(Provisional translation)

30th Meeting of the Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code

1. Date and Time: June 2, 2025 (Monday) 15:00-17:30

2. Venue: Common Special Conference Room No.1, 13th floor, Common Government Office No.7

[Kanda, Chair]

Well then, ladies and gentlemen, it is now time to begin, so let us get started. We will now commence the 30th Meeting of the Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code. Thank you all very much for taking time out of your busy schedules to join us today.

Today’s meeting is being held in a hybrid format, combining both in-person attendance and online participation.

In addition, today’s proceedings are being broadcast live on the web. As usual, the minutes will be prepared and subsequently published on the Financial Services Agency’s website, so we kindly ask for your understanding in this matter.

As for today’s meeting, I have been informed that members Mr. Kawakita and Mr. Toyama will be absent due to other commitments. I have also been informed that Mr. Matsumoto will be joining partway through due to a scheduling conflict. Members Mr. Katayama, Ms. Sisson, and Mr. Matsumoto will be participating online.

Now, to begin, we would like to introduce a new member who is joining the Follow-up Council for the first time today. I will ask the Secretariat to make the introduction.

[Nozaki, Director, Corporate Accounting and Disclosure Division, FSA]

My name is Nozaki from the Financial Services Agency, and I will be serving as part of the Secretariat. Thank you for having me. Today, I would like to introduce a new member who has joined the Follow-up Council as the successor to Ms. Kerrie Waring.

Please welcome Ms. Jen Sisson.

[Sisson, member]

Good morning. Thank you very much for the opportunity to be part of this meeting.

[Nozaki, Director, Corporate Accounting and Disclosure Division, FSA]

Thank you very much. As for the other continuing members and observers, we have distributed a member list to you, so please refer to that document.

There have also been some personnel changes within the Secretariat, but given time constraints, we will forgo individual introductions and ask that you refer to the seating chart instead.

[Kanda, Chair]

Thank you very much. Now then, let us move on to today's agenda.

We will begin with explanations from the Financial Services Agency and the Tokyo Stock Exchange, which serve as the Secretariat. After those presentations, we will have time for questions and discussion.

First, I would like to ask the Financial Services Agency to begin their explanation.

[Nozaki, Director, Corporate Accounting and Disclosure Division, FSA]

I would now like to explain from the FSA side, referring to Material 2.

To begin with, Section I, "Introduction." Since the establishment of the Stewardship Code in 2014 and the implementation of the Corporate Governance Code in 2015, we have seen a certain degree of progress in corporate governance reform under both Codes. In pursuit of further substantive reform, Action Programs were formulated in 2023 and 2024. In the second-to-last paragraph of this section, we note that, while continuing to promote substantive reforms, we hope to have a discussion today on the future policy priorities—including a possible revision of the Corporate Governance Code—to enhance engagement based on a relationship of cautious trust.

Now turning to Section II, "Following up on the Action Program and suggested future policy priorities." First is Item 1, "Driving value creation capacity." Please look at the indicated future policy priorities. The first point is that responses to the Tokyo Stock Exchange's request two years ago have been steadily progressing. However, we aim to continue supporting these efforts firmly. The second point proposes considering, among other measures, a revision of the Corporate Governance Code to achieve appropriate allocation of resources necessary for realizing sustainable growth.

Under point (i), we note that the destinations of resources include a variety of investments such as capital expenditures, R&D, development of regional bases, and growth investments including support for startups, as well as investment in human capital and intellectual property. These diverse investment opportunities are available, and investment in intangible assets was also incorporated into the previous revision of the Corporate Governance Code. Regarding investment in human capital, we have described the aim of enhancing disclosure—particularly with respect to employee salaries and compensation in securities reports.

Moving on to point (ii), please refer to Material 3. On page 15, we have included a survey by The Life Insurance Association of Japan. Looking at the lower-right portion of that page, we can see a discrepancy in perception: while companies view their cash holdings as appropriate, investors believe companies are holding excess cash. This has been pointed out as a recognition gap. Additionally, on page 16, the graph on the right shows that the cash and deposit ratio has continued to increase since 2008, and the gap with Western economies is becoming more pronounced. Returning to Material 2, under point (ii), and taking the above into account, we raise the question of whether companies are constantly reassessing the appropriateness of their current resource allocation. For example, are they accumulating cash and deposits beyond what is necessary? This concern has been highlighted here.

Next is Item 2, "Enhancing quality disclosure and promoting dialogue with investors." In this area, several efforts have already been made, including the revision of the Stewardship Code, fact-finding surveys on stewardship activities, preparatory work to enable disclosure of securities reports prior to general shareholder meetings, and the mandatory implementation of English-language disclosure.

Looking at the future policy priorities, in order to further promote substantive and constructive dialogue, we have proposed the following: sharing and enhancing examples of stewardship activities; establishing a forum for discussion among relevant stakeholders based on those examples; and following up on the current status of securities report disclosures prior to general shareholder meetings and considering further promotion of this practice through possible revision of the Corporate Governance Code. In conjunction with that, we propose to advance discussions on removing the requirement to provide hard-copy shareholder meeting materials, thereby facilitating companies' disclosure efforts. We also mention the need to streamline and revise the overall content of securities reports. These ideas are laid out as key points in this section.

Next is Item 3, "Improving board effectiveness." We recently published a collection of case studies with the cooperation of companies. I would like to take this opportunity to express our appreciation to the participating companies.

As for the content: Among listed companies that operate globally, there has been a notable trend toward separating the board's decision-making and supervisory functions from management execution functions. We have noted that, alongside the board's autonomous functioning to improve the quality of discussions, the role of the board secretariat in supporting these functions is also important.

Regarding independent outside directors, while formal systems are in place, we are aware of cases where directors who are continuously dispatched from companies with capital ties are reported as independent directors. There have been questions raised as to whether such individuals can truly be considered "free from conflicts of interest with general shareholders." We also understand there are calls to ensure and improve the quality of independent outside directors, with some suggesting that, in the future, companies in the Prime Market operating globally should appoint independent outside directors as a majority of the board. Taking these points into consideration, the proposed future policy priorities are as follows: In light of these various issues—particularly the need to strengthen the function of the board secretariat—we propose the establishment of a "Consortium for the Effective Implementation of Corporate Governance" (tentative name) to provide a forum for discussion. Building upon the collection of case studies presented today, this consortium would aim to further enhance practical efforts.

Next is item 4, "Addressing issues in the market environment." This section outlines three main points. First, regarding the disclosure of strategic shareholdings—particularly in relation to Supplementary Principle 1.4.1 of the Corporate Governance Code—there is a need to properly address the issue of undue pressure to refrain from selling such holdings. Second, with respect to the large shareholding reporting system, we aim to strengthen disclosure through measures such as raising the level of administrative monetary penalties and linking disclosure requirements with tender offer statements. Third, concerning issues such as parent-subsidiary listings, we have included a note on the promotion of various initiatives by the Tokyo Stock Exchange.

The final section concerns "Encouraging management to be aware of sustainability issues." As sustainability-conscious management continues to progress, the Financial System Council is currently discussing disclosure and assurance frameworks. In the collection of case studies, we have also highlighted themes such as ensuring diversity, including gender diversity, and corporate culture. Corporate culture was explicitly addressed in last year's revision of the UK Corporate Governance Code. Discussions are ongoing around how to enhance management and dialogue with these issues in mind.

Additionally, given the increasing uncertainty in the social environment surrounding companies, we have included commentary on the growing importance of risk management—such as responding to cybersecurity threats, among others. The recently revised OECD Principles also emphasize that sustainability and resilience should be considered together.

As for the future policy priorities: The second bullet point raises the issue of how responsibility should be defined for false or misleading statements in non-financial information, including sustainability disclosures—namely, the development of a safe harbor framework. The third bullet point notes the importance of contributing input to international discussions on human capital disclosure.

Moving on, I would now like to briefly introduce the remaining documents, beginning with Material 4. Since this is a fairly large document, I will limit myself to a brief summary.

On page one, in the "Introduction," we note that last year's Action Program 2024 emphasized the relationship between exercise of voting rights and engagement as one of connection—point and line. It stressed the importance of being mindful of that connection when engaging in dialogue, and of how best to engage meaningfully. Additionally, various concerns have been raised regarding proxy advisors. Taking all these perspectives into account, the Action Program recommended that an assessment be conducted on the level of compliance with the Stewardship Code.

The actual results of that assessment are summarized on page four. As you can see on the left side of the page, the findings outline current awareness and challenges for asset owners, asset managers, and proxy advisors. Particularly in the section on engagement, we have included commentary—based on input from both companies and investors—on what constitutes meaningful dialogue, as well as what constitutes unproductive dialogue. For more detail, please refer to the individual case examples.

Next is Material 5. This is the case study collection on strengthening the functions of the board. On the first page, we note that in last year's Action Program 2024, there were calls for a case study collection that focuses specifically on board secretariats. Today's document has been prepared in response to those comments.

We have provided two thick volumes of case studies and examples. Still, many of the initiatives contained within have been condensed into just one or two pages each, which naturally does not fully capture their scope. We hope these materials will be thoroughly utilized and lead to more effective practices. To support this, as mentioned earlier, we propose using the newly established Consortium for the Effective Implementation of Corporate Governance (tentative name) as a forum for deeper and more substantive discussion going forward.

Lastly, I would like to introduce the one-page summary of discussion points.

First, concerning the discussion topics in Material 2, we have grouped them under the broad heading of "Corporate governance reform." We would like you to consider whether the proposed topics of Material 2 accurately capture the current state and challenges of corporate governance reform, and to discuss which issues should be prioritized to further advance reform.

Second and third, regarding the two sets of case studies: For the case studies in Material 4, we hope for a discussion on what initiatives should be pursued to further promote substantive governance practices, including how to collect and share challenges and examples. Regarding the board of directors case study collection, we intend to enhance it further through various opportunities in the future, but would very much appreciate your comments at this point in time.

Lastly, under “Other,” which we consider to be the most important area of discussion, we would like to ask whether there are any additional issues that should be addressed to further promote corporate governance reform aimed at the sustainable growth of companies and the enhancement of corporate value over the medium to long term.

That concludes the explanation from the Secretariat.

[Kanda, Chair]

Thank you very much. We will now continue with an explanation from the Tokyo Stock Exchange. Please go ahead.

[Watanabe, Director, Listing Department, TSE]

This is Watanabe, Director of the Listing Department, and I would now like to present our recent initiatives at the Tokyo Stock Exchange, referring to Material 7 titled “TSE’s Recent Initiatives.”

On page two, under “Introduction,” we’ve provided the context and background that served as the starting point for these recent initiatives.

Moving to page three, under the overarching goal of contributing to the revitalization of Japan’s economy by supporting the medium- to long-term enhancement of corporate value among listed companies, we have been working in cooperation with the Financial Services Agency to implement and revise the Corporate Governance Code, as well as to undertake Market Restructuring.

Turning to page four, even after the market segment restructuring, we have continued to consider what can be done to achieve this goal. Two years ago, in March 2023, we issued a “Requests for Management Conscious of Cost of Capital and Stock Prices.”

