

Secretariat Briefing Pack

October 21, 2025

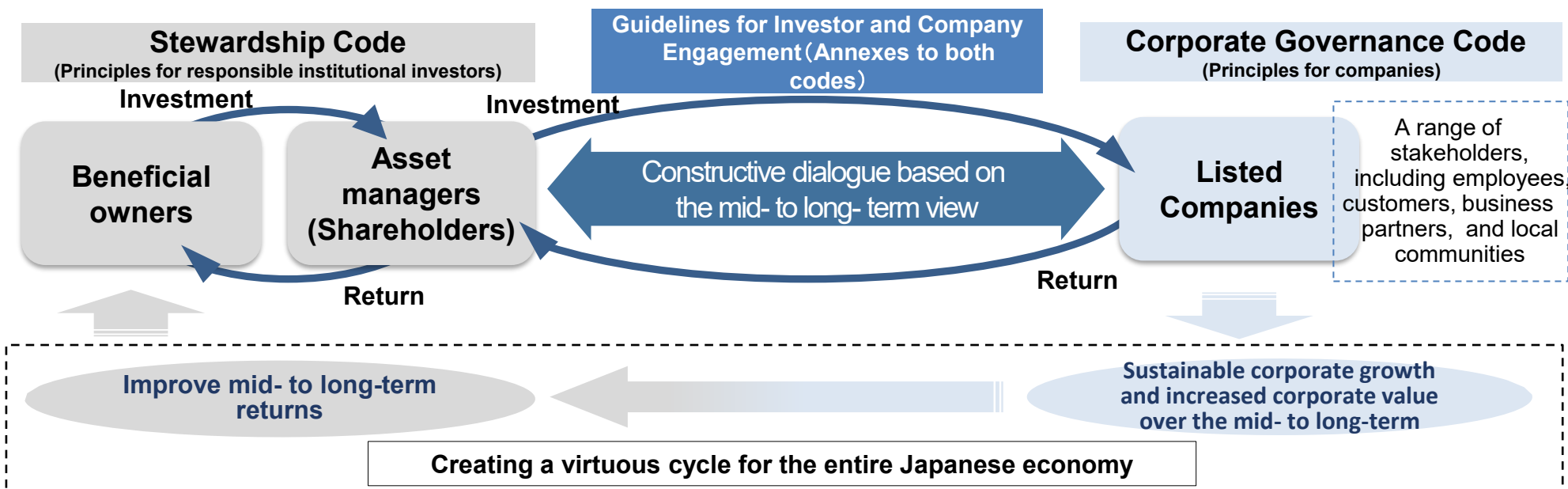


金融庁

Financial Services Agency, the Japanese Government

Initiatives to enhance corporate governance reform

- **Stewardship Code** (Developed in February 2014, revised in May 2017, March 2020 and June 2025)
Principles for **responsible institutional investors, including pension funds and parties such as proxy advisors and investment consultants**, to promote the sustainable growth of the investee company and enhance the medium- and long-term investment return of clients and beneficiaries.
- **Corporate Governance Code** (Developed in March 2015, revised in June 2018 and June 2021)
Principles for **listed companies to enhance earnings power over the mid to long term** under effective management strategies while appropriately collaborating with a wide range of **stakeholders, including shareholders, employees, customers, business partners, and local communities**.
- **Action Program for Corporate Governance Reform** (Published in April 2023, June 2024 and June 2025)
A **series** of policy packages on corporate governance reform with a focus on **promoting constructive dialogue** between companies and investors and **promoting self-motivated changes** among companies and investors. Putting corporate governance reform **“into practice”** through examining and sharing specific measures.
- ***Asset Owner Principles** (Developed in August 2024)
A set of common principles that are useful for asset owners **to fulfill their responsibility to manage their assets (fiduciary duties), taking into account the best interests of beneficiaries**. The promotion of stewardship activities is stipulated in Principle 5.



- ❑ The Corporate Governance Code promotes **listed companies** to **enhance mid- to long-term earnings power**, under effective business strategies, with **appropriate cooperation with stakeholders (including shareholders, employees, customers, business partners and local communities)**.

