

Secretariat Briefing Pack

April 19, 2023



金融庁

Financial Services Agency, the Japanese Government

I. Summary of Discussions at the Previous Meeting (May 2022)

II. Initiatives after the Previous Meeting

A) Japan Corporate Governance Forum

B) Addressing Issues after the Previous Meeting

III. Questions for Discussion

IV. Approach to future initiatives and specific measures (draft)

Summary of discussions at the previous meeting (27th meeting on 16 May 2022) (1)

- ❑ At the previous meeting of “Council of Experts Concerning the Follow-Up of Japan’s Stewardship Code and Japan’s Corporate Governance Code” (hereinafter the “Council”), as part of the interim review after the re-revision of the Corporate Governance Code, the Financial Services Agency (JFSA) organized empirical research and conducted interviews with companies, and discussions were held based on the results.
- ❑ While some respondents supported the direction and effectiveness of corporate governance reforms, others pointed out issues relating to management, the quality of directors, the quality and scope of engagement, and the legal system.

Interim review: (1) reviewed empirical research on corporate governance, and (2) interviewed 16 listed companies about their corporate governance-related initiatives and reactions to them.

1

Overview of empirical research

- Not a lot of empirical research covering the period after the implementation of corporate governance reform in Japan has been conducted as yet, and the results are varied. Therefore, **their effect on corporate performance remains to be seen.**

Outside directors: A relatively large amount of Pre-reform research indicated that appointment of outside directors boosts market valuation. On the other hand, much Post-reform research indicated that there was no significant relationship with corporate value

Committee: Establishment of nomination committee and remuneration committee will improve ROA

Capital policy: Reduction of surplus cash by companies with poor capital efficiency boosts market valuation

Cross-shareholding: The profit margin is lower at companies with more cross-shareholdings and the profit margin will improve upon their sale. Unwinding cross-shareholdings contributes to increased share repurchases and dividends, but does not contribute to increased R&D, investment in tangible assets, or M&A.

Dialogue: Engagement with institutional investors leads to better governance and higher share prices.

Shareholders: The high ratio of active investors improves R&D performance in the manufacturing industry, and the high ratio of institutional / foreign investors leads to higher productivity (ROA) and market evaluation.

2

Overview of interviews with companies

- Many companies have commented that "enhanced deliberations by the board have had a positive impact on corporate management" and "useful suggestions for management have been obtained from dialogue with investors," suggesting that **the direction and effectiveness of reform are widely supported.**
- On the other hand, there were concerns that the Corporate Governance Code's **demands on the details of corporate management may lead to formalistic responses by companies, resulting in counter-productive reforms.**
- It was noted that a higher quality dialogue should be promoted by addressing the following issues:
 - **Voting rights are exercised and advised in a mere box-ticking manner** by institutional investors and proxy advisors
 - **Lack of opportunities for dialogue**, particularly at medium-sized and smaller companies
 - **Difficulty in identifying beneficial shareholders**

Summary of discussions at the previous meeting (27th meeting on 16 May 2022) (2)

Discussions: The main opinions expressed in the discussions among experts based on the interim review are as follows:

Evaluation of Corporate Governance Reforms

- The reforms have **improved the formal governance** of listed companies, and many companies share **the view that it is important to enhance the supervisory function of the board** in order to improve corporate value.
- Dialogue between companies and institutional investors is **gradually moving toward the larger goal of making the investment chain work**.

Responses to formal compliance by companies with the Corporate Governance Code

- There should be a shared recognition that **“comply” and “politely explain” are of equal value**.
- With the “principle-based approach” not firmly established, **further branching of the Code should not be implemented, or the need for further enhancement of the Code is not large**.

Management issues

- **It is necessary to ensure that an awareness of cost of capital takes root in companies**.
- **Human capital costs and R&D costs** should be linked to corporate value, such as the company’s purpose, and communicated with investors to **make the value visible**.

Improving the quality of directors, exercising the functions of the board of directors, and the role of execution

- **The biggest obstacle to the substantiation of reform is the quality of those who carry it out (independent directors and executive officers)**.
- **The mission of the President and CEO is to discuss and share the management vision at the board, and once a vision has been put together, explain it to investors, employees and the unions**.

Issues related to engagement between companies and investors

- The issue for institutional investors is **the risk of deterioration in the quality and quantity of engagement** in corporate governance, and this issue should be focused on.
- Shareholders, investors and related parties should aim to **improve the effectiveness of the Stewardship Code** by enhancing corporate value through constructive dialogues with companies, instead of making judgements in a mere box-ticking manner.