On page five, we have outlined five major issues that we are currently addressing. Today, I would like to focus on introducing the three initiatives shown on the left side of this slide.

The first of these, beginning on page six, is the promotion of management that is conscious of cost of capital and stock price.

Page seven contains excerpts from the March 2023 request I just mentioned. Since this is a repeat of previously shared content, I will omit the explanation for brevity.

Likewise, page eight shows the specific content of that request issued two years ago, but due to time constraints, I will skip that as well.

Now on page nine, two years have passed since that request, and we are seeing significant progress in disclosure by listed companies about their initiatives in this area. Please take a look at the bar graph in the upper left corner. As shown, disclosures are particularly advancing among companies listed on the Prime Market.

At the same time, in discussions with investors, we have received the view that companies' approaches can be broadly categorized into three groups. In response, we announced in August of last year a policy outlining how we would promote engagement with each of these groups.

Specifically, for the first group—companies that are autonomously making progress—we will continue to support their efforts.

The second group comprises companies that have made disclosures, but from the perspective of investors, there appears to be a gap between the information disclosed and investor expectations. For these companies, we are working to support smoother communication by compiling and introducing key points through a collection of case studies, including both examples that investors view positively and those that highlight this perception gap.

The third group includes companies that have not yet disclosed their own approach. For these companies, we are continuing to arrange opportunities to explain our initiatives through various channels and levels of engagement. We are also encouraging them to develop investor relations (IR) systems that match their corporate scale and shareholder structure.

Slides 10 through 14 provide the details of the measures we are taking for each of these three corporate groups. Given the time, I will skip those explanations.

Please proceed to page 15, which is provided for reference. From the perspective of supporting smooth communication with investors—particularly overseas investors—we began requiring English-language disclosure from companies listed on the Prime Market starting in April of this year. The content of that requirement is provided here as a reference.

Page 16 outlines a survey we conducted in April this year among listed companies. The purpose was to better understand the challenges they face in advancing the TSE's initiatives. The results are shown on this page.

Taking into account the results of this survey, along with feedback from investors, we move to page 17. As we do not intend to slow the pace of reform, we aim to further support companies in resolving their challenges. This includes providing more practical tools and enhancing communication between companies and institutional investors.

This concludes the section on cost of capital.

Next, beginning on page 18, is our second initiative—efforts related to parent-subsidiary listings. Page 19 provides the background. The two bar graphs shown illustrate key trends. In the graph on the left, we can see that the number of listed subsidiaries and their proportion among all listed companies have been gradually declining in recent years.

On the other hand, the graph on the right shows a slight upward trend in the number and proportion of listed companies that, while not necessarily subsidiaries, have large corporate shareholders holding 20% or more of voting rights.

Taking this situation into account, please turn to page 20. In December 2023, for listed companies that are in a parent-subsidiary relationship or an equity-method affiliation—meaning those holding or being held at a 20% or greater equity stake—we published a summary of key points to be included in disclosures on group governance and the protection of minority shareholders, which are required to be disclosed in the Corporate Governance Report. In February of this year, we also launched an initiative to introduce examples from an investor's perspective—highlighting both their expectations and points where they are likely to perceive gaps between their expectations and the initiatives undertaken by listed companies.

On page 21, we provide, for reference, some specific examples of such perception gaps and the kinds of cases we are highlighting.

Moving on to page 22, we intend to continue actively following up on the disclosure status of companies, and based on that, compile additional case studies. As stated toward the bottom of the page, we are also considering supplemental measures, including enhancements to the listing system.

The third and final area of focus is our response to the recent increase in going-private transactions. Please turn to page 24, which provides the background. As shown at the top, recently, with many listed companies reviewing their business portfolios, there has been a rise in MBOs (management buyouts) and full acquisitions by controlling shareholders or parent companies. In such transactions, since the formulation of the Fair M&A Guidelines, the use of special committees and related practices has become more common. However, from the investor side, we still hear dissatisfaction regarding the effectiveness of such committees or the valuation of share prices. At the bottom of the page, we note that going forward, the number of MBOs and going-private transactions is expected to increase further.

Therefore, in order to ensure fair treatment of general shareholders, we are considering revising the listing rules to reinforce the framework laid out in the Fair M&A Guidelines. The specific content of this proposed revision is on page 25. Please look at the illustrative diagram in the middle of the page. Under the current framework, in the case of a full acquisition by a controlling shareholder or parent company, companies are required to (1) obtain an opinion that the transaction is not disadvantageous to minority shareholders, and (2) disclose in a timely and sufficient manner an overview of the share valuation. The first proposed revision is to expand the scope of these standards to also apply in MBO scenarios and in full acquisitions by affiliated companies—i.e. companies holding 20% or more equity—even if they are not technically parent companies.

Further down the page, we are also considering revising the substance of the standards. For example, we may require a more affirmative opinion that the transaction is fair to general shareholders, and expand disclosure requirements regarding key assumptions underlying the valuation of shares.

That concludes my explanation.

[Kanda, Chair]

Thank you very much. Before we move on to discussion, I would like to note that we have received written opinions from two members, Mr. Kawakita and Mr. Toyama, who are absent today. I will now ask the Secretariat to provide a brief summary.

[Nozaki, Director, Corporate Accounting and Disclosure Division, FSA]

First, I would like to introduce the written opinion submitted by member Kawakita.

In point one, Mr. Kawakita notes that since the introduction of the Codes in 2014 and 2015, sufficient time has passed and the content of the Codes has been substantially enriched. He suggests that further additions are generally unnecessary. If something must be added, then something outdated should be removed or set aside in parallel. Ideally, even if something is not specified in the Code, companies should respond voluntarily and proactively if they believe it is necessary.

While corporate responses to the Code may appear smooth on the surface, the extent to which these can be objectively evaluated varies. For companies where proper evaluation is not possible, activists are now exploiting these gaps. In many of the companies targeted in this way, the quality of management may actually have improved afterward. Regardless of whether this perception is accurate, it strongly suggests the need for more substantive engagement by companies with the Code.

Investor behavior also varies. Asset owners are placing quantitatively excessive demands on asset management companies, resulting in broad but shallow engagement. This stands in contrast to activists who pursue deep and focused engagement. For example, it may be important to narrow the scope of passive investments and make more targeted investment decisions.

In this context, Mr. Kawakita commends JPX for launching an index that emphasizes human capital. He suggests that this kind of Code-based company selection can serve as a reference, and that it is becoming increasingly important for investors to differentiate among listed companies as a foundation for the dialogue the Code promotes.

Lastly, on a more specific point, he notes the inability to obtain the total amount of personnel expenses (including labor costs) from current disclosures. Without this figure, investors cannot assess the scale of a company's contribution to society, which creates a frustrating blind spot.

That concludes Mr. Kawakita's statement.

Next, I will summarize the written opinion submitted by member Toyama. As it is quite lengthy, I will highlight key points selectively.

Mr. Toyama begins by stating that the governance model pursued over the past 10 years under the Corporate Governance Code has aimed to strengthen the separation of supervisory and executive functions. The model encourages bold and swift decision-making by delegating significant authority to the executive side, while assigning the board the primary responsibility of supervising management.

First, he emphasizes that if the board is to supervise the executive team, then the board must, in essence, be the "boss" of the CEO. This should be clearly articulated in the Corporate Governance Code. The core of supervisory authority lies in personnel decisions regarding top management and directors. Without this authority, supervision is mere play-acting. He continues by pointing out that many recent governance scandals and activist interventions stem from vague or weak nomination processes. Thus, the role, authority, responsibility, and accountability of the nomination committee should be clearly defined in the Code to be on par with the legally required nomination committees in companies with committees.

He then continues that in a governance framework based on the separation of supervision and execution, the board's role is not to involve itself in the details of the executive process. As noted in items (i) and (ii) of the opinion paper, the appropriate governance model is outcome-based supervision, where the board exercises its oversight by leveraging its authority over personnel. The Code, he argues, should explicitly state that such authority must be exercised appropriately based on accountability for results. If a person believes they cannot fulfill this duty, they should not serve as a director. And if they feel their knowledge is insufficient, they should undertake appropriate study and training. Moreover, he suggests that proposals for director appointments should be required to disclose the minimum necessary qualifications, knowledge, and training history expected of candidates.

Related to the hollowing out of supervisory authority, he identifies two additional areas of concern in current practice: board evaluations, and the role of the board secretariat. On the latter point, he emphasizes that the secretariat should not serve the executive leadership but rather serve the board and the stakeholders it represents. This, too, he believes should be clearly stated in the Corporate Governance Code.

He then turns to what he describes as two "hollowing out" risks associated with the Audit and Supervisory Committee system. He notes that in many cases, the audit committee merely represents a rebranding of the former statutory auditors or audit and supervisory boards. As a result, there is a risk that both the board and the audit function are being hollowed out. Audit committee members, he stresses, are fundamentally directors and should fulfill their duties as such—as members of the company's highest decision-making body. This principle should also be clarified in the Code.

On the topic of strengthening the three-lines-of-defense model, he proposes that the third line on the executive side—akin to the globally recognized Chief Audit Executive (CAE)—should hold a position of authority comparable to that of the CEO. This role should be placed within a dual-reporting structure: one line to the CEO and another to the audit committee. He suggests that this also be written into the Code.

Finally, with regard to sustainability disclosure, he observes that the true aim of non-financial disclosure is to communicate information or a narrative about the company's long-term value creation. However, he states, there is a general lack of understanding that such disclosures should form a causal and cyclical relationship with future financial results. He argues that companies should present an equity story—particularly one focused on human capital. Due to this lack of understanding, many current disclosures consist merely of lists of numbers or generic, superficial language. To address this, he recommends that the Corporate Governance Code explicitly promote the importance of conveying a causal narrative—especially one related to human capital—as part of broader efforts to raise awareness.

That concludes the summaries of the written opinions.

[Kanda, Chair]

Thank you very much. We will now move into the discussion segment of today's meeting. As mentioned earlier by the Secretariat, Material 6 outlines the issues we would like to have you discuss. While we would appreciate it if the discussion could center on those topics, you are, of course, welcome to raise any related or even unrelated matters that you deem relevant.

As always, we are somewhat constrained for time. In order to ensure that everyone has the opportunity to speak, I would kindly ask that each speaker aim to keep their remarks to around five minutes. To assist with this, the Secretariat will provide a reminder note once a speaker reaches the five-minute mark.

For those participating in person, please indicate your wish to speak by raising your nameplate. A microphone will be brought to you by the Secretariat. For those participating online, please enter your name in the chat window addressed to all participants if you would like to speak. I will then call on you in order.

With that, although it's been about a year since our last meeting, we would be happy to begin the discussion with any member who wishes to speak, on any point whatsoever. Who would like to start?

Let's begin with Mr. Tsukuda.

[Tsukuda, member]

Thank you very much. I would like to offer several comments focusing on the topic of improving board effectiveness, as outlined in Material 6.