Framework

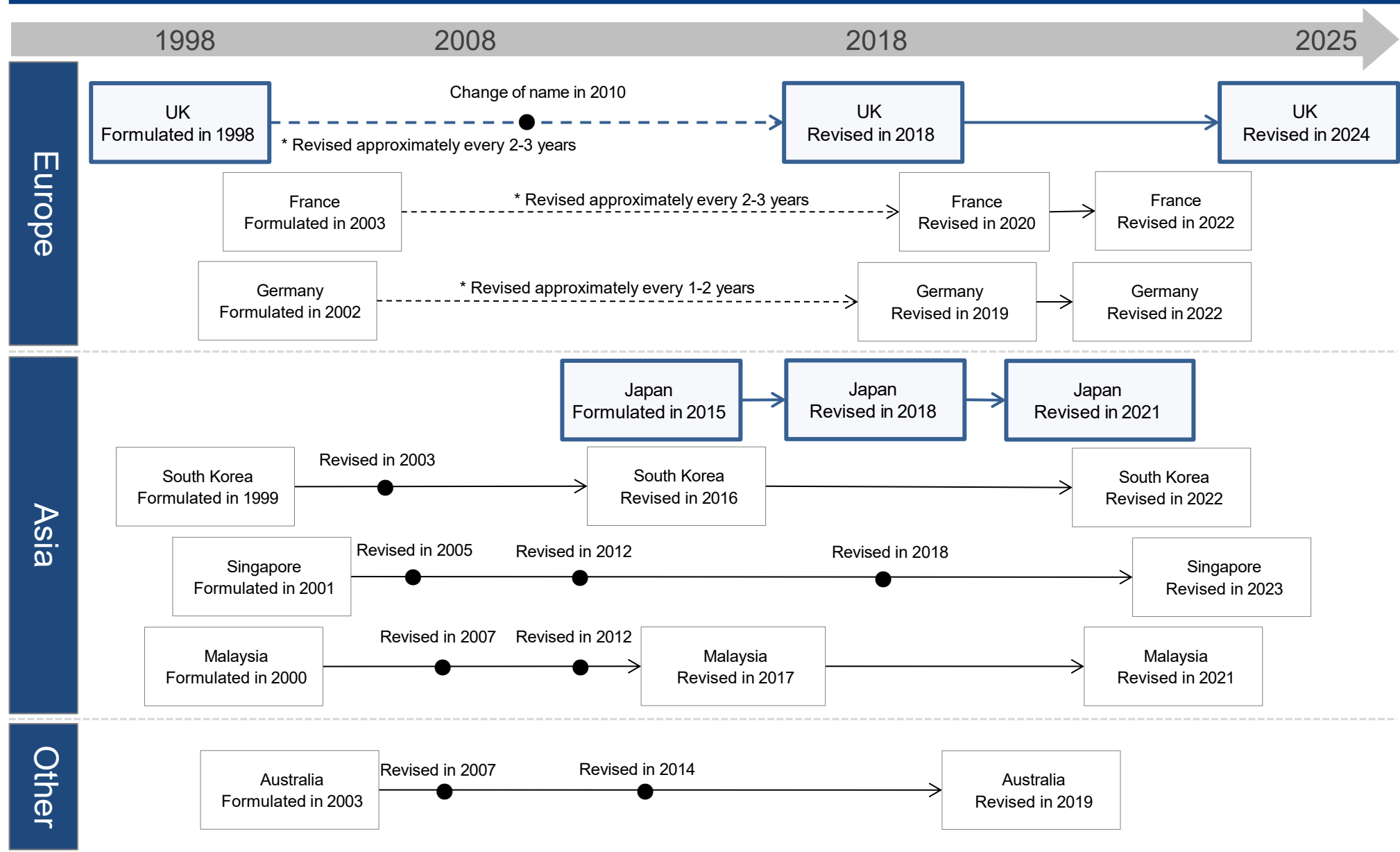
The Corporate Governance Code

- is part of Securities Listing Regulations by the Tokyo Stock Exchange (“TSE”), which obligate listed companies to either “comply or explain” to the code.
- adopts a **“principles-based approach”** and the **“comply or explain approach”**.

Principles

1. Companies should fully secure the **rights and equal treatment** of shareholders.
ex : Disclosing a policy of **cross-shareholdings** / Explanation of its **objective and rationale** based on examination of economic rationale
2. Companies should **cooperate with stakeholders** including employees, customers, business partners and local communities.
3. Companies should **provide information useful for investors**.
4. To promote sustainable corporate growth, the board should appropriately fulfill its roles and responsibilities, including **setting the broad direction of corporate strategy** and carrying out **effective oversight of directors & the management**.
e.g. Use independent directors who contribute to sustainable growth
(For companies listed on the Prime Market, appoint at least one-third (if necessary, a majority) of their directors (in other markets, two directors) as independent directors who are able to contribute to constructive discussions)
5. Companies should engage in **constructive dialogue** with shareholders in order to contribute to sustainable growth and increase corporate value over the mid- to long-term.

