

# Corporate Governance Reform in Japan

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Japan Corporate Governance Forum at the ICGN 2023 Annual Toronto Conference



金融庁

Financial Services Agency, the Japanese Government

21 June 2023, 13:00-13:45

The Quebec Room, Mezzanine Floor

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## **I. Action program for Accelerating Corporate Governance Reform**

II. Review of the tender offer rule & the large shareholding reporting rule

III. Sustainability Disclosure

# Action Program for Accelerating Corporate Governance Reform

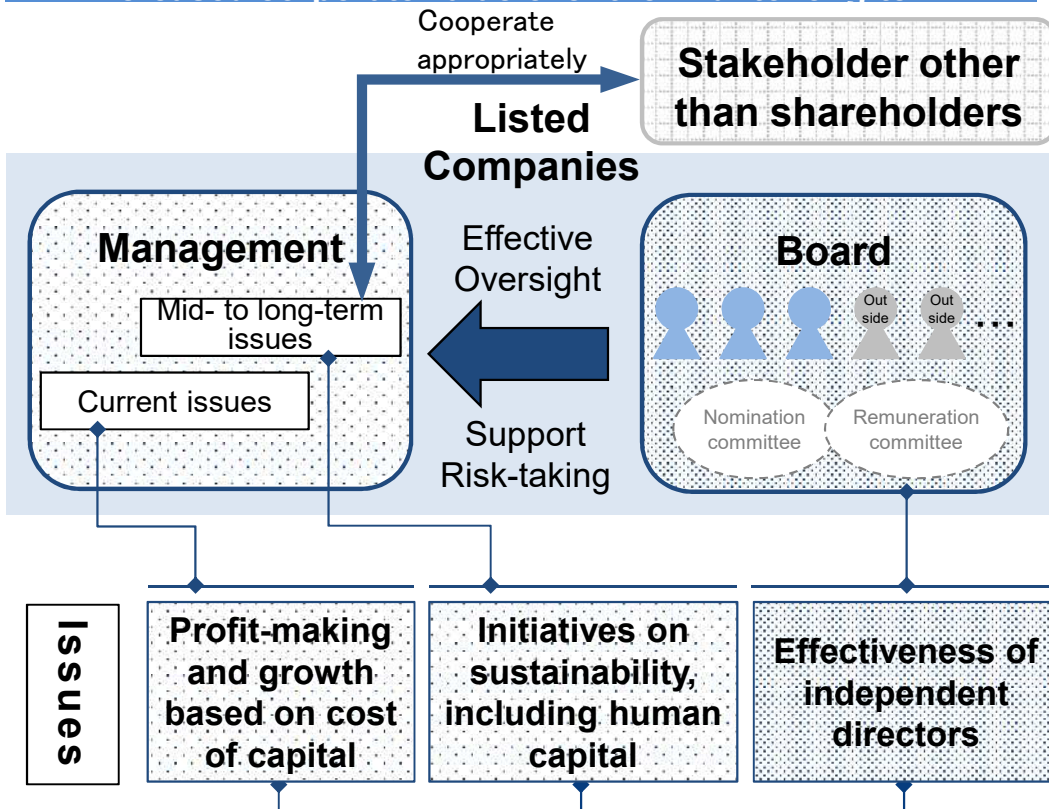
- The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code published recommendations regarding "Action Program" as of April 26. The Council will review the implementation status from time to time and consider whether additional measures are needed.

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

### Approach to future initiative

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

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



### Specific measures

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

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

#### B) Encouraging the management with an awareness of sustainability issues

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

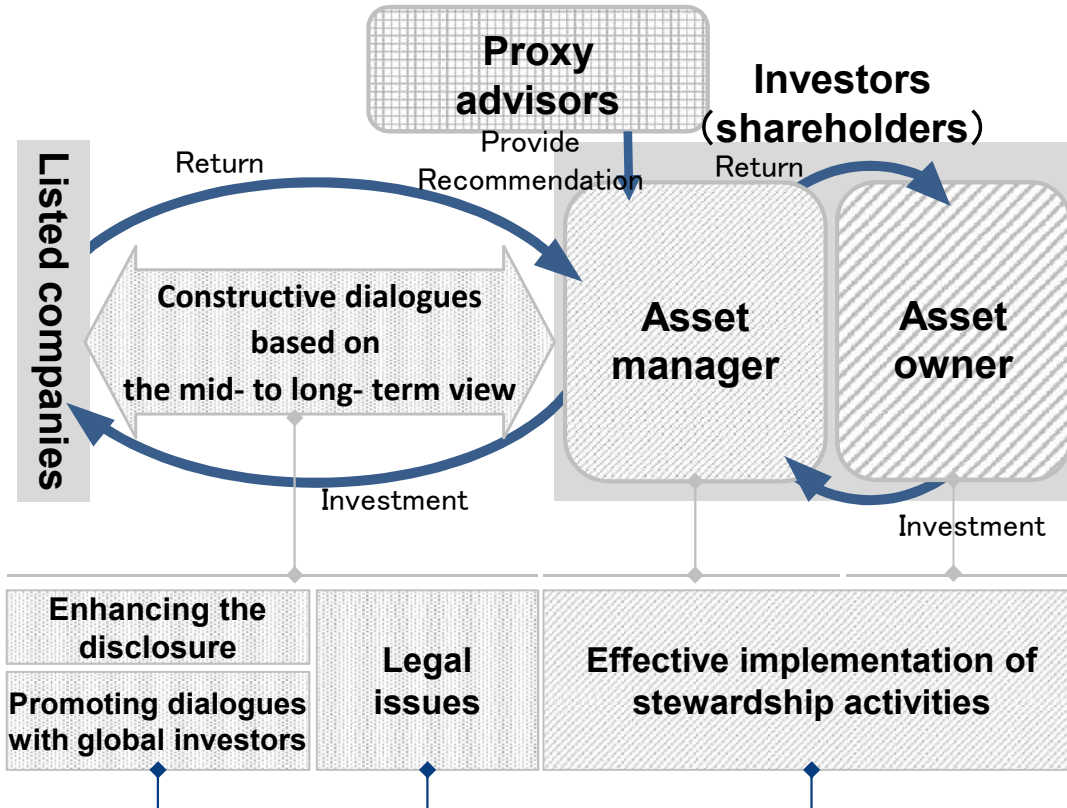
#### C) Improving the effectiveness of independent directors

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

# Action Program (cont.)

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

### 2. Issues related to dialogue between companies and investors



### Specific measures

#### A) Effective implementation of stewardship activities

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

#### B) Enhancing the disclosure as a basis for dialogue

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

#### C) Promoting dialogues with global investors

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

#### D) Resolving legal issues

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

#### E) Resolving market environment issues

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

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I. Action program for Accelerating Corporate Governance Reform

**II. Review of the tender offer rule & the large shareholding reporting rule**

III. Sustainability Disclosure

# Review of the tender offer rule & the large shareholding reporting rule

- At a joint session of the general meeting of Financial System Council and the meeting of Sectional Committee held in March 2023, the following consultation was delivered: **in light of securing transparency and fairness of the market and promoting constructive dialogue between companies and investors, the tender offer rule and the large shareholding rule should be reviewed.**
- A working group was established** to consider the following main issues based on recent changes in circumstances on June 5, 2023.

## Recent Changes in Circumstances

## Main Issues

### Tender offer rule

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

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

### Large shareholding reporting rule

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

- Clarification of eligibility to use special reporting**
- Clarification of the scope of joint holders**
- Clarification of treatment of cash-settled equity derivatives

### Beneficial shareholders transparency

- Measures to ensure transparency of beneficial shareholders**

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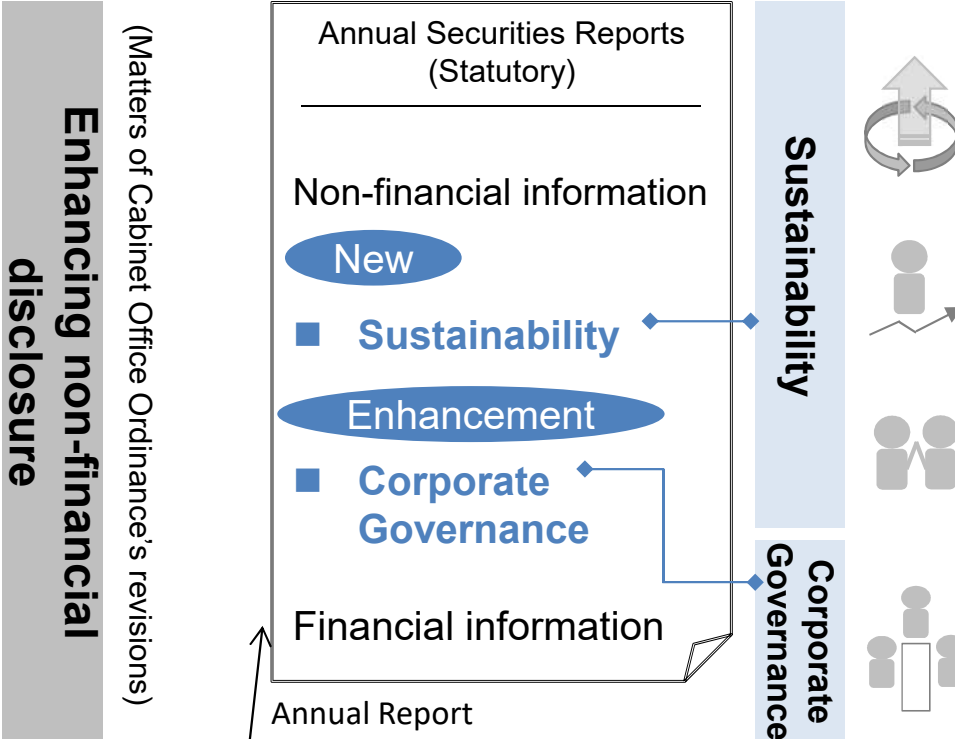
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# Summary of Report by the Working Group on Corporate Disclosure of the Financial System Council (published on June 13, 2022)

□ The Working Group on Corporate Disclosure has discussed enhancing disclosure of non-financial information and improving efficiency of disclosure in light of recent changes in economic and social circumstances. The summary below is based on the discussions.



