

Provisional translation

Material 3

Secretariat Briefing Pack

2 June, 2025



Financial Services Agency, the Japanese Government

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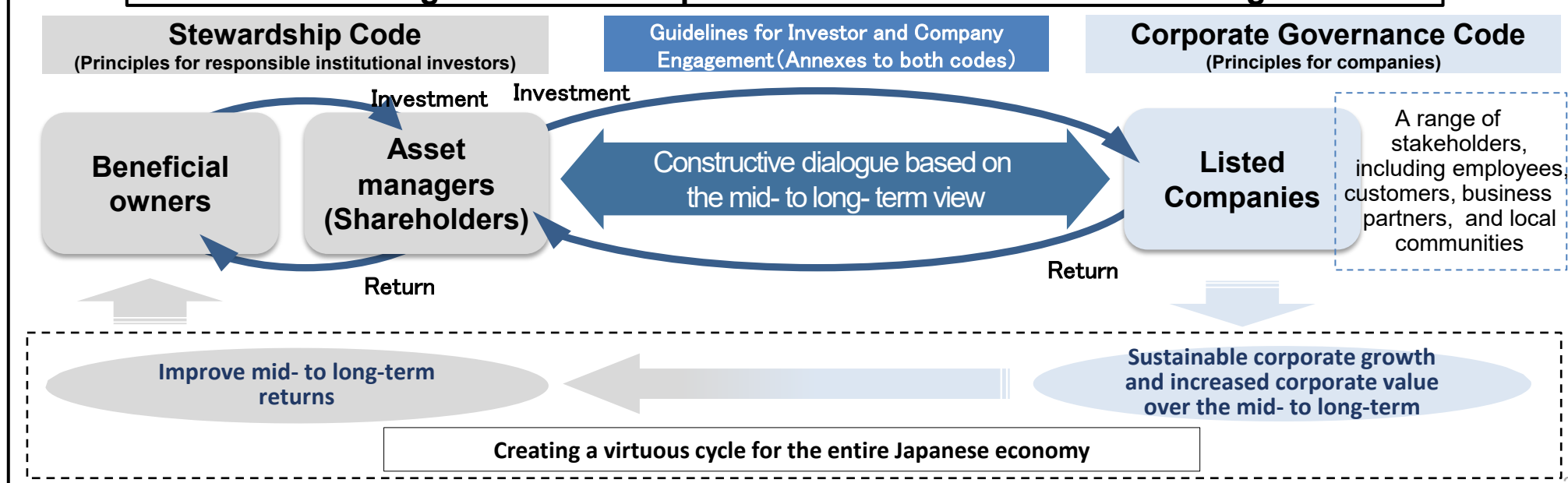
I. Recent circumstances around corporate governance reforms in Japan

- II. Action Program for Corporate Governance Reform 2024 : Principles into Practice
- III. Effective implementation of stewardship activities
- IV. Enhancing the quality of disclosure and promoting dialogues with investors
- V. Resolving market environment issues
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Initiatives to enhance corporate governance reform

- **Stewardship Code** (Developed in February 2014, revised in May 2017 and March 2020)
Principles for **responsible institutional investors, including pension funds and parties such as proxy advisors and investment consultants**, to promote the sustainable growth of the investee company and enhance the medium- and long-term investment return of clients and beneficiaries.
- **Corporate Governance Code** (Developed in March 2015, Revised in June 2018 and in June 2021)
Principles for **listed companies to enhance earnings power over the mid to long term** under effective management strategies while appropriately collaborating with a wide range of **stakeholders, including shareholders, employees, customers, business partners, and local communities**.
- **Action Program for Corporate Governance Reform** (Published in April 2023 and June 2024)
A **series** of policy packages on corporate governance reform with a focus on **promoting constructive dialogue** between companies and investors and **promoting self-motivated changes** between companies and investors. Putting corporate governance reform **“into practice”** through examining and sharing specific measures.
- ***Asset Owner Principles** (Developed in August 2024)
A set of common principles that are useful for asset owners **to fulfill their responsibility to manage their assets (fiduciary duties), taking into account the best interests of beneficiaries**. The promotion of stewardship activities is stipulated in Principle 5.

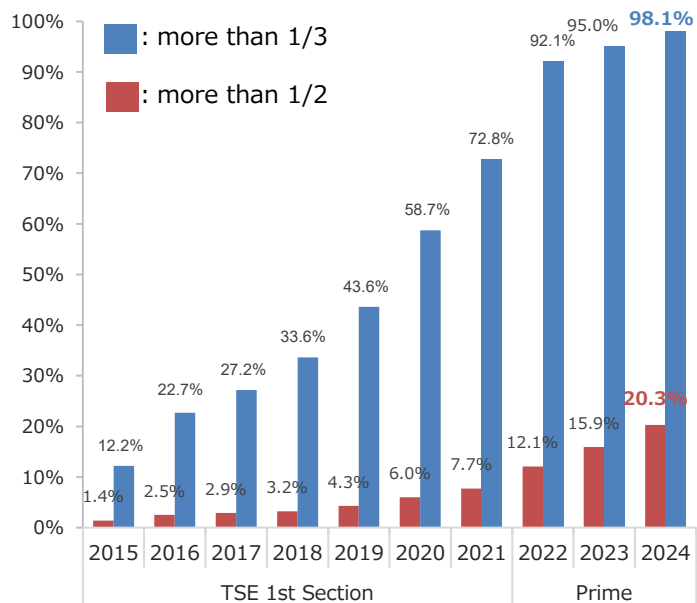
Constructive dialogue between companies and investors with a mid- to long-term view



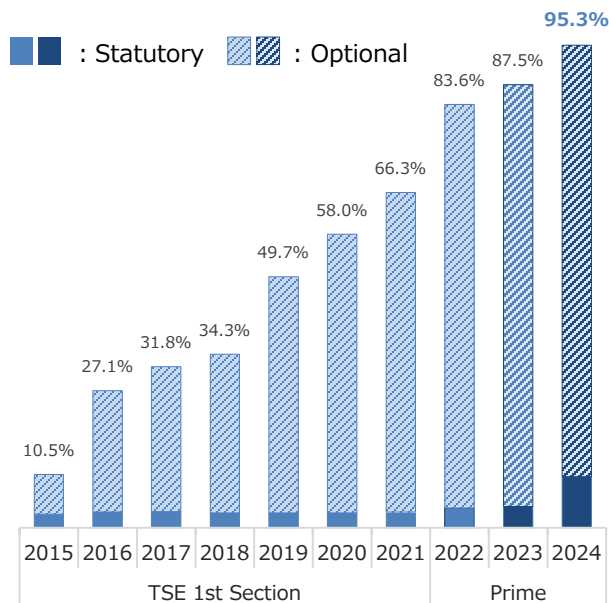
Progress following the 2021 revision of the Corporate Governance Code

- ❑ Since the development of the Stewardship Code in 2014, a series of corporate governance reforms has been implemented. Following the 2021 revision of the Corporate Governance Code, companies have made progress in their efforts to reform their corporate governance.
- ❑ Examples of the progress as of July 2024 are:
 - In almost all companies listed on the Prime Market (98.1%), at least one-third of their directors are independent directors. On the other hand, companies with independent directors accounting for the majority of directors were limited to approximately 20%.
 - More than 90% of companies listed on the Prime Market have established nomination and compensation committees, including both statutory and non-statutory committees.

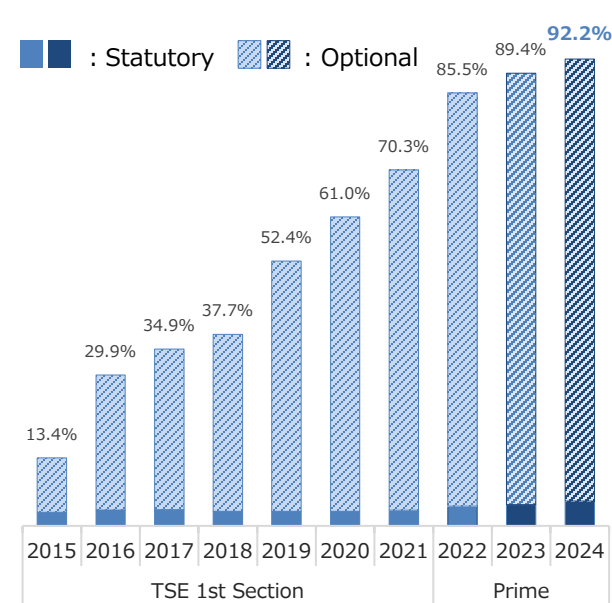
Companies with independent directors accounting for more than 1/3 or 1/2 of all their directors



Companies with a statutory/optional nomination committee



Companies with a statutory/optional compensation committee



UK Corporate Governance Code 2024 (Effective 2025)

- ❑ UK FRC finalized the revised Corporate Governance Code in January 2024. The 2024 Code will apply to financial years beginning on or after 1 January 2025, other than Provision 29, which will apply to financial years beginning on or after 1 January 2026.
- ❑ The revision took a targeted approach to **enhance the quality of governance while minimizing the reporting burden on companies**.

Key revisions

1. Revisions regarding internal control (Provision 29)

- The board should **monitor the company's risk management and internal control framework** and, **at least annually, carry out a review of its effectiveness**.
- The monitoring and review should cover **all material controls, including financial, operational, reporting and compliance controls**.
- The board should provide in the annual report:
 - (a) a description of how the board has monitored and reviewed the effectiveness of the framework;
 - (b) a declaration of effectiveness of the material controls as at the balance sheet date; and
 - (c) a description of any material controls that have not operated effectively as at the balance sheet date, the action taken or proposed to improve them, and any action taken to address previously reported issues.

2. Deletion of specific examples of "diversity" (Principle J)

- **"Diversity"** is stipulated as **one of the considerations for determining director candidates and succession plans**.
[Previous text] As examples of "diversity," gender and social and ethnic backgrounds were specified.
[Revised text] The examples were removed.
*The original proposal (published in May 2023) to revise the Code indicated that various factors, including but not limited to gender and race/ethnicity, should be reflected in management, but this part was withdrawn.

3. Revisions regarding remuneration schemes and policies (malus and clawback provisions) (Provision 37,38)

- Provision 37 was amended to include a statement that **directors' contracts and/or other agreements or documents that cover director remuneration should include malus and clawback**.
- New Provision 38 asks companies to include in the annual report a description of their malus and clawback provisions, including:
 - (a) the circumstances in which malus and clawback provisions could be used;
 - (b) a description of the period for malus and clawback and why the selected period is best suited to the organization; and
 - (c) whether the provisions were used in the last reporting period. If so, a clear explanation of the reason should be provided in the annual report.

4. Revisions regarding corporate culture (Provision 2)

- Provision 2 was amended to include a statement that boards should assess and monitor culture, and also state how the desired culture has been embedded.

Outline of the revised G20/OECD Principles of Corporate Governance

Background

- In light of changes in the economic and social environment associated with climate change and the COVID-19 shock, the OECD Corporate Governance Committee started to undertake a review of the G20/OECD Principles of Corporate Governance. In October 2021, the G20 Rome Summit approved the start of the review work for the Principles. In November 2022, the progress of the work was well received at the G20 Bali Summit. Following a public consultation (September-October 2022) and adoption by the Corporate Governance Committee, the revised Principles were adopted by the OECD Council at the Ministerial Level in June 2023, and endorsed at the G20 Finance Ministers and Central Bank Governors' Meeting in July 2023 and the G20 New Delhi Summit in September 2023.
- The Principles are the only international standards in the area of corporate governance that are endorsed by G20 Leaders and followed by 53 advanced and emerging jurisdictions around the world, including the G20 members and OECD countries. The Financial Stability Board and the World Bank also use them as key standards in the financial sector when evaluating each country's regulatory framework for corporate governance.

Purpose of the revision

✓ Improved access to the stock market by companies

Stock markets are essential for companies to raise funds and allocate their capital efficiently. With the number of listed companies declining in recent years, the revision is to support the efforts of each jurisdiction to help improve access to capital for companies and provide investment opportunities for households, while promoting investor protection.

✓ Corporate governance that contributes to the improvement of corporate sustainability and resilience

Provides a corporate governance framework to help companies address the challenges of flexibly adapting business strategies to a changing environment and increasing business value over the long term, following the COVID-19 shock.

Key revisions

✓ Sustainability

As international disclosure standards on sustainability are being developed, the revised Principles add a new chapter, VI. Sustainability and resilience. New principles are added on disclosure and corporate governance frameworks.

