Material 7

Remarks to the Japanese Council of Experts on Corporate Governance

October 2025

I would like to begin by expressing my gratitude to the Japanese Financial Services Agency (JFSA) and the Tokyo Stock Exchange (TSE) for graciously hosting this session and providing an excellent platform for dialogue.

The International Corporate Governance Network (ICGN) welcomes the continued work of the JFSA and the TSE Council of Experts on advancing corporate governance reform in Japan. As a global investor-led body, representing members responsible for assets under management of more than US$90 trillion, ICGN strongly supports efforts to strengthen governance standards in pursuit of long-term value creation and sustainable capital markets.

We are broadly supportive of the reform agenda and the direction of travel. Our comments focus on several areas of priority for global investors, including timeliness of disclosures, streamlining of the Code, potential enhancements, capital allocation, AGM practices, and the effective use of guidance.

Timeliness of Disclosures

We welcome efforts to bring forward the timing of disclosures, as timely and reliable information is essential for investors to make informed decisions. With particular reference to the Yuho, we are open to a range of methods to achieve earlier disclosure. These could include consolidation of reports, such as combining the Yuho with the business report, adjusting the record date to provide companies with more preparation time, and or extending the window for holding annual general meetings (AGMs).

We would note that the use of the fiscal year-end as the record date is unique to Japan, lacks a clear rationale, and is not aligned with global practices. We believe there would be strong international investor support for a move away from this practice, which would also help avoid situations of “empty voting” where, at the time of voting decisions being made, economic interest may have been sold.

These measures would not only improve the timeliness of disclosure but could also help reduce the long-standing issue of AGM clustering in Japan. A less concentrated meeting season would broaden the ability of investors to effectively review materials and participate in AGMs.

We also emphasise that disclosure “before the AGM” must mean more than a day or two in advance. To allow investors sufficient time to read, digest, and consider reports, companies should work towards providing materials well ahead of the AGM. This will enable investors to engage with the company regarding matters of concern prior to voting, while also allowing the company to provide explanations to investors. Bringing forward disclosure deadlines should be coupled with enhanced dialogue opportunities between companies and investors ahead of voting.

Streamlining the Code

We are, in principle, supportive of efforts to streamline the Code, particularly where provisions are already covered by law or regulation and risk duplication. Reducing unnecessary overlap can improve clarity and effectiveness.

At the same time, care must be taken not to oversimplify or remove provisions that continue to play a vital role in raising governance standards. While practice may have improved among larger Japanese companies, progress is uneven across the wider market. Streamlining should not inadvertently dilute expectations for smaller and mid-cap companies, where practice often lags behind the Prime market. We therefore urge caution in removing or reclassifying provisions prematurely.

We also encourage further dialogue with market participants, including our members, to identify specific areas where adjustments may be most appropriate.

We note that there can be challenges in the use of Guidance rather than Code provisions and how this differentiation interacts with the "Comply or Explain" Principle. This issue is not unique to Japan, but it is particularly relevant to the success of the Japanese governance framework.

Japanese Corporate Governance needs to move into a phase of effective implementation – of focusing on the substance of good governance. So, the integrity of the "Comply or Explain" principle is essential. It is only effective if companies provide thoughtful, transparent, and specific explanations when they choose not to comply with the Code. We encourage measures that reinforce high-quality explanations and discourage boilerplate disclosure, so that the principle can function as intended. For example, the Council or TSE might consider publishing examples of high-quality explanations to set clearer expectations.

Potential Enhancements to the Code

ICGN believes there are also opportunities to strengthen the Code further. In particular, we would recommend that the Code seeks to clearly articulate expectations around:

Board Composition and Director related matters:

- Board independence: Boards should seek to achieve a majority of independent directors.
- Independent board leadership: The Code should underscore the importance of independent board leadership, ideally through an independent chair, or at minimum a lead independent director as a transitional measure as companies move towards a fully independent chair.
- The role of committees should be clearly defined, with terms of reference publicly available. There should be an expectation of an independent audit committee. We note that especially for Prime companies, we are most in favour of a three-committee structure. These good practices should apply to all companies, including those which are voluntary.

- The Code could include stronger expectations of the role and remit of nominations committees, for example by setting expectations on the maximum numbers of board appointments that can be held by directors, the need for inclusion of industry expertise requirements and Board diversity targets. The Code could also reinforce the need to consider a wide range of potential candidates in succession planning.

- We would like to see more elaboration on expectations around the boards ongoing development and specifically the director training policy.

Remuneration related matters:

- Remuneration alignment: Remuneration policies should be explicitly aligned with the creation of long-term shareholder value.
- They should also include recommended lock in periods.

Other governance matters:

- Disclosure of governance practices: Companies should provide clear disclosure on how they are applying the Code in practice, to give investors meaningful insight.

- Individual vote counts in board elections should be disclosed

- The importance of high-quality board effectiveness reviews could be reiterated

- As per the UK Corporate Governance Code, the code could include an expectation that Chairs, lead independent directors and other independent directors should make themselves available to shareholders to participate in engagement meetings.

These enhancements would strengthen board accountability, sharpen alignment with shareholder interests, and promote enhanced confidence in Japanese corporate governance practices.

Capital Allocation and Shareholder Value

We emphasise that governance reform must remain firmly focused on capital allocation, which is a critical governance responsibility. Boards must ensure that capital is allocated efficiently and in ways that support long-term value creation.

In particular, we call for continued improvement in capital efficiency and a strong focus on return on equity. We also urge that cross-shareholdings be wound down to zero. While notable progress was achieved in reducing cross-shareholdings in the past, progress appears to have stalled in recent years. Renewed and accelerated action in this area, enhanced by expectations in the Code, would help ensure capital is deployed more effectively, reduce entrenchment, and enhance market confidence. More transparent disclosure of rationale and exit timelines for remaining cross-shareholdings should be expected.

AGM Practices and Shareholder Rights

ICGN is not supportive of fully virtual AGMs, which risk undermining shareholder rights and limiting meaningful participation. We therefore believe the Code should not endorse or encourage fully virtual AGMs.

At the same time, we support the use of hybrid AGMs, which can broaden access to international and domestic investors while maintaining the ability for shareholders to attend and engage physically. Hybrid formats offer a balanced approach that upholds rights and facilitates wider participation.

Conclusion

In conclusion, ICGN reiterates our support for Japan's governance reform agenda. We encourage the Council to balance efficiency gains through measures such as streamlining and reducing duplication with the need to maintain ambitious governance standards across the market.

Strengthening timeliness of disclosure, enhancing independence, sharpening focus on capital allocation, and reinforcing shareholder rights will all contribute to more resilient companies and more sustainable long-term value creation in Japan's capital markets.

ICGN and its members stand ready to contribute to the dialogue and share global perspectives to support the Council's work in shaping a governance framework that benefits investors, companies, and the economy.