### General

- A new section for disclosure of sustainability information will be created
  - "Governance" and "Risk Management" will be disclosed by all issuers.
  - "Strategy" and "Metrics and Targets" will be disclosed under materiality judgement by an issuer.

### Human capital

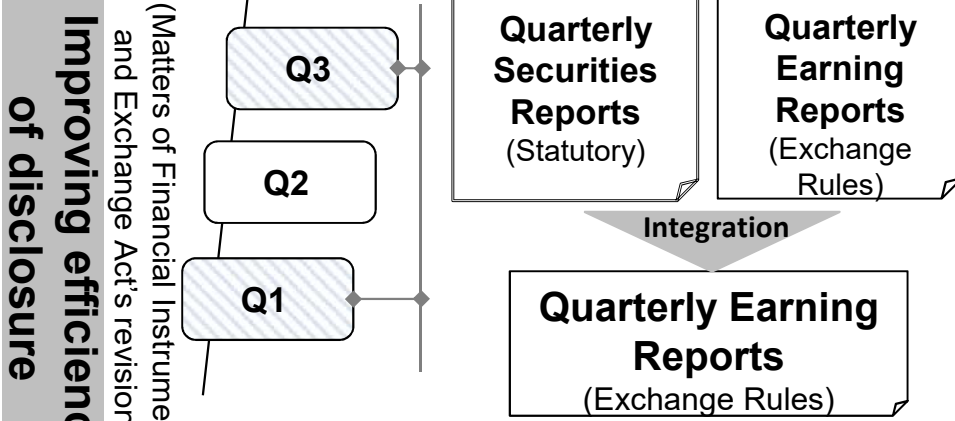
- "Human resource development policies" and "Policies on improving workplace environment" will be added to disclosure items.

### Diversity

- "Gender pay gap," "Ratio of women in managerial positions," and "Ratio of male workers taking childcare leave" will be added to disclosure items.

### Functioning of the Board of Directors

- A new section for disclosure of activities of the Board of Directors, Nomination Committee, and Remuneration Committee will be created.



### Revision of Quarterly Disclosure System

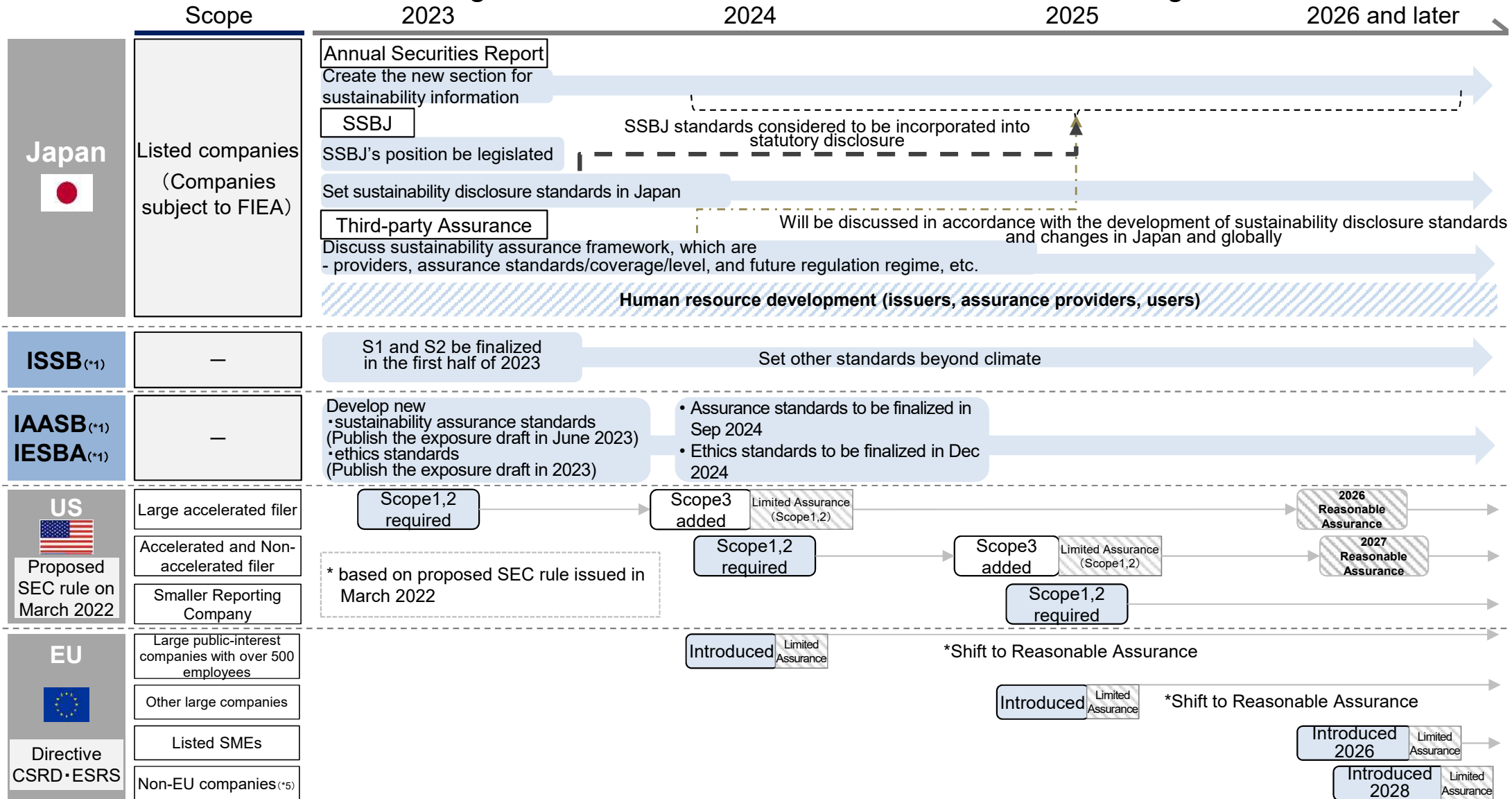
- The quarterly disclosure requirements under the Financial Instruments and Exchange Act (Q1 and Q3) will be abolished and integrated into quarterly earning reports based on the Exchange Rules.
- Continue discussions on issues for materializing the integration, such as consideration regarding disclosure obligation, content of disclosure, enforcement against false statements and review by audit firms.

(Note) In addition to the above, clarification of disclosure requirements for material contracts entered into by companies with other parties, and promotion of disclosure in English have been also summarized.



# Interim Roadmap for sustainability disclosure in Japan

□ In order to enhance the disclosure of sustainability information in Japan, the following initiatives can be considered while reviewing them as needed in accordance with future changes in circumstances.



(\*1) ISSB: International Sustainability Standards Board, IAASB: International Auditing and Assurance Standards Board, IESBA: International Ethics Standards Board for Accountants (\*2) For ISSB and US, description of proposed rules for climate-related disclosure (\*3) For US, Large accelerated filer is an issuer which meets the conditions including an aggregate worldwide market value of \$700 million or more, Accelerated filer is an issuer which meets the conditions including an aggregate worldwide market value of \$75 million or more, but less than \$700 million, Non-accelerated filer is an issuer which doesn't meet the conditions for large accelerated filer and accelerated filer, and Smaller Reporting Company is an issuer which meets the conditions including a public float of less than \$250. (\*4) In CSRD, SMEs are defined as all enterprises with less than 250 employees. (\*5) Non-EU companies with substantial turnover in the EU (\*6) In UK, the government published the roadmap for greening finance on October 2021. It is indicated in the roadmap to incorporate ISSB standards into statutory annual reporting as the initiatives for one to two years from 2023.



**Thank you for your attention.**

**We hear from you at  
[jcgf.secretariat@fsa.go.jp](mailto:jcgf.secretariat@fsa.go.jp)**



## Reference

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V. Overview of Asset-Income Doubling Plan

VI. Initiatives for International Financial Center

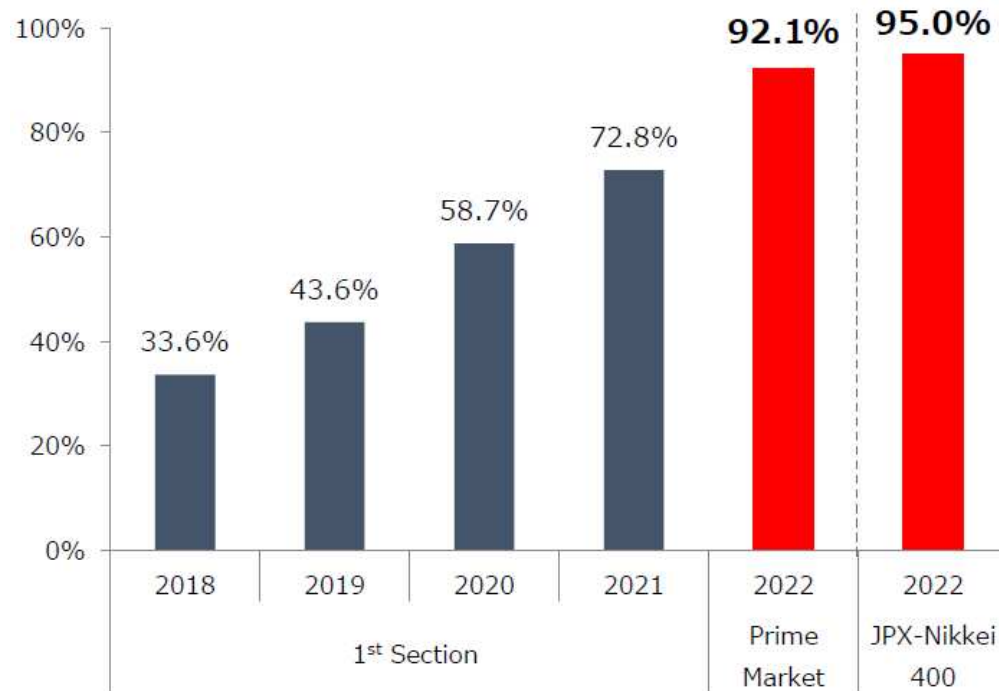
VII. the Code of Conduct for ESG Evaluation and Data Providers