Institutional issues

- The definitions of **“joint holder”** and **“act of making important suggestions”** under the large shareholding reporting system **should be clarified**.
- **It is desirable for a company and other shareholders to identify the beneficial shareholders without difficulty, so that the management can access institutional investors and other shareholders can take more appropriate action**.

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Japan Corporate Governance Forum

- ❑ To accelerate and strengthen corporate governance reforms, JFSA established the Japan Corporate Governance Forum (hereinafter the “JCGF”) to hear a wide range of opinions from stakeholders, including overseas investors.
- ❑ In JCGF, while some praised the improvements in corporate governance, the following issues were pointed out: (1) management issues, such as encouraging management with an awareness of profit-making and growth based on the cost of capital and promoting initiatives relating to sustainability, including human capital; (2) issues related to the effectiveness of independent directors; and (3) issues related to dialogues between companies and investors.

Prime Minister Kishida’s Remarks at the New York Stock Exchange (NYSE) September 22, 2022

One very important policy is corporate governance reform. [...] We will accelerate and further strengthen corporate governance reforms in Japan, such as **establishing a forum in the near future to hear from investors from around the world.**

JCGF event history

- 1st Forum held on Tuesday, September 27, 2022, with Asian Corporate Governance Association
- 2nd Forum held on Monday, October 3, 2022, with International Corporate Governance Network
- 3rd Forum held on Thursday, January 12, 2023, with U.S. investors, etc.

Main opinions in JCGF

General

- **Corporate governance reform, including corporate mindset, has begun to make substantial progress. Although there are still some issues, we look forward to further progress.**

Issues related to management and effectiveness of independent directors

- **The importance of capital efficiency is being recognized, but it is not recognized by all companies.** Issues include accumulation of cash, low ROE, and a large number of companies with PBR below 1.
- **Board diversity, including gender perspective, and disclosure on human capital** are needed.
- **Effectiveness of independent directors, such as strengthening the roles of the nomination / remuneration committee and ensuring the independence of the board** are needed.

Issues related to dialogue between companies and investors

- Fiduciary responsibilities in index investment have not been fully fulfilled, and it is necessary to improve the treatment of investment personnel.
- It is necessary to **enhance disclosure**, such as submission of Annual Securities Reports prior to general shareholders meetings.
- It would be useful to **enhance English disclosure and make visible companies with good corporate governance.**
- It is **necessary to review the legal system** from the perspective of promoting and substantiating engagement and protecting minority shareholders.
- **There are concerns that listed subsidiaries may harm the interests of minority shareholders** and that there is **a large number of cross-shareholdings.**

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- Enhancement of disclosure in Annual Securities Reports

- ❑ Since September 2021, the Working Group on Corporate Disclosure of the Financial System Council has been discussing how corporate information should be disclosed in order to provide investors with the necessary information in a timely and easy-to-understand manner and to promote constructive dialogue between companies and investors.
- ❑ Based on the Report by the Working Group on Corporate Disclosure of the Financial System Council, published in June 2022, a new section for sustainability information was created, and additional disclosure on human capital, diversity, and corporate governance is now required in Annual Securities Reports.

Part1 Company Information

I. Overview of the Company

- Status of Employees (Enhancement)

II. Business Overview

- Management policy, management environment, issues to address, etc.
- Concept and Initiatives on Sustainability (New)
- Business risks
- Analysis of financial position, operating results, and cash flows

III. Facilities

IV. Information on the Company Submitting Financial Reports

- Status of Corporate governance (Enhancement)

V. Financial information

- Consolidated financial statements, financial statements, etc.

:

Status of Employees

- In addition to the existing items, “**Ratio of women in managerial positions,**” “**Ratio of male workers taking childcare leave,**” and “**Gender pay gap**” was added to the disclosure items.

Concept and Initiatives on Sustainability

- A new section for sustainability information was created, and disclosure is now required with the components of "Governance," "Strategy," "Risk Management," and "Metrics and Targets."
 - ✓ **"Strategy" and "Metrics and Targets" shall be disclosed subject to materiality judgement by an issuer.**
 - ✓ **With respect to human capital, all issuers shall disclose their human capital policies, such as "Human resource development policies" and "Policies on improving workplace environment," and also disclose relevant metrics, targets, and results as appropriate.**

Status of Corporate governance

- In addition to the existing items, “**Activities of the Board of Directors**” was added to the disclosure items

- Roadmap for sustainability disclosure

- ❑ In the Report of the Working Group on Corporate Disclosure (published in Dec 2022), the following details were compiled with regard to sustainability disclosure.

