

Japan Securities Finance shareholders urged by activist to vote against "amakudari" practice

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- Strategic Capital calls for EGM, investigation into long-standing hiring practice
- Says BoJ, MoF, TSE alumni deeply embedded in JSF, raising significant ESG issues
- Nomination committee is rubber-stamping candidate lists provided by president
- Institutional investors called on to follow their ESG voting guidelines on the issue

Strategic Capital is determined to fight against **Japan Securities Finance's** (JSF) [TYO:8511] long-standing practice of hiring retired government bureaucrats for senior positions and is calling for the support of other institutional shareholders, said Tsuyoshi Maruki, CEO of the activist investor.

The practice is known as *amakudari* in Japanese – a term that literally means “descent from heaven” and was coined at a time when government bureaucrats were viewed as Japan’s super elite. *Amakudari* is a metaphor for an institutionalized practice where senior bureaucrats retire to high-profile positions in the private and public sectors.

The fact that alumni from the **Bank of Japan** (BOJ), the **Ministry of Finance** (MoF) and the **Tokyo Stock Exchange** (TSE) are deeply embedded in JSF is “socially unfair”, Maruki told this news service. “The practice is damaging the shareholder value of JSF from the viewpoint of ‘S’ and ‘G,’” he said, referring to the final two letters in ESG (Environmental, Social and Governance).

Strategic capital plans to call on institutional investors who truly believe in ESG to seek transparency and resolution of the ESG-related issue of *amakudari* in accordance with their voting standards, Maruki said.

Earlier this week, Strategic Capital, which has a 5.04% stake in JSF, [requested \(https://stracap.jp/english/wp-content/uploads/2022/11/Strategic-Capital-has-requested-an-Extraordinary-General-Meeting-of-Shareholders-1.pdf\)](https://stracap.jp/english/wp-content/uploads/2022/11/Strategic-Capital-has-requested-an-Extraordinary-General-Meeting-of-Shareholders-1.pdf) that the company hold an EGM to appoint three attorneys to carry out an investigation into the background of the company’s *amakudari* practice and how incumbent executives from BoJ, MoF and TSE were appointed.

It wants the investigation to determine whether the *amakudari* was preceded by a fair assessment based on qualifications, without the involvement of the organization from which the *amakudari* occurred, according to Strategic Capital's 22 November [presentation material. \(https://stracap.jp/english/proposal-for-JSF-from-sc-2022_eng.pdf\)](https://stracap.jp/english/proposal-for-JSF-from-sc-2022_eng.pdf)

Tokyo-based JSF, a JPY 92bn (USD 654m) market cap company that provides securities lending services, loans for margin trading and bond financing, listed on the TSE in 1950. Since then, all its 10 presidents have been former executive directors or deputy governors of the BoJ, Japan's central bank, the activist noted.

BoJ alumni have also served as managing and senior managing executive officers at JSF and presidents of JSF subsidiaries. Multiple MoF and TSE alumni have also landed senior positions at JSF, according to the presentation material.

[PowerPoint Presentation \(stracap.jp\) \(https://stracap.jp/english/proposal-for-JSF-from-sc-2022_eng.pdf\)](https://stracap.jp/english/proposal-for-JSF-from-sc-2022_eng.pdf)

A BoJ spokesperson said there is an established rule at the central bank for people seeking re-employment after retirement, according to which former officers have to refrain from employment with the bank's clients for two years after leaving office. Directors should refrain from employment with any business partner with whom they had a close relationship in the two years prior to resignation, for two years after resigning.

It is true that a number of BoJ alumni have been employed by JSF, "but you have to ask JSF why it is the way it is," the spokesperson told this news service. The BOJ believes its rule has been strictly observed by former employees, she added.

A JSF spokesperson, meanwhile, said the board will examine details of Strategic Capital's request for an EGM before responding. The company issued a statement on 22 November saying roughly the same thing.

Follows rejected AGM proposal

This is not the first time Strategic Capital is challenging JSF's management and board in relation to the *amakudari* issue. Ahead of the company's AGM in June, it submitted a set of proposals, including one that would require the company to disclose compensation for BoJ alumni.

Proxy advisor **Institutional Shareholder Services (ISS)** recommended shareholders to vote for this proposal on the grounds that it may enhance the company's overall reputation for transparency and accountability, particularly in light of its close relationship with the Bank of Japan. However, only 16.62% of votes cast supported the activist's proposal.

BlackRock, Nomura Asset Management, Resona Asset Management, Asahi Life Asset Management, Dai-ichi Life and T&D Asset Management were among those who voted against the proposal, as per their individual voting disclosures cited in Strategic Capital's presentation. As a reason for their decision, most of them said the disclosure of BoJ's alumni's compensation may not necessarily contribute to enhancing shareholder value.

JSF's largest shareholder, Japanese activist **Symphony Financial Partners**, which holds a 21.91% stake and is known as a management-friendly shareholder, also voted against. It has not disclosed a reason.

“I would like to remind these investors, who voted against our June AGM proposal, that behind this *amakudari* practice there is a big ESG issue. It is not only just the issue of improving corporate value. I hope they exercise their voting rights in line with their ESG voting guidelines,” Maruki said.

As an example of what it deems to be undesirable and unwanted practices, Strategic Capital cited an interview it did with Naotaka Obata, outside director and chairman of JSF’s nomination committee, in August 2021. Obata said the nomination committee does not compile its own list of executive candidates, but rather JFS President Shigeki Kushida presents a list that is then used as a basis for deliberation and decision making.

Obata’s statement reinforces the fact that the nomination committee has become a body that is rubber-stamping the *amakudari*, argued Strategic Capital in its presentation. It is essential for JSF to recognize its own issues related to “S” and “G” and to take steps toward true ESG management that will contribute to enhancing corporate value. However, as per Obata’s statement, JSF does not seem to be able to recognize its own ESG issues without a third-party investigation, it added.

As of 31 March 2022, 37.97% of JSF’s share capital was held by foreign investors, 25.57% by financial institutions, 21.52% by individuals, 8.16% by other corporates and 6.78% by brokers, according to the company’s shareholder register. Strategic Capital needs at least 50% of voted shares to be cast in favour, for its proposal to be approved.

JSF’s shares closed 3.02% higher in Tokyo on Tuesday (22 November) – the day Strategic Capital called for the EGM. They were up a further 1.4% to JPY 1,038 today. The Tokyo market was closed yesterday for a public holiday.

The share price has risen 17.4% on a dividend-adjusted basis since 25 April when Strategic Capital revealed its proposals for the AGM. The Nikkei average has risen 6.3% in the same period.

Nevertheless, Strategic Capital said JSF’s share price has remained well below its dissolution value (0.58x) while its return on equity (ROE) remains at around 3.8% -- well below the 8.0% minimum level generally required of listed companies.

by Norie Hata in Tokyo

Grade: Confirmed

TARGETS

Japan Securities Finance Co Ltd

VENDORS

Strategic Capital Inc

Symphony Financial Partners(Singapore) Pte. Ltd.

OTHERS

The Bank of Japan

Japanese Ministry of Finance

Japan Exchange Group, Inc.

Japan

Financial Services

Topics: Shareholder Activism

Intelligence ID: intelcms-kcxprb

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