# Proportion of Independent Directors in the Prime Market

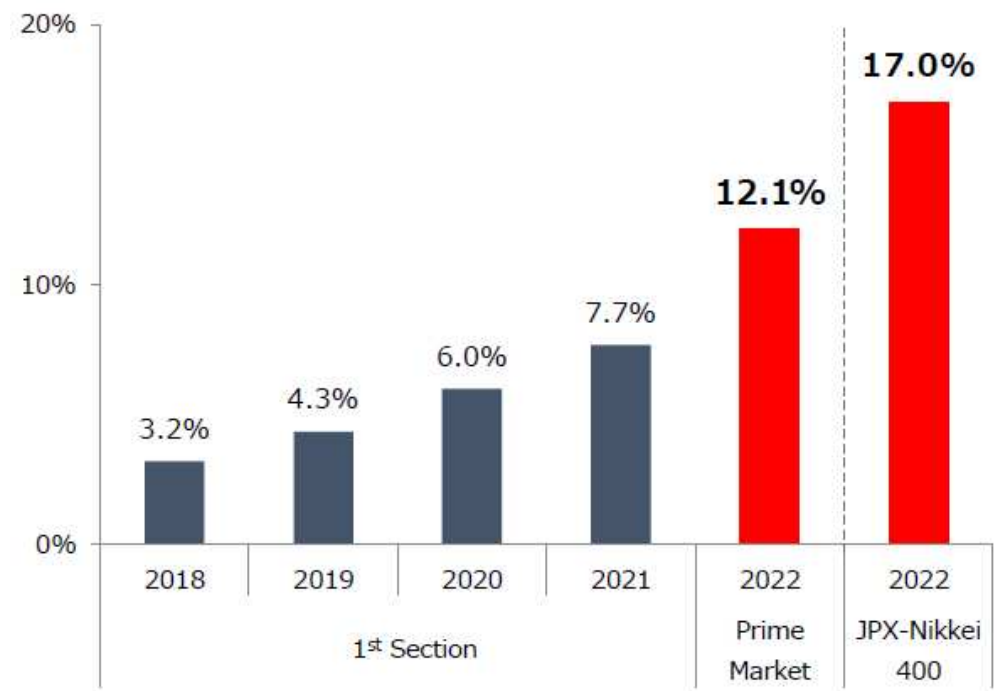
## [Principle 4.8 of the Corporate Governance Code]

- Over 90% Prime Market listed companies have 1/3 or more independent directors.
- 17% of JPX Nikkei 400 have a majority of independent directors.

**[Companies with 1/3 or more Independent Directors]**



**[Companies with Majority Independent Directors]**



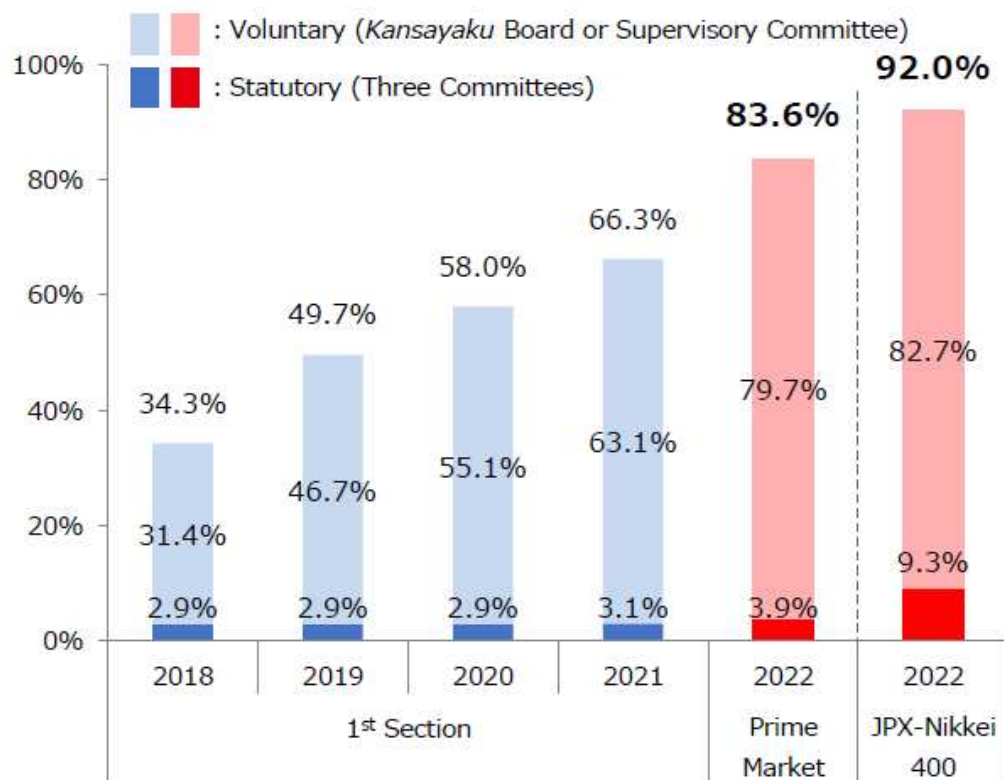
Source: Excerpts from "Response of Listed Companies regarding Revised Corporate Governance Code (As of July 14, 2022)", Tokyo Stock Exchange, Inc. August 3, 2022", partially processed by FSA

# Nomination / Remuneration Committees

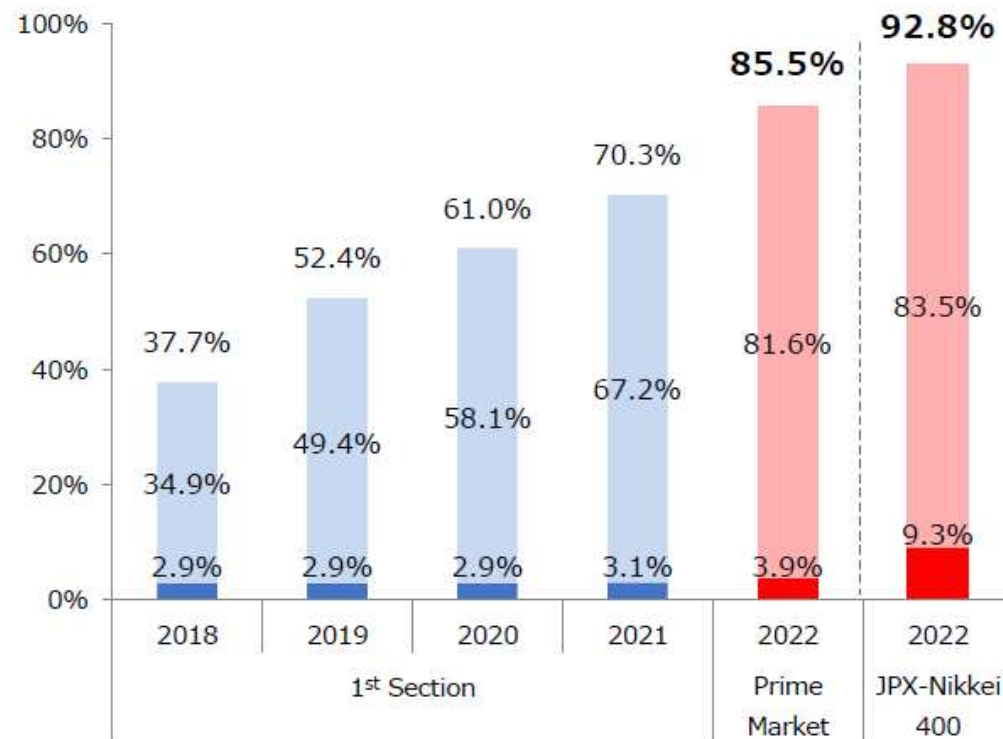
## [Supplementary Principle 4.10.1 of the Corporate Governance Code]

- **About 80%** of companies at Prime Market have established statutory or optional Nomination / Remuneration Committees.