✓ Stewardship activities by institutional investors

The amount of assets under management by institutional investors continues to increase, and they have become the largest shareholders of listed companies in a large number of countries. Indexed investments, especially by large institutional investors, are on the rise, but this investment strategy has relatively low incentives for engagement. The content of the Principles has been revised with regard to accountability and corporate engagement by institutional investors. Text regarding ESG assessment and data providers has been added.

Asset Owner Principles

- ❑ While the size and type of funds managed may vary, the Government of Japan published a **set of common principles that is useful for asset owners to fulfill their responsibility to manage their assets (fiduciary duties)** in August 2024.
- ❑ The Principles adopt a **"comply or explain" approach**. **The Government published a list of the asset owners who adopted the Principles** in January 2025.
- ❑ These asset owners are expected to report their progress to responsible Ministries.

Principle 1. Determining the purpose of investment, investment target and management policy, which should be reviewed as appropriate.

Principle 2. Securing talents with sufficient knowledge and experiences, in order to realize the investment purpose and policies.

Principle 3. Choosing investment methods for the best interest of beneficiaries, with **appropriate risk management** and selection of the optimal investment trustee **while managing conflicts of interest**.

Principle 4. Providing information of asset under management and engaging in **dialogue with stakeholders**, in order to **fulfill accountability to stakeholders**.

Principle 5. Encouraging the sustainable growth of investee companies by conducting stewardship activities, in order to **achieve the investment targets for beneficiaries**.

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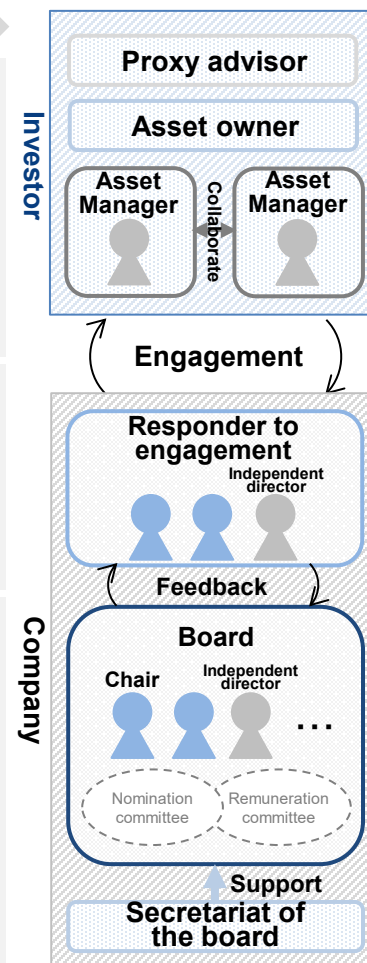
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Action Program for Corporate Governance Reform 2024: Principles into Practice

- Various initiatives are taken based on the “Action Program for Accelerating Corporate Governance Reform” established in April 2023. It is necessary to follow-up on the progress of each measure and consider the future initiatives continuously.

- Going back to the spirit of the Codes, which is to ensure **sustainable corporate growth and increased corporate value over the mid- to long- term**, the following initiatives should be undertaken for putting corporate governance reform **“into practice”** based on self-motivated changes in the mindsets of companies and investors through examining and sharing specific measures.

Issues	Follow up	Future Initiatives
Effective implementation of stewardship activities	<ul style="list-style-type: none"> ✓ The law to amend the Financial Instruments and Exchange Act, including clarification of the scope of “joint holders” in the large shareholding reporting rule, was enacted (in May 2024). 	<ul style="list-style-type: none"> ✓ Consider the revision of the Stewardship Code with the aim of promoting collective/collaborative engagements that contribute to constructive and purposeful dialogues and ensure the transparency of beneficial shareholders. ✓ Assess compliance with the Stewardship Code by investors (asset managers, asset owners, proxy advisors, etc.)
Improvement of the effectiveness of the board	<ul style="list-style-type: none"> ✓ Published “The Basics of Being an Independent Director” to ensure and improve the quality of independent directors (in January 2024). ✓ The private sector continues to conduct educational activities for directors. 	<ul style="list-style-type: none"> ✓ Share specific examples of efforts, such as dialogues between independent directors and investors and encouragement for substantive discussions by the secretariats of boards, in order to promote the implementation of efforts to improve the effectiveness of boards.
Encouraging the management with an awareness of profit-making and growth	<ul style="list-style-type: none"> ✓ “Visualized” companies that make efforts in order to implement management that is conscious of the cost of capital and stock prices, including PBR, based on the request from the TSE (from January 2024). 	<ul style="list-style-type: none"> ✓ Follow up on the status of each company's initiatives continuously to encourage them to take substantial measures. In doing so, focus on whether boards are committed to the initiatives proactively and actively, whether specific discussions are conducted during dialogues with investors and whether analyses and evaluations are conducted with an awareness of specific outcomes from the perspective of increasing corporate value over the mid- to long-term occur.



Action Program for Corporate Governance Reform 2024 (cont.)

Issues	Follow up	Future Initiatives
Enhancing the quality of disclosure and promoting dialogues with global investors	<ul style="list-style-type: none"> ✓ Requested to disclose information about dialogues with investors, and published sufficient and insufficient cases of explanations (in March 2023). ✓ Revised the TSE's Listing Rules toward mandatory English disclosures (financial results and timely disclosure information) from April 2025 (in May2024). 	<ul style="list-style-type: none"> ✓ Examine actual situations and advance discussions on the development of an environment, including enhancing the efficiency of disclosures of duplicate information in Annual Securities Reports and Business Reports, that will lead companies to disclose Annual Securities Reports before general shareholder meetings, in addition to enhancing timely disclosures. ✓ Publish a specific list in order to “visualize” the group of companies that willingly and actively respond to the expectations of global investors.
Resolving market environment issues	<ul style="list-style-type: none"> ✓ Requested the enhancement of information disclosures of quasi-controlled listed companies (in December 2023). ✓ Published issues and good practices regarding disclosures of cross-shareholdings (in March 2024). 	<ul style="list-style-type: none"> ✓ Encourage companies to examine their rationale of cross-shareholdings in light of the Corporate Governance Code (e.g. whether appropriate disclosures based on actual situations be made in the Annual Securities Reports) to avoid a formalistic response.
Encouraging the management with an awareness of sustainability issues	<ul style="list-style-type: none"> ✓ Added metrics on diversity such as the ratio of women in managerial positions and the gender pay gap in Annual Securities Reports (from the fiscal year ended March 31, 2023). ✓ Published a booklet of companies' good disclosure practices on sustainability issues such as human capital (in December 2023). ✓ Amended the TSE's Listing Rules to set numerical targets for the ratio of female executives at companies (at least 30% by 2030) (in October 2023). 	<ul style="list-style-type: none"> ✓ Discuss disclosures and assurances of the sustainability-related information while ensuring international comparability. ✓ Share specific good examples such as the awareness of the outcome of increasing corporate value as well as management and dialogues with an awareness of corporate culture.

(The image of a list)
The status of JPX Prime 150 Index
Constituent Stocks

Company name	Status of various indicators	Governance items expected by global investors	
	PBR (times)	Ratio of Independent Directors (%)	Ratio of female executives (%)
A	2.5	37.5	18.2
B	1.1	41.7	8.3
C	1.2	44.4	23.1
D	1.2	44.4	22.2
E	5.3	33.3	13.3
F	5.8	66.7	22.2
G	1.8	60.0	20.0
H	6.7	40.0	13.3
I	15.8	37.5	16.7

Annual Securities Report

Part 1: Company Information

...

IV. Information on the Company Submitting Financial Reports

The purpose of holding each issue of cross-shareholdings is not stated specifically.

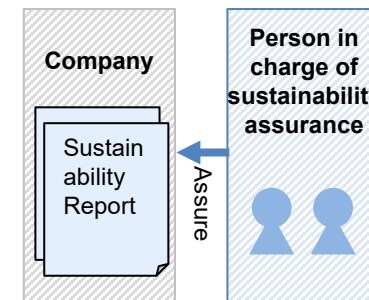


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Overview of Japan's Stewardship Code

Developed on February 26, 2014
Revised on May 29, 2017
and on March 24, 2020

- ❑ The Stewardship Code promotes **institutional investors** to fulfill “Stewardship responsibilities” by improving and fostering the **investee companies’ corporate value and sustainable growth** through **constructive engagement**.

Framework

The Code

- Expects each institutional investor to decide whether to sign up the Code or not.
- The FSA publishes the list of signatories, and thereby encourage more institutional investors to sign up the code.
- Adopts a “**principles-based approach**” instead of a “rule-based approach”.
- Adopts the “comply or explain (comply with the principles or explain why they are not complied with) approach” as opposed to mandatory requirements like laws/regulations.

Principles

Institutional investors should:

1. Disclose a **clear policy** on how to fulfill their stewardship activities;
2. Properly manage **conflicts of interest**;
3. **Monitor** investee companies;
4. Seek to arrive at an understanding in common with investee companies and solve problems through **engagement**;
5. Have a clear **voting policy** and **disclose voting records**;
6. **Report on stewardship activities** to clients/beneficiaries, and;
7. Have **skills and resources necessary for engagement**.

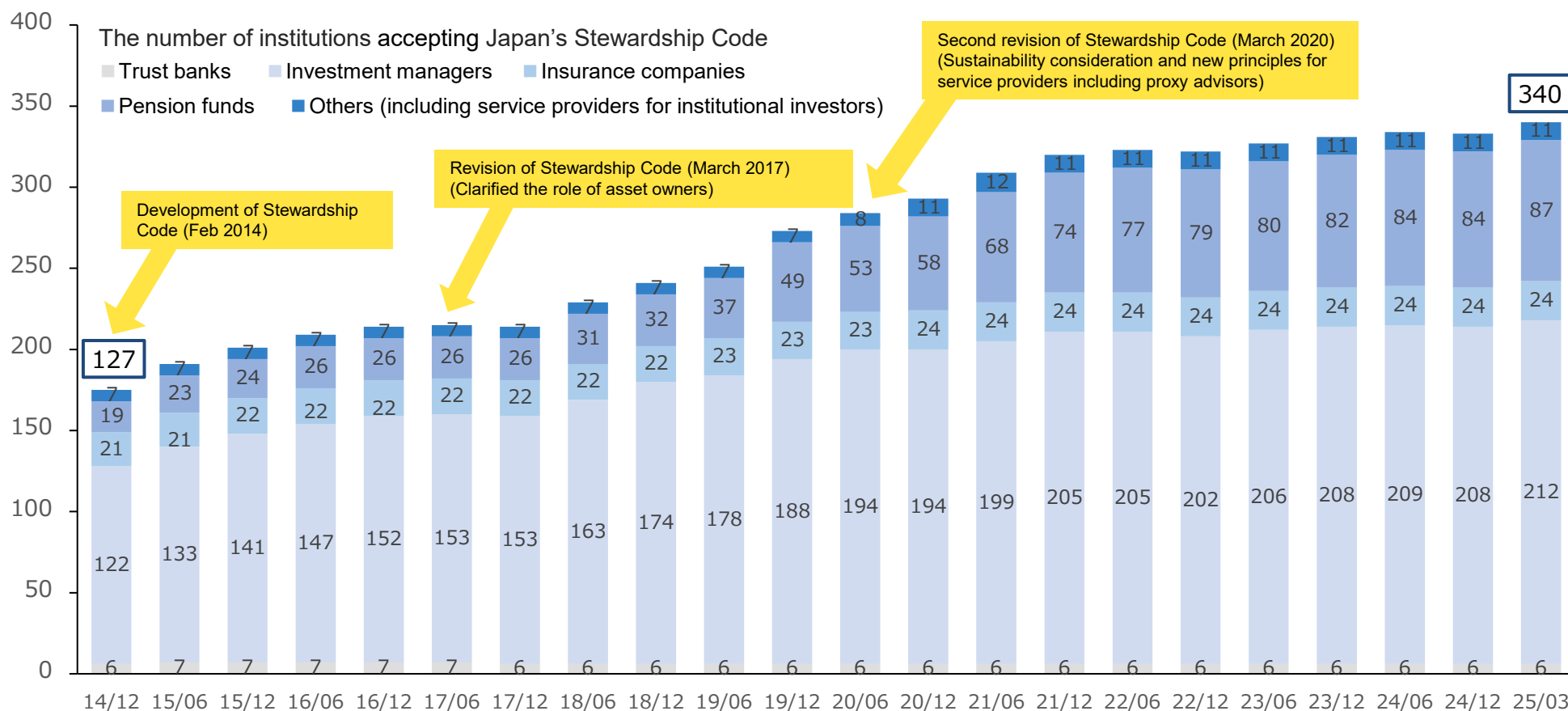
Service providers for institutional investors should:

8. Endeavor to **provide services appropriately for institutional investors to fulfill their stewardship responsibilities**.