Formulation and revisions of corporate governance codes in other countries



UK Corporate Governance Code 2024

- ❑ UK FRC finalized the revised Corporate Governance Code in January 2024 (“2024 Code”). The 2024 Code will apply to financial years beginning on or after 1 January 2025 (revisions regarding internal control will apply to financial years beginning on or after 1 January 2026).
- ❑ The public consultation provided broader revisions (18 items); however, after taking into account the UK government’s policy and opinions from stakeholders, the UK **took an approach of narrowing down provisions with the intention of reducing the reporting burden and improving the quality of governance**.
- ❑ Based on the abovementioned consideration, the UK prioritized revisions regarding internal control and postponed other items (such as enhancing the functions of audit committees regarding ESG, promotion of diversity and limitation of the number of directorships a director can hold).

Key revisions

1. Revision regarding internal control (Provision 29)

- The board should **monitor the company’s risk management and internal control framework** relating to material management matters including financial, operation, reporting and compliance and, **at least annually, carry out a review of its effectiveness** (state certain matters on annual report).

2. Deletion of specific examples of “diversity” (Principle J)

- **“Diversity”** is stipulated as **one of the considerations for determining director candidates and succession plans**, but gender, social and ethnic backgrounds are deleted as specific examples of diversity

3. Revision regarding remuneration (malus and clawback provisions)

- With respect to director remuneration, **if remuneration is considered excessive after vesting or payment, the director service/employment agreement should include provisions to clawback remuneration** (malus and clawback provisions) (state certain matters in annual reports).

4. Revision regarding corporate culture (Provision 2)

- Boards should assess and monitor how the desired culture is promoted.

Outline of the revised G20/OECD Principles of Corporate Governance

Background

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

Purpose of the revision

✓ Improved access to the stock market by companies

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

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

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

Key revisions

✓ Sustainability

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

✓ Stewardship activities by institutional investors

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

Action Programme for Corporate Governance Reform 2025

- ❑ In Japan, corporate governance reform has been progressing significantly. The Stewardship Code and the Corporate Governance Code were formulated in the mid-2010s and have been revised to ensure sustainable corporate growth and increased corporate value over the mid- to long-term.
- ❑ Various initiatives for effectively implementing corporate governance reform have been taken based on the Action Programmes published in 2023 and 2024.
- ❑ The FSA remains committed to **promoting the effective implementation of corporate governance reform** by encouraging companies and investors to adopt self-motivated changes in their mindsets. At the same time, it is essential to create environments, including **reviewing Japan's Corporate Governance Code**, to promote dialogue based on “a trusting relationship with candid communication” that truly contributes to sustainable corporate growth and increased corporate value over the mid- to long-term.

Action Programme for Corporate Governance Reform 2025

Issues	Measures taken to date	Future policy priorities
Value creation	✓ Many companies have strived to enhance corporate value based on the request from the TSE.	✓ Promoting investment through encouraging appropriate allocation of business resources (e.g. assessment of the current allocation of resources including cash). ✓ Enhancing disclosure, in the annual securities reports (“ASR”), of human capital management strategies linked to business strategy, a policy on employee compensation, and the year-over-year rate of change in average employee compensation.
Quality disclosure and dialogue with investors	✓ <u>Revised the Stewardship Code</u> to promote collaborative engagement, improve the transparency of beneficial shareholders and streamline the Corporate Governance Code. ✓ Discussed the environment and practical challenges for <u>disclosing the ASR before the annual general meetings (“AGM”)</u>.	✓ Following up and considering further measures for disclosure of the ASR before the AGM. ✓ Collaborating with relevant ministries to update the legal framework including the full digitalisation of AGM materials. ✓ Refining and potentially streamlining the disclosure items required by the ASR.
Board effectiveness	✓ <u>Collected and shared good practices</u> such as dialogue between independent directors and investors and efforts by the <u>board secretariats</u> to stimulate board discussions.	✓ Establishing a consortium for companies and relevant stakeholders to share good practices and discuss the enhancement of the roles of independent directors and the board secretariats (corporate secretaries).