**[Companies with nomination committee]**



**[Companies with remuneration committee]**

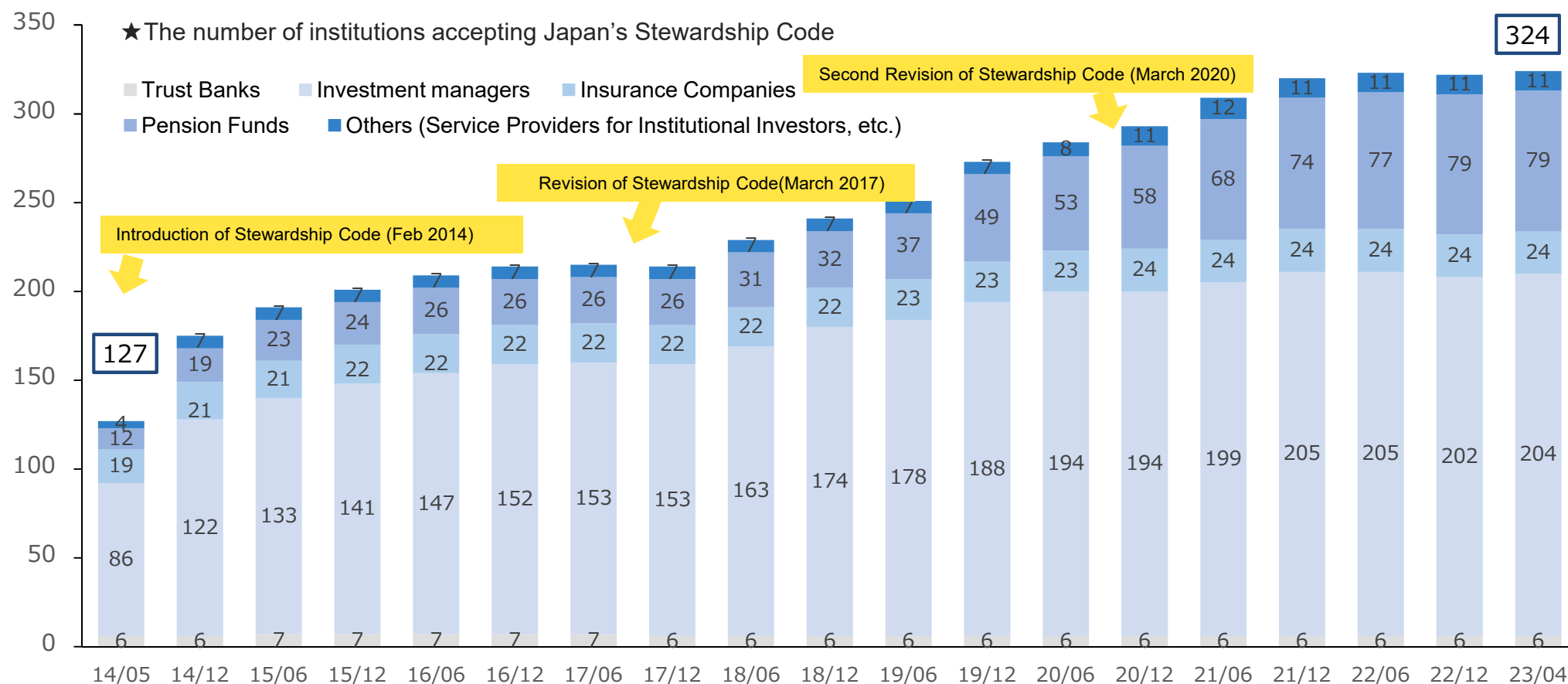


Source: Excerpts from "Response of Listed Companies regarding Revised Corporate Governance Code (As of July 14, 2022)", Tokyo Stock Exchange, Inc. August 3, 2022", partially processed by FSA

# Changes in number of institutions accepting Japan's Stewardship Code

■ The number of institutions accepting Japan's Stewardship Code has continued to increase since the introduction of the Code on February 2014. 324 institutional investors have accepted the Code as of April 30, 2023.

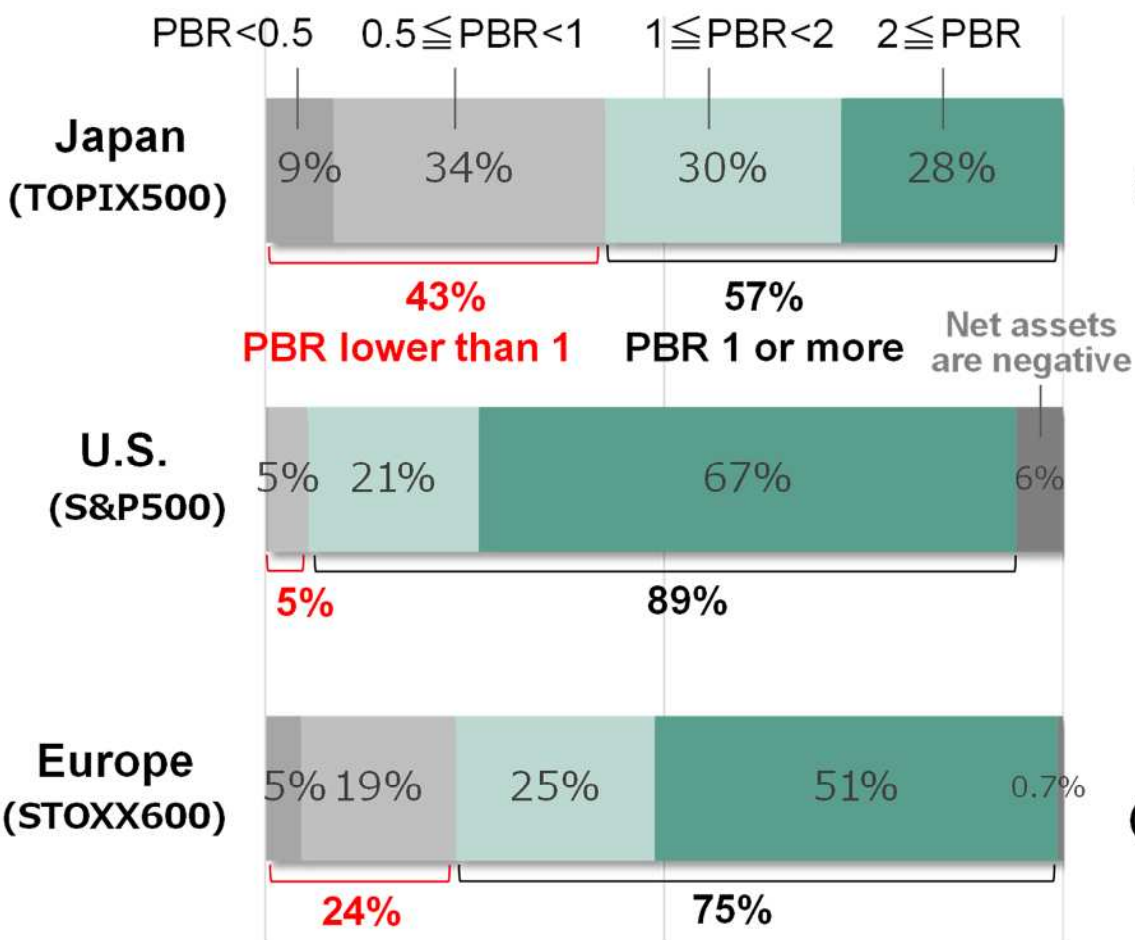
■ 297 institutional investors\* have accepted 2020 revised version of Japan's Stewardship Code as of April 30, 2023. (\* 6 Trust Banks, 184 Investment managers, 24 Insurance Companies, 73 Pension Funds, 10 Others)



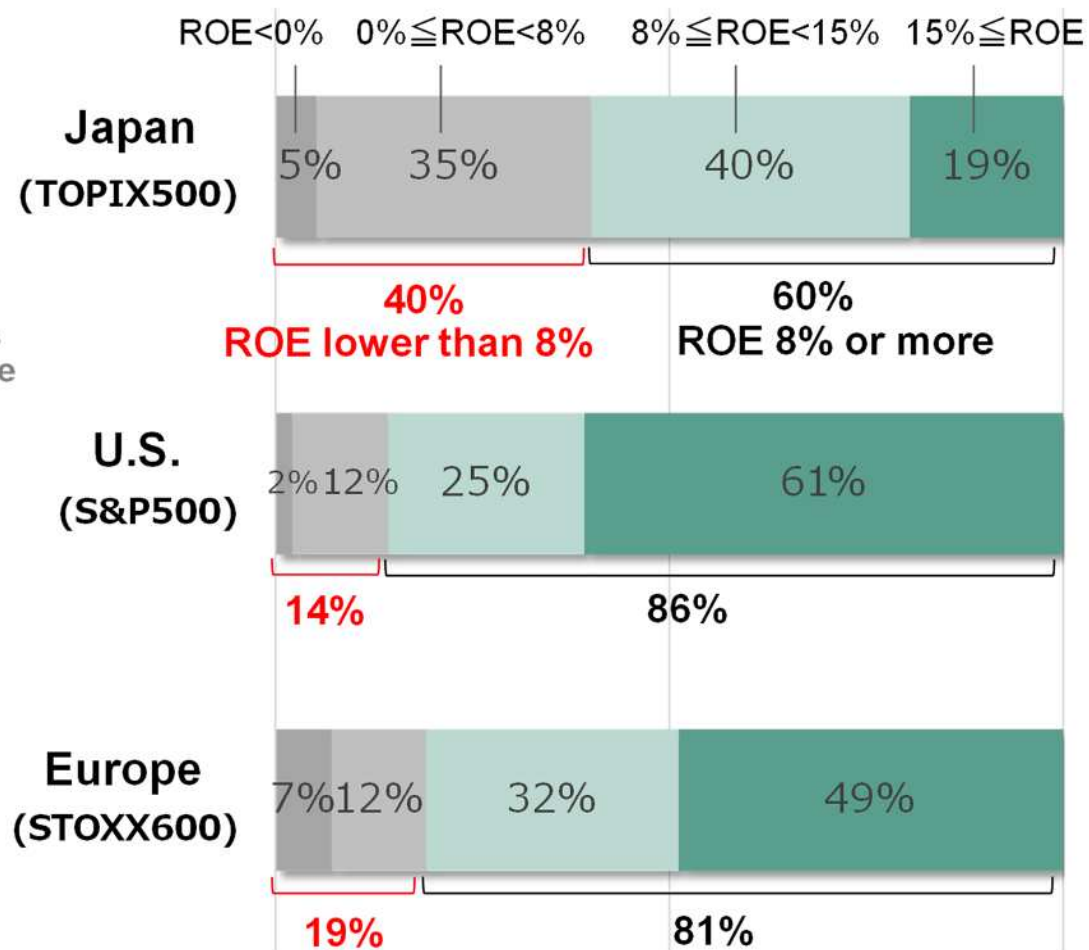
# International comparison of PBR and ROE

- 43% of Japan's major companies (TOPIX 500 constituents) have P/B ratios below 1 and 40% have ROE below 8%.