First, regarding the roles and responsibilities of the board: It has now been 10 years since the Corporate Governance Code was first implemented. Over the past decade, governance reform has brought about significant changes to boards of directors. At this 10-year mark, I believe it is important to reaffirm the core roles and responsibilities of the board. The “Introduction to Outside Directors” guide issued jointly by the Financial Services Agency, the Ministry of Economy, Trade and Industry, and the Tokyo Stock Exchange states clearly under “Principle 1” that “the most important role of independent outside directors is to supervise management,” and that “the core of this role lies in evaluating, nominating, and determining compensation for executives.” Nonetheless, we still occasionally hear CEOs and other executives say things like, “We don’t want outside directors who don’t understand our business meddling in decisions.” I believe it is critical that everyone involved re-recognize that the board exists to supervise management.

Second, regarding the quality and development of independent outside directors: The materials point out issues including the need to strengthen board secretariats, which I fully agree is important. However, if we look at Japan’s leading globally active companies—specifically, the top 100 companies on the Prime Market by market capitalization—we already see more than 40 companies in which a majority of board members are independent outside directors. The effectiveness of the board depends heavily on the quality of these independent outside directors, who now form the majority. Therefore, in parallel with strengthening board secretariats, we must also assess whether the quality of these now-central board members is being maintained and improved.

Unfortunately, I continue to hear disappointing anecdotes from executives and board secretariats about the low quality of certain independent outside directors. Supervision cannot function if those who supervise are not respected by those they are meant to supervise. Given the changing environment surrounding boards—including activist engagement and unsolicited takeover offers—knowledge of business management and financial literacy are now essential qualities for outside directors. We must demand higher standards of independence, mindset, and skills. The introduction of a certification system for independent outside directors, as well as mandatory training in management and financial literacy, should be considered urgent matters.

Third, on engagement between institutional investors and companies: According to presentation materials from GPIF at the Expert Council on the Stewardship Code, dialogue between institutional investors and independent outside directors accounts for less than 2% of engagement. I have also heard from institutional investors that even when they request meetings with outside directors, companies often decline. It is unacceptable that independent outside directors—appointed by shareholders to supervise management—rarely engage with institutional investors, and worse, that companies sometimes block such engagement upon request. I understand that some companies may hesitate to put certain outside directors in front of investors, but if that's the case, those directors arguably should not have been appointed in the first place. It's time to discuss this issue head-on.

Fourth and finally, Material 2 mentions the issue of cash hoarding. It is certainly true that cash and deposit balances have been increasing over an extended period. However, this raises memories of how, prior to the Lehman Shock, Japanese companies were criticized for hoarding cash—yet ultimately sustained less damage than heavily leveraged Western companies. The Tokyo Stock Exchange's recent request—that companies not rely on temporary responses such as buybacks or dividend hikes, but rather take fundamental action to achieve sustainable growth and returns exceeding their cost of capital—is a crucial message. I hope the authorities will also be careful not to inadvertently promote short-term responses. We must remain grounded in the purpose of the Corporate Governance Code, which is to support sustainable growth and medium- to long-term corporate value creation. It is vital to maintain a long-term perspective and guard against the risks of short-termism.

That is all. Thank you very much.

[Kanda, Chair]

Thank you very much. We've received a request to speak from Ms. Sisson, who is participating online. Please go ahead.

[Sisson, member]

I would like to begin by expressing my gratitude to the Japanese Financial Services Agency and the Tokyo Stock Exchange for graciously hosting this session and providing an excellent platform for dialogue. It is an honor to represent the International Corporate Governance Network (ICGN) and our global membership, we greatly value the opportunity to share perspectives and contribute to the discussions.

Japan has made significant strides in advancing governance reform, and we strongly support the ongoing efforts to sustain and build upon this remarkable journey of progress. We welcome the proposals noted as future policy priorities. I would like to comment on the following areas in more detail, at this early stage, hoping that ICGN can provide some insight into the key matters for institutional investors around the world.

First, engagement practices. We strongly support the central goal to foster “a relationship of trust” between companies and investors through high-quality disclosure and engagement. This is critical to the success of the reform agenda. It is crucial that we remember that the investors are the owners of the company and are focused on the companies best interests in creating long-term sustainable value. We also believe that it is a good idea to revisit and revise the Corporate Governance Code. In order to support high quality governance, we agree that it is important to remove redundancies and duplication and to reaffirm the principles-based and “comply or explain” approach of the Code, to reduce box-ticking behavior.

However, we would also caution that we should not oversimplify the Code, and that it is important for the Code to continue to be a clear set of expectations of good governance practices, even if some of those practices have been widely adopted. We would also encourage continued progress on increasing independence levels, and certainly agree that, at a minimum, it is important to encourage Prime Market companies to adopt a majority of independent outside directors. We also welcome efforts to formalize and encourage the role of a company secretary in Japan, in line with global best practices.

Third, resource allocation and capital efficiency are consistently noted as key areas of focus for investors, so we welcome the continued focus on this important issue. It is good to see the proposals to clarify the board’s accountability for resource allocation, including scrutiny of excess cash holdings.

We also agree that it is helpful to encourage management to focus on profitability exceeding cost of capital and to promote value accretive strategic investments in R&D, human capital, and intangible assets. As a core governance responsibility, oversight of the setting of this strategy, business model, capital allocation and execution of these plans should sit with the board.

Timely, accessible disclosure of material information for investors has been a long-standing urgent priority for ICGN and our investor members. We are very pleased to see the strong encouragement from the Minister of Finance that companies should publish their Yuho before their AGM, and we support efforts to further strengthen this encouragement in the next phase of the action plan.

To help with this, we think the proposals to streamline and combine reporting requirements will be helpful. Ensuring that material information is available to shareholders to allow them to exercise their ownership rights should be the guiding principle. We also think that priorities around enhancing digitalization and removing the need for hard copy documents will be helpful to reduce burdens on companies. Consistent with our message to jurisdictions around the world, we also strongly support the introduction of mandatory sustainability disclosures aligned with SSBJ/ISSB standards.

Finally, I would like to add that it is important that the governance reform agenda also protects the critical role of the Annual General Meeting. We are concerned about the proliferation of moves around the world to allow for virtual only AGMs, and we strongly suggest that this should not be pursued in Japan. We should not focus only on reducing burdens and streamlining, we must also ensure that shareholder’s ownership rights are protected and respected.

The AGM is a key mechanism for corporate accountability. Fully virtual AGMs significantly limit the ability of shareholders, especially minority shareholders, to interact with boards and management, ask unmoderated questions, and make statements from the floor. Investors have a strong preference for hybrid meetings, or in person meetings. Ensuring that this critical forum for engagement, exercise of voting rights and therefore appropriate accountability is protected must be core to the reform program, if we want to continue to promote trust and confidence in the market as an attractive place to invest.

I will close by saying that in my view, it is a very good idea to establish a “Consortium for the effective implementation of corporate governance” and a “Forum for companies and investors” to share best practices in engagement, as well as to promote disclosures that build trust and support long-term value creation. ICGN would be very happy to support these efforts and to contribute to the ongoing discussions.

Thank you again for the opportunity to address the Council today.

[Kanda, Chair]

Thank you very much. Now, Mr. Oguchi, please go ahead.

[Oguchi, member]

Thank you very much. First, I would like to express my appreciation to the secretariat for providing us with such a rich and thought-provoking set of materials.

As noted at the beginning of Material 2, it has been nearly 10 years since the Stewardship and Corporate Governance Codes were introduced and applied, and today marks the 30th meeting of this Follow-up Council—a significant milestone. Although I now participate in a different capacity, I've been involved since the very first meeting, and in preparation for today, I went back and reread its Opinion Statement No. 1. Even on the front page of that two-sided document, there was already an emphasis on substance over form, and 10 years later, I was reminded of the enduring relevance of that starting point.

From the outset, the key challenges have been strengthening governance structures in a meaningful way, contributing to a virtuous economic cycle, and fostering constructive dialogue between companies and investors. As was explained earlier—and as I believe all of you would agree—there has been significant progress. However, the fact that these challenges remain listed in today's Material 2 highlights once again how deep-rooted and difficult they are.

In that sense, I find the measures and future policy priorities presented in Material 2, aimed at addressing these still-unresolved issues, to be important and necessary. But it also prompts the question: Why do these issues persist after all this time? Referring to the second-to-last paragraph on the first page of Material 2, I believe one reason is that there has not yet been a sufficient degree of autonomous mindset reform. In other words, many of the initiatives have been pushed onto companies and investors, rather than being driven from within. Why, then, has autonomous mindset reform not taken hold? I suspect it is because the incentives for governance reform have not been sufficiently compelling for either companies or investors.

As noted in the explanation earlier, page 13 of Material 3 presents an example of dialogue evolving into constructive engagement. Specifically, it describes how investors who thoroughly research the investee company and its peers are able to engage in dialogue based on medium- to long-term proposals tailored to each company. Among the various investment styles employed by asset managers, this kind of engagement aligns closely with the goals of active investors who seek to generate long-term excess returns. Although such engagement is labor-intensive, it is consistent with their economic incentives and thus fits naturally.

On the other hand, as shown on page five of Material 3—currently on screen—the same section on stewardship activities of institutional investors notes that index-based strategies inherently have lower incentives for engagement. This is widely recognized as a global issue.

Institutional investors, after all, are not managing their own money. They bear a fiduciary duty to provide accountability to their clients and end beneficiaries, including with regard to fees.

While the term “free rider” often draws criticism, I would ask whether it is really irrational for index investors, who do not select individual stocks, to free ride. One could argue it is an entirely rational behavior.

I am not denying the value of index investing, nor do I think its growth—driven by economic rationality—can be stopped. However, if active investors who have economic incentives to select stocks with a long-term view engage constructively, they can help bring stock prices closer to their appropriate levels. Buying undervalued stocks and selling overvalued ones plays a vital role in anchoring prices and revitalizing the investment chain. I believe it’s worth devising mechanisms to support this function.

In addition, beyond the one-to-one interactions between individual companies and investors, I think it’s important to consider how market discipline can elevate the incentives for listed companies more broadly. As noted in Material 3, companies are receptive to constructive dialogue. But at the same time, I think the 2023 request from the Tokyo Stock Exchange served as a major trigger, and it’s clear that more listed companies are now working to enhance corporate value.

As mentioned earlier, however, the issue of cash holdings remains significant, as shown on page 16 of Material 3. There are many ways to interpret cash reserves, but if such funds are neither being reinvested for growth nor returned to shareholders, then the very accumulation of cash signals an issue. In that sense, the challenge has become clearer. In light of this, as mentioned by the Secretariat earlier, section II-1 of Material 2 outlines a direction for driving value creation capacity. It also suggests revising the Governance Code. Indeed, the idea of revising the Code has been raised multiple times today. This is certainly important, but considering the effectiveness of the Tokyo Stock Exchange's prior request, I believe that combining a Code revision—such as the clarification of accountability on cash hoarding noted in Material 2, page 3, item (ii)—with a similarly firm request from the Exchange could improve the effectiveness of the initiative.

Finally, today's central theme seems to be the possible revision of the Code. But I believe that no matter how the Code is revised, if there is no incentive to comply with it, it won't function. The "comply or explain" principle exists, but we've seen issues— in the Supplementary Principle related to policy shareholdings mentioned earlier in section 4-1—where companies have declared "comply" publicly, but their actual practices are inconsistent.