Sustainability Disclosure

- The Sustainability Standards Board of Japan (SSBJ) and the disclosure standards to be formulated in the future will be based on the legal framework (matters to be specified in the Cabinet Office Ordinance)
- Issues to be addressed in the future (e.g., sustainability disclosure standards, third party assurance of disclosed information (*)) and the roadmap will be discussed.

* Assurance means that an independent third party expresses its conclusion on whether or not the information is correct in order to improve the reliability of the information.

Roadmap for sustainability disclosure in Japan

* Review as needed in accordance with future changes in circumstances.

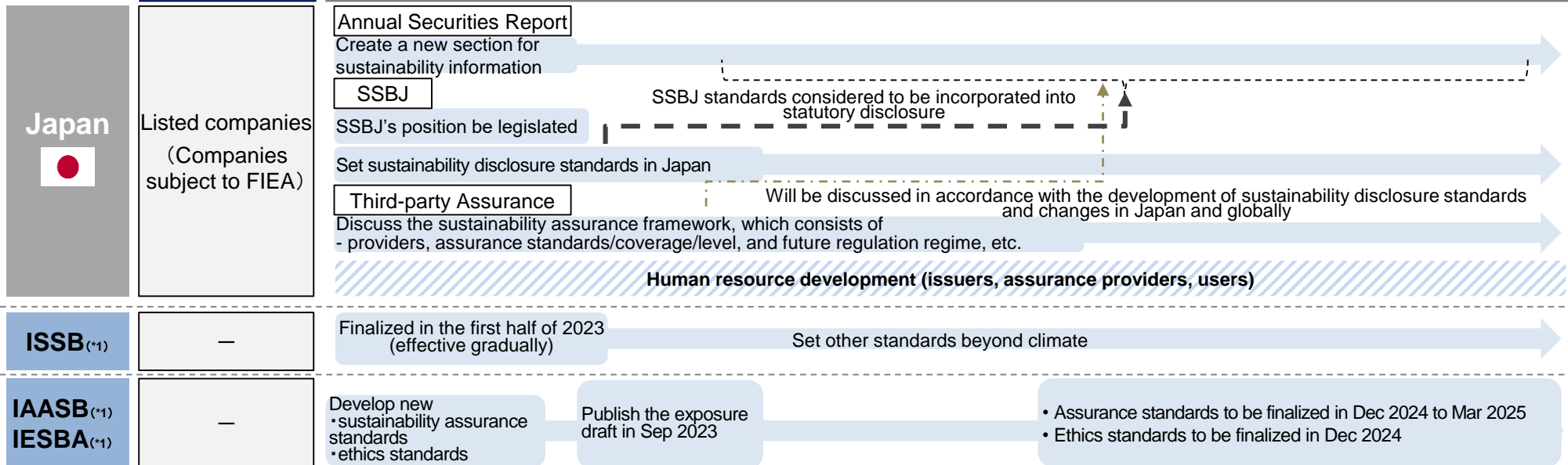
Scope

2023

2024

2025

2026 and later



(*) ISSB: International Sustainability Standards Board, IAASB: International Auditing and Assurance Standards Board, IESBA: International Ethics Standards Board for Accountants disclosure

(*) In US, the disclosure of Scope 1 and 2 will be applied to large accelerated filers (issuers which meet conditions including an aggregate worldwide market value of \$700 million or more) from fiscal 2023, and then will be gradually applied according to the company size. In Europe, the CSRD and ESRS will be applied to listed companies with 500 or more employees from fiscal 2024, and then will be gradually applied according to the company size. In addition, from fiscal 2028, they will be applied to non-EU corporate groups with large net sales in the EU market. In US and Europe, third party assurance will be gradually introduced from limited assurance to reasonable assurance according to company size.

Publication and update of "Good Practices for Disclosure of Narrative Information"

- Since March 2019, in order to encourage disclosure of corporate information that contributes to constructive dialogue between investors and companies, JFSA have held study sessions consisting of investors, analysts, and companies, and published and updated a "Good Practices for Disclosure of Narrative Information."
- In fiscal 2022, based on the Cabinet Office Ordinance on Disclosure of Corporate Affairs, which was revised in January 2023, sustainability information etc., which is newly required to be disclosed, have been compiled and published as "Good Practices for Descriptive Information Disclosure 2022" (published in Jan 2023 and last updated in Mar 2023).