## Global Comparison of PBR (major companies)



## Global Comparison of ROE (major companies)



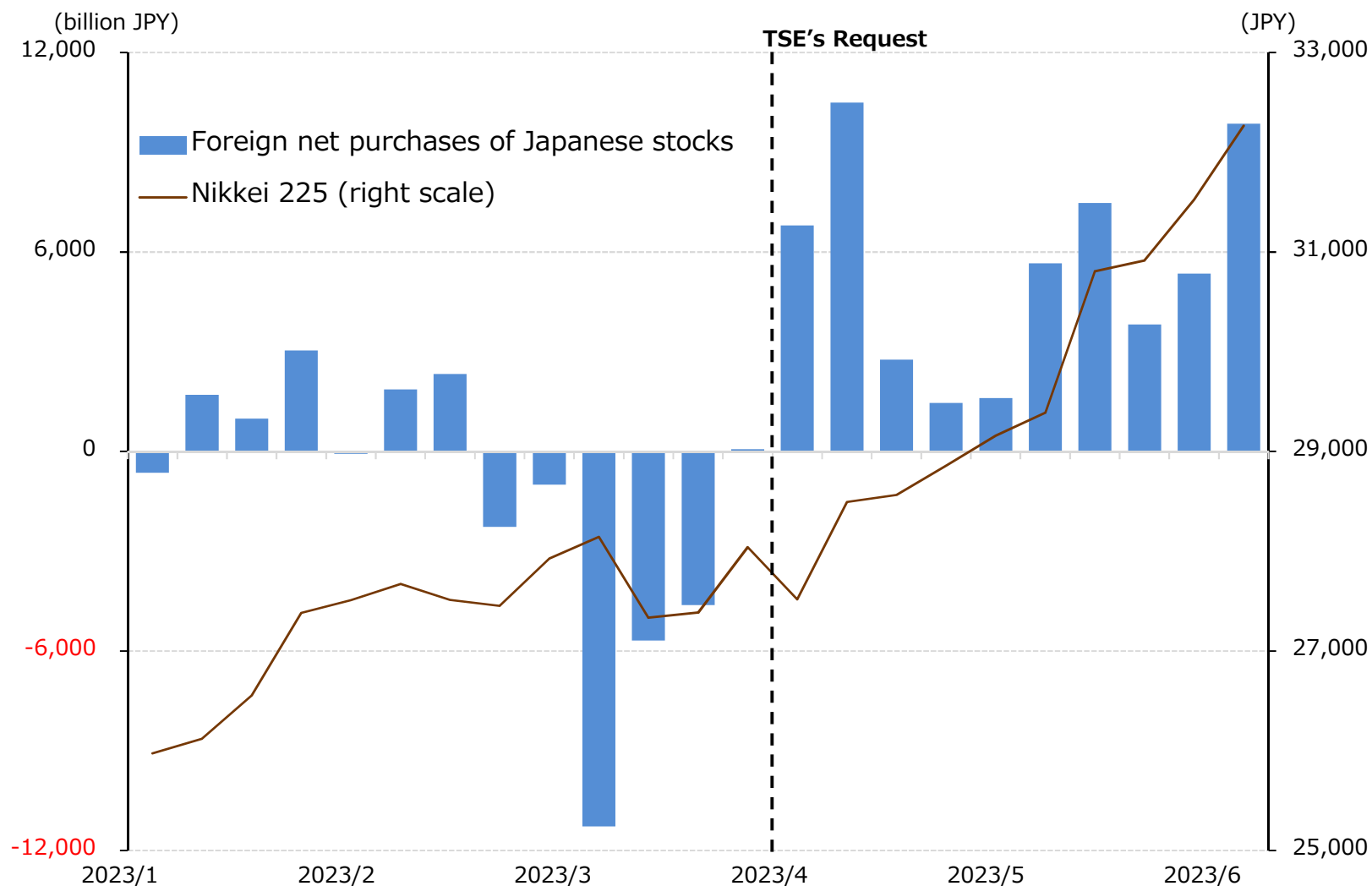
Note: Compiled by TSE based on Bloomberg data as of July 1, 2022.



# Foreign net purchases of Japanese stocks and Nikkei Stock Average

- At the end of this March, Tokyo Stock Exchange made a request to listed companies to think more carefully about the significance and the costs of being a publicly traded company.
- Foreign net purchases of Japanese stocks and Nikkei Stock Average has been rising after this April.

**[Foreign net purchases of Japanese stocks and Nikkei 225]**



Source: "Trading by Type of Investors", Tokyo Stock Exchange, and Bloomberg.

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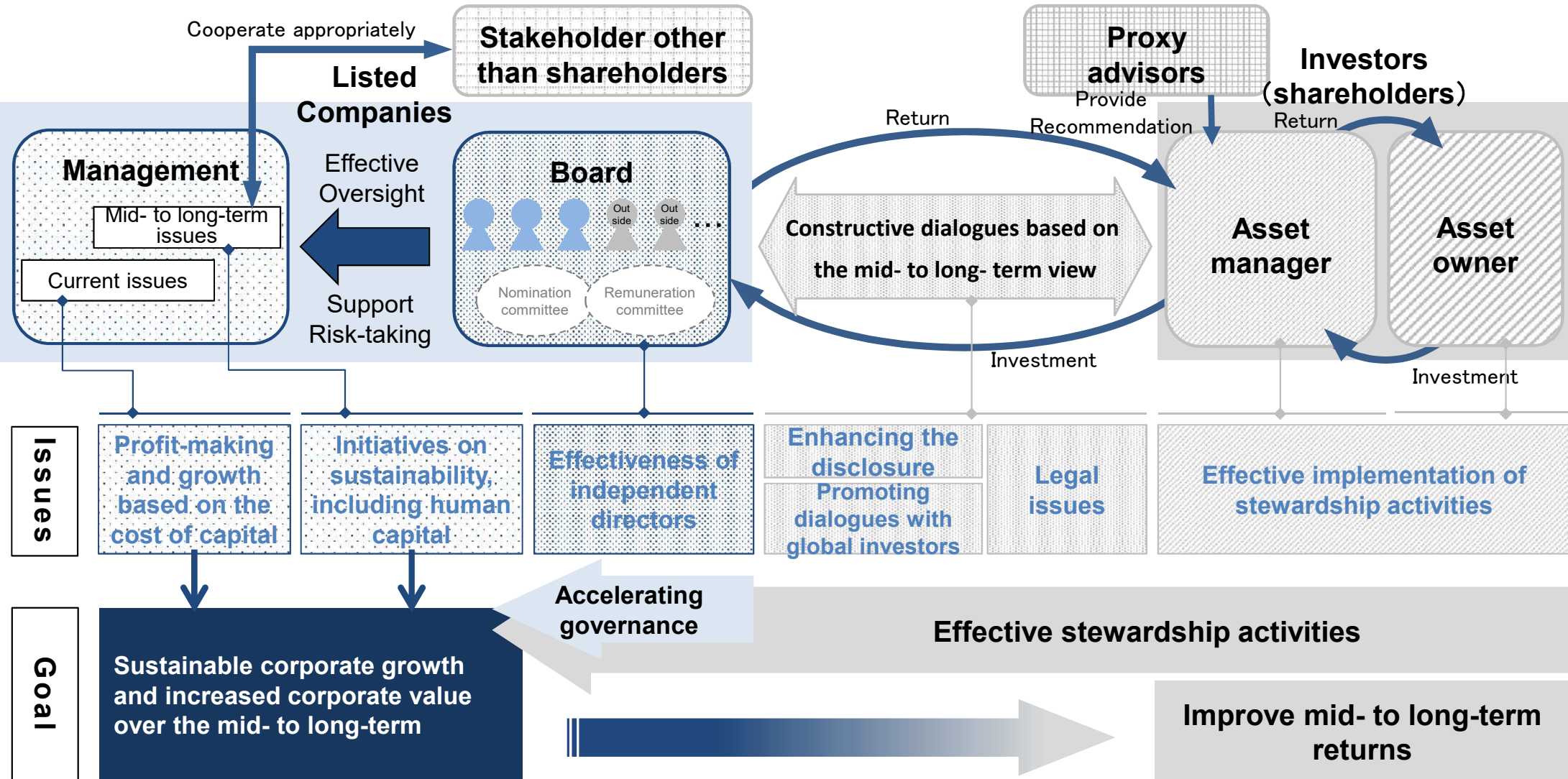
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# Issues for corporate governance reforms

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

## Corporate Governance Code

## Stewardship Code



# Japan Corporate Governance Forum

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

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

JCGF event history

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

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

Main opinions in JCGF

## General

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

## Issues related to management and effectiveness of independent directors

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

## Issues related to dialogue between companies and investors

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

# Survey on Stewardship Activities (1)

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

Issues pointed out as a result of the survey

- |  |  |
|--|--|
| 1<br>Lack of resources (human resources and time) for engagement         | <ul style="list-style-type: none"><li>● <b>There is a shortage of human resources with the necessary skills and capabilities to conduct effective stewardship activities</b> at each asset management firm and in the industry as a whole.</li><li>● In cases where it is difficult to secure and develop sufficient human resources in-house, it is expected that external knowledge will be utilized through collaboration with other asset managers, including collaborative engagement. However, <b>the interpretation of "joint holders" under the large shareholding reporting rule is unclear</b>, and the <b>burden of the collaboration is concentrated in some asset managers</b>, so resources may not be sufficiently supplemented through the collaboration.</li><li>● As a result of the selection of companies for engagement, <b>small and medium-sized companies tend to be excluded</b>.</li></ul> |
| 2<br>Insufficient behavioral changes and attitudes at investee companies | <ul style="list-style-type: none"><li>● <b>Engagement (dialogue) and exercise of voting rights by asset managers may be perceived by companies as formalistic</b> and may not lead to behavioral changes because companies are not convinced by them.</li><li>● There is a possibility that in-depth engagement has not been conducted because the interpretation of "act of making important suggestions" is unclear under the large shareholding reporting rule.</li></ul>   |
| 3<br>Room for improvement in process development (PDCA cycle)            | <ul style="list-style-type: none"><li>● <b>Asset owners may not have sufficient evaluation and monitoring resources.</b></li></ul>   |
| 4<br>Lack of incentives to allocate costs and budgets to activities      | <ul style="list-style-type: none"><li>● <b>Stewardship activities by asset managers may not be appropriately reflected in the selection and compensation of asset managers.</b></li></ul>  |