And that may not be the only case. Consider Principle 2.5 on whistleblowing: "The board of Directors should be responsible for establishing a whistleblowing system and overseeing its operation." Supplementary Principle 2.5.1 states that as part of that system, a point of contact independent of management—such as a committee composed of outside directors and auditors—should be established. Yet even here, we've seen unfortunate cases where companies have publicly declared compliance while the actual arrangements fall short. One could argue the Code is being disregarded in practice.

I am concerned that this points to a fundamental issue with the integrity of the Code. I thought the Secretariat's phrase on the first page of Material 2—"a relationship of cautious trust"—was an excellent expression. Such a relationship should exist not only between companies and investors, but also between those who manage the Code and those to whom it applies. Stronger measures may be needed to address what, in blunt terms, could be considered false declarations of compliance under "comply or explain."

That is all from me.

[Kanda, Chair]

Thank you very much. Next, let us hear from Mr. Sampei.

[Sampei, member]

Thank you for calling on me. First, I would like to express my gratitude to the Secretariat for gathering the voices of stakeholders, especially in Materials 4 and 5.

I would like to briefly touch on five points.

First, I support the idea presented on page one of Material 2 to slim down and simplify the Corporate Governance Code by making it more principles-based. A principles-based approach requires that, even in the absence of detailed rules, decisions should be made appropriately based on the spirit of the principles. I believe that the most important principle of the Corporate Governance Code is the clear articulation of the purpose of being listed. It is essential to distinguish this from the benefits of being listed. The purpose of being listed is to raise substantial risk capital, and in exchange for that, the company separates management from ownership and assumes responsibility for protecting the interests of a diverse group of shareholders. It is critical to understand that a company has the option to choose to list, considering these responsibilities and costs, but it also has the option to delist. While listing provides benefits such as enhanced visibility, improved customer acquisition, talent attraction, and increased social credibility, these are not the purpose of listing, but rather the benefits. This distinction must be clarified.

Second, concerning pages two to three of Material 2, I have no objection to the content, but since this is an essential area, I would like to comment. Investment should be understood in terms of three stages: input, output, and outcome. Allocation of management resources—an input—cannot fulfill its accountability without discussing the outcomes it aims to achieve. Companies must take responsibility for pursuing outcomes and for delivering results. I believe this needs to be made clearer. Many companies know what optimal or appropriate resource allocation looks like but cannot actually execute it. When this happens, shareholders and investors become frustrated and rationally demand the return of capital through business divestitures or share buybacks. This is the reality we are seeing today.

The root cause of companies' failure to execute proper allocation lies in their inability to build growth businesses. Even when companies talk about portfolio reorganization, they cannot exit or sell stale businesses because they lack a promising core growth business to lead them forward. From the perspective of shareholders and investors, some companies draw up growth strategies just for show, repeatedly postpone achievement timelines, and yet their management remains in place without delivering results. It would be highly problematic if companies with such misplaced priorities misunderstand the upcoming Code revision as simply a call to promote growth investment.

On the other hand, when management is genuinely conducting well-prepared risk-taking and striving to achieve business success, institutional investors must act as discerning partners and support such efforts if they are viable. If investors can only make decisions when the sell-side covers a stock, they will not be able to provide risk capital to unlisted companies, startups, or small- and mid-cap firms. In that case, Japan's goal of becoming a Leading Asset Management Center would be unattainable. Institutional investors need to develop the ability to assess what constitutes a strong and viable business model and how to evaluate its value.

Third, regarding the large shareholding reporting system: Raising penalties for violations is fine, but in cases of malicious misconduct, the forced sale of shares acquired in violation should also be considered.

Fourth, regarding Material 4: When the Stewardship Code was first introduced, engagement between companies and investors was a new concept and therefore was left somewhat loosely defined, allowing for diverse interpretations. However, to make engagement more effective, I believe we should now classify engagement by intended outcomes, consider how it relates to investment styles, and establish monitoring frameworks that include escalation processes. Clarifying these would also create incentives, as mentioned earlier by Mr. Oguchi.

For example, value-style managers are more compatible with engagement that demands change, focusing on balance sheet reforms such as business exits or asset sales as outcomes. Growth-style managers, on the other hand, tend to engage with a longer-term view, focusing on the sustainability and growth potential of business models. This aligns with pages 26 and 30 of Material 4. Based on these distinctions, I hope further efforts will be made to collect and share case studies.

Lastly, regarding Material 5: boards of directors and statutory committees are required to prepare and sign minutes, but the content and level of detail vary widely. Moreover, voluntary committees, which serve as advisory bodies to the board, are not legally required to prepare or sign minutes. I believe the revised Corporate Governance Code should establish a principle requiring the preparation of such minutes.

One additional point: Earlier, Ms. Sisson raised concerns about virtual-only shareholder meetings. I, too, have long been concerned about this issue. It seems that discussions around virtual-only meetings are advancing rather smoothly in Japan, but overseas institutional investors are strongly concerned about this trend. I hope that thorough hearings and careful consideration will be conducted on this point.

That is all from me.

[Kanda, Chair]

Thank you very much. Now, let’s hear from Ms. Takayama.

[Takayama, member]

I would like to offer two points regarding the strengthening of board functions: one on the board secretariat and the second on independent directors.

First, regarding the board secretariat. As the board’s supervisory function has grown in importance, the role of the board secretariat has become increasingly critical. At the same time, in speaking with individuals from various companies’ secretariats, it is clear that many face challenges standing between the management and supervisory sides of the organization. To address these issues, understanding how other companies are responding is extremely valuable. However, unlike independent directors, there is currently no cross-company network or platform in Japan for board secretariat professionals. In other countries, there are opportunities for secretariat staff to participate in training programs and exchange information or opinions, but in Japan, such networks are quite limited. From this perspective, I support the direction outlined in Material 2 regarding efforts to strengthen the board secretariat function.

Second, on independent directors. As of last year, over 20% of companies listed on the Prime Market had boards in which independent directors made up a majority. That percentage is likely even higher this year. Once independent directors form a majority, the nature of board decision-making shifts significantly beyond a mere extension of current practices. This will require advance preparation and structural adjustments. For example, how companies handle the selection and evaluation of independent directors—and the role of the nomination committee in those processes—will need to be carefully discussed. If the Governance Code is to be revised, I believe it is necessary to touch on these issues as well.

Regarding the case study collection, I found it to be extremely helpful, with many valuable examples that will be useful for both boards and board secretariats. Going forward, I believe it would be worthwhile to gather information from companies where independent directors now form a majority—for instance, what preparatory steps were taken to reach that point, or what challenges have emerged since the shift. This kind of information would greatly contribute to the future evolution of the discussion.

That is all from me.

[Kanda, Chair]

Thank you very much. Now, Mr. Obata, please go ahead.

[Obata, member]

Thank you. I would like to make five points today, including some rather detailed ones.

First, regarding the revision of the Code: This time, a review is being proposed primarily for the purpose of eliminating redundancies and simplifying the Code, and I would like to express my support for that. One of the reasons is that, when the Corporate Governance Code was originally formulated in 2015, most Japanese companies had adopted the Audit and Supervisory board system. Accordingly, the Code was designed with that structure in mind. While the preamble does mention that, when other governance structures are adopted, companies should make appropriate adjustments when applying the principles, it does not specify which principles are subject to such adjustments. The interpretation is left entirely up to each company's discretion, which I believe makes actual implementation difficult. In recent years, the number of companies adopting the Audit and Supervisory Committee system has been increasing. Therefore, in the upcoming revision of the Code, I would greatly appreciate it if the application of the Code to companies with Audit and Supervisory Committees and those with Nominating Committee-type structures could also be taken into consideration. That is my first point.

Second, regarding the submission of securities reports before the general shareholders meeting: As I understand it, the Companies Act assumes that the information necessary for exercising voting rights at the shareholders meeting is provided in the notice of convocation and its accompanying reference materials and business report. In contrast, securities reports are disclosure documents required under the Financial Instruments and Exchange Act (FIEA), intended for the purpose of continuous disclosure to assist investor decision-making. They are not originally intended to be used for exercising voting rights. In that context, I have some reservations about investors requesting that securities reports be submitted before the shareholders meeting to support their voting decisions, and companies being asked to comply.

If there is information missing that investors need in order to exercise voting rights, then the proper response should be to supplement the reference materials or business report—not to request early submission of the securities report. However, there seems to be little discussion about this. Instead, only the securities report is being singled out for early submission, which I find somewhat problematic. In March, the Minister for Financial Services called on companies to submit securities reports at least by the day before or a few days prior to the general meeting. I imagine that, as a matter of general business practice, companies will try to respond to that request. That said, I hope that, in parallel with such practical responses, discussions will also take place on how to organize and integrate disclosure systems under the Companies Act and the FIEA—including the potential for unified disclosure of the securities report and the business report. That is my second point.

Third, regarding the strengthening of board functions: I fully agree with the proposals made by the Secretariat. However, in my view, the role expected of directors in companies with Audit and Supervisory board structures—which involve decision-making on business execution—and in companies with Nominating Committee-type structures—where executive officers handle business execution and the board focuses on oversight—is clearly different. As such, the qualities required of directors likely differ as well. I feel that both outside directors and companies may not yet fully recognize this distinction, and some confusion may remain. Therefore, I believe it would be very helpful to clarify these expectations further, possibly through guidelines. That is my third point.

Fourth, regarding the functions of auditors and related roles: Based on recent reports such as by METI's Study Group Toward the Enhancement of Earning Power, I get the impression that most discussions have focused on how the board supervises management, with very little attention given to how auditors and similar roles should conduct their audits. This is especially relevant for companies that adopt committee-type governance structures, where audit committee members or members of the Audit and Supervisory Committee are themselves directors. This creates an overlap between board oversight and audit responsibilities. While this may be more appropriate for discussion under the ongoing revision of the Companies Act, I believe it is still essential to recognize that auditors are key players in corporate governance. As noted on page six of Material 2, I would welcome further exploration of the contemporary roles auditors and related bodies should fulfill. That is my fourth point.

Lastly, regarding the board secretariat function: At last year's Follow-up Council meeting, I mentioned that whether outside directors can truly fulfill their roles depends largely on the capabilities of the board secretariat. I understand that, based on such comments, the FSA conducted a fact-finding survey and compiled the materials presented today. I am grateful for this.

That said, I wonder whether in countries like the United States and the United Kingdom—often cited as leaders in corporate governance—there are such extensive secretariats supporting outside directors. One might suspect that this situation reflects a lack of experience or capabilities among Japanese outside directors. Still, it may be worthwhile to conduct a survey of board secretariat functions in countries like the US, where the role may be referred to as the "corporate secretary," and use that to identify global best practices. Based on those findings, we could more clearly define what a board secretariat should and should not do. Such clarification would also help reduce the burden on the secretariat staff. I do believe the board secretariat plays a valuable role, and I hope we can continue to refine our understanding of that role accordingly.

That concludes my comments.

[Kanda, Chair]

Thank you very much. Now, Ms. Matsuoka, please.