Number of institutions accepting Japan's Stewardship Code

- The number of institutions accepting Japan's Stewardship Code has continued to increase since the introduction of the Code in February 2014. As of 30 June 2024, 340 institutional investors have accepted the Code.
- As of 30 June 2024, 314 institutional investors* have accepted the 2020 revised version of Japan's Stewardship Code. (*221 asset managers, 83 pension funds, and 10 others.)

*The Corporate Pension Funds Stewardship Initiative, in which 163 DB pension funds took part, has accepted the Code on 28 March 2025.



Compliance with the Stewardship Code by institutional investors: how institutional investors changed how they engage with companies

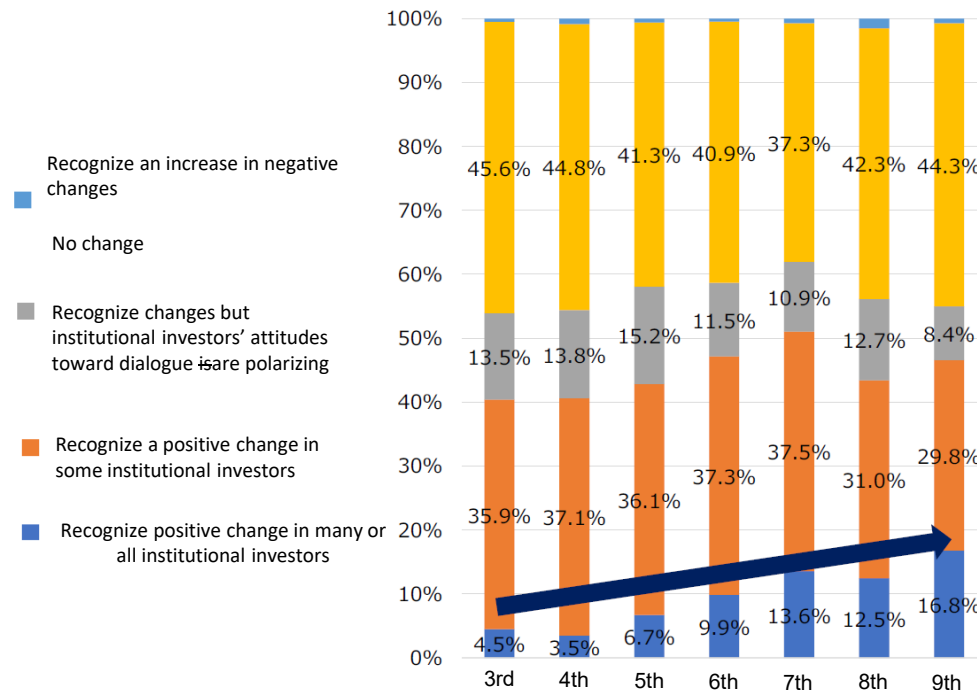
- ❑ Many asset managers consistently grasp the investee companies' situation by detailed research. Companies often find it helpful to receive the research results through dialogue with investors.
- ❑ Many asset managers are engaging with companies to increase corporate value over the mid- to-long term based on a trust relationship. Such dialogue has been positively received by companies.
- ❑ In the survey for companies by the GPIF, the number of companies that answer that they “recognize the positive change of all or a number of institutional investors” is tending to increase and the quality of engagement between companies and investors seems to be improving.

Good practices for constructive dialogue

- The mid-to-long term perspectives and expectations as investors are communicated directly and clearly to the management of investee companies.
- Investors give investee companies accurate suggestions specifically based on detailed research on domestic and overseas competitors.
- The themes of dialogues are evolved in line with the growth stage of the company.
- Documents that institutional investors use for explanation in dialogue help with considerations inside the investee companies.

The results of the survey of listed companies by GPIF

Q. Have you felt any changes in institutional investors overall in IR meetings compared to one year ago?



The number of answers “recognize a positive change in many or all institutional investors” is tending to increase.

※Period to answer for each survey
 9th: From Jan.18 to Mar. 22, 2024
 8th: From Jan. 24 to Mar. 24, 2023
 7th: From Jan.14 to Mar. 18, 2022
 6th: From Jan.15 to Mar. 13, 2021
 5th: From Jan.10 to Mar. 13, 2020
 4th: From Jan.10 to Feb. 20, 2019
 3rd: From Jan.10 to Feb. 23, 2018

Source: The results in the 9th questionnaire survey of listed companies on stewardship activities by institutional investors in May 2025 (GPIF)

Compliance with the Stewardship Code by institutional investors:

Perception gap between companies and investors (1/2)

- ❑ Perception gaps are observed between investors and investee companies concerning dialogue. For example, some companies do not find it beneficial when investors keep asking questions with short-term thinking and are not willing to have two-way communication.
- ❑ When engaging with investee companies, some investors are not able to set appropriate discussion agenda tailored to the discussion counterpart, including CEOs, independent directors, and persons in charge of IR, in which cases investors have not managed to achieve constructive engagement. Investee companies find it abrupt and not useful when questions from investors are inconsistent or when investors engage only for reporting to their asset owners.
- ❑ According to a survey, there are recognition gaps between investors and investee companies on which topics companies should focus on, in terms of improving cost of capital i.e., setting an index of profitability and capital efficiency for investors, and cost reduction for companies.

Cases not leading to constructive dialogue

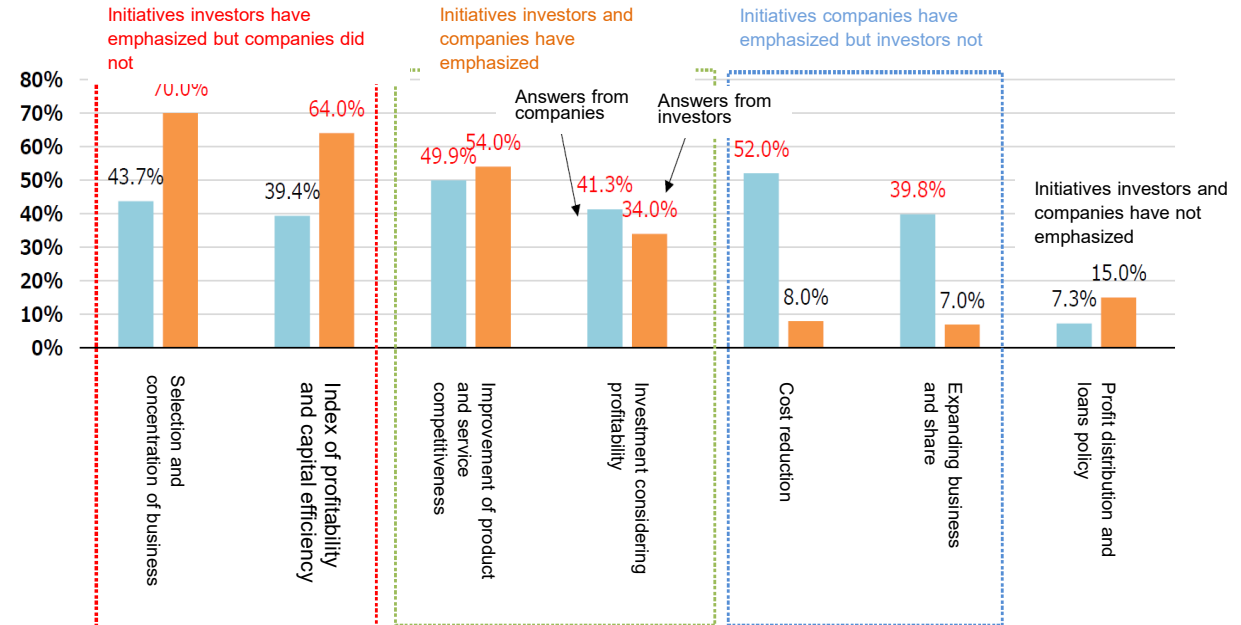
[Issues of investors]

- Being interested only in the short-term data of investee companies.
- Pursuing only short-term returns on their funds
- Asking questions about information that cannot be disclosed in dialogues

[Issues of companies]

- Engaging only to improve disclosure and to satisfy voting policies of investors.
- Topics of dialogues overlapping due to a lack of communication between people in charge of IR and SR.
- Dialogue being a means to an end.

Recognition gaps between companies and investors on measures to improve capital efficiency



*465 companies and 100 investors took part in this questionnaire survey.

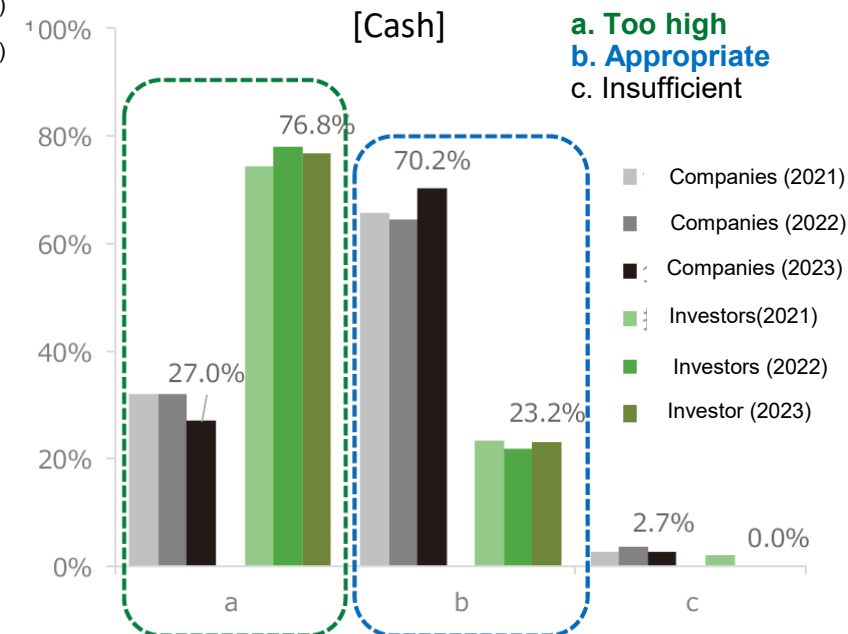
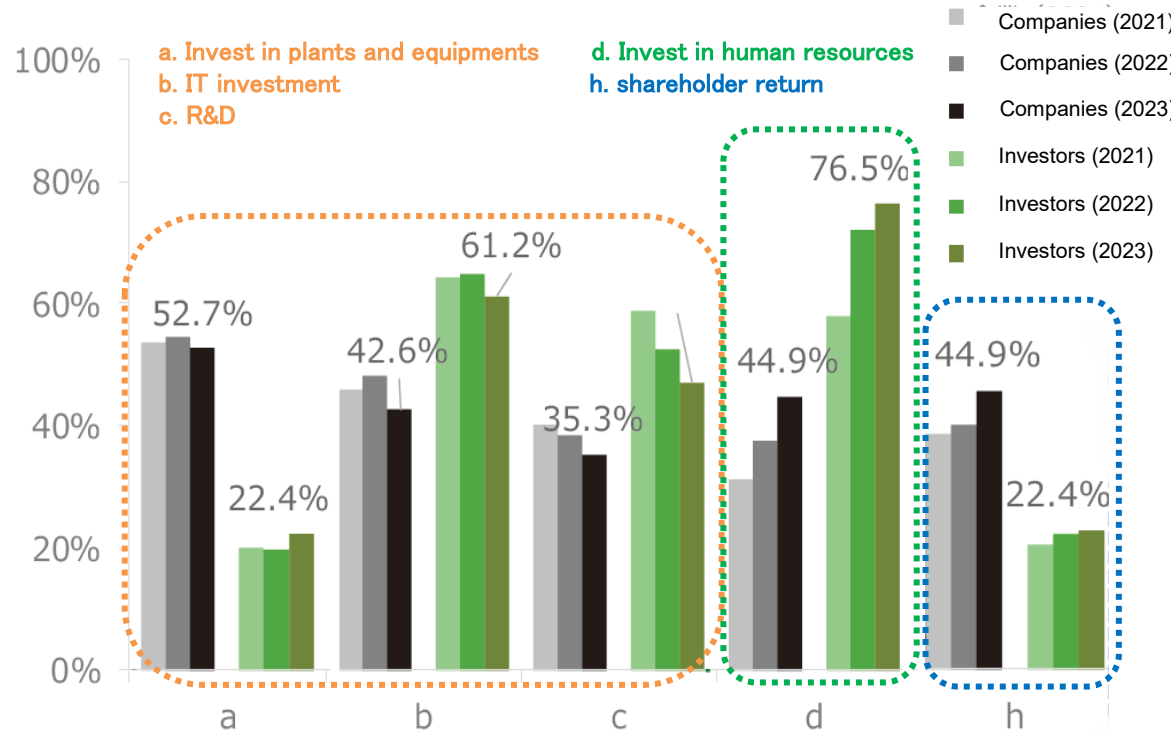
Compliance with the Stewardship Code by institutional investors :

Perception gap between companies and investors (2/2)

- Concerning mid- to long-term investment and financial strategies, there is a relatively large perception gap between companies and investors on investment in plant and equipment, while the gap is smaller for IT investment and R&D. Many investors consider that companies should put more focus on investment in human resources.
- Companies tend to consider that the amount of cash reserves is at an appropriate level, while investors tend to consider that it is too high.