# Survey on Stewardship Activities (2)

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

## Initiatives to Resolve Issues

- |   |  |
|---|--|
| <p>1</p> <p>Wide-ranging collaborative efforts among asset managers</p> | <ul style="list-style-type: none"> <li>Based on the self-assessment of each asset manager's individual issues, it is worth considering <b>the establishment of a forum</b> in which asset managers can widely cooperate <b>to exchange views on the appropriateness of the issues recognized by each asset manager and the effectiveness of efforts to resolve them, and to examine specific measures.</b></li> <li>As an issue for the whole asset management industry, <b>an appropriate framework should be established to avoid a situation in which some asset managers are forced to bear an excessive burden</b> in terms of collaboration with other asset managers, including collaborative engagements. It is also expected that <b>the asset management industry as a whole will cooperate in efforts to attract new talent.</b></li> </ul> |
| <p>2</p> <p>Efforts between asset managers and asset owners</p>         | <ul style="list-style-type: none"> <li><b>Asset managers should report to asset owners on their own issues and efforts to resolve them, as well as appropriately reflecting evaluations received from asset owners in future efforts.</b></li> <li><b>Asset owners should appropriately evaluate the appropriateness of the asset manager's recognition of issues and the effectiveness of efforts to resolve them</b> based on the above reports, and <b>appropriately monitor future efforts. It is also expected that the results of evaluation and monitoring will be reflected in the selection of the asset manager and the setting of compensation.</b></li> </ul>  |
| <p>3</p> <p>Wide-ranging collaborative efforts among asset owners</p>   | <ul style="list-style-type: none"> <li>It is important for asset owners to have sufficient knowledge and operational resources for assessment and monitoring.</li> <li><b>In cases where it is difficult for each asset owner to secure sufficient knowledge and operational resources independently, it is worth considering taking measures such as evaluating and monitoring asset managers in collaboration with asset owners who have sufficient knowledge and operational resources</b> as needed.</li> </ul>  |
| <p>4</p> <p>Follow-up by the administrative authorities</p>             | <ul style="list-style-type: none"> <li>The administrative authorities should appropriately follow up on the effectiveness of each of the above initiatives and, if necessary, take further measures to promote them.</li> <li><b>Regarding the ambiguity of the interpretation of "joint holders" and "important suggestions" under the large shareholding reporting rule, efforts should be made to resolve the issues.</b> At the same time, <b>the transparency of beneficial shareholders should be improved</b> so that companies that are not subject to engagement by asset managers can themselves ask for dialogue with asset managers.</li> </ul>  |

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# Act to Partially Amend the Certified Public Accountants Act and the Financial Instruments and Exchange Act Outline

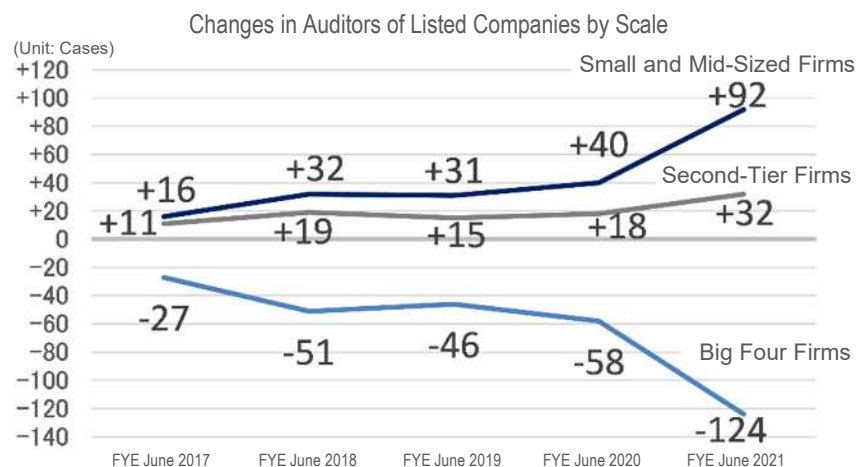
The amendment has been promulgated on May 19 2022, and will come into effect within a period not exceeding one year from the date of promulgation

The amendments establish a system for certified public accountants (CPAs) that would contribute to **ensuring the reliability of audits** and to **bringing out and cultivating CPAs' abilities**, in light of economic and social developments surrounding audits.

## Ensuring the Reliability of Audits

### Registration System for Auditors of Listed Companies

Background: A broadening base of audit firms undertaking listed companies' audits



- A legal **framework would be established** requiring auditors of listed companies **to register**. [Article 34-34-2 and other provisions of the CPA Act]
- **Eligibility would be verified** by the Japanese Institute of Certified Public Accountants (JICPA) at the time of registration. [Article 34-34-6 of the CPA Act]
- A registrant would be required to maintain **proper operations and management**. (e.g. Adoption of the Audit Firm Governance Code and enhancement of disclosures) [Article 34-34-14 of the CPA Act]
- \* Listed companies would be required to be audited by registered audit firms. [Article 193-2, paragraphs (1) and (2) of the Financial Instruments and Exchange Act]

### Monitoring by the Certified Public Accountants and Auditing Oversight Board (CPAFOB)

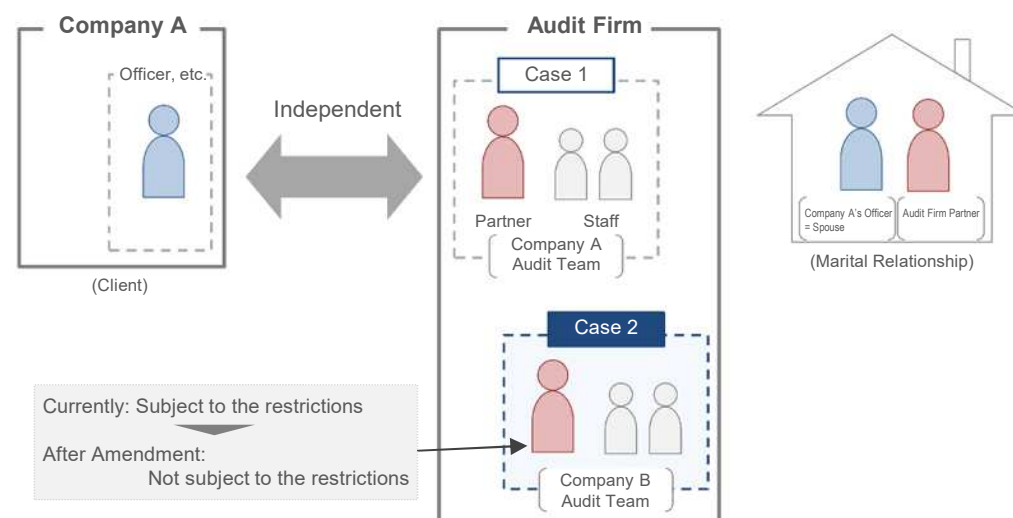
- The CPAFOB's authority for monitoring (e.g. inspections) would be amended. [Article 49-4, paragraph (2) of the CPA Act]

## Bringing Out and Cultivating CPAs' Abilities

### Modification of Restrictions Based on Marital Relationships

Background: Increase in dual-earner households, growing scale of audit firms

- **The coverage of these restrictions would be narrowed** to the partners participating in each audit. [Article 34-11, paragraph (1) of the CPA Act]  
(Under the current regulations, these restrictions cover all partners, regardless of whether or not the partner in question is participating in the audit.)



#### < Others >

- **Work location would be added as an item to be registered** for CPAs in business. [Article 17 of the CPA Act]
- The **period of practical experience** required for eligibility would be revised (from two years to three years). [Article 3 of the CPA Act]
- **Provisions on disqualification** would be introduced for CPAs not engaging in continuing professional education. [Article 21 of the CPA Act]
- **Accounting education activities** by the JICPA would be strengthened. (Accounting education activities would be added as an item in the JICPA's constitution.) [Article 44, paragraph (1) of the CPA Act]

# The Audit Firm Governance Code

(Original Code: March 31, 2017, First Revision: March 24, 2023)

- ❑ Previously, audit firms applied the Code on a voluntary basis, but audit firms that audit listed companies etc. have been obliged to **develop systems to conduct their business in line with the Code** and to **disclose enhanced information** with the amended Certified Public Accountants Act that shall take effect in April 2023. JICPA, self-regulatory organization for CPA in Japan, supports small and medium-sized audit firms to achieve these goals.
- ❑ The Council of Experts discussed the revision of the Code and compiled a revised version of the Code to achieve the following:
  1. Ensuring that the Code is appropriate for the **small and medium-sized audit firms** in enhancing the audit quality and disclosure
  2. Enhancing the disclosure of an audit firm's relationship to and positioning within the **global network**

By the “**comply or explain**” approach, **an audit firm should...**

## [Principle 1] The Role to be Accomplished by an Audit Firm

- Accomplish the public interest role.
- Enhance audit quality on a firm-wide basis.
- Develop an organizational culture of openness.