Good Practices for Disclosure of Narrative Information

- In each example of disclosure, comments on the points highlighted as good practices are in the blue boxes.
 - ⇒ It is expected that the elements of the disclosure example will be incorporated into the Annual Securities Report with reference to the comments in the blue boxes.
- In fiscal 2019, a section entitled "Executive Compensation" was added to the list of good practices (Nov 2019), and the existing item was updated (Dec 2019).
- In fiscal 2020, new sections related to COVID-19 and ESG were added and published as "Good Practices for Disclosure of Narrative Information 2020" (Nov 2020). Existing items were also updated as needed (last updated in Mar 2021).
- In fiscal 2021, examples of disclosures related to sustainability information were compiled ahead of time and published as "Collection of Good Practices for Disclosure of Narrative Information 2021"(Dec 2021), updating existing items as needed (last updated in Mar 2022).

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○有価証券報告書におけるサステナビリティ情報に関する開示例

2. 「社会（人的資本、多様性 等）」の開示例 (番号)

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2-1-1-4	2-1-1-4
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2-1-1-6	2-1-1-6
2-1-1-7	2-1-1-7
2-1-1-8	2-1-1-8
2-1-1-9	2-1-1-9
2-1-1-10	2-1-1-10
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2-1-1-14	2-1-1-14
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好事例として取り上げた企業の主な取組

【開示の充実化に当たっての課題】

- 環境保全に関する取組みは以前から社内で進めていたが、目であらず、開示の方向性や、優先順位も明確ではなかった。

【対応策とその効果】

- 環境取組みの推進にあたり、目標や方針を策定する必要性を計り生物多様性のカモメグループ方針を策定した。また、環境に環境を担当する部門も一緒に検討を行った。
- 目標や方針に関しては、経営層からの承認を得たことで、社内目標や方針及びマテリアリティが定まったことで、社内での環境感している。

金融庁
2023年1月31日

投資家・アナリストが期待する主な開示のポイント：人的資本、多様性 等

- 人的資本可視化指標で示されている2つの類型である、**独自性**(自社固有の戦略や、ビジネスモデルに沿った取組み・指標・目標を開示しているか)と**比較可能性**(標準的指標で開示されているか)の観点を適宜使い分け、又は、併せた開示は有用
- KPIの目標設定にあたり、**なぜその目標設定を行ったのか**が、**企業理念、文化及び戦略と揃っている**ことは有用
- マテリアリティをどう考えているのかについて、**比較可能性がある形で標準化**していることは有用
- グローバル展開をする企業は、サステナビリティ情報の開示において、例えば、**人権に関する地政学リスク等、ローケーションについて着目**することも有用
- 独自指標を数値化する**場合、**定義を明確にし、定量的な値とともに開示**することは有用
- 過去実績を示したうえで、長期時系列での変化**を開示することは有用
- 背景にあるロジックや、前提、仮定の考え方**を開示することは有用
- 人的資本の開示にあたり、**経営戦略をはじめとする全体戦略と人材戦略がどう結びついているか**を開示することは有用

有価証券報告書 (2021年12月期) P37-40 人材 多様性

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「人材多様性」に関する開示例

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「人材多様性」に関する開示例

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「人材多様性」に関する開示例

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「人材多様性」に関する開示例

Survey on Stewardship Activities (1)

- ❑ In order to promote more effective implementation of stewardship activities, JFSA commissioned Mizuho Research & Technologies to conduct a survey of actual stewardship activities by institutional investors, analyze issues, and make recommendations based on these results. From January to March 2023, the survey, in the form of a questionnaire survey of 136 institutional investors and an interview survey of 16 companies, was conducted.
- ❑ As a result of the survey, the following issues were pointed out: (1) Lack of resources (human resources and time) for engagement, (2) Insufficient behavioral changes and attitudes at investee companies, (3) Room for improvement in process development (PDCA cycle), (4) Lack of incentives to allocate costs and budgets to activities. In addition, the individual efforts of each asset manager to address these issues were aggregated.

1

Lack of resources
(human resources and
time)
for engagement

- **There is a shortage of human resources with the necessary skills and capabilities to conduct effective stewardship activities** at each asset management firm and in the industry as a whole.
- In cases where it is difficult to secure and develop sufficient human resources in-house, it is expected that external knowledge will be utilized through collaboration with other asset managers, including collaborative engagement. However, **the interpretation of "joint holders" under the large shareholding reporting rule is unclear**, and the **burden of the collaboration is concentrated in some asset managers**, so resources may not be sufficiently supplemented through the collaboration.
- As a result of the selection of companies for engagement, **small and medium-sized companies tend to be excluded**.

