals, we focused on each proposal's specific ask and the degree of latitude that boards and management teams would have in determining how to implement the request, as we believe that a company's management team, properly overseen by a well-composed board, is best positioned to determine what company strategy and operating decisions best maximize shareholder returns. Consistent with the funds' proxy voting policy, paramount to evaluating these shareholder proposals was understanding a company's existing practices and disclosures related to material risks and assessing whether there appeared to be adequate independent oversight of company management, strategy, and material risks.

Japanese companies continued to receive proposals related to proxy contests, environmental issues, and capital allocation. Generally, we found that in 2024 the capital allocation proposals had become more nuanced and sophisticated compared to prior years.

In March 2023, the Tokyo Stock Exchange (TSE) requested that all listed companies on the Prime and Standard Markets take "action to implement management that is conscious of cost of capital and stock price."<sup>2</sup> The TSE effectively asked that companies analyse and disclose actions aimed at improving their cost of capital and profitability including but not limited to the disclosure of targets, timelines, and specific actions taken to enhance management that is conscious of cost of capital. While the TSE did not set a deadline for such disclosure, it asked companies to implement these actions without delay and to keep shareholders updated through proactive dialogue. In January 2024, the TSE also began publishing a list of companies that had disclosed information in accordance with the TSE's request, further encouraging companies to take action. As a result of the emergence of this practice, in the 2024 proxy year we saw several shareholder proposals asking companies to enhance disclosure of their cost of capital in line with the TSE's request.

Environmental and social shareholder proposals also remained present on companies' meeting agendas, especially in the utilities, materials, and financial sectors. Most of these proposals focused on climate risk management—for

<sup>2</sup> An English-language version of the TSE's *Action to Implement Management that is Conscious of Cost of Capital and Stock Price (Prime and Standard Markets)* is available [here](#).

example, within the utilities sector, we saw requests to phase out nuclear facilities and transition to renewable energy. Generally, we found that Japanese companies had reasonable disclosures on climate risk management, likely driven in part by 2023 changes in regulation that mandated sustainability disclosures in a company's annual securities report (known as a "Yuho Report").

### **Risk oversight failures**

When risk oversight incidents occur in Japan, we often see regulators issue administrative actions, such as business improvement orders with the aim of implementing a course of remedial actions to prevent the recurrence of the identified issues. These administrative actions are largely concentrated within highly regulated sectors. In December 2023, Japan's Financial Services

Agency (FSA) issued business improvement orders to four major non-life insurance companies for issues related to price-fixing on corporate insurance premiums, with the regulator also requiring regular updates on the companies' implementation of their business improvement plans. We engaged with company leaders of **MS&AD Insurance Group Holdings, Inc. (MS&AD Holdings)**, in relation to the business improvement measures and accountability actions taken in response to the orders issued by the FSA on its subsidiaries following concerns related to conduct contrary to the Japan Antimonopoly Act and potential price fixing. Through our analysis and engagement, we determined that MS&AD Holdings had taken sufficient actions to strengthen its risk oversight practices. Subsequently, the funds supported the election of all directors at the company's 2024 annual meeting.



## Notable votes from the 2024 proxy year include:

**Osaka Steel Co., Ltd. (Osaka Steel)**, a steelmaking company and listed subsidiary of Nippon Steel Corp., received several shareholder proposals at its 2024 annual meeting. One sought to amend the articles of association asking that Osaka Steel develop and disclose a plan to achieve a price-to-book ratio of 1 or higher, which was based on the guidance published by the TSE. We engaged with company leaders to gain a better understanding of the existing disclosures the company provided to shareholders. The company had published its plan in January 2024 as part of the request from the TSE; however, through our analysis and engagement, we came to the view that the disclosures did not provide sufficient information on the targets or timelines the company has set for its initiatives to improve profitability and market valuation. Because of our concerns about what we determined to be the insufficient level of disclosure, the Vanguard-advised funds voted for the shareholder proposal.

**Toyota Motor Corporation (Toyota)** is the largest automobile manufacturer in the world, with global operations and headquarters in Japan. Ahead of the company's 2024 annual meeting, media reports emerged of misconduct scandals and wrongdoing involving Toyota group firms. Given past malpractice at Daihatsu Motor Co., Ltd., and more recent issues coming to light at Toyota Industries, we engaged with management to discuss and assess the company's corporate governance practices and understand the steps the board was taking related to these accusations. The company acknowledged the failures related to product safety and described improvement measures to prevent recurrence of similar issues, including making changes to corporate culture, strengthening management controls, and employing external experts to help improve internal controls. We viewed the actions taken by Toyota to improve risk oversight and to mitigate future events as appropriate, and gained confidence that the process, system, and cultural improvements being implemented would be assessed and measured to ensure they were effective. As a result, the funds voted in support of all management proposals at the 2024 annual meeting.