[Matsuoka, member]

Thank you for giving me the opportunity to speak. I'm Matsuoka. I see this Follow-up Council as overseeing the broader reform agenda aimed at building constructive relationships between companies and investors—including the Stewardship Code and the Corporate Governance Code. While I agree with the general direction of moving from form to substance in recent reforms, from the perspective of companies, the process by which these reforms are being implemented is currently perceived as quite harsh.

The 2021 revision of the Corporate Governance Code, coupled with the Tokyo Stock Exchange's market reorganization, demanded significant governance reforms from companies. Since then, this Council has closely followed through with its Action Programs. Companies have been implementing reforms in line with the Code's content, under pressure from investors and the TSE's rules, in a way that has carried real weight. On the ground, while dealing with increased operational burdens, companies have worked hard to make progress within a short period. For that reason, I believe it is important to pursue reforms from the following four perspectives.

First, regarding proxy advisory firms in the context of the Stewardship Code's push for substance: With the Stewardship Code now being revised, companies see it as essential that the Code becomes substantively effective for investors as well. Material 4 mentions the results of a fact-finding survey on stewardship activities. On page 45, for example, proxy advisor B states, "For us, engagement is for confirming unclear points in disclosed information or gaining deeper insight." This sort of statement is deeply disappointing from the perspective of companies.

What companies seek in engagement is constructive dialogue with investors on how to manage the business for sustainable, long-term growth. Such dialogue benefits investors and builds win-win trust-based relationships that, ultimately, contribute to healthy markets.

If engagement is limited to fact-checking, can it really be said that stewardship responsibilities are being fulfilled? We hope that serious steps will be taken to ensure that the Stewardship Code is also made substantively effective for investors, potentially including legally binding regulations where necessary.

Second, regarding the advance disclosure of securities reports before shareholder meetings: Keidanren has also been asking investors what information is most relevant to the exercise of voting rights. For example, the ratio of strategic shareholdings has been cited as useful. If that is the case, such information should be included in the convocation notice under the Companies Act, specifically in the reference documents provided for voting, and companies should ensure shareholders have adequate time to review it before the meeting.

As mentioned earlier, if it is truly necessary to disclose the full securities report before shareholder meetings, then reforms must include a review of the timing of shareholder meetings. This should be accompanied by an integrated approach to disclosure requirements under both the Financial Instruments and Exchange Act and the Companies Act, as well as discussions across legal domains concerning the roles and responsibilities of auditors and audit committees.

If shareholder meetings are pushed back, it follows that executive appointments and dividend payouts to shareholders would also be delayed. We must ask whether that truly benefits shareholders—or whether it restricts shareholder rights by, for example, making it harder to propose dividend increases at meetings.

As others have pointed out, to properly protect shareholder rights and define their relationship with companies, discussions should take place—potentially in the context of Companies Act reform—about disclosure practices, shareholder meeting procedures, audit responsibilities, and the ideal form of shareholder rights. This would help avoid unnecessary litigation or confusion.

These issues are not well-suited to being governed by a principles-based Code like the Corporate Governance Code, which relies on companies to explain themselves creatively. Disclosure just a few days before shareholder meetings doesn’t allow for proper shareholder analysis and ends up being a matter of form over substance. Similarly, involving individuals who have not yet been elected as directors in management ahead of their formal appointment runs counter to the spirit of the Governance Code.

Third, on the matter of disclosure—specifically, regarding human capital and sustainability: The additional disclosures on employee salaries and compensation listed under 1(i) of Material 2 are seen as vague in purpose. In our conversations within Keidanren, we have yet to hear of any investors requesting this kind of information.

We also see a significant divergence between Japan and Western countries in the appetite for sustainability disclosures. Imposing disclosure requirements on Japanese companies that are not expected elsewhere not only lacks international consistency, but also places undue cost and burden on Japanese firms. This includes potential litigation risk, particularly in the United States.

In principle, disclosure on human capital and sustainability should be handled through the due process of the SSBJ, with an eye toward global standards. If new items are to be added, it is essential to first verify their usefulness and adopt a “scrap-and-build” approach that eliminates unnecessary items. This would align with the UK’s philosophy of reducing reporting burden while enhancing governance quality.

Currently, we have expert working groups to discuss accounting and assurance standards, but not for disclosure more broadly. In the future, we need a formal body—perhaps a disclosure standards committee—organized through consensus among all stakeholders, including global and domestic investors, issuers, analysts, intermediaries, market operators, and auditors. This would help define credible disclosure expectations for statutory filings under the Financial Instruments and Exchange Act, the Companies Act, and Tokyo Stock Exchange rules.

Finally, on the pace and method of reform—particularly regarding board secretariats: As others have noted, in companies with a Western-style separation of supervision and execution—i.e. companies with committees—the board secretariat plays a crucial role in setting agendas and supporting independent directors. There is some value in compiling case studies to guide this function.

However, we must also recognize that there is currently a severe shortage of independent directors with management experience who can provide insight and respond to corporate challenges. Unless policy responds to this reality, these case studies may be met with indifference or fail to gain traction.

Rather than focusing solely on the role of the board secretariat, what’s essential is strong commitment from executives to the board process, and the recruitment and development of directors with the right management expertise and perspective. This is fundamental to real governance reform.

Given how companies perceive the current state of affairs, I must say that there is limited justification for revising the Corporate Governance Code at this time. Instead, I believe we should move forward first with reforms based on the four approaches I’ve just outlined.

Thank you very much.

[Kanda, Chair]

Thank you very much. Professor Ueda, you have the floor.

[Ueda, member]

Thank you for calling on me.

First, I would like to express my sincere appreciation to the Secretariat for conducting in-depth investigations into the activities of companies and investors and for preparing multiple, extensive reports. The content reflects the latest developments and the genuine thoughts of stakeholders, making it extremely valuable as empirical research.

I would also like to offer my comments based on the discussion topics we have been asked to consider. However, given the breadth and depth of the content, I will focus primarily on four areas where I believe significant challenges remain.

First, I believe the issue of parent-subsidiary listings is a particularly serious challenge. While it may represent a small portion of the Japanese market overall, it touches on the essence of corporate governance and is rooted in Japan's unique commercial customs—this is where I see cause for concern.

At its core, the parent-subsidiary listing issue is a matter of group governance in listed companies with a controlling shareholder. From the perspective of enhancing long-term corporate value, it is essential to ensure the protection of minority shareholders and the effectiveness of corporate governance. Therefore, even if a legal parent-subsidiary relationship is not present, similar governance concerns may arise in cases such as equity-method affiliates or other arrangements where a controlling shareholder exists.

In fact, parent-subsidiary relationships have already been subject to some degree of regulation, including guidance from the Tokyo Stock Exchange, which has helped instill a certain awareness and discipline. However, even when the substance is the same—for example, in equity-method affiliates—there are cases that fall outside the scope of current rules. It may be an overstatement to say these situations amount to regulatory circumvention, but as someone observing from the outside, I have encountered cases that give precisely that impression.

In cases where a controlling shareholder exists, group governance issues arise from economically assessable relationships, such as capital ties and business transactions. These are already subject to regulation under the Corporate Governance Code, which calls for the establishment of special committees. However, some companies have yet to establish such committees, and in that sense, we are still only partway toward resolving the issue.

An even more serious problem lies in de facto control exercised through personnel exchanges, such as the secondment of executive officers. For instance, if key executive positions at a subsidiary are effectively incorporated into the parent company’s personnel process, then regardless of the size of the capital stake, a relationship of actual control and subordination is considered to exist. While directors’ career backgrounds are disclosed in securities reports, for those below the level of director—namely, the executive officers and others who are directly responsible for day-to-day management—there is no way for external parties to ascertain information such as their originating organizations. From the standpoint of increasing transparency in these processes and improving governance, I believe that, in addition to the establishment of special committees, the introduction of nomination committees is also a crucial measure.

Globally, the OECD has long discussed governance challenges posed by controlling shareholders, particularly in regions such as Latin America and Asia, where family ownership is common. The governance concerns related to so-called “controlling shareholders” are highly relevant to the group governance issues Japan faces.

The Financial Services Agency has historically coordinated closely with the OECD on matters such as drafting the Corporate Governance Code. I would be grateful if that global perspective could be incorporated into the framework—whether in the form of a Code revision or Tokyo Stock Exchange regulations—so that this issue can be addressed more comprehensively.

Second, regarding outside directors: According to page three of the materials distributed today, 98.1% of Prime Market companies have appointed at least one-third independent outside directors and about 20% have appointed a majority. Additionally, based on a small survey I conducted in June of last year, I found that 42% of Prime Market boards are already composed of a majority of outside directors.

In fact, the most common question companies ask about the next Corporate Governance Code revision is: “When will a majority of outside directors be required?” As a member of this Follow-up Council, I am frequently asked this question by corporate representatives, to which I usually respond, “It’s likely to happen in the near future.” Many companies seem to be anticipating that the Code will eventually require a majority of outside directors and are proactively expanding their appointments—first reaching parity, then moving beyond it.

Given that companies are already internalizing this direction and in the interest of aligning Japanese governance with global standards—particularly for the Prime Market, which is key to the appeal and competitiveness of Japan’s capital markets—I believe it is time to start concrete discussions on formally requiring a majority of outside directors in the Corporate Governance Code.

Of course, there are companies that may not yet be prepared for such a requirement or that feel it does not suit their practical realities. However, as you all know, the Corporate Governance Code is based on a “comply or explain” framework. Companies can explain their decisions to shareholders, investors, and other stakeholders in order to gain their understanding. I hope this issue will be discussed with a view toward elevating the overall quality of the market.

The next two points are more brief. Third, on strategic shareholdings: In short, I understand that detailed surveys have been conducted, including why companies hold such shares, and that disclosure efforts are progressing. I found the column introduced in this context to be especially compelling. In fact, I raised the issue during another disclosure-focused meeting of the FSA. Another member remarked it was so impactful that “it could be pinned to the top of a company’s website.” The column’s content was highly meaningful, valuable, and even shocking.

In practice, while strategic shareholding is often aimed at shareholder stability, companies face challenges how to explain this in public disclosures. In that regard, this column conveys the real situation in a very powerful way. I hope it will be highlighted prominently and broadly shared.

Finally, as a kind of message of support: Regarding forums for dialogue, I welcome the establishment of the Corporate Governance Practice Consortium, as I feel that governance quality is increasingly polarized. Simply put, there are companies and institutional investors that have access to

FSA or Tokyo Stock Exchange information and understand the underlying rationale for the Code—and then there are those who do not. This gap can be quite large.

To raise the quality of governance across the entire market, it is important to spread understanding and broaden the substantive application of governance practices. In that regard, I believe such dialogue forums are extremely important. These forums should include companies and institutional investors—and above all, participation from the authorities themselves. It is important to share the message that these rules are not just burdens placed on companies but are grounded in a rationale and purpose. I understand the Code is designed with that context in mind. If we can foster shared understanding of that purpose, it will help raise the floor for governance standards across the market.

That concludes my remarks. Thank you very much.

[Kanda, Chair]

Thank you very much. Mr. Okada, the floor is yours.

[Okada, member]

Thank you very much. First, I would like to express my deep appreciation to the Financial Services Agency for compiling these extensive materials. I particularly respect the ongoing annual effort to update these documents, rather than producing them only once every few years. I also found it very informative that so many companies were interviewed with such care.

