

Japan Securities Finance: Hiring of BoJ alumni has failed to enhance shareholder value, could be damaging, activist says

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[Editor's note: Amended to clarify the correct spelling of BoJ executive director Minoru Masubuchi.]

- Strategic Capital submits AGM proposal, urging BoJ alumni salary disclosure
- Also seeking to abolish 'opaque' executive advisor management positions
- JSF is a major shareholder in 384 companies
- JSF casts blank votes, effectively supporting company proposals

Strategic Capital is trying to make Japan's long-standing *amakudari* practice, which refers to government bureaucrats landing lucrative positions at businesses they used to supervise, a focus of this year's AGM season as it appears to be damaging shareholder value, said Tsuyoshi Maruki, CEO of the activist investor.

The term *amakudari*, which literally means "descent from heaven", was coined at a time when government bureaucrats were viewed as Japan's super elite.

Strategic Capital has chosen **Japan Securities Finance (JSF)** [TYO:8511], a JPY 85.16bn (USD 652.3m) market cap company in which it holds a 5.04% stake, as its target. Maruki told this news service that the Tokyo-based monopolistic provider of loans for margin trading and securities lending services has been appointing **Bank of Japan (BoJ)** alumni to top management positions for more than 70 years.

Since 1950, when JSF was listed, all its 10 presidents, including current President Shigeki Kushida, are former BoJ executive directors or deputy governors, said the activist.

And the role of president is not the only management position being filled through *amakudari* from Japan's central bank, according to Strategic Capital. BoJ alumni have also descended to become managing executive officers and senior managing executive officers at JSF, as well as presidents of JSF's subsidiaries.

On average, the executive officers of JSF are compensated JPY 50.27m (USD 389,690) per year, which is approximately 1.5 times the compensation of the BoJ Governor and 2.5 times the compensation of the BoJ Executive Director, according to Strategic Capital's analysis.

What concerns Maruki the most, he said, is that members of management who are paid far more than when they worked at the BoJ, may have lost the incentive to work hard to increase shareholder value.

The fact that BoJ alumni are deeply embedded in JSF, a listed company, and that the company's senior management positions have become like vested interests, cannot be said to be socially fair, the activist said.

To shed light on the issue, Strategic Capital [announced \(https://stracap.jp/english/proposal-for-JSF-from-sc-2022_eng.pdf\)](https://stracap.jp/english/proposal-for-JSF-from-sc-2022_eng.pdf) on 25 April that it has launched a campaign by setting up a special website to facilitate a dialogue with JSF's management and has submitted a set of proposals for the company's AGM in June this year, asking it to disclose the individual remuneration of its president and other ex-BoJ executives.

Maruki stressed that the activist is not saying this kind of *amakudari* hiring is always wrong. If these hires can improve corporate value for shareholders, they could have a role to play.

"We are simply saying that experience as a BoJ executive director has not led to an increase in JSF's value in recent years, at least as far as share price performance and return-on-equity are concerned," he said.

JSF's share price has remained well below the company's dissolution value since 2010, while its return-on-equity has remained well below 8%, the minimum level generally required of listed companies, according to the activist.

In 2008, Japan made a sweeping [reform \(https://www5.cao.go.jp/kanshi/pdf/kaisai/dai1kai/iinnkaisetsumei.pdf\)](https://www5.cao.go.jp/kanshi/pdf/kaisai/dai1kai/iinnkaisetsumei.pdf) of the law on civil servants to prohibit government officials from actively seeking employment with companies in sectors with which they had had interactions while in office, and to prevent re-employed former government officials from making requests of, or seeking favors from, their former place of work in the government.

The law was changed because the practice of retired bureaucrats landing cushy jobs at entities in sectors that they used to supervise served as a potential vehicle for corruption.

In its report [published \(https://dl.ndl.go.jp/view/download/digidepo_3525594_po_073902.pdf?contentNo=1\)](https://dl.ndl.go.jp/view/download/digidepo_3525594_po_073902.pdf?contentNo=1) on the law amendment in 2012, the government said *amakudari* could be detrimental to a company's performance and may lead to a loss of competitiveness as an organization.

Under the BoJ Act, the central bank stipulates that its employees should refrain from seeking employment "within two years of retirement" with BoJ counterparties, such as JSF and its subsidiary **JSF Trust & Banking**.

A JSF spokesperson told this news service that *amakudari* is allowed two years after retirement and that these people have been appointed to management positions on the basis of their insights and experience in the financial and securities sector.

Strategic Capital argues, however, that judging from their career paths, JSF President Kushida and Chairman Eizo Kobayashi, have avoided the *amakudari* rule by first becoming senior advisors of **Aflac Japan**.

Maruki also put a spotlight on the opaque position of 'executive advisor', which is not stipulated in the JSF's Articles of Incorporation. He is particularly concerned about this position, he said, because, for instance, former BoJ executive director Minoru Masubuchi, who descended to become president of JSF from 2004 still receives compensation from the company as an executive advisor, 18 years after his original appointment.