**Nippon Telegraph and Telephone Corporation (NTT)**, a telecommunications company, received administrative guidance from the Ministry of Internal Affairs and Communications in February 2024 related to the data leak at its wholly owned subsidiary, Nippon Telegraph and Telephone West Corporation (NTT West), which exceeded over 9 million personal data records between 2013 and 2023. The guidance asked for details of the corrective action. At its 2024 annual meeting, NTT also received a shareholder proposal with a dissident candidate nomination to the board. We engaged with company leaders to discuss the board's oversight and corrective measures taken in relation to the data leak, as well as the company's perspectives regarding the director nominee put forth in the shareholder proposal. In our engagement, company leaders discussed the discovery of the data leak in July 2023 and implementation of remedial actions since then, including the resignation of NTT West's president, allocation of budget to address shortcomings, and implementation of monitoring systems to detect and deter irresponsible practices. Based on the actions taken to address the data leak and our conversation with company leaders, we determined that the company had addressed the incident. In addition, we could not identify a compelling rationale for the election of the director nominee put forth in the shareholder proposal. As a result, the Vanguard-advised funds voted to elect all NTT nominees at the 2024 annual meeting.



## Executive pay

Sound, performance-linked pay programs can drive long-term shareholder returns. We look for companies to provide clear disclosure about their compensation practices, the board's oversight of those practices, and how the practices are aligned with shareholders' long-term investment returns.

In Japan, shareholders do not vote on executive compensation outcomes—known as “Say on Pay” in other markets—nor do Japanese companies disclose detailed information about executive compensation arrangements or outcomes, as Japanese regulation does not require it. Occasionally, shareholders may vote on the approval of an equity compensation plan, but these plans are not common in the market.

### Compensation-related shareholder proposals

During the 2024 proxy year, we saw fewer compensation-related shareholder proposals compared to proxy year 2023; the funds voted on 35 compensation-related proposals in proxy year

2024, compared to 43 compensation-related proposals in proxy year 2023. Compensation-related shareholder proposals often seek to enhance executive compensation disclosure or to introduce equity-based compensation plans for directors. While we welcome additional disclosure from companies to better understand how boards are thinking about integrating strategic goals into compensation arrangements, we found that many of the shareholder proposals introduced overly prescriptive terms that would limit boards' ability to retain flexibility and discretion in adjusting their executives' compensation as and when needed in response to the external market environment.



### Notable votes from the 2024 proxy year include:

At the 2024 annual meeting of **The Kansai Electric Power Co., Inc. (KEPCO)**, an electric utilities company, the Vanguard-advised funds voted against a shareholder proposal requesting increased disclosures on the compensation paid to company directors and executives. In our analysis, we found that the company provided disclosures that were above market standards and included compensation data for its executive directors on an individual basis. As a result, we determined that KEPCO had, to a large extent, already addressed the concerns raised in the proposal. The Vanguard-advised funds thus voted against the proposal.





## Shareholder rights

We believe that governance structures should allow shareholders to effectively exercise their foundational rights. We look for companies to give shareholders the ability to use their voice and their vote—in proportion to their economic ownership of a company's shares—to effect and approve changes in corporate governance practices.

### Independent director access

One of the key challenges we have experienced in the Japanese market from a shareholder perspective is companies' reluctance to provide engagement opportunities with independent directors serving on the board. Most Japanese companies offer executives or investor relations professionals for shareholder engagements. While we value conversations with company leaders, we prefer to speak directly with independent directors on certain matters so that we can better understand boards' corporate governance structures and processes and how independent directors, who serve on behalf of all shareholders, participate in the oversight of management, strategy, and material risks. In the 2024 proxy year, we continued to note that the Japanese market broadly has an opportunity to improve shareholders' ability to engage directly with independent directors.

### Poison pills

The prevalence in Japan of takeover defense plans (also known as poison pills) has been declining over recent years, but they remain a common market practice. We look for a clear and compelling rationale to support a company's renewal of a poison pill because we believe that poison pills can inhibit shareholder rights by substantially limiting opportunities for corporate takeovers and reducing management accountability. We have observed that many poison pills at Japanese companies are effectively rolling, with the company seeking shareholder approval every three years to renew the pill, often with no specific reason or unique rationale other

than general concerns about potential hostile takeovers. In our engagements in proxy year 2024, we continued to encourage companies to provide clear disclosure to shareholders on the specific reasons they are seeking renewal of the pill, along with ensuring that they have the appropriate level of independent board oversight and processes in place to manage the use of the pill.