2

Insufficient behavioral
changes and attitudes at
investee companies

- **Engagement (dialogue) and exercise of voting rights by asset managers may be perceived by companies as formalistic** and may not lead to behavioral changes because companies are not convinced by them.
- There is a possibility that in-depth engagement has not been conducted because the interpretation of "act of making important suggestions" is unclear under the large shareholding reporting rule.

3

Room for improvement
in process development
(PDCA cycle)

- **Asset owners may not have sufficient evaluation and monitoring resources.**

4

Lack of incentives to
allocate costs and
budgets to activities

- **Stewardship activities by asset managers may not be appropriately reflected in the selection and compensation of asset managers.**

Survey on Stewardship Activities (2)

- Based on the results of the survey, the following recommendations were made: (1) in order to promote more substantial stewardship activities (i) wide-ranging collaborative efforts among asset managers, (ii) efforts between asset managers and asset owners, (iii) wide-ranging collaborative efforts among asset owners should be promoted; and (2) administrative authorities should appropriately follow up on these efforts so that all concerned parties can work together to improve the effective implementation of stewardship activities.

1

Wide-ranging collaborative efforts among asset managers

- Based on the self-assessment of each asset manager's individual issues, it is worth considering **the establishment of a forum** in which asset managers can widely cooperate **to exchange views on the appropriateness of the issues recognized by each asset manager and the effectiveness of efforts to resolve them, and to examine specific measures.**
- As an issue for the whole asset management industry, **an appropriate framework should be established to avoid a situation in which some asset managers are forced to bear an excessive burden** in terms of collaboration with other asset managers, including collaborative engagements. It is also expected that **the asset management industry as a whole will cooperate in efforts to attract new talent.**

2

Efforts between asset managers and asset owners

- **Asset managers should report to asset owners on their own issues and efforts to resolve them**, as well as appropriately reflecting evaluations received from asset owners in future efforts.
- **Asset owners should appropriately evaluate the appropriateness of the asset manager's recognition of issues and the effectiveness of efforts to resolve them** based on the above reports, and **appropriately monitor future efforts. It is also expected that the results of evaluation and monitoring will be reflected in the selection of the asset manager and the setting of compensation.**

3

Wide-ranging collaborative efforts among asset owners

- It is important for asset owners to have sufficient knowledge and operational resources for assessment and monitoring.
- **In cases where it is difficult for each asset owner to secure sufficient knowledge and operational resources independently**, it is worth considering **taking measures such as evaluating and monitoring asset managers in collaboration with asset owners who have sufficient knowledge and operational resources** as needed.

4

Follow-up by the administrative authorities

- The administrative authorities should appropriately follow up on the effectiveness of each of the above initiatives and, if necessary, take further measures to promote them.
- **Regarding the ambiguity of the interpretation of "joint holders" and "important suggestions" under the large shareholding reporting rule, efforts should be made to resolve the issues.** At the same time, **the transparency of beneficial shareholders should be improved** so that companies that are not subject to engagement by asset managers can themselves ask for dialogue with asset managers.

Consideration of what the tender offer rule and the large shareholding reporting rule should be

- ❑ At a joint session of the general meeting of Financial System Council and the meeting of Sectional Committee held in March 2023, the following consultation was delivered: in light of securing transparency and fairness of the market and promoting constructive dialogue between companies and investors, the tender offer rule and the large shareholding rule should be reviewed.
- ❑ In the future, a working group will be established to consider the following main issues based on recent changes in circumstances.

Recent Changes in Circumstances

Main Issues

Tender offer rule

- Increase in cases of hostile M&A through on-market transactions
- Diversification of M&A

- Review of the scope of application of the tender offer rule (market transactions, thresholds)
- Measures against coercive tender offers
- Flexibility in tender offer rule

Large shareholding reporting rule

- Increase in passive investment
- Expansion of collaborative engagement
- Growing importance of constructive dialogues between companies and investors

- Clarification of application requirements for the special reporting system
- Clarification of the scope of joint holders
- Clarification of treatment of cash-settled equity derivatives

Beneficial shareholders transparency

- Measures to ensure transparency of beneficial shareholders

- I. Summary of Discussions at the Previous
- II. Initiatives after the Previous Meeting
 - A) Japan Corporate Governance Forum
 - B) Addressing Issues after the Previous Meeting

III. Questions for Discussion

- IV. Approach to future initiatives and specific measures (draft)