Masubuchi remained president until 2011 and then took on the job of chairman from 2012 to 2018 before becoming an executive advisor in 2019. According to JSF's corporate governance report, Masubuchi's job description as an executive advisor is to participate in business community and social contribution activities, among other things, and to provide advice at the request of the board.

"This is not only problematic in terms of governance (the G in ESG), but also contrary to social fairness (the S in ESG)," Maruki said.

Thus, in a second proposal for the AGM, Strategic Capital is calling for the addition of a new clause entitled "establishment of the Executive Advisor" into the Articles of Incorporation, as a way to ask shareholders whether the opaque executive advisor system is right or wrong,

Strategic Capital's view is that if more than two-thirds of voted shares vote against the proposal, it will be rejected, forcing JSF to abolish the position of executive advisor as part of its management, Maruki said.

Lack of disclosure regarding voting rights

Another reason why JSF's *amakudari* issue is problematic, according to the activist, is that because it receives shares as collateral as part of its core business of lending and borrowing for margin trading, the company is listed as a major shareholder of as many as 384 Japanese listed companies. These include **Seven & i Holdings** [TYO:3382] (1.78%, 10th largest shareholder), **Bridgestone** [TYO:5108] (1.56%, 8th largest), **Kao** [TYO:4452] (1.44%, 8th largest), **Japan Tobacco** [TYO:2914] (0.88%, 7th largest), **ESPOIR** [TYO:3260] (5.92%, 4th largest), **DAIKOKUYA** [TYO:6993] (4.85%, 2nd largest), **Asahi Eito** [TYO:5341] (3.55%, the largest) and **NIPPO** [TYO:9913] (3.29%, 5th largest).

The JSF spokesperson said that in principle, the company exercises its voting rights by casting a "blank" vote.

Strategic Capital argues that this effectively favors a company's own proposals, while acting as a vote against shareholder proposals. Also, JSF provides no disclosure of any criteria for exercising exceptional voting rights other than a blank vote, while many financial institutions disclose both voting criteria under their stewardship responsibilities.

"Considering JSF has over JPY 500bn (USD 3.83bn) worth of voting rights, this is an extremely irresponsible practice. JSF should fulfill its mission – 'to contribute to the development of securities markets' – by making the opaque exercise of voting rights transparent," Maruki said.

A Tokyo-based lawyer specializing in corporate governance said: "I am surprised to hear the *amakudari* practice still exists. I believe there are many talented people at BoJ, but the workplace does not seem to be more creative and dynamic than the private sector. I wonder what could be expected from the people who grew up in such environment."

The JSF spokesperson said the company's management is currently studying how it will respond to Strategic Capital's proposals and is expected to announce its stance as soon as the board makes its decision. The timing of the announcement will be prior to sending out the AGM convocation materials, the spokesperson added.

A BoJ spokesperson, meanwhile, admitted that a number of BoJ alumni have been re-employed by JSF, but said the process of re-employment has been carried out strictly in line with the established rule.

As of the end of September 2021, Japanese activist **Symphony Financial Partners** was the largest shareholder of JSF with a 13.1% stake held by SFP Value Realization Master Fund, followed by **Master Trust Bank of Japan** with 10.8%, **Custody Bank of Japan** with 5.22%, **Shihon Shijo Shinko Zaidan** with 5.01%, **Mizuho Bank** with 3.8% and **Chase Manhattan Bank** with 3.49%. Strategic Capital held 3.34% at that time, via **Intertrust Trustees (Cayman)**, but has since increased its stake to 5.04%.

Symphony too has increased its stake, to 21.91%, as per its latest EDINET filing on 15 February 2022. The objective of its investment is to make proposals depending upon situations, according to the filing. Based on its past investment records, Symphony's approach has been to improve shareholder value through long-term friendly engagement with the companies in which it invests, although the fund filed a court injunction in 2005 to halt high-tech measuring device maker **Nireco** [TYO: 6863] from invoking its poison pill scheme.

At JSF's June 2021 AGM, Executive Officer and President Kushida obtained the support of shareholders representing 92.93% of the share capital, indicating that Symphony, which held a 17.73% stake at the time, would have voted in support of the president.

JSF's share price finished Monday's (9 May) trading in Tokyo 1.67% lower at JPY 942 and is down 0.5% year-to-date. The benchmark Nikkei average, meanwhile, closed 2.5% lower at 26,319.34, having fallen 8.6% year-to-date.

by Norie Hata in Tokyo

Grade: Confirmed

TARGETS

Japan Securities Finance Co Ltd

VENDORS

Strategic Capital Inc

Japan

Financial Services

Topics: Shareholder Activism

Intelligence ID: intelcms-qvs3vg

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