### Decision-making authority for income allocation

Japan's Companies Act allows companies to stipulate within their articles of incorporation that the board is authorized to determine matters of income allocation (such as surplus dividends) without shareholder approval and to prohibit shareholder proposals related to such matters. During the 2024 proxy year, we observed both management and shareholder proposals seeking to amend companies' articles of incorporation to restore shareholder authority to vote on and/or propose income allocation proposals, which generally denote a company's dividend payout plan. A typical income allocation proposal from a shareholder could include a request for a dividend payout in addition to the management proposal, or it could be an alternative profit distribution plan seeking to replace the management proposal altogether. Our process is to evaluate shareholder proposals on a case-by-case basis in the context of the facts and circumstances at the company in question; here, in each of our case-by-case assessments, we determined that each proposal was an overly prescriptive ask of the company,

as it requested action that went beyond the requirements articulated in Japanese law (which does not require companies to provide this authority to shareholders). However, we also observed several management proposals seeking to reinstate this authority to shareholders. That was the case at **Suruga Bank Ltd. (Suruga)**, a company that had previously removed this authority from shareholders. At its 2023 annual meeting, Suruga received a shareholder proposal seeking to restore this authority; the proposal did

not pass. (The Vanguard-advised funds did not support the 2023 proposal.) In response, at the 2024 annual meeting, the company's board put forward an amendment to the articles of association that restored the authority to shareholders. We viewed this change to be an improvement in shareholders' rights, as the amendment would reinstate Suruga shareholders' ability to vote on income allocation, and the Vanguard-advised funds supported this resolution.



## Notable votes from the 2024 proxy year include:

Ahead of the 2024 annual meeting of **Nomura Holdings, Inc. (Nomura)**, a financial services holding company, we engaged with an independent director to discuss the board's oversight of risk and strategy and to learn more about the board's effectiveness. During the engagement, the company underscored its commitment to shareholder engagement, which was also publicly disclosed in the company's Corporate Governance Guidelines. The independent director shared insights on the functioning of the board and how the board oversaw material risks to the company. Among the key topics discussed were the evolution of the board's approach to risk management. As a result of the discussion, we gained a deeper understanding of the board's functioning and oversight of material risks. We hope to have more engagements with independent directors at Nomura in the future.

At the 2024 annual meeting of **AEON Co., Ltd. (AEON)**, a diversified retail corporate group, shareholders were asked to approve the renewal of the company's takeover defense plan. We assessed the proposal and looked at the composition of the board's key committees and the special committee that evaluated the appropriateness of transactions, including poison pills. We found that the company's Compensation and Nomination Committees were not majority independent. Furthermore, we noted that the special committee was not entirely independent. At the annual meeting, the Vanguard-advised funds voted against this proposal because of concerns regarding independent oversight of board committees and the special committee.

# Proxy voting data

The number and types of management and shareholder proposals in Japan stayed relatively consistent in proxy year 2024 compared to proxy year 2023. The number of shareholder proposals remained relatively high and was notably stable in contrast to the 50% year-over-year increases seen in proxy years 2021 through 2023. We saw an increase in the level of sophistication of the proposals themselves—particularly the capital allocation-related proposals following the TSE’s guidance

to companies regarding action on their cost of capital management. Despite this increase in sophistication, out of the 313 shareholder proposals put forward for a shareholder vote at 69 companies, the Vanguard-advised funds supported just two proposals at Japanese companies in proxy year 2024: a shareholder-proposed nominee in a proxy contest at Kusuri No Aoki Holdings, and a capital allocation proposal at Osaka Steel. Additional information on each situation is detailed in this piece.

Japan					
Alignment with our pillars	Proposal type	Management		Shareholder	
		Number of proposals	% for	Number of proposals	% for
Board composition and effectiveness	Elect directors	12,297	97%	22	5%
	Other board-related	1,262	76%	71	0%
Board oversight of strategy and risk	Approve auditors	25	100%	—	0%
	Environmental and social	—	0%	48	0%
Executive compensation	Other compensation-related	588	93%	36	0%
Shareholder rights	Governance-related	348	92%	1	0%
Other proposals	Adjourn/other business	11	100%	—	0%
	Capitalization	940	100%	—	0%
	Mergers and acquisitions	23	100%	—	0%
	Other	—	0%	135	1%

**Note:** Data are for the proxy year ended June 30, 2024.



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