Important factors for mid- to long- term investment and financial strategies for companies and investors

Perception gap between companies and investors on appropriate level of cash reserves

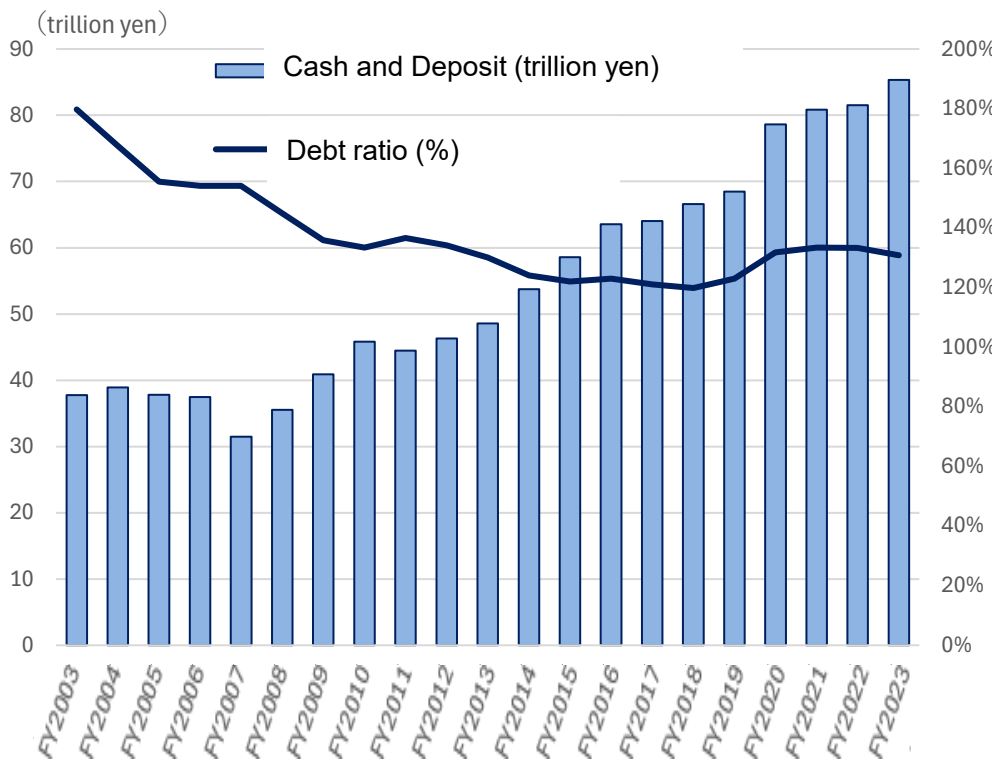


(Number of responses) Company: 2023: 440, 2022: 468, 2021: 471
(Number of responses) Investor: 2023: 82, 2022: 94, 2021: 94

Trend in corporate cash and deposits

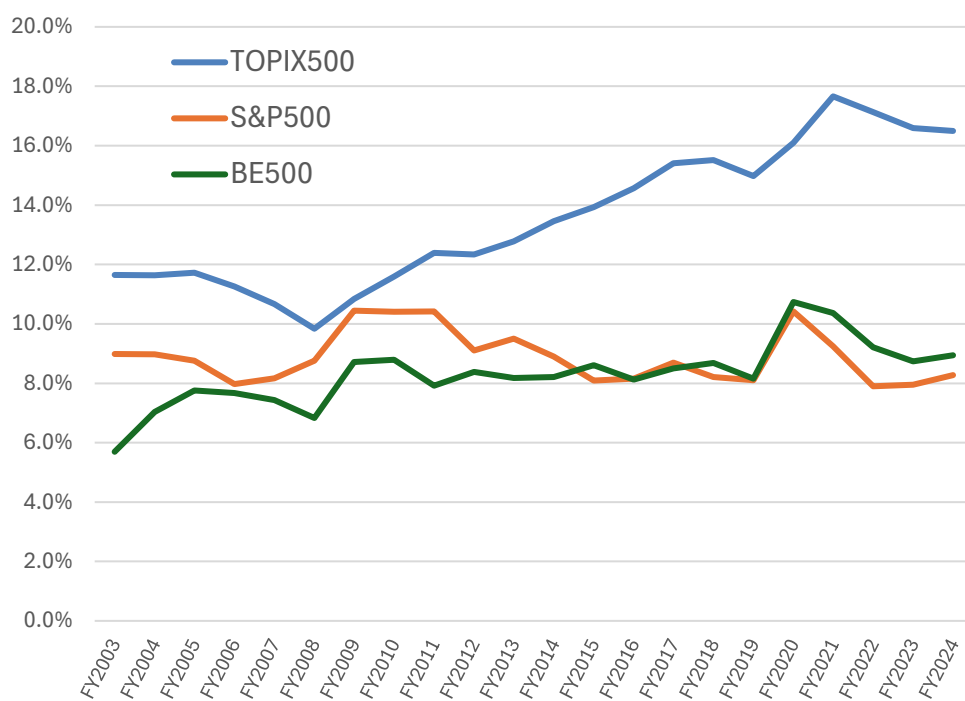
- ❑ Since FY 2011, corporate cash and deposits have been increasing. The debt ratio has been on a downward trend over the long term.
- ❑ The ratio of cash and deposit of Japanese companies is higher than companies in the US and Europe, with a continuous upward trend.

Cash and deposits, and debt ratio
(companies capitalised at 1 billion yen or more)



Ref. Financial Statements Statistics of Corporations by Industry (All industries (excluding finance and insurance), capitalised at 1 billion yen or more). Debt ratio is calculated as liabilities (at the end of the fiscal year) / net assets (at the end of fiscal year).

Cash and deposits ratio ((cash and cash equivalents) / total assets)
of Japanese and US, European companies



Ref. Compiled by the FSA from Bloomberg. Figures are calculated for each year after excluding companies classified as "financial" from the list of companies included in the TOPIX500, S&P500, and BE500 indices. "Cash and cash equivalents" is calculated as (cash and cash equivalents) / total assets. "Cash and cash equivalents" refers to "cash on hand and bank deposits. Includes short-term investments with a maturity of less than 90 days. If not disclosed separately, this may include marketable securities and short-term investments with a maturity of more than 90 days. Restricted deposits are excluded (restricted deposits are included in other liquidity)".

Draft revisions to Japan's Stewardship Code (2025)

1 Transparency of beneficial shareholders

- From the perspective of promoting constructive dialogue as well as the development of trust relationships between companies and institutional investors, the draft revised Code states as follows:

(Draft revised text)

4—2. In order to support constructive dialogue with investee companies, institutional investors should, in response to requests from investee companies, explain how many shares they own/hold in the company and should disclose in advance a policy on how they will respond to such requests from investee companies.

2 Collective/collaborative engagements

- From the perspective of promoting constructive dialogue between the companies and institutional investors, the draft revised Code states as follows.

(Draft revised text)

4—6. In addition to institutional investors engaging with investee companies independently, engaging with investee companies in collaboration with other institutional investors (collaborative engagement) is also an important option. When considering methods for dialogue, it should be kept in mind whether they will lead to constructive dialogue that contributes to the sustainable growth of investee companies.

3 Streamlining the Code

- The Code as been streamlined, for example by removing, consolidating, and simplifying the parts that have permeated stewardship practices since the Code was developed and revised.

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Timing of disclosure of annual securities reports and holding of annual general meetings

- ❑ The number of listed companies disclosing annual securities reports (ASR) before the annual general meeting (AGM) is limited*. No significant differences are observed between fiscal years.
- ❑ Even in cases where the disclosure was made before the AGM, the report was often disclosed several days before the AGM, and only 18 companies submitted the report more than a week before the AGM.

* On the other hand, it should be noted that all listed companies in Japan already disclose multiple disclosure documents (business reports, financial statements, etc.) required under the Companies Act at least three weeks before the AGM. An ASR is a disclosure document required for listed companies under the Financial Instruments and Exchange Act, and it contains more detailed information, such as information on cross-shareholdings.

[Timing of disclosure of ASR (FY2022-FY2024)]

* More than 80% disclosed on the same day as the AGM or one day after the AGM.

Accounting Period	Companies	before AGM	percentage	Same day as AGM	AGM+1day	AGM+2days	AGM+3days
March,2022	2,333	33	1.4%	1,154	774	52	240
March,2023	2,325	33	1.4%	1,122	819	54	215
April	41	1	2.4%	15	17	1	5
May	88	2	2.3%	33	32	2	15
June	161	3	1.9%	57	93	1	4
July	58	0	0.0%	24	16	1	12
August	91	0	0.0%	35	40	10	2
Sepetember	195	1	0.5%	78	60	5	38
October	65	0	0.0%	24	21	2	14
Novemver	66	0	0.0%	32	23	0	4
December	543	8	1.5%	245	231	27	28
January,2024	65	0	0.0%	21	26	1	3
February	215	0	0.0%	60	125	6	17
March	2,312	42	1.8%	1,126	887	48	155
Total in April.2023~ March,2024	3,900	57	1.5%	1,750	1,571	104	297

[Breakdown of 57 companies that disclosed ASR before AGM]

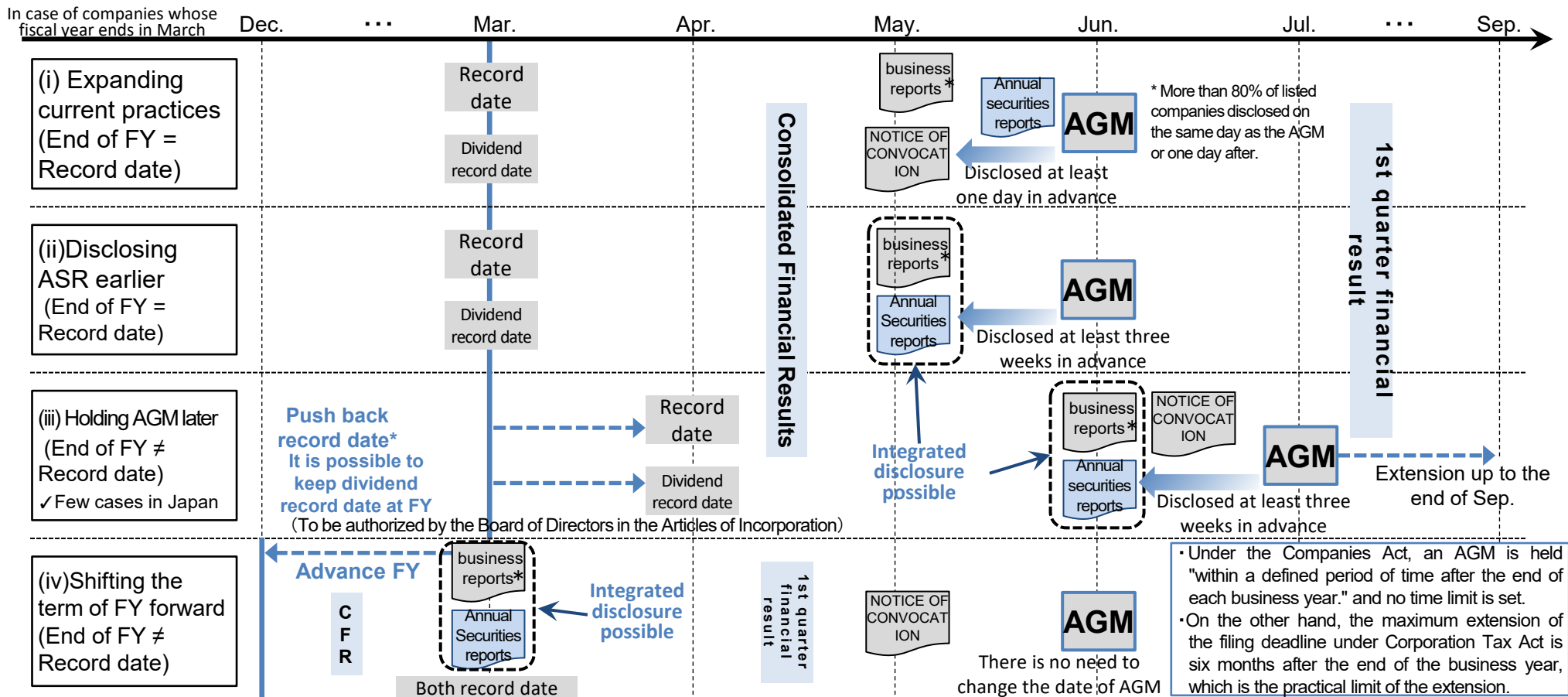
(source) FY2022,2023:EY,FY2024:FSA

	1day ago	2days ago	3days ago	4days ago	5days ago	6days ago	7days ago	more than 10days ago
companies	11	12	4	2	3	7	9	9