## [Principle 2] Management function

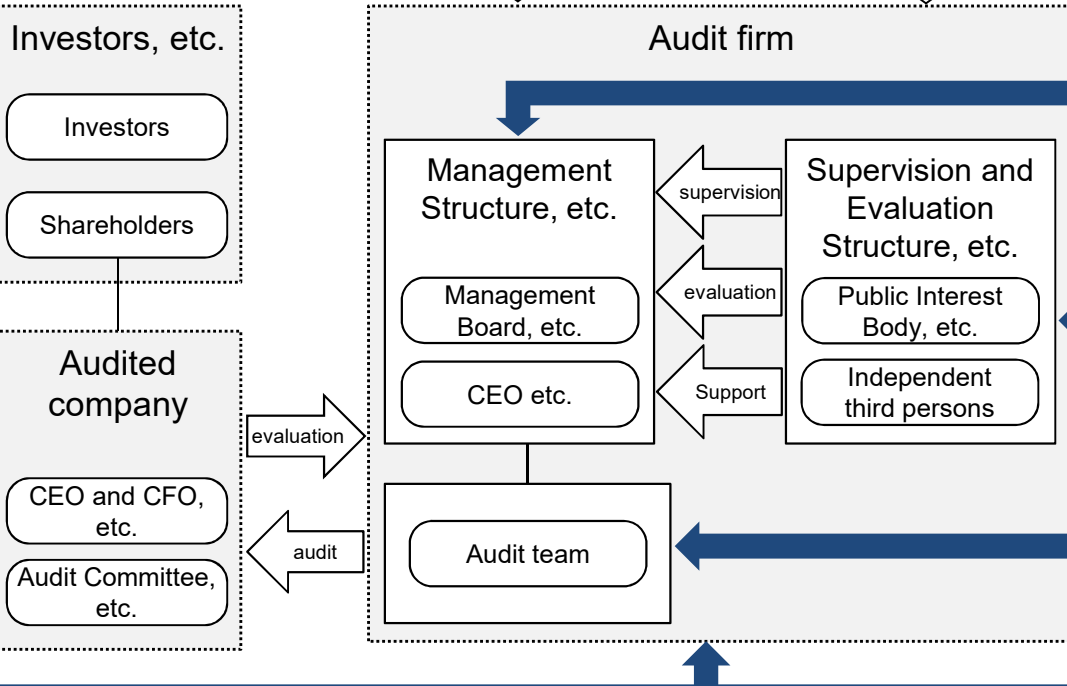
- Clarify the role of management.
- Appoint people who can perform management functions.
- Ensure effective management functions when an audit firm decides not to establish a management structure.

## [Principle 3] Supervision and Evaluation function

- Utilize independent third persons when an audit firm decides not to establish a structure responsible for supervision and evaluation.
- Clarify the role of the third person and audit firm's approach to independence.

## [Principle 4] Operation

- Facilitate information sharing between the management and audit team.
- Develop policies for managing people development and human resources management.
- Have in-depth dialogue with audited companies.



## [Principle 5] Ensuring Transparency

- Ensure the disclosure of the status of the Code's implementation and enhance the disclosure in terms of quality management, governance, IT and digitalization, human resources, finances, and international response.
- Enhance the disclosure of its relationship to and positioning within the global network (significance and purpose of participation in the global network, measures taken to mitigate risks and an overview of contracts, etc.), when an audit firm participates in a global network.
- Have proactive dialogue on an audit firm's information disclosure with capital market participants and improve management based on internal and external dialogue.

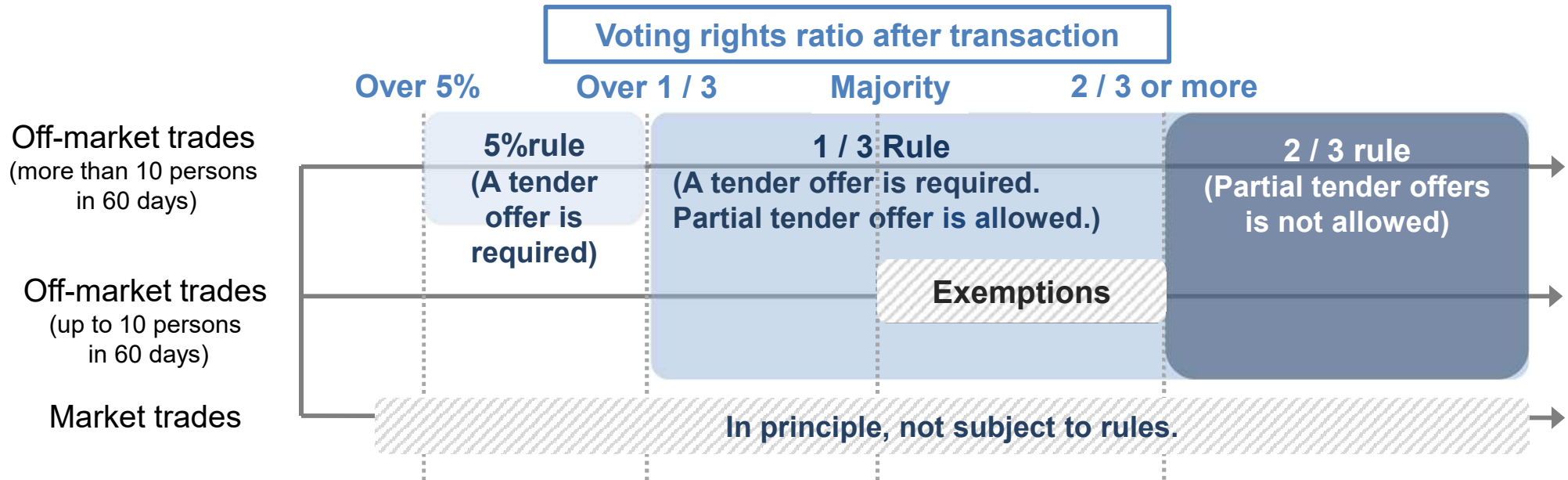
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# Overview of the Tender Offer Rule

- The tender offer rule forces a tender offer for the following transactions, and requires (i) prior information disclosure and (ii) equal treatment of shareholders in order to ensure the "transparency and fairness" of securities transactions that may have an impact on corporate control.

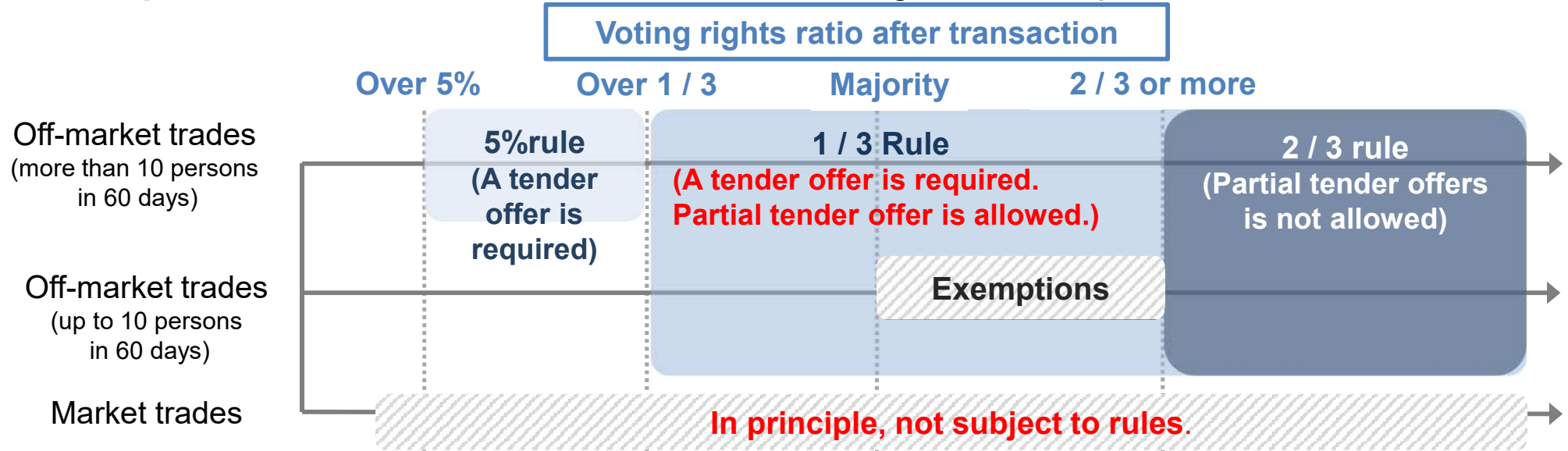


- The main regulations on the implementation of a tender offer are as follows:

Disclosure regulations	<ul style="list-style-type: none"> <li>✓ The offeror must disclose the volume to be purchased, the tender offer price and tender offer period in advance.</li> <li>✓ The target company must disclose the opinion with respect to the tender offer.</li> </ul>
Other regulations	<ul style="list-style-type: none"> <li>✓ A minimum tender offer period of 20 business days (a maximum of 60 business days) must be set.</li> <li>✓ The tender offer price shall be the same for all shareholders.</li> <li>✓ During the tender offer period, the offeror must not purchase shares other than through a tender offer.</li> <li>✓ The offeror must not change the terms and conditions to the disadvantage of shareholders.</li> </ul>

# Issues to consider

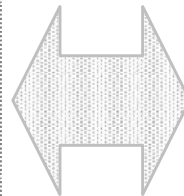
- It has been pointed out that (i) transactions in which more than 1 / 3 of the voting rights are acquired through market trades should also be subject to tender offer rule and (ii) the scope of the partial tender offer should be limited referring to the European tender offer rules.



Japan



- ✓ Transactions in which more than 1 / 3 of the voting rights are acquired through market trades are not subject to tender offer rule.
- ✓ Partial tender offer is allowed if the ratio of voting rights after the tender offer is less than 2 / 3.
- ✓ A offeror is required to initiate a tender offer for acquiring shares which would exceed the threshold (ex-ante approach).



Europe



- ✓ Regardless of the type of transaction, a tender offer is required when a certain threshold is exceeded.
- ✓ In principle, partial tender offer is not allowed.
- ✓ A offeror is required to initiate a tender offer after acquiring shares exceeding the threshold (ex-post approach).

# Overview of the large shareholding reporting rule

- ❑ The large shareholding reporting rule requires large shareholders to disclose the status of shareholdings in order to improve the transparency and fairness of the market by promptly providing the information.
- ❑ This rule is divided into “**general reporting**,” which is a basic disclosure type (cf. Regulation 13D in US), and “**special reporting**,” which allows special measures for institutional investors (cf. Regulation 13G in US).

## General Reporting

### Obligations of Large Shareholders

1. If an investor becomes a large shareholder (**more than a 5% stake**):
  - The investor must **submit a large shareholding report within five business days** of acquiring more than a 5% in a company.
2. If there are any significant changes such as **a 1% or greater increase/decrease** in the percentage of shareholdings following the submission of the large shareholding report :
  - The investor must **submit a change report within five business days of the change**.