Questions for Discussion

【Current Issues】

- ❑ At the previous meeting, JCGF, and survey of actual stewardship activities by institutional investors, the following items were pointed out as main issues for accelerating corporate governance reform:
 - Management issues, such as encouraging the management with an awareness of profit-making and growth based on the cost of capital and promoting initiatives relating to sustainability, including investment in human capital;
 - Issues related to the effectiveness of independent directors, such as improving the effectiveness of the board, the nomination committee and the remuneration committee, and improving the quality of independent directors; and
 - Issues related to dialogues between companies and investors, such as enhancement of information disclosure as well as dealing with legal issues, and market environment issues.
- ❑ What are the views of members on addressing and dealing with the above issues simultaneously? Are there any other important issues?

【Approach to future initiatives and specific measures】

- ❑ With regard to how to resolve the above issues, it has been pointed out that further detailed requirements of the Code may cause corporate governance reform to lose its substance. In light of this, what kind of approach should be taken? What are the views of members on the timing of future revisions of each Code?
- ❑ What specific measures should be taken to resolve the above issues?
- ❑ What are the views of members on making recommendations regarding the above approach and measures and reviewing the implementation status of each initiative at the Council?

- I. Summary of Discussions at the Previous
- II. Initiatives after the Previous Meeting
 - A) Japan Corporate Governance Forum
 - B) Addressing Issues after the Previous Meeting
- III. Questions for Discussion

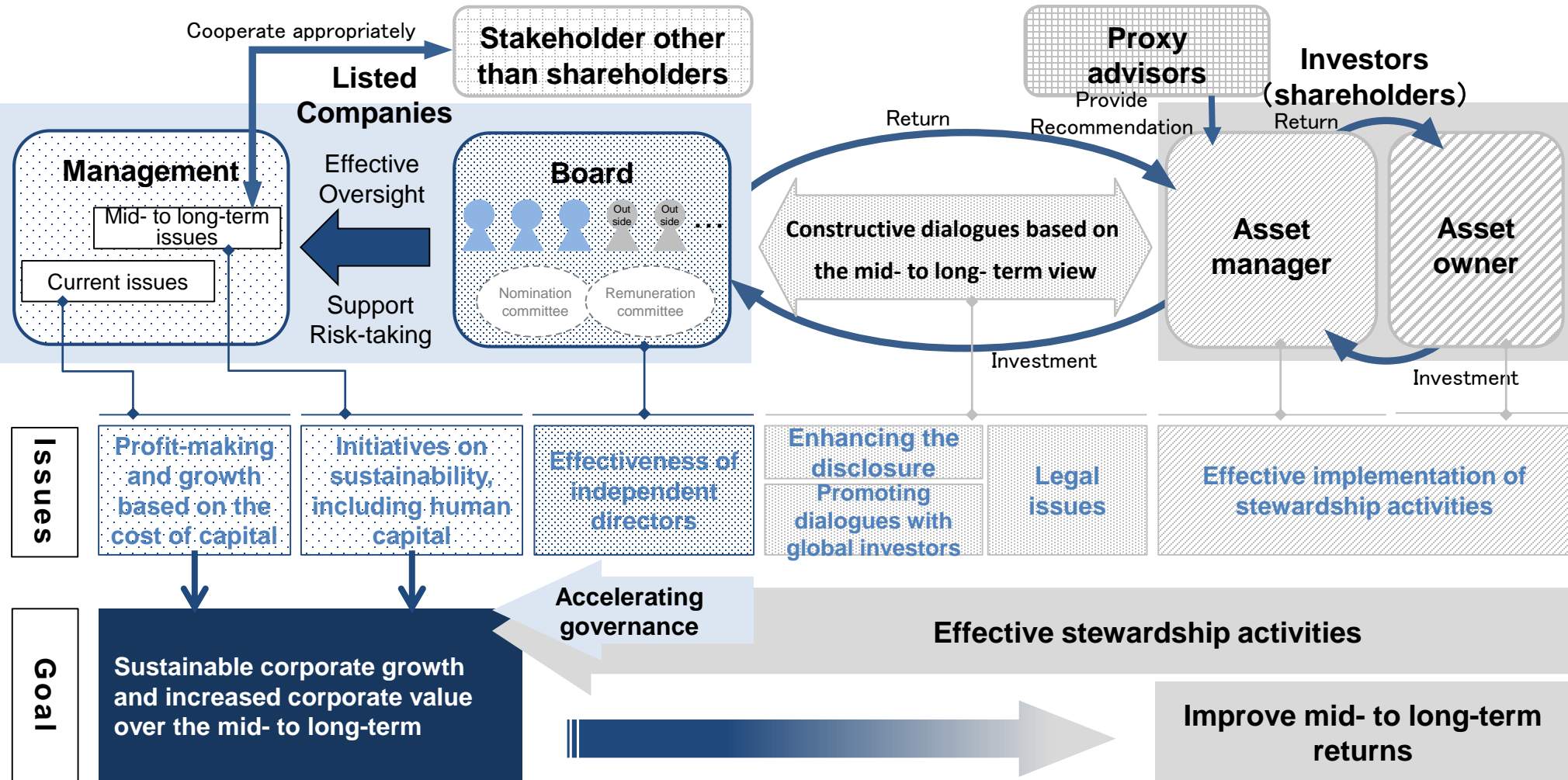
IV. Approach to future initiatives and specific measures (draft)