(Ref.) Joyfull Co., Ltd.(74 days before),NIITAKA Co., Ltd. (28 days before, Kubota Pharmaceutical Holdings Co., Ltd., Roland Corporation (21 days before), KAGOME CO., LTD. (18 days before), The Shiga Bank, Ltd. (15 days before), T&D Holdings, Inc. (13 days before), ZOZO, Inc. (12 days before), Kyowa Kirin Co., Ltd (10 days before), Hulic Co., Ltd., ZIGEXN Co., Ltd., HOYA CORPORATION, Shin-Etsu Chemical Co., Ltd., Japan Lifeline Co., Ltd., Chugin Financial Group, Inc., Mizuho Financial Group, Inc., Japan Exchange Group, Inc., YAMATO HOLDINGS CO., LTD.(7 days before).

How to disclose ASR before AGM

- There are four options (i) to (iv) below to be used to disclose an ASR before the AGM (**either option is possible under the current laws**).
- Even option (i) **is considered to be meaningful** in that it enables inventors to refer to the ASR at the AGM and makes questions and answers at the meeting more efficient. However, **disclosing the report at least three weeks in advance is desirable** (integrated disclosure is also possible) in order to **secure sufficient time for investment decisions**.
- It is at the discretion of each company as to which of the options (ii) to (iv) the company chooses to disclose the report three weeks or more prior to the AGM.** Each company may choose the option with less practical burdens in light of its own circumstances.



* From the perspective of addressing the empty voting issue, it may be possible to set the record date as close to the AGM as practically possible.

* Under the Companies Act, business reports and financial statements must be submitted electronically at least three weeks before the AGM. Integrating these documents required under the Companies Act and the annual securities reports into one disclosure document is referred to as integrated disclosure.

Outline of the “Liaison council on preparing the environment for disclosure of annual securities reports before annual general meetings

- ❑ From the viewpoint of accelerating the corporate governance reform and promoting dialogue between companies and investors, it is necessary to consider and promote preparing the environment for disclosure of an ASR before the AGM.
- ❑ The government has made a number of efforts to promote disclosure of an ASR before the AGM, and **it is possible for listed companies to do so under the current legal framework. However, the number of listed companies that disclose the report before the AGM is limited.** In addition, even if the disclosure is made before the AGM, **there are only a few cases in which sufficient time for consideration is secured for investors to exercise voting rights.**
- ❑ In light of these circumstances, the "Liaison council on preparing the environment for disclosure of annual securities reports before annual general meetings*" was established to practically consider issues and specific measures related to the disclosure of ASR before the AGM.
- ❑ The first meeting was held on December 20, 2024, to sort out the initiatives taken to date and share the results of interviews.
- ❑ The second meeting was held on March 18, 2025, to discuss issues and specific measures for listed companies to disclose an ASR before the AGM.

* Participants : Tokyo Stock Exchange, Trust Companies Association of Japan, Japan Business Federation, Kansai Economic Federation, The Japanese Institute of Certified Public Accountants, The Securities Analysts Association of Japan, Ministry of Justice, Ministry of Economy, Trade and Industry, Financial Service Agency (Secretariat), market stakeholders (Observers)

Request for consideration of appropriate provision of information before annual general meetings

- ❑ FSA issued a letter of request to all listed companies under the name of Minister of State for Financial Services KATO Katsunobu on March 28, 2025.
- ❑ While indicating that **it is most desirable to disclose annual securities reports at least three weeks before the AGM**, the letter requested that, as a first step, companies consider **submitting annual securities reports one day or a few days before AGMs**, taking into account the practical burdens on companies.
- ❑ **FSA will monitor the status of submission of annual securities reports** from the FY ending March 31, 2025 onwards, and consider taking measures **such as conducting a survey during “the Annual Securities Report Review in 2025”**, while keeping efforts to reduce the burden on companies.

Request for consideration of appropriate provision of information before annual general meetings

Annual securities reports (hereafter "ASRs") contain a wealth of information useful for investors in making their decisions, such as governance information on executive compensation and cross-shareholdings. It is therefore considered desirable for listed companies to give as much consideration as possible so that investors can review ASR before annual general meetings (hereafter "AGMs").

In this regard, it is considered most desirable to disclose ASR at least three weeks before the AGM. However, there are practical issues for many listed companies to take such measures immediately. At present, the Financial Services Agency is working with relevant parties in the public and private sectors to identify issues and consider measures, including reasonable measures to reduce corporate burdens.

On the other hand, looking at the current status of disclosure of ASR, more than 90% of them are disclosed on the same day as the AGM or within a few days. Therefore, it is possible that there will be no major scheduling problems if they are disclosed a day before or a few days before the AGM. From this year, listed companies that have not disclosed the report before the AGM are encouraged to consider disclosing their ASR one day or a few days before the AGM as a first step toward disclosing the ASR at a desirable time before the AGM.

FSA will keep track of the status of disclosure of ASRs from the FY ending March 31, 2025 onwards, and consider measures such as investigating plans in the event that ASRs are not disclosed before the AGM, in the examination of priority issues in “the Annual Securities Report Review in 2025”.

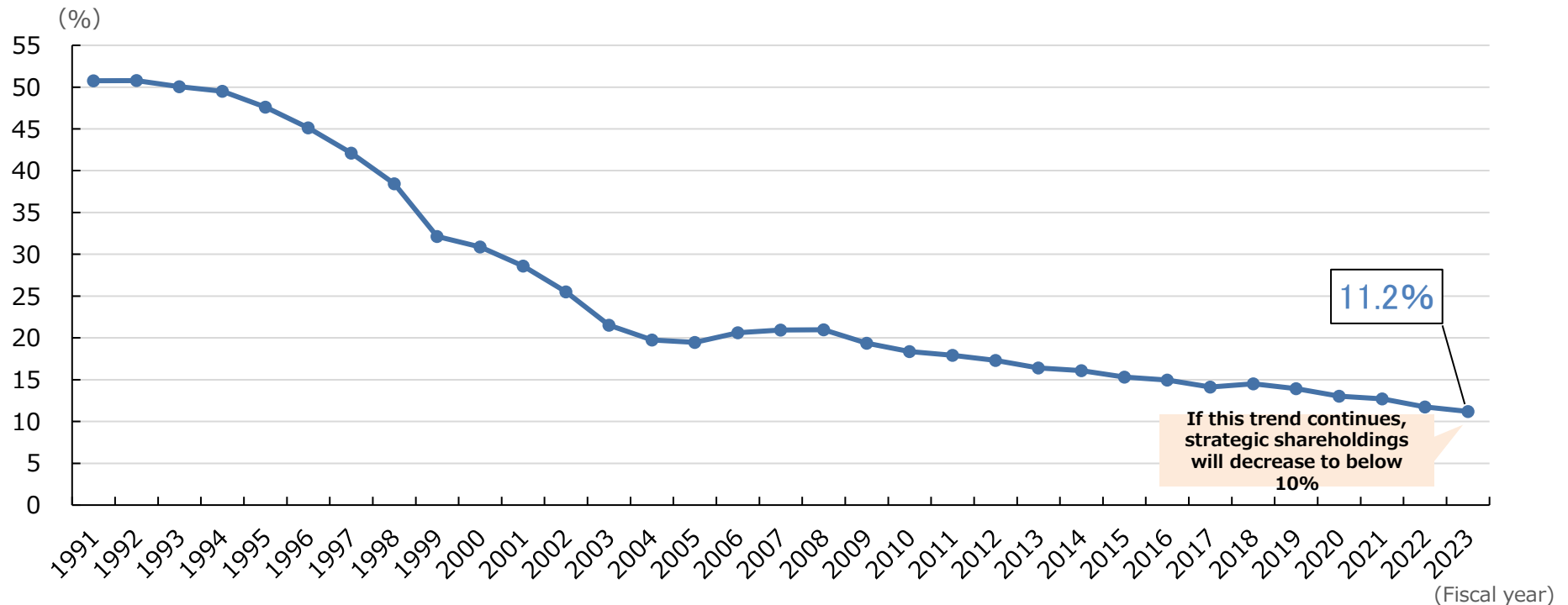
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- V. Resolving market environment issues**
- VI. Encouraging the management with an awareness of sustainability issues

Strategic Shareholdings

- ❑ Strategic shareholdings have **decreased**, owing to accelerated **corporate governance reforms** through the Corporate Governance Code.

Strategic shareholdings of listed companies (on a market capitalization basis)



***Three major non-life insurance companies** announced the **reduction of their strategic shareholdings to zero** by the end of FY 2029 or FY 2030 (around ¥9 trillion in total) .

*According to Nikkei, **the sales of strategic shareholdings** by listed companies (excluding financial companies) in FY 2023 was **around 3.6 trillion yen, a record high (increase by 86%)**.

Source: Nomura Institute of Capital Markets Research

Note: The ratio of shares (market value) of listed companies held by other listed companies to the total market capitalization of the market. It only includes shareholdings for purposes other than investment.

Strengthening disclosure requirements on strategic shareholdings in annual securities reports

Provisional translation

- ✓ The proposed revision to the Cabinet Office Ordinance mandates the **disclosure of additional items when a listed company recategorises its purpose of shareholdings from strategic shareholding to pure investment**. [Applicable to annual securities reports for the fiscal year ending March 2025 and after.]

Annual securities report (Yuho)*

*The same amendments apply to other reports including the securities registration statement.

Part1: Company information

- I. Overview of company
- II. Business overview
- III. Facilities
- IV. Information on the company submitting financial reports
 - Information on the company's shares
 - Status of corporate governance
 - Information on shareholdings

Disclosure requirements for listed companies recategorising the purpose of shareholdings from strategic shareholding to pure investment

[Current regulation]

- Listed companies that have recategorised the purpose of shareholdings during **the latest fiscal year** are required to disclose, per stock, **a) stock names, b) numbers of shares, and c) carrying amounts in the balance sheet**.

Stock name	Number of shares	Carrying amount in the balance sheet
A	xxx,xxx	xxx,xxx
B	xxx,xxx	xxx,xxx

[Proposed revision to regulation]

- Listed companies that have recategorised the purpose of shareholdings **during the last five fiscal years**, when holding those shares **as of the end of the latest fiscal year** of the report, are additionally required to disclose **d) the fiscal year of the recategorisation and e) the reason for the recategorisation and policies on holding or selling thereafter**.

Stock name	Number of shares	Carrying amount in the balance sheet	Fiscal year of recategorisation	Reason for recategorisation and policies on holding or selling
A	xxx,xxx	xxx,xxx
B	xxx,xxx	xxx,xxx

*Disclosure requirements for recategorisation from pure investment to strategic shareholding remain the same: a) to c).

- ✓ The proposed revision to the Guideline for the Disclosure of Corporate Affairs also clarifies that:
 - i) **the “pure investment purpose” is defined as the purpose of benefitting exclusively from changes in the value of the shares or from dividends on the shares**, and;
 - ii) when there are circumstances in the relationship with the issuer that impede selling, such shareholdings are not allowed to be categorised as the pure investment purpose.

Publication of the results of the Annual Securities Report Review in FY 2024 and points to consider

■ From the perspective of ensuring the appropriateness of annual securities reports and of enhancing their contents, the FSA, in cooperation with Local Finance Bureaus, conducts the Annual Securities Report Review focusing on "examination related to amendments of acts" and "examination of priority themes."