I have three points I would like to raise. First, regarding efforts to strengthen board functions: I hope that this initiative will not stop here but will extend to companies in other markets as well, including those listed on the Standard Market. I believe that the interview process itself provides companies with opportunities for self-awareness—not simply to copy other examples, but to arrive at their own realizations through reflection.

For example, perhaps companies could voluntarily include disclosures in their securities reports about the activities of their board secretariat. From my own experience, I can say that the role of the board secretariat is very important. Often, when directors receive prior explanations about agenda items, it is from executives who want their proposals approved. But when the board secretariat steps in—having digested and fully understood the matter—they can help outside directors think through the issues and answer questions together. This also plays a meaningful role in developing talent. I hope such initiatives will continue to be expanded.

One concern I would like to raise relates to what is mentioned in the materials about the staff supporting audit and supervisory committees. These committees are made up of directors who also perform an auditing function, which means they need independent support—separate from executive officers and other directors.

Recently, many companies have transitioned to the Audit and Supervisory Committee system, and I believe that in terms of numbers, they are now close to matching companies with Audit and Supervisory board systems. However, in most cases where such transitions occur, the old audit office is simply placed under the board secretariat. There are even cases where the staff supporting the audit committee are functionally subordinate to the board secretariat. I believe it is essential to ensure the independence of the audit committee staff and to focus on building an environment conducive to proper auditing.

The staff of these committees play a crucial role in attending internal meetings, gathering and analyzing information, and reporting to the committee. Unlike statutory Audit and Supervisory boards, audit committees under the Companies Act are not required to have full-time members. As more companies move away from having full-time committee members, the expectations placed on the staff naturally increase. Therefore, I believe it is important to enhance the staffing of these functions as well.

Second, regarding the Corporate Governance Code: While I understand that no revision is planned for this meeting, I still want to share a point of discomfort I've felt while reading the current Code.

In Principle 4.7(i), concerning the role and responsibilities of independent outside directors, the Code says: "Provision of advice on business policies and business improvement based on their knowledge and experience with the aim to promote sustainable corporate growth and increase corporate value over the mid- to long-term." This wording may have been sufficient 10 years ago, but I now feel that "provision of advice" no longer accurately reflects the role expected of outside directors.

While I leave the specific wording up to further discussion, I also think the phrase “based on their knowledge” could be broadened to include diversity—perhaps phrased as “based on their knowledge, diverse experience, and multifaceted perspectives.”

As for “provision of advice,” rather than a passive role, perhaps the expectation now is for outside directors to contribute more proactively—such as by “supporting the company’s risk-taking.” I encourage you to consider such language.

Likewise, in Principle 4.7(iv), the Code states that outside directors should “appropriately represent the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders.” I assume this was written with parent-subsidiary listings in mind, hence the mention of controlling shareholders. As long as parent-subsidiary listings exist, this language may be unavoidable. However, I believe it may now be more relevant for outside directors to focus on engagement with investors and reflect the views of institutional investors. I don’t necessarily propose changing the language at this time, but I would appreciate it if this sense of discomfort could be noted for reference.

Finally, a brief note on early disclosure of securities reports: In the two companies where I serve as an outside director, both have agreed to submit the securities report one day earlier—on the day before the general shareholders meeting. Just a short while ago, such early submission was thought to be impossible, so this represents progress. Some companies might even be able to submit a week early. However, even with a one-week window, it is difficult for investors to conduct meaningful analysis. Ideally, disclosure would occur around three weeks prior to the meeting. But given the current framework of the Companies Act and the Financial Instruments and Exchange Act, that may be difficult.

Also, the number of staff involved in disclosure is limited. The legal and accounting departments, often while juggling operational duties, are working very hard to make this happen. So practically speaking, it’s not easy. One potential option under the current legal framework might be to shift the record date and delay the general meeting.

As Ms. Matsuoka noted earlier, if figures such as the ratio of strategic shareholdings are already known by the end of March, companies could consider proactively disclosing such information—

potentially within the business report—even before submitting the securities report. Of course, audit-related issues tied to the securities report may remain, but wherever possible, companies should consider what can be shared earlier.

It may also be worthwhile to engage directly with institutional investors—those likely to read the securities report and attend general shareholders meetings—to better understand what information they seek. Building disclosure practices around such engagement could be one effective approach. In the long term, I believe we should look at how both the Companies Act and the Financial Instruments and Exchange Act might be revised to support earlier and more meaningful disclosure.

That concludes my comments.

[Kanda, Chair]

Thank you very much. Now, Ms. Okina, please go ahead.

[Okina, member]

Thank you. Regarding value creation capacity and disclosure, I'd like to begin by emphasizing that what it means to realize management conscious of capital cost and stock price is, in effect, the optimal allocation and investment of management resources to achieve sustainable growth. This is also exactly what the Tokyo Stock Exchange has been advocating.

In this context, while it's important for the Corporate Governance Code to reflect this, I believe rather than listing specific investment categories in detail, the Code should—within the scope of slimming down and making principles-based revisions—highlight the importance of investments and disclosures that lead to enhanced corporate value and sustainable growth.

That said, while investment is certainly important, we must note that in Japan, compared to other countries, the value added from R&D investments has declined and R&D efficiency has not improved. This is backed by international comparative data. What truly matters is that R&D investment results in enhanced corporate value.

In terms of human capital investment disclosure, current disclosures tend to consist of piecemeal data points lacking cohesion. It is critical that such disclosures be clearly linked to corporate strategy. Human capital ultimately contributes to productivity gains and innovation—both of which drive added value. For this reason, it is essential to advance human capital disclosure in a way that reflects a coherent equity story.

Globally, I understand there are ongoing discussions about disclosure standards, and the Financial Services Agency recently released a report on overseas case studies. I believe it’s important that we advance the discussion while taking those developments into account.

On disclosure more broadly, as mentioned in Material 2, while enhancing areas like human capital, we must also ensure that the overall content of the securities report—its items and requirements—is truly necessary and not simply preserved for formality’s sake. It’s important to streamline disclosures to make them more meaningful for investors and stakeholders.

Regarding the strengthening of board functions, I believe this is one of the most important aspects of corporate governance. As many have noted, boards are now expected to more fully exercise their supervisory role. In this context, the role of outside directors becomes especially critical, and I would like to highlight two key points in particular.

First is the method by which outside directors are appointed. Second is the need to enhance their qualifications and capabilities. As mentioned earlier by the Tokyo Stock Exchange, we are seeing an increase in TOBs and MBOs. In such cases, it is increasingly common for special committees to be composed of independent outside directors, which has only heightened the importance of their role.

In this context, as Ms. Takayama mentioned, I agree that nomination committees should be involved. We need to think seriously about how to practically improve the selection process and ensure that truly qualified individuals are appointed to these roles.

I also support the direction outlined for strengthening board secretariat functions. It’s essential that the secretariat not orient itself toward the executive side, but rather toward the board, which represents various stakeholders—especially shareholders—and fulfills the supervisory function. The principle of aligning the secretariat’s operations with the interests of oversight, not execution, must be upheld. As the materials state, it would be helpful to further examine which methods are most effective for sharing best practices in this area.

Lastly, concerning market infrastructure: With the recent increase in activist activity, enforcement around the large shareholding reporting system is becoming increasingly important. While the materials mention raising penalty amounts, we are also hearing of deliberate filing delays. Such rule violations must be addressed firmly. Strengthening enforcement to ensure rule compliance is essential.

That is all from me.

[Kanda, Chair]

Thank you very much. Now we'll hear from Mr. Katayama, who is participating online.

[Katayama, member]

This is Katayama. Thank you for giving me the opportunity to speak. I'd like to share my views on the enhancement of human capital disclosure, specifically focusing on the importance of developing relevant indicators.

The ISSB's research project on human capital, in its first phase, revealed that investors across all types and jurisdictions are highly interested in human capital disclosure, particularly in relation to managing investment risk and enhancing returns. I understand that the second phase is considering the development of new standards.

As shown on page 22 of Material 5, in the section on human capital management practices, it is noted that to ensure appropriate resource allocation in pursuit of sustainable growth, companies are promoting human capital investment. There are also examples of companies setting their own indicators and implementing engagement initiatives with employees. Investors have also pointed out the importance of explaining how these initiatives tie into corporate strategy. In light of this, I believe it is important to develop indicators that can serve as behavioral and evaluative benchmarks for companies and investors. These would support investor engagement and the assessment of human capital management.

JTUC Rengo Research Institute for Advancement of Living Standards, the think tank of the Japanese Trade Union Confederation, conducted a study in 2023 on the "S" of ESG—social issues—and developed eight indicators aimed at realizing decent work. These were developed through research and dialogue with corporate and institutional investor representatives. Using these indicators to help companies explain their efforts in areas like skill development and human resource management to investors could prove very beneficial. I would appreciate it if this could be taken into consideration.

That is all from me.

[Kanda, Chair]

Thank you very much. Professor Kansaku, you're next.

[Kansaku, member]

I'm Kansaku from Gakushuin University. Thank you for the opportunity to speak. I would like to offer three comments.

First, regarding the proposal on the follow-up and future policy priority, I basically have no objections and agree with the points presented. Regarding the issue of disclosure before the general shareholders meeting, while I understand there have been criticisms, I believe that in order to enhance the effectiveness of engagement, it is desirable that the securities report—which contains high-quality and in-depth information—be disclosed in advance, with enough time before the meeting itself.

As has been noted, there are certainly areas where statutory (hard law) revisions may be necessary, such as the integration of disclosure systems. However, I also believe it is important to pursue what can be done within the realm of soft law, even in the absence of legally binding obligations.

In that context, I would like to mention the top bullet point on page five. Precisely because the securities report is such a vital document, the proposed "streamlining and review of its content" must include not only simplification but also enhancement. That is, we should also examine how to enrich the content of the securities report while making it more user-friendly and relevant.

Second, while it may fall somewhat outside the direct scope of this Follow-up Council, I would like to comment on the Asset Owner Principles. According to the public documents, as of the end of April, over 200 asset owners—including public pension funds, mutual aid associations, corporate pension funds, insurers, and universities—had already signed on to the Principles, which were established last summer.

However, as introduced at the beginning of today's session, there are concerns that these Principles may not yet be functioning as intended. For example, in point three of Mr. Kawakita's written submission, he notes that engagement has become broader but shallower—contrary to the original goals.

Among the Asset Owner Principles, there are provisions that directly affect asset managers' stewardship activities and indirectly influence corporate governance practices at listed companies. These areas should be carefully investigated. Though the Principles are still less than a year old, I believe a fact-finding survey—similar to the one conducted on stewardship activities—is warranted to assess whether they are being applied in line with their original intent. If not, the Principles themselves may need to be revised.

Third and finally, I welcome the proposal in Material 2, page six, to establish a Consortium for the Effective Implementation of Corporate Governance. As Ms. Takayama also pointed out earlier, I believe this initiative will be highly valuable. One point I would like to add is that, in order to strengthen board functions, it is essential to start with self-evaluation of each board's effectiveness.

