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Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures

While proposals to adopt and update takeover defense measures have been submitted by many Japanese companies, the forms of such defense measures, which reflect the situation of individual companies, are wide-ranging. Therefore, it is difficult to establish detailed criteria for making voting decisions to cover all such proposals.

The adoption of takeover defense measures should contribute to the enhancement of shareholder 's value over the long term and should never be taken for the purpose of protecting the management of the takeover-target company. We would like to examine and make voting decisions on each proposal from this perspective.

Pension Fund Association for Local Government Officials' (the "Association") approach to takeover defense measures is summarized as follows.

1. Takeover defense measures that dilute rights and interests of existing shareholders

It could dilute the rights and interests of its existing shareholders that a company issues a large volume of new shares when corporate value is not expected to increase or issues golden shares or other special shares only for the purpose of preventing a hostile takeover. In such case, we are against the proposal unless specific and rational explanations are provided at a general shareholders' meeting.

Example:

Issuing new shares without explanations on the purpose of the capital raising
Issuing shares of class stock (e.g., golden share, share with multiple voting rights)
Change of quorum requirements for special resolution items at a general shareholders' meeting

2. Takeover defense measures that bring uncertainty to rights and interests of existing shareholders

Similarly to 1 above, enabling future issuance of shares without expectation of a significant increase in corporate value is considered to be a potential infringement of the rights and interests of existing shareholders. Therefore, we in principle disagree with the proposal unless all of the following conditions are met.

- (i) Objectivity of decisions is ensured, e.g., the board of directors has no discretion over the invocation of the defense measure because requirements for the invocation is clarified or decisions of independent external parties are respected (where a third-party committee makes the invocation decision, the committee is a meeting body capable of making decisions independently from the company).
- (ii) The necessity for adopting the approach and invocation requirements of (i) are clearly explained to shareholders, and procedures for reflecting shareholder s' intent are taken.

Example:

- Increasing the number of authorized shares
- Issuance of subscription rights to shares

3. Takeover defense measures that destabilize the financial position of a company

In principle, we are in favor of dividend increases by companies. However, we will oppose dividend increases merely aimed at raising share prices as a measure to prevent a hostile takeover.

4. Other

We are against takeover defense measures of issuing new shares and subscription rights to shares unless (i) the effort is limited to a period of around two to three years and (ii) sufficient explanations are provided and shareholders' intent is reflected at the time of renewal.

Similarly, we are against proposals that are suspected to be an effort aimed solely at preventing a hostile takeover, not leading to enhancement of long-term corporate value, and whose propriety cannot be determined unless (i) the effort is limited to a period of around two to three years and (ii) sufficient explanations are provided and shareholders' intent is reflected at the time of renewal.

Furthermore, we disagree with the unlimited extension of a consideration period for a takeover-target company in response to a takeover proposal by the acquirer.

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When there are any discrepancies between original Japanese version and English translation version, the original Japanese shall prevail.