■ Based on the issues identified in the Annual Securities Report Review in FY 2023, the FSA has reviewed the annual securities reports in FY 2024, which were submitted after March 31, 2024, and examined the following items:

- Examination related to amendments of acts (*1,3)

The disclosure requirements related to the amendments to the "Cabinet Office Order on Disclosure of Corporate Affairs" in 2023, including disclosure about the audit and supervisory boards' activities and strategic shareholdings for the listed companies in the column of "Corporate Governance."

- The amendments to the Cabinet Office Order shown above mainly focus on sustainability and corporate governance, which applied to annual securities reports submitted after March 31, 2024.
- The disclosure about the audit and supervisory boards' activities and cross shareholdings in the column of "Corporate Governance" does not cover items that are newly required to be disclosed by the Amended Cabinet Office Ordinance, but these issues were identified as points to consider in Annual Securities Report Review FY 2023.

- Examination of priority themes (*2,3)

The disclosure of sustainability-related activities based on the above Amendments to the Cabinet Office Order

- The FSA examines the description of "Approach to Sustainability and Sustainability-Related Efforts" in annual securities reports so as to contribute to voluntary improvement by the submitting company.

*1 The scope of the examination is all companies who submit annual securities reports.

*2 The FSA selected some target companies and examined them through dialogues by way of questionnaires. In those dialogues, strategic shareholdings and topics other than sustainability-related topics were also discussed.

*3 The FSA also followed up on the circumstances of the companies that the FSA had requested improve their disclosure in their annual securities reports in the past examinations.

■ The FSA also reviewed the descriptive contents in the amended internal control reports submitted since April 2024, based on the Amendments to the "Cabinet Office Order on the System for Ensuring the Appropriateness of Documents on Financial Calculation and Other Information" through examination related to amendments of acts.

Lists of major issues and points to consider related to strategic shareholdings identified in the Annual Securities Report Review in FY 2024 (1/2)

[Disclosure of Corporate Governance]

Major issues	Major points to consider
<p>4. The purpose of holding strategic shareholdings is not specifically described by brand (if there are business transactions or a business alliance between the reporting company and the issuer, an overview of these facts should be provided).</p> <p>5. If the purpose of holding each strategic shareholding is to secure stable shareholders, that purpose is not described.</p>	<p>[Points to consider when companies disclose based on acts and regulations]</p> <ol style="list-style-type: none"> It is required to describe the purpose of each strategic shareholding specifically in the annual securities reports. In addition, if the purpose of each strategic shareholding is aimed at business transactions or a business alliance between the reporting company and the issuer, it is also required to describe the overviews of these facts specifically in the annual securities reports. If the purpose of each strategic shareholding is to secure stable shareholders, it is also required to describe that purpose in the annual securities reports. <p>[Matters considered to be reference for enhancing disclosure, for example expectations from investors and analysts]</p> <ol style="list-style-type: none"> It is considered that describing the purpose of each strategic shareholdings specifically, including from the perspective of how those strategic shareholdings contribute to an increase in their corporate value, is beneficial for appropriate investment decisions by investors. In particular, it is desirable to describe more specifically whether, for example, the purpose of holding is investment in startups or innovation and the development of new businesses. It is also desirable for companies to disclose their standards for exercise of their voting rights of strategic shareholdings and voting results (for instance, the ratio of approval and disapproval), because it contributes to investors' decision on whether the purpose of strategic shareholdings has been achieved.
<p>6. There is a gap between the disclosure concerning the verification of the appropriateness of holding strategic shareholdings by the company's board of directors and the actual situation.</p> <p>7. If it is difficult for the companies to describe the quantitative holding effectiveness of strategic shareholdings by brand, the description about how to verify the rationality of their shareholdings will not be clear.</p>	<p>[Points to consider when companies disclose based on acts and regulations]</p> <ol style="list-style-type: none"> It is required to describe how to verify the rationality of company's strategic shareholdings and the appropriateness of holding strategic shareholdings by the company's board of directors in their annual securities reports. When companies describe the above contents, they should describe them appropriately based on the actual situations. Companies are required to describe specifically the quantitative effectiveness of each strategic shareholding (including the way to verify the rationality of those shareholdings when it is difficult for companies to describe the quantitative effectiveness) related to management policies and strategies, details of businesses and segment information of the submitting companies regarding the disclosure about each strategic shareholdings. <p>[Matters considered to be reference for enhancing disclosure, for example expectations from investors and analysts]</p> <ol style="list-style-type: none"> If it is difficult for companies to describe the quantitative effectiveness of each strategic shareholding, some companies does not disclose the quantitative effectiveness of each strategic shareholding at all. From the perspective of providing useful information for investors' investment decisions, it is also desirable for such companies to describe the quantitative holding effects, excluding the parts that are difficult to explain, as much as possible, in the annual securities reports.

Lists of major issues and points to consider related to strategic shareholdings identified in the Annual Securities Report Review in FY 2024 (2/2)

[Disclosure of Corporate Governance]

Major issues	Major points to consider
<p>8. Some companies have declared their policy to reduce their strategic shareholdings and changed the purpose of shareholdings from strategic shareholdings to pure investment in their annual securities reports without agreements with the issuers on their sellable periods. As a result, the actual situation has not changed from continuing to hold strategic shareholdings.</p> <p>9. Some companies have declared their policy to reduce their strategic shareholdings and reclassified them as shares for pure investment purposes after negotiating with the issuers. However, they have no feasible plans to engage in selling them for a long period, and the actual situation has not changed from continuing to hold strategic shareholdings.</p>	<p>[Points to consider when companies disclose based on acts and regulations]</p> <p>a. The Cabinet Office Order on Disclosure and the Guideline for the Disclosure of Corporate Affairs were amended in January 2025 and these revisions are effective for the years ended on or after March 31, 2025. The amendments are intended to request disclosure of the following items about their holding of shares (limited to those held at the end of the current fiscal year) whose purpose has been changed from strategic purposes to pure investment purposes within the last five fiscal years, including the current fiscal year: the brand, share units, the amounts recorded on the balance sheet, the year in which the purpose of shareholding changed, the reason for changing the purpose of shareholding, and the policy on holding or selling related shares. In addition, the Amendment to the Guideline for the Disclosure of Corporate Affairs indicates, “When there are circumstances in the relationship with the issuer that impede selling (such as also holding the company’s strategic shareholdings or requiring for the company to confirm when they sell), such shareholdings are not allowed to be categorized as a pure investment purpose.” In accordance with these regulations, companies should disclose their annual securities reports appropriately.</p> <p>b. A pure investment purpose is defined as the purpose of benefiting exclusively from changes in the value of the shares or from dividends on the shares. If the purpose of investment shares include purposes other than pure investment purposes, such as maintaining or strengthening business relationships or securing stable shareholders, those shareholdings should be categorized as strategic shareholdings and companies are required to describe that specifically in their annual securities reports for ensuring that investors understand the details of the purpose of those shareholdings.</p> <p>[Matters considered to be reference for enhancing disclosure, for example expectation from investors and analysts]</p> <p>c. Some companies have declared their policy to reduce their strategic shareholdings and changed the purpose of shareholdings from strategic shareholdings to pure investment in their annual securities reports without agreements with the issuers on their sellable periods, or reclassified them as shares for pure investment purposes after negotiating with the issuers, but they have no feasible plans to engage in selling them for a long period. As a result, the actual situation has not changed from continuing to hold strategic shareholdings. It should be noted that a situation where there is no difference from continuing to hold strategic shareholdings could lead to misunderstandings among investors. In this case, companies could consider verifying the rationality of changing the purpose of shareholdings from strategic shareholdings to pure investment and holding those shares for pure investments continuously, and disclosing the purpose along with “the standards and concept of the categorization between investment shares held for the purpose of pure investment and those held for purposes other than pure investment” (Instructions on Preparation (39) of Form 3 in the Cabinet Office Order on Disclosure of Corporate Affairs in the same manner as under Instructions on Preparation (58) of Form 2).</p>

Colum: Hindering the sale of strategic shareholdings

From the Annual Securities Report Review in FY 2024

- ❑ In this fiscal year, through the examination of the Annual Securities Report Review on the disclosure of strategic shareholdings in annual securities reports, we found some cases where issuers hinder the business partner companies that hold their shares from selling shares by, for instance, implying a possible reduction of business transactions, aimed at ensuring stable shareholders. As a result of a series of interviews with listed companies in the process of examining the Annual Securities Report Review, about 5 to 40% of companies answered that they have faced such a situation. On this topic, some pointed out that those cases hindered the reduction of the strategic shareholdings.
- ❑ Supplementary Principles 1.4.1 in Japan's Corporate Governance Code states that "When cross-shareholders (i.e., shareholders who hold a company's shares for the purpose of cross-shareholding) indicate their intention to sell their shares, companies should not hinder the sale of the cross-held shares by, for instance, implying a possible reduction of business transactions." Prime or Standard Market-listed companies that do not comply with the principle are required to explain why in their Corporate Governance Reports. According to the TSE Listed Companies White Paper on Corporate Governance 2023, the ratio of Prime or Standard Market-listed companies that comply with the Supplementary Principles 1.4.1 in Japan's Corporate Governance Code amounted to 99.8%.
- ❑ If some companies intimidate the business partner companies that hold their shares from selling those shares as the person in charge of the company or the company under the direction of the management, despite the fact that they published that they complied with the Supplementary Principles 1.4.1 in their Corporate Governance Reports, it would undermine the purposes of Japan's Corporate Governance Code and also be a serious problem from the perspective of corporate governance.
- ❑ Companies that submit a Corporate Governance Report disclose how to comply with the Corporate Governance Code. Therefore, in general, it is desirable for party companies to confirm the policy of not hindering the sale of strategic shareholdings described in Supplementary Principles 1.4.1 in the Corporate Governance Code with each other when they negotiate the reduction of their strategic shareholdings. In addition, some companies disclose the policy of not preventing the sale of the strategic shareholdings in their annual securities reports. It will be beneficial for companies to publish their policies in their annual securities reports from the perspective of the reduction of strategic shareholdings.

Overview of Revision for the Financial Instruments and Exchange Act and Act on Investment Trusts and Investment Corporations (May 2024)

Develop a new system for asset management (AM) business, large shareholding reports and tender offers to revitalize the Japanese capital market by enhancing the capability and diversification of AM business and promoting dialogue between investors and companies and ensuring transparency and fairness in the market

Enhance the capability and diversification of AM business

Implement the following measures to improve corporate value and returns to investors, including households, and revitalize startups by enhancing the capability and diversification of asset management by assisting new entrants.

Promoting new entrants

- Introduce a voluntary registration system for middle and back-office operations, and deregulate the requirement on the personnel structure of an AM company if entrusting the business to a registered entity.
- As in Europe and the US, where the division of AM businesses is advancing, AM companies will specialize in fund management functions (planning) and will be able to fully entrust their asset management (investment instruction/execution) authority to various AM companies.

Vitalizing Circulation of Unlisted Securities

- Take the following measures in order to promote new entrants into the brokerage business of unlisted securities issued by startups and vitalize the circulation.
 - Deregulate the requirements for Type I Financial Instruments Business only dealing with unlisted securities for professional investors basically without receiving deposits.
 - Allow registered Type I Financial Instruments Business Operators to operate a PTS* for unlisted securities without authorization if the transaction volume is limited.

* PTS (Proprietary Trading System) is a trading system that uses electronic technology to provide transaction intermediation services.

Promote constructive dialogue between investors and companies

To promote constructive dialogue from a mid- to long-term perspective, the following policies are to be implemented

Clarifying the Large Shareholding Reporting Rule

Large Shareholding Reporting Rule: Ex post facto disclosure of shareholdings when the shareholder holds more than 5% of shares

- **Clarify the scope of “joint holders”** subject to aggregation of the ownership ratio (in cases of acts of proposal not directly related to corporate control without a continuous agreement, the application is to be excluded)

Ensure transparency and fairness in the capital market

To ensure transparency and fairness in the capital market, the following policies are to be implemented

Enlarging the scope of the tender offer rule

Tender Offer Rule: To require disclosure of the purpose and terms of purchase in advance and give all shareholders an equal opportunity to sell their shares regarding a purchase of listed shares exceeding a certain ratio

- Make transactions through **a market trade (on-floor transaction) subject to the application of the tender offer rule**
- **Lower the threshold for a tender offer to be implemented from “1/3” to “30%” of the voting rights**

Enlarging the Scope of the Tender Offer Rule

- ❑ To ensure transparency and fairness in the capital market, market trade (on-floor transaction) is to be subject to the tender offer rule.