However, particularly in Japan, there is often insufficient information available about other companies' board practices, which limits the usefulness of such self-evaluations. In that regard, I believe the Consortium can play a very helpful role by facilitating the sharing of practices and perspectives.

Furthermore, looking ahead, it would be ideal if younger members of board secretariats could, through the Consortium, gain experience and become human resources in serving as outside directors at other companies—so-called "cross-company exposure." This would promote board diversity and serve as valuable development for future executives when they return to their own firms.

Those are my three comments. Thank you very much.

[Kanda, Chair]

Thank you very much. Now, Professor Tsumuraya, please go ahead.

[Tsumuraya, member]

Thank you for calling on me. First, as we mark the 10th anniversary of the two Codes, I would like to express my sincere respect for the tremendous efforts made over the past decade by everyone at the Financial Services Agency and the Tokyo Stock Exchange.

I would like to offer four brief comments on today's discussion topics.

First, jumping ahead slightly, regarding the second point in Material 4—about where information should be gathered: The report uses words like concern and apprehension regarding collaborative engagement. However, according to the Collective Engagement Forum, none of the companies they engaged with appear in the list of companies featured in Material 4. In other words, the companies that expressed concern are those that have not participated in engagement. Those that did engage were not interviewed. So my first suggestion is: Why not interview the companies that actually experienced collaborative engagement?

Relatedly, the Tokyo Stock Exchange materials also mention the number of companies that would like more proactive contact from institutional investors. Among these are 56 companies that received letters from the Collective Engagement Forum requesting meetings to discuss capital productivity. Of those, only 20 companies even responded—about one-third. Among those 20, eight companies replied that a meeting was unnecessary. So in the end, only 12 companies actually met with the Forum—just 20% of the total.

This is the reality. It suggests that efforts may be quietly undermined behind the scenes. Earlier, the phrase "a relationship of cautious trust" was mentioned. But I wonder—if there's an instinctual tendency to avoid caution, is it really wise to bring that caution to the forefront? I'm not entirely convinced. That's my first point.

Second, this ultimately comes down to scale. We often talk about "constructive dialogue," but even with active management, is it really possible to propose value-enhancing suggestions in a single one-hour meeting? Some might say yes, but I think it's quite difficult. For such dialogue to be meaningful, companies should come prepared with the issues they want to discuss—not necessarily disclosed publicly, but presented in some form—and have the CEO or relevant executive in attendance. In return, investors should thoroughly analyze the company beforehand. Without that kind of mutual preparation, it's unrealistic to expect much from a single one-hour meeting.

That makes the board secretariat function extremely important. Corporate secretaries play a crucial role here. But realistically, how many companies—perhaps only the top-tier ones on the Prime Market—are capable of operating at that level? That's my honest view.

Even among Prime-listed companies, many are mid-sized with market caps around JPY100 billion to several hundred billion. If we don't address the issue of scale, I fear that even 10 years from now, at the 20th anniversary of the Codes, we'll still be having the same discussion. So while I support the establishment of a consortium, I think we need a much more detailed understanding of what companies of different sizes are struggling with. That’s my second point.

Third, on the topic of sustainability: In my research lab, we’ve built a database for each company that tracks the average tenure of directors, the tenure of current directors, and the target years for sustainability goals. For example, some companies set goals to halve GHG emissions by 2030 or reach net-zero by 2050. But virtually none of the current directors will still be on the board at that time—they’ll all have retired. Can they really be held accountable for those goals? This raises the need for policies that promote age diversity on boards. I’m not saying boards should simply get younger. But as someone involved in education every day, I can tell you firsthand that young people today have completely different ways of thinking and different skill sets. We need mechanisms—across all institutions, not just companies or schools—that allow boards to tap into this next generation. Frankly, if we don’t, we’re in for serious trouble over the next 10 years.

The kinds of IR videos that companies currently pay millions of yen to produce—young people today can make them in a couple of hours. Age diversity and mechanisms for incorporating these capabilities are vital for every organization.

Finally, a point I’ve been making since the pre-meeting briefing: Instead of “disclosure before shareholder meetings,” perhaps we should flip the framing to “post-disclosure shareholder meetings.” In other words, hold the general meeting after disclosure. Just last weekend, there was a bit of a stir regarding Advantest, which appeared to do just that. If this “post-disclosure meeting” model becomes more common, it would naturally raise questions about integrating various reports—like the business report—into a more unified disclosure framework. Whether this becomes a widespread practice remains to be seen. But this moment may provide a chance to fundamentally rethink the securities report. That might involve changes to Cabinet Office Ordinances and may not fall within the scope of this Council, but for example, executive compensation disclosure—mentioned briefly earlier—has room for significant improvement.

Compensation for committee members, particularly outside directors, often isn’t disclosed at all. Even if their roles are nominally “voluntary,” can they really be expected to take full responsibility without compensation? I don’t think so. If they are to be held accountable, then remuneration is only appropriate. This is standard practice in Western countries where such items are disclosed. Similarly, the Ministry of Justice materials mention employee stock compensation plans, yet there’s currently no disclosure category for them. These are the kinds of items that should be addressed in a unified disclosure framework.

That’s all from me. Thank you.

[Kanda, Chair]

Thank you very much. Now, Mr. Oba, please go ahead.

[Oba, member]

Thank you. As time is limited, I will keep my remarks brief. I would like to highlight two issues based on the theme raised in the discussion materials—namely, that although the formal aspects of governance are in place, further improvements are needed to achieve substantive effectiveness.

First, there is the issue of too many investment targets. This creates a situation where companies respond in a merely formalistic way. Reports indicate that 70% of listed companies are not covered by analysts. In such a situation, meaningful and constructive dialogue becomes extremely difficult unless we significantly narrow the scope of engagement.

So what can be done? This may be an issue for listed companies as a whole, and I think that the issue of asset owners' choice of index for investment targets is a major issue.

Second, is the positioning of the board of directors. Many boards seem to expect outside directors to play more of an advisory role. Few companies explicitly position their boards as monitoring boards, and many lack the mindset that boards should actively oversee and evaluate executive management. But the Code clearly emphasizes supervision of execution, and this disconnect between expectation and practice may be one reason why governance responses remain formalistic, even in areas such as dialogue with investors.

Lastly, I would like to touch on the nature of this Council itself. The original aim of this Follow-up Council is to help create a virtuous cycle in society through the sustainable enhancement of corporate value, with the Code serving as a tool to achieve that. However, in practice, attention has shifted toward compliance with the Code itself. As a result, institutional investors—especially those with a long-term orientation—are reducing their investment in Japanese companies. We are seeing, for instance, that the majority of funds from young people's NISA accounts are going overseas, and corporate pension funds are also reducing their allocations to Japanese equities. Under the current trajectory, we are not achieving our intended purpose.

Corporate governance reform is a never-ending process. It is essential that we continue to follow up thoughtfully and adaptively.

That concludes my remarks. Thank you.

[Kanda, Chair]

Thank you very much. Next, Mr. Iwama, please.

[Iwama, member]

Thank you. Since many participants have already provided detailed observations, I will keep my remarks concise.

First, regarding the relationship between audit and supervisory boards (or audit committees) and the board of directors—I believe the secretariats should be kept separate. The audit board or committee should operate along the internal audit line, while the board of directors receives their reports. In the company I assist, this division works well. I serve as chair, and all relevant content is passed along to me and also shared with outside directors beforehand. I believe this setup is functioning effectively and should be clearly maintained.

Second, regarding the issue that has come up around the Growth Market and the fact that about 70% of listed companies are not covered by analysts—I believe this is related to the broader problem of small and mid-cap coverage. There are very few analysts or asset managers specializing in small-cap stocks. This is because these investments don't offer sufficient scale. These opportunities require very intensive analysis and engagement, yet don't attract large funds. That said, I know several asset managers who are producing excellent results by focusing on such companies.

So the question becomes: How do we increase coverage while recognizing that comprehensive engagement across all firms is unrealistic? If we can identify key focus points and encourage deeper engagement where it counts, the situation could improve significantly.

Third, the same applies to boards of directors and asset managers—the effectiveness of engagement needs to be improved. Ultimately, the goal of the financial and capital markets is to enhance corporate value over the long term and foster win-win relationships. Governance reform should be approached from a proactive, value-creating perspective. That is the starting point, and we should remain committed to it.

The materials and discussion items distributed today are highly valuable and informative. Overall, I support the direction proposed in the current draft revision. Thank you very much.

[Kanda, Chair]

Thank you very much. Now, Mr. Matsumoto, who is joining us online, please go ahead.

[Matsumoto, member]

This is Matsumoto. Thank you very much for giving me the opportunity to speak today. In addition to serving as Chairman of Sumitomo Electric Industries, I also serve as Chairman of the Kansai Economic Federation. So today, I would like to offer a few comments from the perspective of a representative of an economic organization.

This June marks the 10th anniversary of the implementation of the Corporate Governance Code. Thanks to the efforts of various ministries and agencies, as well as corporations, the value creation capacity of Japanese companies has certainly improved in numerical terms. However, I believe there are still areas that need to be addressed in order for companies to achieve sustainable growth and enhance their corporate value over the medium to long term.

I will touch on three points.

First, the practice of multi-stakeholder-oriented management: We in the Kansai Economic Federation refer to this concept which we sometimes describe as a form of "public-interest capitalism." Over the past decade, management has become more conscious of shareholder value, and shareholder returns have grown significantly. However, wage growth and capital investment have remained rather limited. The same can be said of R&D investment.

In order for companies to sustainably enhance their value going forward, it is essential to ensure fair and balanced value distribution among a diverse set of stakeholders, including customers, employees, business partners, local communities, and shareholders. Therefore, in revising the Code, I believe that the concept of multi-stakeholder orientation should be explicitly stated in its provisions and principles. The Kansai Economic Federation, too, will actively participate in future discussions, building upon our past proposals.

Second, a review of the disclosure system: It is certainly important for companies to strive for effective dialogue and information disclosure with investors, and that stance should continue. However, in recent years, companies have been facing an ever-growing disclosure burden due to demands for English-language disclosure, sustainability-related reporting, and early submission of securities reports ahead of shareholder meetings. From a practical standpoint—reflecting the voices of many Kansai Economic Federation members—this situation is not ideal. It raises concerns about the disclosure burden and the negative impact on companies' ability to focus on developing medium- to long-term management strategies.

In addition, multiple regulatory regimes—such as the Companies Act, the Financial Instruments and Exchange Act, and stock exchange rules—require overlapping disclosure documents. In many cases, the same or similar information is being requested repeatedly in different formats. Companies have voiced the need for consolidation and streamlining of these disclosures.

Given this, I believe the time has come for a comprehensive review of the disclosure framework. Looking ahead to the possibility of eventually integrating the Companies Act and the Financial Instruments and Exchange Act, I strongly urge the authorities to begin by revising the disclosure systems that fall under the jurisdiction of the Financial Services Agency, including stock exchange rules.

Rather than focusing solely on the frequency and timing of disclosure, I believe we must shift toward a system design that emphasizes the quality and effectiveness of information—ultimately to strengthen the trust between companies and capital markets. As part of that, I believe we should consider streamlining disclosure requirements under exchange rules, such as earnings reports (tanshin) and corporate governance reports. Without such a review, I must express concern about revising the Code in a way that increases the disclosure burden—including requirements like the pre-shareholder-meeting submission of securities reports.