## Special Reporting

### Outline of the Special Reporting Rule

The rule allows institutional investors who repeatedly and continuously execute buy/sell transactions of shares in their daily operations to report under relaxed frequency of and deadline for submissions.

<Details of the relaxation>

Only to **submit a "large shareholding report" and "change report" on the pre-registered bi-monthly reference date** and submit the report within five business days of the reference date.

< Eligibility to use special reporting>

1. The investor's ownership ratio does not exceed 10%.
2. **The investor is not committing to the Act of Material Proposal.**
3. It is necessary to register the reference date to the authority.

## Joint Holders

### Outline of Joint Holders Rule

**A shareholder is required to calculate its shareholding ratio by including the shareholding of a person that corresponds to any one of the following (“Joint Holder”)** .

1. A person that **has agreed to obtain or assign shares in cooperation with the shareholder**
2. A person that **has agreed with the shareholder to jointly exercise voting rights** and other shareholder rights.
3. A person that has a special relationship with the shareholder, such as a certain capital relationship or a family relationship.



# Issues to consider

- ❑ From the viewpoint of promoting effective engagement with companies by investors, it has been pointed out that **the scope of "material proposal" should be limited or clarified.**
- ❑ It has been pointed out that **the scope of "joint holders" should be limited or clarified** from the viewpoint of promoting collective or collaborative engagement..

## General Reporting

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# Transparency of beneficial shareholders

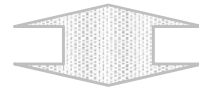
- ❑ It has been pointed out that **the transparency of beneficial shareholders should be improved with reference to systems in other countries** in order to promote dialogue between companies and investors.

(\*)The term "**Beneficial shareholder**" here **means** a person who is not a shareholder on the shareholder register (nominee shareholder) but **who has the authority to give instructions on voting right and investment**.

Japan



- ❑ As for nominee shareholders, there is a system for companies and other shareholders to identify through shareholder register or disclosure of major shareholders in annual securities reports.
- ❑ On the other hand, as for beneficial shareholders, there is no system for companies or other shareholders to identify unless they are subject to the large shareholding reporting rule (more than 5%).
- ❑ Many companies outsource (at cost) the search for beneficial shareholders to research firm.



## Systems in other countries

US



- An institutional investment manager that exercises investment discretion over \$100 million or more in Section 13(f) securities such as equity securities that trade on a national securities exchange must report its holdings including the name of the issuer and class, the CUSIP number, the number of shares and the total market value quarterly on Form 13F with SEC. Form 13F filings are publicly disclosed on EDGAR database.

UK



- A public company may give notice to any person whom the company knows or has reasonable cause to believe to be interested (or to have been interested in previous 3 years) in the company's voting shares
- Those who received such notice are required to confirm whether or not it is the case, and if he or she holds or has held any such interest, to give further information including the number of shares and the identity of persons interested in the shares in question within such reasonable time as may be specified in the notice.

## Reference

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- I. Data regarding the progress of corporate governance reform
- II. Review of the corporate governance reform
- III. Audit reform
- IV. Review of the tender offer rule & the large shareholding reporting rule
- V. Overview of Asset-Income Doubling Plan**
- VI. Initiatives for International Financial Center
- VII. the Code of Conduct for ESG Evaluation and Data Providers

# Overview of Asset-Income Doubling Plan (1)

Approved by Council of New Form of Capitalism  
Realization on November 28, 2022

## □ Basic Concept

- Looking at New Form of Capitalism from the viewpoint of the flow of funds, it is important to increase income from financial assets in addition to earned income by utilizing cash deposits in households for investment.
- If an environment is developed in which it is easy for the middle class to invest in assets with high returns, household income from financial assets will expand. If household funds become the source of growth investment for companies, corporate value will increase. If corporate value increases, household income from financial assets will further expand, realizing a "virtuous cycle of growth and asset income".
- In the past, there was an image that investment in stocks and investment trusts was carried out by some wealthy people. However, with the progress of digitalization, it is possible to greatly expand the asset income of the middle class by developing a system in which a wide range of people, including those with little investment experience, can participate in asset formation.

## □ Goal

1. In five years, double the total number of NISA\* accounts (from 17 million to 34 million) and the amount of NISA purchases (from 28 trillion yen to 56 trillion yen).
2. Thereafter, aim to double household investment (the total balance of stocks, investment trusts, bonds, etc.), and through achieving these goals, also aim to double asset management income itself as a long-term goal.

\*Short for Nippon Individual Savings Account, the small investment tax exemption system for individuals.

## □ Direction

- Given the importance of making NISA simple, easy to understand and use, the need to widely disseminate the effectiveness of diversified long-term deposit investment, and the need to develop an adviser system that is neutral and reliable for consumers, promote the following seven pillar initiatives in an integrated manner toward doubling asset income.
- Tax measures will be considered in the future tax reform process.

# Overview of Asset-Income Doubling Plan (2)

Approved by Council of New Form of Capitalism  
Realization on November 28, 2022

## □ Seven Pillars

### **1: Fundamentally expand and make permanent NISA, which shifts household financial assets from savings to investment**

Make the NISA system permanent, and at the same time, make the tax-free holding period indefinite and raise the tax-free limit.

### **2: Reform the iDeCo (individual-type Defined Contribution pension plan) system, including raising the minimum age for participation**

Raise the participation age to 70; reach a conclusion on raising the contribution limit and the age at which people can start receiving benefits in conjunction with the 2024 fiscal review of public pensions.

### **3: Create mechanisms to encourage consumers to provide neutral and reliable advice**

Establish the public organization to promote financial and economic education, which certifies neutral advisors, and ease registration requirements for targeted investment advisors.

### **4: Strengthen asset formation for employers**

Encourage companies to make efforts to utilize neutral certified advisors in their work areas.

### **5: Enhance financial and economic education to instill the importance of stable asset formation**

Establish the public organization to promote financial and economic education, and formulate the "Basic Policy" as a national strategy for comprehensive and systematic promotion of education throughout the country.

### **6: Realize a global financial center open to the world**

Comprehensively promote the revitalization of financial and capital markets, the globalization of financial administration and taxation systems, the improvement of living conditions and business environment, and the effective dissemination of information.

### **7: Ensure Customer-Oriented Business Conduct**

Review the "Principles for Customer-Oriented Business Conduct" and develop necessary rules.

## Reference

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- I. Data regarding the progress of corporate governance reform
- II. Review of the corporate governance reform
- III. Audit reform
- IV. Review of the tender offer rule & the large shareholding reporting rule
- V. Overview of Asset-Income Doubling Plan
- VI. Initiatives for International Financial Center**
- VII. the Code of Conduct for ESG Evaluation and Data Providers

# Japan as an International Financial Center

- ❑ What makes fund managers consider the relocation of their resources?
  - ✓ Increased focus on business continuity during the pandemic (i.e., multiple offices)
  - ✓ Growing geopolitical uncertainties in East Asia
- ❑ Japan's advantages for attracting more investment to Japan and the Asia include:
  - ✓ A solid democracy and the rule of law;
  - ✓ Safe and secure living and business environment;
  - ✓ A large real economy and stock market; and huge household financial assets

## Tax and financial regulation

- Financial Market Entry Office for English consultation and supervisory interaction
- Effective promotion and outreach
  - Direct outreach to overseas managers
  - Increased media coverage
- New easy-entry schemes for overseas asset managers
- Corporate, inheritance and income tax reforms
- Review of the remaining tax obstacles

## Living and business environment

- Financial start-up support program for financial license and visa acquisition
- Preferential immigration treatment for asset management professionals
- Smooth opening of a bank account

## Business opportunities

- Support for startups
- ESG bond market
- Corporate governance reforms
- Investment in human capital by JP firms
- Review of firewall regulations

## Reference

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- I. Data regarding the progress of corporate governance reform
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- VII. the Code of Conduct for ESG Evaluation and Data Providers**



# the Code of Conduct for ESG Evaluation and Data Providers

- ❑ The Technical Committee for ESG Evaluation and Data Providers compiled a draft "Code of Conduct" to ensure transparency and fairness of **ESG evaluation and data providers** that evaluate corporate ESG initiatives. The draft report, published in July 2022, set out recommendations for ESG evaluation and data providers, institutional investors, and companies.
- ❑ Based on the Technical Committee's report the FSA published a draft **Code of Conduct for public consultation (from July to September 5) and finalized it in December 2022.**

(note) The FSA calls for voluntary endorsement of the Code from ESG evaluation and data providers that provide services in Japan. The Code will not be laws or regulations, but are designed to be voluntary on a "comply or explain" basis, where the providers supporting the Code will either comply with the principles and guidelines of the Code, or explain the reasons why they do not comply with a particular item.). The FSA will publish the status of endorsement regarding evaluation as of June 2023 and that regarding data as of June 2024.

## Recommendations for ESG evaluation and data providers (Code of Conduct)

- **Ensuring Transparency**  
Disclosing the objective, approach and basic methodology of ESG evaluations.
- **Human Resource Development**  
Securing necessary professional human resources as organization and developing their own professional skills.
- **Avoiding or managing the risks of conflicts of interest**  
Identifying their own activities and situations that could undermine the independence, objectivity, and neutrality of their business, and avoiding or reducing the risks of, potential conflicts of interest.
- **Communication With Companies**  
Clarifying a contact point with a company, allowing it for confirmation and correction of input data for evaluation, and disclosing these procedures in advance.

## Recommendations for institutional investors and companies

- Clarifying the basic approach of how they utilize ESG evaluation and data in their investment decisions (investors)
- Disclosing ESG information in an easy-to-understand manner and contact point for responding to inquiries from ESG evaluation and data providers (companies)



Through mutual encouragement of the market as a whole, improve the quality of evaluations, etc

(\*1)developed in light of international reports by IOSCO

(\*2)Academic and media organizations are not included in the scope