Action Programme for Corporate Governance Reform 2025

Issues	Measures taken to date	Future policy priorities
Market environment issues	✓ <u>Strengthened disclosure requirements on strategic shareholdings</u> in the ASR. ✓ <u>Clarified the scope of “joint holders”</u> for promoting collaborative engagement and preventing investors from evading the large shareholdings reporting rules.	✓ Publishing good practices and issues for disclosure regarding strategic shareholdings. ✓ Considering raising administrative monetary penalty for violation of the large shareholding reporting rules. ✓ Promoting review and disclosure regarding parent-subsidary listings and group management as well as considering necessary listing rules to protect minority shareholders.
Sustainability-conscious management	✓ Discussed <u>sustainability disclosure and assurance frameworks</u> to ensure international comparability. ✓ <u>Collected and shared good practices</u> on gender and other diversity among directors and officers, as well as on management and dialogues recognizing corporate culture.	✓ Discussing on sustainability disclosure and assurance frameworks further. Reviewing liability for false statements of non-financial disclosure in the ASR (possibly adopting a safe harbour rule). ✓ Advocating for the development of global standards with regard to human capital.

Action Programme for Corporate Governance Reform 2025

Statement related to the revision of the Corporate Governance Code (excerpt) (i)

I . Introduction

It is suggested that future policy priorities should remain on effectively implementing corporate governance reform by encouraging companies and investors to adopt self-motivated changes in their mindsets. At the same time, it is essential to create an environment, potentially by **reviewing the Corporate Governance Code**, to promote dialogue based on “a trusting relationship with candid communication” that truly contributes to sustainable corporate growth and increased corporate value over the mid- to long-term.

In the review process, attention should be paid to costs and disclosure burdens for listed companies. **In this regard, the Corporate Governance Code should be streamlined. For example, provisions should be deleted, integrated, or simplified if they have already become part of corporate practices since the formulation and revisions of the Corporate Governance Code. Additionally, unnecessary duplication with statutory requirements enacted after the last revision of the Corporate Governance Code in 2021 could be reduced.** Furthermore, efforts will be made to once again promote understanding of the principles-based and the “comply or explain” approaches that the Corporate Governance Code adopts.

II . Following up on the Action Program and suggested future policy priorities

1. Driving value creation capacity

[Future policy priorities]

- **The Corporate Governance Code could be reviewed** to promote the effective oversight of boards and enhance quality disclosure in line with each company’s strategies and challenges, aiming to achieve the efficient allocation of available resources by companies. The following points should be considered:
 - (i) There are various investment opportunities for allocation of business resources including capital expenditure, R&D, establishment of regional places of business, startups and other growth investments, and investments in human capital and intellectual property. **It is important for the management to seize these various opportunities.**
[...]
 - (ii) With respect to investments for allocation of business resources ((i) above), consideration should also be given to clarification of the board’s assessment and accountability in terms of whether each company **persistently assesses the appropriateness of its current allocation of resources, such as whether it is effectively utilising cash for investments** (cash hoarding issue).

Action Programme for Corporate Governance Reform 2025

Statement related to the revision of the Corporate Governance Code (excerpt) (ii)

II . Following up on the Action Program and suggested future policy priorities

2. Enhancing quality disclosure and promoting dialogue with investors

[Future policy priorities]

- To encourage listed companies to **disclose the ASR prior to the AMG**, the FSA will follow up on disclosure practices in response to the Minister's request letter. Additionally, **the Corporate Governance Code will be reviewed** in this respect while consideration will be given to the development of a necessary regulatory environment.

3. Improving board effectiveness

For boards to fulfil the roles described above, it is important to be creative in agenda setting and operation to ensure that the board discussions are effective. **The board secretariat plays an important role by operating independently from the executives and providing support to the chair and directors including independent directors.** It is noted that **as boards increasingly focus on their monitoring role, the board secretariat will become even more crucial as a link between board oversight and executives and play a vital role during emergencies.**

Directions for reviewing the Corporate Governance Code suggested by the Action Programme for Corporate Governance Reform 2025

[Overall]

- ❑ Streamlining of the Corporate Governance Code

[Specifics]

- ❑ Importance of seizing various investment opportunities. Whether each company persistently assesses the appropriateness of its current allocation of resources. Such as clarification of the board's assessment and accountability in whether it is effectively utilizing cash for investments.
- ❑ Disclosure of the ASR before AGM
- ❑ Enhancing functions of the board secretariats

Streamlining of the Corporate Governance Code (1/2)

Comments regarding the current challenges

- ❑ Some companies and investors merely comply with each code in a formalistic manner. Significant discrepancies exist in the quality of efforts undertaken by each entity.
- ❑ It is necessary to go back to the spirit of the Corporate Governance Code, which takes a principles-based and the “comply or explain” approaches, so that each company and investor should consider necessary initiatives that suit its size and situation, in addition to initiatives generally applicable to all companies and investors.
- ❑ It is important to explain in substance rather than complying with each code in a formalistic manner.