Third, the pursuit of governance with real substance. Corporate governance should be developed through ongoing collaboration between companies and investors, and must be designed flexibly to suit each company's industry, business model, size, growth stage, and external environment. Over the past decade, the business environment has changed dramatically due to factors like geopolitical risks, the pandemic, and the advance of digital transformation (DX) and green transformation (GX). We now need to move beyond uniform, formal compliance toward more substantive governance.

Currently, as value creation capacity becomes the central issue in governance, we see an excessive focus on metrics like ROE and P/B ratio, which in turn drives superficial measures such as stock buybacks. Instead of simply viewing retained earnings or cash reserves as excessive accumulation, we should recognize their role as a resource for future investment.

As for independent outside directors, there are concerns that the uniform rule requiring one-third or more appointments—despite a limited pool of candidates—is leading to concentration of concurrent appointments and undermining the ability of these directors to fulfill their roles effectively. We should consider revisiting such formalistic requirements to ensure they serve their intended purpose.

Those are the three points I wanted to raise. Thank you for your attention.

[Kanda, Chair]

Thank you very much. Now, Mr. Takei, please go ahead.

[Takei, member]

Thank you. I would like to make comments on the discussion items in Material 6, organized around the structure of Material 2. First, I believe Material 2 contains several important keywords, such as "driving value creation capacity," "a relationship of cautious trust," and calls for various forms of growth investment. These elements collectively reaffirm the fundamental principle of proactive governance. As Mr. Iwama mentioned earlier, I fully agree with this point. I believe this document is vital in reasserting the importance of these principles.

Regarding the enhancement of value creation capacity, as someone mentioned earlier, the Ministry of Economy, Trade and Industry (METI) released a set of five principles at the end of April for strengthening value creation capacity through boards of directors. These were based on real-world concerns and challenges and include guidance on building value creation stories grounded in competitive advantage, encouraging appropriate risk-taking, and adopting a long-term perspective. I hope these outputs can also be referenced and incorporated into future follow-up discussions. That is my first point.

Second, while Material 2 maintains important points, there might be a subtle shift this year compared to last year—perhaps unintentionally. Specifically, in the section on stewardship activities, while today's Material 4 marks the beginning of a new focus on formal responses, the issue of the substantive effectiveness of stewardship activities still appears to face considerable challenges.

Reading through Material 4, we can observe the following: On page 26, it is reported that when engagement involves a well-articulated equity story, the conversation is constructive and beneficial for both parties. However, on page 25, some voices note that investors capable of such substantive engagement remain few in number. Page 28 mentions that many questions are still short-term in nature, and that despite claiming to focus on fundamentals, some engagements fall short in practice.

In this regard, although stewardship codes have improved things significantly, the number of investors capable of conducting truly mid- to long-term dialogue remains limited. I believe the underlying challenge of how to cultivate more long-term-oriented investors continues to be an essential issue. Therefore, consistent follow-up on this front is extremely important.

One of the key themes today is the promotion of growth investment, which I consider to be a highly important policy objective. However, when it comes to growth investments, companies sometimes fail to clearly explain how such investments tie into value creation based on competitive advantage. Conversely, on the investor side, there are cases where no matter how a company explains its growth strategy, investors simply reject it outright—saying "It won't work, don't do it." Of course, investors should be diverse, and I'm not suggesting otherwise. But such flat-out rejection often stems from a short-term mindset. We're also seeing this in critical sustainability-related discussions, where differing time horizons prevent productive dialogue.

Thus, I believe we must issue a renewed warning against short-termism. This is something that needs to be addressed right now. On both the corporate and investor sides, we must build an environment where genuine mid- to long-term perspectives can flourish. I hope this issue will continue to be included as a follow-up priority.

Third, related to this point, is the “cash hoarding” issue mentioned on page three of Material 2. As discussed earlier, and also mentioned on page two of the same document, the core concern here is whether increased cash holdings are being directed toward growth investments. That’s a valid concern. However, the way the issue is currently framed may inadvertently trigger an overreaction—particularly among short-term-focused investors who may demand shareholder returns regardless of context. We must ensure that the language used does not inadvertently promote such overreaction. It would be more accurate and less prone to misunderstanding if the language clearly framed the issue as a question of whether retained earnings are being allocated effectively toward growth investments. I suggest adjusting the wording to avoid such misinterpretation.

Those are my three main points. Thank you.

[Kanda, Chair]

Thank you very much. That concludes the remarks from all participating members. We’ve received a wealth of valuable insights—thank you all.

I understand we’ll now hear from observers as well. Let’s begin with the MOJ, followed by METI.

[Uno, Counsellor, Civil Affairs Bureau, MOJ]

I’m Uno, Counsellor of the Civil Affairs Bureau at the Ministry of Justice (MOJ). I’d like to briefly share an update on our current review of the Companies Act.

As many of you know, the Companies Act was enacted in 2005 and has since undergone revisions in 2014 and 2019. It has now been over five years since the last revision. In light of evolving social and economic conditions, we’ve received calls to examine a number of issues.

Specifically, as has been mentioned during today’s session, there are growing demands for reviewing aspects such as the gratuitous allocation of shares to employees, expanding the use of share transfer systems, and regulating virtual-only shareholders meetings.

In light of these circumstances, this past February, the Minister of Justice submitted a reference to the Legislative Council regarding the Companies Act. As noted in the materials, the request stated: “In view of recent changes in the socio-economic environment, please examine whether revisions are necessary to the rules concerning the issuance of shares, the operation of shareholders meetings, and corporate governance. If revisions are deemed necessary, please present a summary of the proposed changes.” In response to this, it was decided to establish the Subcommittee on the Companies Act (share issuance, shareholders meetings, etc.) to conduct the relevant investigations and deliberations.

The first meeting of the Companies Act Subcommittee was held on April 23. Professor Kansaku, who also serves as a member of this Follow-up Council, was appointed as Chair. The meeting began with a general, free discussion as a kickoff session. In terms of share issuance, topics included revising the scope of gratuitous share allocations, reviewing the share-for-share delivery system, and revisiting the current framework for contributions in kind. Regarding shareholders meetings, discussions covered virtual-only shareholders meetings and systems for identifying beneficial shareholders. On corporate governance, participants exchanged views on possible revisions to the framework for companies with nominating committees. In addition, a wide-ranging discussion was held on other matters covered by the Minister’s reference.

A second meeting was held on June 21, marking the start of first-reading substantive deliberations. That session focused specifically on share issuance.

Many comments today have also touched on the Companies Act. Going forward, we aim to listen closely to a wide range of stakeholders—including the FSA and METI—and ensure our discussions are well-informed and productive.

That concludes my remarks. Thank you.

[Kanda, Chair]

Thank you very much. Now, may we hear from METI?

[Nakanishi, Director, Corporate System Division, Economic and Industrial Policy Bureau, METI]

Thank you. I’m Nakanishi, Director of the Corporate System Division under the Ministry of Economy, Trade and Industry (METI). METI has also distributed reference materials, which are quite extensive, so I will focus only on the main points.

As mentioned earlier by the Financial Services Agency (FSA), progress has steadily been made over the past decade in initiatives such as the appointment of outside directors and the establishment of nomination and compensation committees. However, when we look at the last 10 years for Japanese listed companies, particularly large enterprises, we see that while ROE, P/E ratio, and P/B ratio have improved, there remains a measurable gap compared to Western firms. Levels of capital expenditure and investment in intangible assets—both vital sources of future growth—have remained flat. Similarly, levels of R&D expenditures and investment in human resources remain relatively low compared to Western firms.

On the relationship between companies and investors, while shareholder returns in the form of share buybacks and dividends have increased, there are indications that proper prioritization between investment for growth and shareholder returns is important. There are also ongoing concerns regarding the formal exercise of voting rights by some institutional investors, highlighting the need for substantial stewardship activities.

In this context, METI believes that for companies to actively reallocate management resources towards investment for growth, to create high added value and to enhance what we call "Growth Power", the key term of today, it is quite important to establish and execute medium- to long-term growth strategies.

To support these efforts, effective corporate governance is vital. METI aims to build a policy framework centered on corporate growth strategies and has formulated guidance to deepen governance practices. We've also outlined issues within the broader social system and proposed directions for future policy development.

To that end, under the chairmanship of Professor Kanda—who is also with us today—we established a Study Group on Corporate Governance for Enhancement of Growth Power last September. In April of this year, we published the "Corporate Governance Guidance for Enhancement of 'Growth Power,'" which outlines foundational concepts, approaches for advancing initiatives, key discussion points, examples of approaches and initiatives to support autonomous initiatives by individual companies, for corporate governance initiatives aiming at enhancement of "Growth Power".

In addition, we extracted the key messages of this guidance and summarized it into "Five Principles for board of directors to Enhance 'Growth Power.'" This presents the key considerations that the board of directors should take into account when pursuing the corporate management aimed at enhancing their "Growth Power", contrasted with the actions that the management team should take.

Furthermore, in May, we issued an interim report from the Subcommittee on Value Creation Management —also included in the latter part of the materials distributed today. In that report, we categorized all listed companies into corporate group quadrants (1) through (4) based on return on capital (e.g., ROE) and growth expectations (e.g., P/B ratio). For each quadrant, we identified: Effective corporate actions that we believe are of high priority when companies seek to transition to a quadrant of higher return on capital and growth expectations and the social system challenges that hinder the implementation of these actions; and the direction of the consideration of the policy to address them.

For example, companies with high growth expectations should prioritize aggressive growth investments over shareholder returns to strengthen their earnings base. The challenges for these cases include fundraising for large-scale and high-risk investments.

Drawing on these findings, we understand that discussions on revising the Corporate Governance Code will be led by the FSA. METI will continue to work closely with the FSA, Tokyo Stock Exchange, the Ministry of Justice, and other relevant institutions. We remain committed to contributing to discussions that deepen corporate governance initiatives, with the goal of enhancing "Growth Power" of Japan's listed companies, supporting sustainable growth, and increasing medium- to long-term corporate value. Thank you.

[Kanda, Chair]

Thank you very much. Unfortunately, we are now over time, so we will bring today’s meeting to a close. Thank you all for your active and thoughtful participation.

As for the next steps, we have received a great many comments today regarding the proposal of “Following up on the Action Program and Suggested Future Policy Priorities” presented in Material 2. There were divergent views on some points, all of which are significant. Given the difficulty of convening another session, we would like to proceed by coordinating via email. Once this coordination is completed, we plan to publish the finalized document on the websites of the FSA and the Tokyo Stock Exchange.

We appreciate your continued cooperation in this process. After your final review, we would also like to request your consent for me, as Chair, to make final adjustments to wording and expressions for consistency and clarity. May I ask for your approval on this?

[Voices: “No objection.”]

Thank you very much. We will proceed accordingly. We will be in touch with you again shortly, so we kindly ask for your continued cooperation.

With that, we will now conclude today’s meeting. Thank you all very much for your active and dedicated participation over this extended session.

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