

Statement for the 30th Council of Experts Concerning the Follow-up of Japan's
Stewardship Code and Japan's Corporate Governance Code

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As I am unable to attend this follow-up council meeting due to some reasons, I would like to briefly share my recent thoughts on the relationship between listed companies and securities markets and investors.

1. The years since the Codes were first presented in 2014 and 2015 have enriched the content of the Codes. In principle, it would not be necessary to add any more content. It may be necessary to add something, but if so, action is required to remove or set aside what is no longer needed. Furthermore, ideally, companies and investors, including asset owners, should fully understand the spirit of the Codes and take voluntary and progressive action, if necessary, even if not indicated in the Codes.
2. Companies seem to be making good progress in addressing the Code, but whether it can be objectively evaluated is uncertain. The current situation is that so-called activists are taking advantage of companies that are not being evaluated as with good corporate governance. A considerable proportion of such companies may have improved in the quality of management after activist intervention. Regardless of whether this perception is appropriate or not, there is a strong need for the effective implementation the Code by companies.
3. Investor responses also vary. This is partly due to the lack of the ability of investors, but in many cases asset owners, who are at upstream of investors, place excessive demands on asset managers in terms of reporting volume, leading to "broad and shallow" dialogue. This is at the other end of the activists' "narrow and deep" approach. It will be important for asset owners to narrow down the investment targets of passive management (for example, by referring to the S&P500, the representative index in the US).
4. In this regard, it is commendable that JPX has started calculating and publishing the JPX-Nikkei Index Human Capital 100, an index focusing on human capital. This means that the JPX has started screening companies that are effectively compliant with the Code. In other words, the JPX has

started acting as an activist in the original sense. Exemplified by such a selection of companies from the perspective of the Code, it is becoming an important stage for investors to select listed companies as a basis for dialogue referred to in the Code.

5. Going into details a little, but I understand that the total amount of personnel expenses (including labour costs) cannot be obtained from the disclosed information. If this figure is not provided, the total added value produced by companies cannot be grasped. In other words, we cannot know the "volume of corporate contributions to society." Therefore, no matter how much non-financial and qualitative information on human resources is provided, investors' needs are not satisfied.