Voices from companies and investors

- ✓ Companies point out an overwhelming disclosure burden partially due to overlaps with other disclosure documents.
- ✓ Investors point out the importance of disclosing necessary information while companies respond to the Corporate Governance Code in substance.

Development in other jurisdictions

- ✓ Some jurisdictions (e.g. the UK and Germany) **take an approach of indicating recommendations and specific examples of responses to each principle, instead of applying the “comply or explain” approach.** This approach **aims to reduce the disclosure burden of companies and to induce companies to respond to corporate governance code in substance.**
- ✓ **Upon the revision of the UK Corporate Governance Code in 2024,** the UK took an approach of narrowing down provisions with the intention of **reducing the reporting burden and improving the quality of governance.**

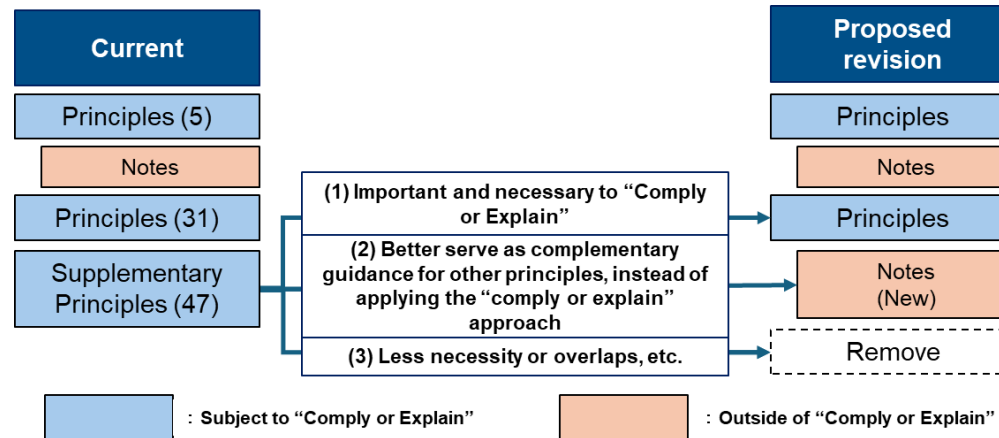
Streamlining of the Corporate Governance Code (2/2)

- ❑ It may be an option to reclassify the Corporate Governance Code, primarily focusing on Supplementary Principles that are too specific for a principles-based approach.

Directions for reclassification (proposal)

- (1) To **move up certain Supplementary Principles to Principles**: Supplementary Principles that are persistently **important and necessary for disciplining the “comply or explain” approach** in light of the current practice.
- (2) To **move certain Supplementary Principles to new “Notes” sections for Principles**: Supplementary Principles that, in light of the current practice, could better **serve as complementary guidance for other principles to promote reform in substance, instead of applying the “comply or explain” approach**.
- (3) To **remove certain Supplementary Principles**: Supplementary Principles, including those that the necessity of being mentioned on the Corporate Governance Code is reduced by implementation in practice and those that overlap with rules adopted after the formation of the Corporate Governance Code.

(Reclassification of
Supplementary Principles)



(Reference) “Japan’s Corporate Governance Code [Final Proposal]” Preamble(i)