Issues for corporate governance reforms

- ❑ In order to realize sustainable corporate growth and increased corporate value over the mid- to long-term through corporate governance reforms, it is vital for management, the board, investors, and various other stakeholders to cooperate appropriately.
- ❑ The following is a diagram of cooperation among stakeholders and a summary of issues pointed out in the previous meeting of the Council, JCGF, and the survey of institutional investors.

Corporate Governance Code

Stewardship Code



Approach to future initiatives and specific measures (draft) (1)

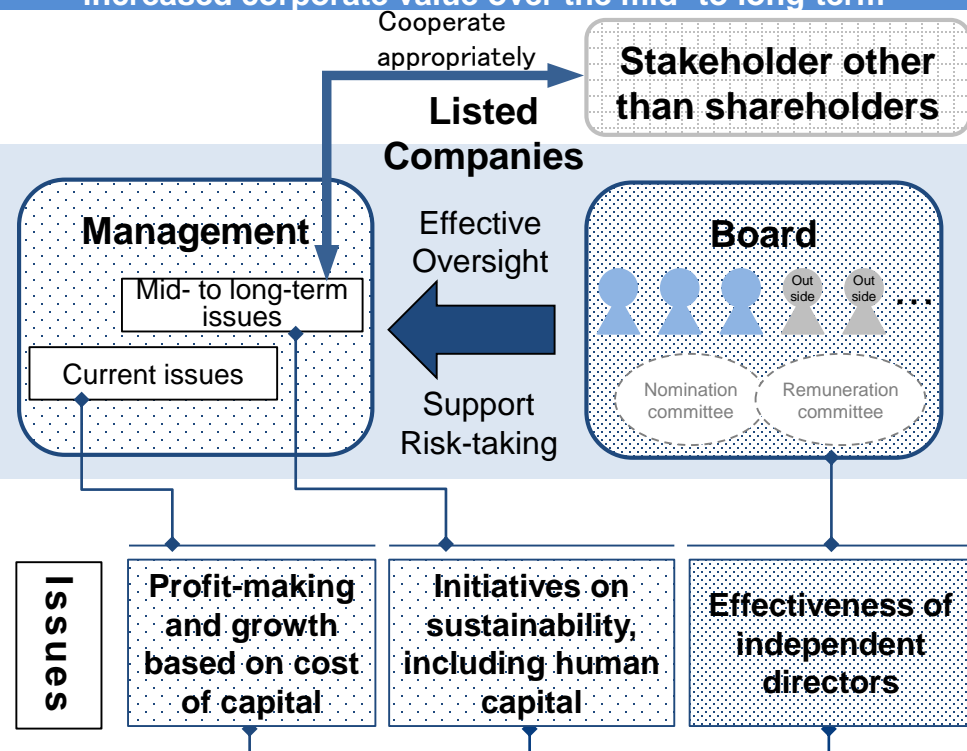
- What are the views of members on implementation of following specific measures based on following approach to future initiatives in order to resolve the issues described on the previous page.

Action Program for Accelerating Corporate Governance Reform: From Form to Substance

Approach to future initiative (draft)

- It is vital to move the focus of reform from form to substance in resolving the issues. To this end, it is necessary to create an environment that promotes self-motivated changes in the mindsets of companies and investors, as well as to make the dialogues between companies and investors more productive and more effective.
- It is appropriate to examine the timing of the revision of each Code in a timely manner based on the status of progress from the viewpoint of the effective implementation of corporate governance reform, not necessarily following the review cycle in the past years.