Issues

- As environmental changes have emerged in the market, including an increase in cases of hostile acquisitions through market trade (on-floor transaction) and diversification of M&A, transparency and fairness of securities transactions should be attained
- ※ Tokyo Kikai Seisakusho Case (the Nov. 9, 2021 Tokyo High Court Ruling): Concerning a transaction that acquired more than one-third of voting rights through market trades (on-floor transactions) by Asia Development Capital, it was pointed out that such purchase did not provide general shareholders with sufficient information or time necessary for investment decisions.

Policies

- To ensure transparency and fairness of securities transactions, the scope of the tender offer rule is to be enlarged

	Over 5%	^b Over 1/3	Majority	2/3 or more
Off-market trades		The 5% rule	The 1/3 rule (A tender offer is required. Partial tender offer is allowed.)	The 2/3 rule (Partial tender offer is not allowed.)
Market trade (off-floor transaction)				
Market trade (on-floor transaction)		^a	In principle, not subject to rules	

Enlarging the scope of the tender offer rule

- ^a To ensure transparency and fairness of securities transactions, transactions through **market trade (on-floor transaction) should be made subject to the application of the one-third rule**
- ^b The threshold to determine whether the transactions have a material impact on corporate control should be lowered from “**1/3**” to “**30% of the voting rights**” in light of the actual ratios of voting rights exercised and the levels in foreign countries

Clarifying “Joint Holders” in relation to the Large Shareholding Reporting Rule

- ❑ To promote constructive dialogue from a mid- to long-term perspective, the scope of “joint holders” is to be clarified

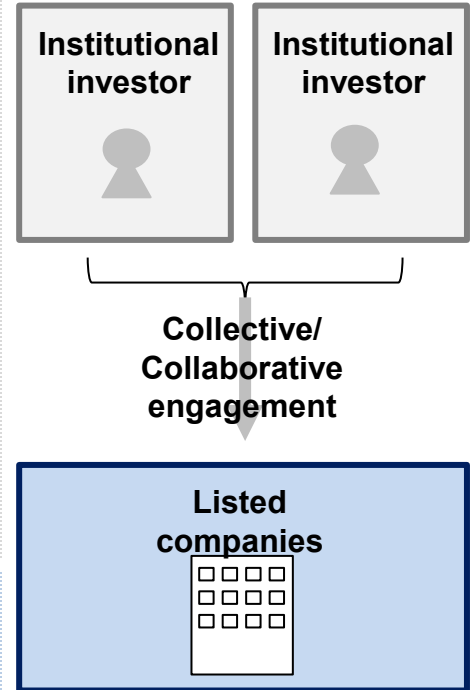
Issues and policy measures

Issues

- As investors are expected to engage in dialogue with companies based on their in-depth understanding of individual companies, it is important to compensate for the lack of investors’ qualitative and quantitative resources and increase the effectiveness of dialogue by means of collective or collaborative engagement.*
 - * Refers to the effort to engage in dialogue with individual companies in collaboration with other institutional investors about specific topics
- However, it is pointed out that joint holders as defined under the large shareholding reporting rule may have room for legal ambiguity and hinder collective or collaborative engagement.
 - ※ If two or more investors (Investor A ■%, Investor B □%) fall under the category of “joint holders” (i.e. persons who have agreed to jointly exercise voting rights and other rights as shareholders) and the combined ownership ratio (■%+□%) exceeds 5%, they will be required to submit a large shareholding report.

Policies

- In light of promoting constructive dialogue from a mid- to long-term perspective, the scope of “joint holders” is to be clarified at the level of acts.



Clarifying “joint holders” in relation to the Large Shareholding Reporting Rule

- **Unless two or more investors reach an agreement which would have a material impact on a company’s management,* they should not be required to aggregate their ownership ratio as “joint holders”**

* Assuming a case where two or more investors jointly make a proposal that is not directly related to corporate control, such as a change in dividend policies or capital policies

(Ref.) On the other hand, in order to appropriately respond to cases that may threaten the fairness of the capital market, such as cases in which two or more investors stealthily failed to submit reports, a cabinet order is to be revised to deem a joint holder when there are certain external facts, such as an officer concurrent position relationship and a funding relationship.

Law revision

Overview of draft revisions to Cabinet Orders and Cabinet Office Orders concerning the tender offers and large shareholding reporting rules

- In accordance with the amendment of the Financial Instruments and Exchange Act in 2024, the regulations are expected to be revised as follows, from the perspective of ensuring market transparency and fairness and prompting dialogue between investors and companies towards increased corporate value.

Draft revisions to the tender offer rules

- **Revising the scope of the tender offers subject to the rule**
 - Defines the scope of specific small-size offers.
- **Exempting from the 5% rule specific transactions with a reasonable price by financial institutions.**
- **Revising the scope of special relationships**
 - Specific people stipulated in the regulations on the scope of concert parties based on special relationships, including a purchaser's family members, directors of a company with which a purchaser has a capital relationship, and directors of a company that has a capital relationship.
 - Enables a purchaser to lower tender offer prices during the tender offer period, including when the target company paid out dividends.
 - Introduces a regulation enabling certain regulations to be waived with the approval of the authorities on a case-by-case basis.
- **Clarifying the information required to be included in a tender offer statement**
 - Clarifies the specific items required to be disclosed, including the past negotiation process with the targeted company and measures to ensure fairness.
 - Adds a disclosure item in cases of partial tender offers (e.g., the way of avoiding conflicts of interest with minority shareholders)
 - Adds a new column for the submission status of large shareholding reports.
 - Clarifies the remarks of planned advance notices for tender offers

Draft revisions to the large shareholding reporting rules

- **Clarifying the scope of “joint holders”**
 - Financial instruments businesses operators, with the purpose not being to jointly conduct an act of material proposal, when agreeing only on individual exercise of voting rights, are not “joint holders.”
- **Clarifying the scope of “the act of material proposal”**
 - Matters that have a relatively small impact on business activities to the issuer, (e.g., material changes to the board composition, to the dividend policy, or to the company's capital policy) do not fall under the category of the act of material proposal, unless they are proposed in a manner that does not allow the management to make autonomous decisions
 - Whitelisting several themes (e.g., sale of cross-shareholdings, changes to the policy on nominating the representative director, and increase in the number of independent outside directors).
- **Introducing the objective criteria relating to “joint holders”**
 - Where there are specific types of relationships, such as representatives and funding, the people shall be deemed to be a “joint holder.”
- **Clarifying the information required to be included in the large shareholding report**
 - Requires disclosing in large shareholding reports planned material proposals and additional purchase.
- **Legislating rules on cash-settled equity derivatives that are subject to the large shareholding reporting rule**
 - A holder of a long position of cash-settled equity derivatives, with specific purposes, is deemed to be a “holder” subject to the large shareholder reporting rule.

Overview of the regulation of the administrative monetary penalty for the Large Shareholding Reporting Rule

- ❑ With the revision for the Financial Instruments and Exchange Act in 2008 introduced the administrative monetary penalty for the non-submission and false statement of the large shareholding reports from the viewpoint of deterring violations of the large shareholding reporting rule.

[Overview of the regulation of the administrative monetary penalty for the Large Shareholding Reporting Rule]

1. If investors violate the obligation to submit a large shareholding report or change report, they are imposed with an administrative monetary penalty of one-hundred-thousandth of the issuer's market capitalization. (Article 172-7)
2. If investors submit a large shareholding report or change report that contains a false statement about a material particular or that lacks a statement of a material particular that is required to be stated, they must pay the administrative monetary penalty equivalent to one hundred thousandths of issuer's market capitalization. (Article 172-8)

The amount of the administrative monetary penalty was defined as one hundred thousandth of issuer's market capitalization with following background;

The criteria for the administrative monetary penalty were determined in line with the economic profit violators' gain from illegal activities,

- (i) When a large shareholding report is submitted, it is expected that other entities will make a deal following the transaction related to a large shareholding report, and the stock price will fluctuate, and the subsequent transaction costs will rise. Therefore, as a result of analyzing past cases, the impact on the market price due to the submission of a large shareholding report was estimated to be approximately 0.1% on average.
- (ii) When the percentage of shareholdings of investors increases/decreases by 1% or greater, investors must submit a change report. If investors do not submit a large shareholding report until they submit change reports, they are able to make transactions without the other entities' transactions.

Following the considerations above, the amount of the administrative monetary penalty shall be calculated by multiplying the market capitalization by $1 / 100,000$, which is calculated by multiplying 0.1% (impact on stock prices) by 1% (on the submission of a large shareholding report).

*1 The criminal penalty provisions were also applied to whom non-submission and false statement of large shareholding reports. (Article 197, paragraph 2, item (vi))

*2 Yuichi IKEDA, commentary on the revision for Financial Instruments and Exchange Act, etc. in 2008 (SHOJIHOMU in 2008)

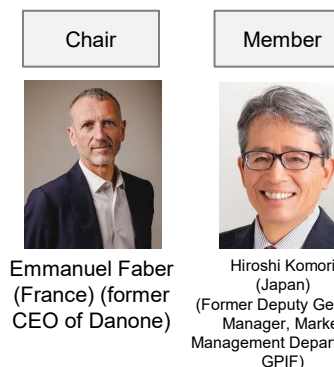
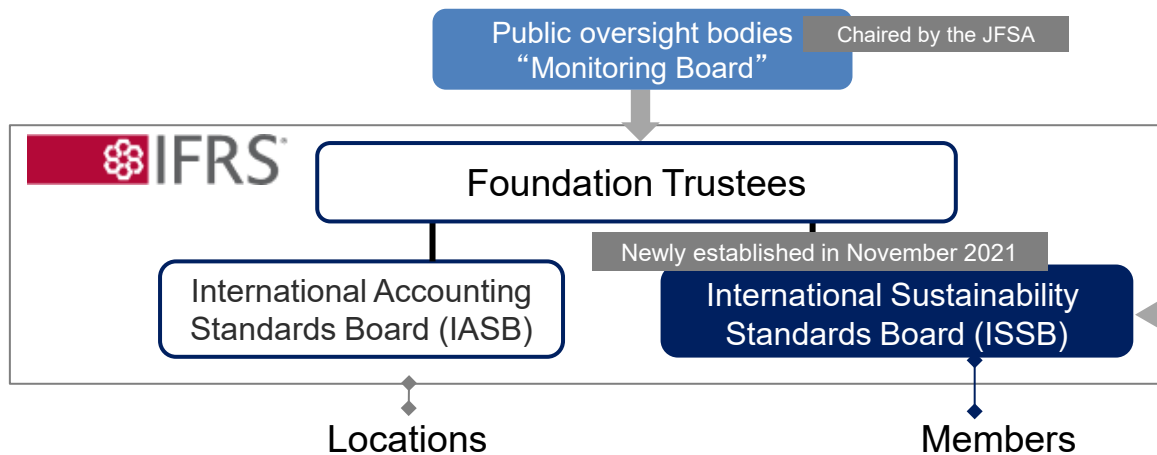
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Global and domestic sustainability disclosure standards

- On 26 June 2023, the International Sustainability Standards Board (ISSB), established by the International Accounting Standards Foundation (IFRS Foundation), finalised General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and Climate-related Disclosures (IFRS S2).
- On 5 March, 2025, the Sustainability Standards Board of Japan (SSBJ) finalised detailed sustainability disclosure standards applicable in Japan (SSBJ standards), which incorporate all the requirements of the ISSB standards and designed to deliver functionally aligned outcomes to those resulting from the application of the ISSB standards.

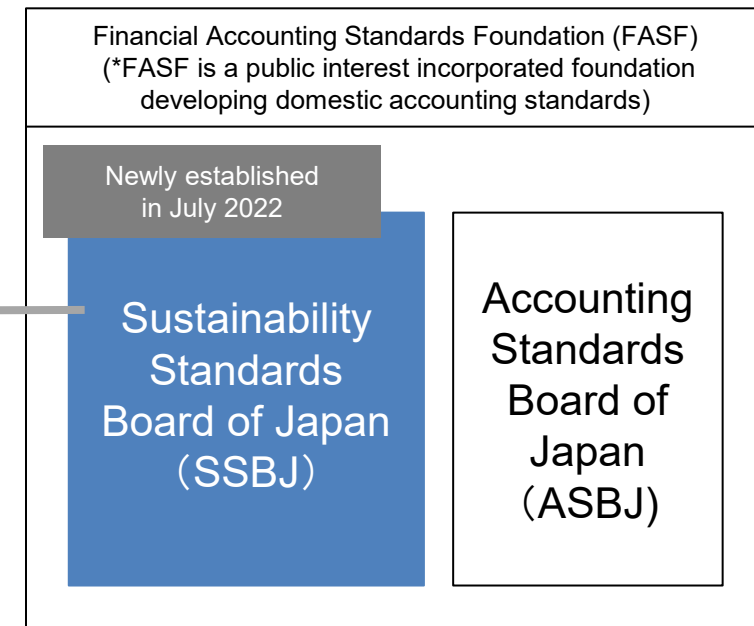
Overview of the International Sustainability Standards Board (ISSB)



* In addition to one Chair and two Vice Chairs, eleven Members including one Japanese (Mr. Komori Hiroshi) have been appointed.