The Council of Experts Concerning the Corporate Governance Code March 5, 2015

Objectives of the Code

7. It is important that companies operate themselves with the full recognition of responsibilities to a range of stakeholders, starting with fiduciary responsibility to shareholders who have entrusted the management. The Code seeks “growth-oriented governance” by promoting timely and decisive decision-making based upon transparent and fair decision-making through the fulfillment of companies’ accountability in relation to responsibilities to shareholders and stakeholders. The Corporate Governance Code does not place excessive emphasis on avoiding and limiting risk or the prevention of corporate scandals. Rather, **its primary purpose is to stimulate healthy corporate entrepreneurship, support sustainable corporate growth and increase corporate value over the mid- to long-term.**
Recognizing the board’s fiduciary responsibilities to shareholders and other stakeholder responsibilities, the Code includes language that calls for a certain measure of corporate self-discipline. It would not be appropriate, however, to view them as limits on companies’ business prerogatives and activities. Indeed, quite the opposite: without appropriately functioning corporate governance, the reasonableness of management’s decision-making processes cannot be secured. In such a case, the management may become risk-avoiding due to concerns that their responsibility with respect to business decisions may be put in question. Such a situation would significantly restrict decisive decision-making and companies’ business activities. By calling for appropriate corporate governance disciplines at Japanese companies, the Code aims to have the management free from such restrictions and establish an environment where healthy entrepreneurship can flourish and where the management’s capabilities can be given full force.
8. Given the concerns regularly perceived about the growth of short-term investment activities in capital markets, it is hoped that the Code will also have the effect of promoting mid- to long-term investing. Market participants who have the strongest expectations for the improvement of corporate governance are usually shareholders with mid- to long-term holdings, and they usually wait until the improvements of corporate governance are achieved. Notwithstanding recent concerns over the growth of short-termism in the market place, such shareholders have the potential to become important partners for companies. The Code asks companies to examine whether there are issues in their corporate governance in light of the aim and spirit of the principles of Code, and take self-motivated actions in response to those issues. Such efforts by companies will make possible further corporate governance improvements, supported by purposeful dialogue with shareholders (institutional investors) based on Japan’s Stewardship Code. In this sense, the Code and Japan’s Stewardship Code are “the two wheels of a cart”, and it is hoped that they will work appropriately and together so as to achieve effective corporate governance in Japan.

(Reference) “Japan’s Corporate Governance Code [Final Proposal]” Preamble(ii)

The Council of Experts Concerning the Corporate Governance Code March 5, 2015

“Principles-Based Approach” and “Comply-or-Explain Approach”

9. The Code specifies General Principles, Principles and Supplementary Principles. The manner of their implementation may vary depending on industry, company size, business characteristics, company organization and the environment surrounding the company. The Code’s principles should be applied in accordance with each company’s particular situation.
10. Given the above, the Code does not adopt a rule-based approach, in which the actions to be taken by companies are specified in detail. Rather, it adopts a principles-based approach so as to achieve effective corporate governance in accordance with each company’s particular situation.
This principles-based approach has already been adopted in Japan’s Stewardship Code. The significance of this approach is found in having parties confirm and share the aim and spirit of the principles and review their activities against the aim and spirit, not against the literal wording of the principles, even where the principles may look abstract and broad on the surface. For this reason, the terminology used in the Code is not strictly defined as is the case with laws and regulations. It is anticipated that companies that are accountable to shareholders and other stakeholders will apply appropriate interpretations of the terminology in accordance with the aim and spirit of the Code. Shareholders and other stakeholders are also expected to fully understand the significance of this principles-based approach in their dialogue with companies.
11. Moreover, unlike laws and regulations the Code is not legally binding. The approach it adopts for implementation is “comply or explain” (either comply with a principle or, if not, explain the reasons why not to do so). In other words, the Code assumes that if a company finds specific principles (General Principles, Principles and Supplementary Principles) inappropriate to comply with in view of their individual circumstances, they need not be complied with, provided that the company explains fully the reasons why it does not comply.

Discussion Topics

[General]

- (1) In light of the purposes of corporate governance reform to achieve sustainable corporate growth and increase corporate value over the mid- to long-term, how should we consider the functions of the Corporate Governance Code and future issues for accelerating corporate governance reform? In light of such issues, how should we consider directions for consideration to review the Corporate Governance Code suggested by the Action Programme for Corporate Governance Reform 2025 (slide 11)?
- (2) Are there any Principles in the Corporate Governance Code that effectively hinder the acceleration of reform in substance due to formalistic practices of compliance with each code?

[Streamlining of the Corporate Governance Code]

- (3) How should we consider reclassification of the Corporate Governance Code primarily on Supplementary Principles (directions indicated in slide 13)?
- (4) From the perspective of streamlining the Corporate Governance Code, how should we consider the integration of provisions covering the same issue scattered across different sections?
(e.g.) Provisions regarding shareholders (Section 1: Securing the Rights and Equal Treatment of Shareholders and Section 5: Dialogue with Shareholders), provisions regarding responses to sustainability issues, formulation of business strategies and allocation of business resources.

[Re-promote understanding of the principles-based and the “comply or explain” approaches]

- (5) How should we consider placing the Preamble to the Corporate Governance Code from the perspective of once again promoting understanding of the principles-based and the “comply or explain” approaches?