1. Issues for seeking sustainable corporate growth and increased corporate value over the mid- to long-term



Specific measures (draft)

A) Encouraging the management with an awareness of profit-making and growth

Encourage the management with an awareness of profit-making and growth based on the cost of capital (such as the proper allocation of management resources toward risk-taking, including a business portfolio review and investments in human capital, intellectual properties and R&D)

B) Encouraging the management with an awareness of sustainability issues

Encourage companies to take actions on sustainability through publication of companies' good disclosure practices. Consider measures to improve the diversity of the board and core human resources, such as increasing the percentage of female executives (target of 30% or more by 2030).

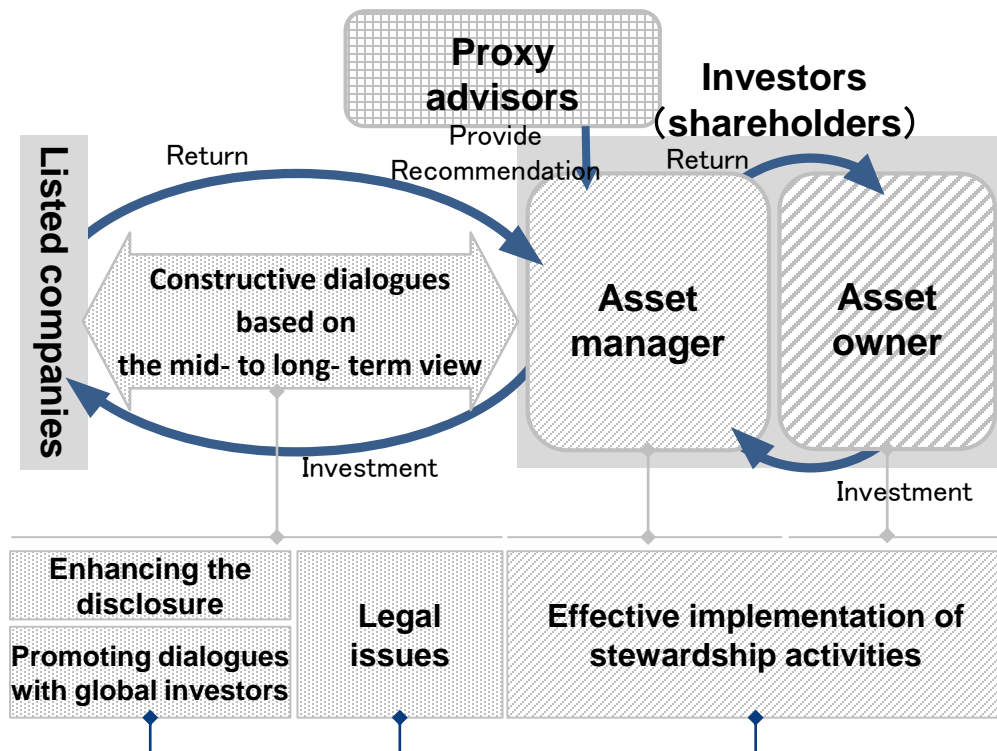
C) Improving the effectiveness of independent directors

Promote further improvement of the effectiveness of independent directors through compilation and publication of the actual status and examples of a board, nomination committee and remuneration committee, and educational activities to promote understanding of the roles expected of independent directors

Approach to future initiatives and specific measures (draft) (2)

Action Program for Accelerating Corporate Governance Reform: From Form to Substance

2. Issues related to dialogue between companies and investors



Specific measures (draft)

A) Effective implementation of stewardship activities

Promote the efforts of asset managers and asset owners to deal with the issues relating to the stewardship activities (including allocating sufficient resources, providing incentives for stewardship activities, establishing governance structures of asset owners).

B) Enhancing the disclosure as a basis for dialogue

Request to disclose the status of dialogues and make clear sufficient and insufficient cases of "Explain".
Consider measures to provide investors with the information they need prior to the general shareholder meeting and to promote timely disclosure of corporate information.

C) Promoting dialogues with global investors

Promote dialogues between companies and global investors by "visualizing" companies that willingly and actively respond to the expectations of global investors and further expand the coverage of English disclosure.

D) Resolving legal issues

Consider clarification of "act of making important suggestions" and "joint holders" under the large shareholding reporting rule, transparency of beneficial shareholders, and how to protect minority shareholders in the case of a partial takeover bid.

E) Resolving market environment issues

Consider the disclosure and corporate governance issues with regard to quasi-controlled listed companies, follow up on the progress of reduction of cross-shareholdings and consider whether further measures are called for.