Source: Photographs of Mr. Emmanuel Faber and Mr. Hiroshi Komori are posted on the IFRS Foundation website.

Standard development in Japan and dissemination of opinions



Note: comments on SSBJ Standards from ISSB (Vice Chairman: Sue Lloyd)

"The ISSB commends the SSBJ for pursuing its policy to design SSBJ Standards to be aligned with ISSB Standards and on the extent of alignment achieved. **The release of SSBJ Standards designed to provide outcomes functionally aligned with ISSB Standards represents a significant milestone in promoting global comparability of sustainability-related disclosures for capital markets.**"

(Source) 31 March, 2025 SSBJ News Release: "SSBJ and ISSB Confirm Consistency Between SSBJ Standards and ISSB Standards"

Overview of SSBJ Standards

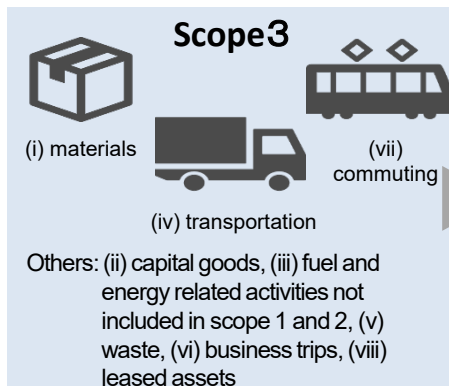
“Application of the Sustainability Disclosure Standards” and “General Disclosures” (equivalent to IFRS S1)

- Establish general disclosure requirements to disclose all material sustainability-related risks and opportunities
*E.g., Concept of materiality in determining information for a company to disclose, the reporting period, timing, and frequency
- Require disclosure of four components, i.e., governance, strategy, risk management, and metrics and targets.

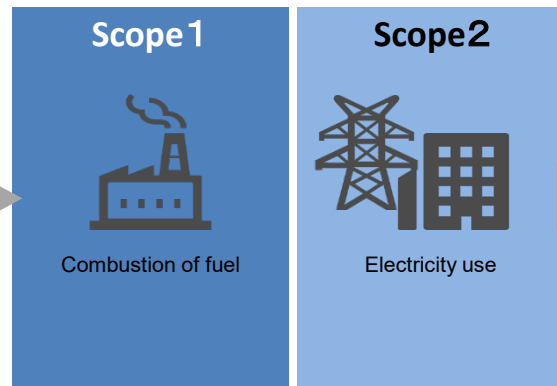
“Climate-related Disclosures” (equivalent to IFRS S2)

- Establish detailed disclosure requirements for a company's climate-related risks and opportunities, based on four components: governance, strategy, risk management, and metrics and targets
- For example:
 - "Strategy" should describe the resilience of a company to adapt to uncertainties arising from climate-related transition planning, business model changes and risks in light of climate change.
 - "Metrics and targets" should include disclosure of Scope 1-3 of greenhouse gas (GHG) emissions (disclosure of Scope 3 can be omitted for the first year of application), and disclosure of industry-specific indicators (referring to the indicators in the industry-specific guidance and considering its applicability).

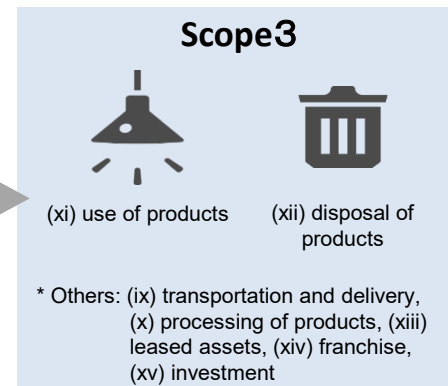
Upstream



Disclosing company



Downstream



In order to disclose Scope 3 GHG emissions, it is necessary to **aggregate and disclose data from outside the company (upstream and downstream).**

Proposed roadmap on sustainability disclosure and assurance regulations

- ❑ The Prime Market is a market for companies that engage in constructive dialogue mainly with global investors. **Sustainability disclosure standards for companies listed on the Prime Market** will be introduced as a way to provide information necessary for assessing medium - to long-term corporate value and promote constructive dialogue with investors while ensuring global comparability.
- ❑ The basic plan is to take **a phased-in approach** with preparation periods into consideration, making the disclosure mandatory for Prime-listed companies with market capitalisation of more than 3 trillion yen by first. The plan is to be adjusted flexibly in accordance with global and domestic trends.
- ❑ Taking into account the efficiency of disclosure for companies, it is appropriate to develop **sustainability disclosure standards that are functionally aligned with the ISSB standards**, which serve as a global baseline.
- ❑ Assurance is required from the year following the first year of application. Limited assurance will be required. **The scope of assurance is Scope1 and 2, governance and risk management for two years after the mandatory application of assurance.**

March 2025	FY 3/2026	FY 3/2027	FY 3/2028	FY 3/2029	FY 3/2030	•	FY 3/203X
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SSBJ
Standards
To be finalized

Introduction of
disclosure
standards

Introduction of
assurance system

TSE Prime Market

Market cap
3 trillion yen or more
(68 companies, 54.1%)
(Note 1)

Market cap
1 trillion yen or more
(171 companies, 72.5%)

Market cap
500 billion yen or more
(284 companies, 80.8%)

**All companies
listed on the
Prime Market**

• **Voluntary disclosure**
• **Promote voluntary disclosure** through good practices and principles

Mandatory disclosure
(Two step disclosure is acceptable)

Simultaneous disclosure

Mandatory assurance

(Scope1 & 2, governance and risk management for two years)

(Continue to consider scope of assurance beyond 3rd year)

Mandatory disclosure
(Two step disclosure is acceptable)

Simultaneous disclosure

Mandatory disclosure
(Two step disclosure is acceptable)

Simultaneous disclosure

**All Companies
Mandatory application
to all companies listed
on the Prime Market**

(Note 1) Number of applicable companies and coverage based on market capitalization (prepared from information as of March 29, 2024 from Bloomberg and JPX official statistics)..In determining whether a listed company is subject to the disclosure standards, it may be advisable to use the average market capitalization as of the end of the five business years immediately prior to the period in which the standards become applicable.

Responsibility for false statements in sustainability information

- ❑ A safe harbor regarding responsibility for false statements in sustainability information needs to be reasonable in light of the characteristics of the information, and it also needs to be appropriate in terms of **enhancing disclosure and clarifying the scope of responsibility in annual securities reports**.

Finance-related sustainability disclosures

- These are to **provide information about sustainability-related risks and opportunities of the reporting company that could reasonably be expected to affect the company's prospects. This information is to be equipped with materiality that could affect the investors' investment.**
- Sustainability-related financial disclosures are to be **supplemental to the information included in the relevant financial statements**.

Characteristics of sustainability information (compared to financial information)

- Such sustainability information is similar to financial information in that there are standards for information disclosure and that information is (will be) subject to third party assurance
- On the other hand, it has the following characteristics and is considered to be **relatively highly uncertain**
 - The scope of disclosed information will vary for the company, as the company is required to disclose sustainability-related risks and opportunities equipped with "materiality", which is reasonably expected to affect the company's prospects.
 - Financial information mainly consists of quantitative and historical data, but sustainability information includes a lot of qualitative information and future information such as estimates. In addition, it is required to disclose information obtained from a third party that is not subject to control, such as Scope 3 GHG information.

Challenges

- In order not to be held responsible for false statements, a company might not disclose information in its annual securities report. In this case, the purpose of annual securities reports, which is to provide useful investment related information, is undermined.
⇒ It is necessary to **enhance disclosure in annual securities reports and to clarify the scope of responsibility**.

Possible issues

The contents of safe harbor, its application requirements, its scope of application (specific information, such as future information, sustainability information, or non-financial information), and its effects (civil / criminal / administrative)

Global investors' comments on human capital disclosure

- ❑ In a commissioned research report published by JFSA in March 2025, many global investors commented that human capital is an important element in achieving business strategy and creating corporate value, and that it would be useful to disclose information about the connection between business strategy and human capital management strategy.



Overview of Commissioned research report on human capital

[Importance of human capital disclosure]

The interviewed investors and investor groups largely agreed that human capital significantly impacts corporate productivity and innovation, serving as a critical factor in achieving business strategies and creating value. They also shared the view that human capital has substantial implications for future cash flows.

[Utilization of human capital disclosure]

Investors evaluate human capital disclosure from both business opportunity and risk perspectives, integrating quantitative and qualitative metrics into their investment decision models. These factors directly influence portfolio construction and investment decisions. It was also mentioned that limited or conservative disclosure could potentially work to a company's disadvantage.

[Disclosure topics and metrics of human capital useful to investors]

Information necessary to understand the overall picture of a company's human capital is expected to be disclosed, regardless of industry or business model. Meanwhile, disclosures that reflect the uniqueness of specific industries or business models are expected to include details such as the skills required for employees to achieve business strategy, concrete actions undertaken by the company to bridge skill gaps, and metrics showing the progress of these initiatives.

[Challenges and gaps in human capital disclosure]

Companies are expected to provide disclosures beyond a mere mechanical listing of metrics. Specifically, they are anticipated to disclose metrics aligned with their business strategies, clarify the context and meaning behind these metrics, compare metrics against targets, illustrate their relationship with corporate actions, and provide detailed disaggregation of such information.

[Views on human capital disclosure standards]

Investors have expressed concerns about the absence of human capital disclosure standards that meet their needs, highlighting that necessary information is currently not being disclosed. They have also requested strategy-linked disclosures (aligned with IFRS S1 and (Japanese) Guidance for human capital disclosure), alignment with SASB industry-specific standards, and improved connectivity with financial information.

Summary of interview

Comments gathered from global investors on human capital disclosure

(Reference) Corporate Governance Code (June 2021) Supplementary Principle 3-1 - (3) Companies should appropriately disclose their initiatives on sustainability when disclosing their management strategies. They should also provide information on investments in human capital and intellectual property in an understandable and specific manner, while being conscious of the consistency with their own management strategies and issues.

(Source) This commissioned research was conducted by Boston Consulting Group. This report is available in Japanese and English on the JFSA website.

Summary of the roundtable with female executives

- ❑ Action Program 2024 states, “In order to ensure diversity, it is important not only to achieve numerical targets, but also to have the necessary abilities and develop human resources within the company.”
- ❑ A roundtable discussion inviting female executives who play an active role as CxOs also pointed out the importance of not only being aware of diversity from the perspectives of gender and global human resources, but also ensuring a diversity of views based on these perspectives and discussing management issues from diverse perspectives.

Speakers

- Mutsumi Awaji, Director and Senior Managing Executive Officer (Representative Director), Group CSO and Group CDTO, The Chiba Bank
- Nanae Saisyouji, Director and Executive Officer, Senior CFO, Head of Corporate Management Division, KDDI
- Takayo Hasegawa, Representative Director, Chairperson of the Board of SWCC President and CEO

Main opinions

- It is important to give a chance to the person who is judged to be most suitable for each task, regardless of gender, based on a fair evaluation of his or her abilities. Unless a fair evaluation is made, regardless of gender, it can easily become a discussion on the establishment of "women's quotas" and will not be an essential support for active female participation.
- In some industries male and female employees have been appointed to different ranges of work at hiring for a long time, which is an obstacle to building a pipeline. Based on the recognition that, to appoint the most talented people, it is first necessary to expand the range of work that can be done, our company is working to provide both male and female employees with a place to learn and a level-playing field to make use of their abilities.
- There is a need for boards to include male directors with diverse backgrounds and work experiences. Many boards in the past may have not only had a uniform gender perspective but may have also lacked the perspective of including persons with diverse experiences.
- The increase in the number of female directors in our company has stimulated discussions at board meetings and has had the effect of breaking down the 'expected harmony' of meetings. This shows how homogeneous the male-only meetings were.
- The core of increased diversity is to incorporate diverse perspectives and opinions in order for a company to achieve growth, and people with diverse experiences should be included as board members regardless of gender.