

The First Meeting of the Expert Panel on the Revision of the Corporate Governance Code (2025)

1. Date and Time: October 21, 2025 (Tuesday) 10:00 - 12:00
2. Venue: Common Special Conference Room No.1, 13th floor, Common Government Office No.7

[Okina, Chair]

We will now commence the first meeting of expert panel on the revision of the Corporate Governance Code. Thank you very much for your participation.

I am Okina of The Japan Research Institute. I will serve as the chairperson of this expert panel. Thank you very much for your cooperation.

Today's meeting will be webcast live, as will be explained later by the secretariat. The minutes of the meeting will be prepared as usual and will be available on the FSA website at a later date.

First of all, Mr. Inoue, the Director-General, Policy and Markets Bureau of the Financial Services Agency, FSA, will deliver his greetings. Mr. Inoue, Director General of the Planning and Markets Bureau, please proceed.

[Inoue, Director-General, Policy and Markets Bureau, FSA]

Good morning. I am Toshitake Inoue, the Director-General, Policy and Markets Bureau of the Financial Services Agency. Thank you very much for taking time out of your very busy schedule to join us today. I would like to offer a few words on the occasion of the first meeting of the expert panel on the revision of the Corporate Governance Code.

To date, the FSA has been promoting corporate governance reform efforts in cooperation with the Tokyo Stock Exchange, TSE, and various other related organizations, with the aim of achieving sustainable growth of Japanese companies and improving corporate value over the medium- to long-term. Almost 10 years have passed since the formulation of the Stewardship Code in 2014 and the start of the application of the Corporate Governance Code in 2015. Under both of these codes, we recognize that Japanese companies have made a certain degree of progress in corporate governance reform. On the other hand, we are aware that it has been pointed out that in order for companies to achieve sustainable growth and increase corporate value over the medium- to long-term, it is important to go beyond formal measures and substantiate corporate governance reform is needed in the efforts of both companies and investors.

In light of this situation, the FSA released its Action Program for Corporate Governance Reform 2025 on June 30 of this year in order to further promote substantive corporate governance reform. This document calls for, among other things, a revision of the Corporate Governance Code to promote

dialogue based on a trusting relationship with candid communication between companies and investors. The Corporate Governance Code has undergone revisions in 2018 and 2021 since its application began in 2015, and this is the first time the Code has been considered for revision since then. The Action Programs that we have been developing since 2023 also indicates that we should further solidify the corporate governance reforms that we have been working on, from form to substance. In order to achieve this, we believe that the Code itself must also be considered for its implementation in substance.

We are aware that the current code has detailed provisions in some areas. We believe that these items impose unnecessary costs on companies and encourage formal responses. At this expert panel, we would of course like to hear your opinions on issues that will encourage companies to take additional actions, such as the appropriate allocation of business resources. More importantly, however, we ask that you consider eliminating or consolidating items that are either well established in practice or overlapping with other laws and regulations, so that companies can focus on addressing the essential items. We believe that it is important to streamline the Code to encourage more substantive practice of comply or explain to the Code.

I would like to ask you members, to actively engage in discussions for implementation of the Corporate Governance Code in substance.

[Okina, Chair]

Thank you very much. We are sorry, but we ask that you refrain from taking pictures with your camera after this time. Next, the secretariat will introduce the members.

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

I am Konagaya, Director of the Corporate Accounting and Disclosure Division of the Financial Services Agency, which serves as the secretariat. Thank you.

First of all, I would like to introduce the members of the expert panel.

From the right, Mr. George Iguchi. Professor Ryoko Ueda. Professor Hiroyuki Kansaku. Ms. Kaoru Kobu. Mr. Kazuhiro Takei. Professor Shoichi Tsumuraya. Mr. Yasunori Nakagami. Ms. Takayo Hasegawa. Ms. Naomi Matsuoka. Professor Chieko Matsuda. Mr. Hiroomi Yamaguchi.

As you can see in the member list, Mr. Mitsuyoshi Kobayashi and Ms. Jen Sisson will also join us, although they are absent today.

Next, I would like to introduce our observers.

Mr. Maruo, Office Head, The Japan Association of Corporate Directors; Mr. Yoshida, Executive Board Member, The Japanese Institute of Certified Public Accountants, JICPA; Mr. Uno, Counselor, Ministry of Justice; Mr. Sameshima, Director, Ministry of Economy, Trade and Industry, METI.

The Financial Services Agency and the Tokyo Stock Exchange will serve as the joint secretariat. Due to time constraints, I will skip introductions; please refer to the seating chart for their names.

[Okina, Chair]

Thank you very much. Next, the secretariat will explain the proposed operating procedures and points to be noted regarding the meeting.

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

The proposed operating procedures for the expert panel are set forth in document three. Due to time constraints, I will not provide a detailed explanation of the contents.

Next, I would like to explain the points to be noted. If you wish to speak, please put up your nameplate; the chair will call on you. Please return the nameplate to its original position after your remarks.

[Okina, Chair]

Thank you very much. Is this way to proceed OK with everyone?

(Voices of "no objection")

[Okina, Chair]

Thank you very much. We will proceed in this manner.

We will now move on to the agenda. As shown in document one, this expert panel meeting will be held in light of the "Action Program for Corporate Governance Reform 2025" released on June 30 of this year, which indicates that the Corporate Governance Code will be reviewed.

Today, the secretariat, the FSA, and the TSE will explain the documents, and then we will hold a discussion.

First, the FSA will begin with an explanation.

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

I will explain in accordance with document four.

Please see page one. As Mr. Inoue, Director-General, mentioned earlier, about 10 years have passed since the establishment of the Stewardship Code and the Corporate Governance Code. The last time the Corporate Governance Code was revised was in 2021, so if the Code is revised next year, it will be the first revision in five years. Every year after 2023, the action program is compiled based on the discussions at the Stewardship Code and Corporate Governance Code follow-up meetings. As you can see here, the underlying theme of the three Action Programs is not the development of a formal system, but the further development of a substantive response, in other words, substantive implementation.

Page two is an overview of the Japanese Corporate Governance Code, and pages three to five summarize developments related to the revision of the Code overseas. I will skip the explanation.

Page six outlines the latest version of the Action Program for Corporate Governance Reform 2025, which I mentioned earlier. As indicated as the second item on this page, Action Program 2025 recommends that the Corporate Governance Code be revised for the third time in order to promote dialogue based on a trusting relationship with candid communication that truly contributes to sustainable corporate growth and medium- to long-term corporate value enhancement.

Please see pages seven and eight for points in the Action Program 2025 regarding the themes of the Code review. Here are excerpts from the text of Action Program 2025.

First, as described in "I. Introduction" on page seven, the Code has been revised in consideration of the cost and disclosure burden on listed companies. It is stated that the Code will be streamlined/principled at the same time by deleting, integrating, and simplifying sections that have been in practice for a certain period of time since the Code was formulated or revised, and eliminating duplication with the contents that have been legislated since the previous revision, in 2021.

Also, please refer to "1. Driving value creation capacity" in "II. Following up on the Action Program and suggested future policy priorities." It states that it is important to recognize that there are a variety of investment opportunities and options for where to allocate business resources. In addition, it states that the Code should be reviewed from the perspective of realizing the optimal allocation of business resources, taking into consideration whether the current allocation of resources, including the status of cash and deposits, is being constantly assessed for appropriateness.

Please see page eight. As described in "2. Enhancing quality disclosure and promoting dialogue with investors", it is decided to review the Code as well as to promote cross-system review from the viewpoint of encouraging listed companies to disclose their annual securities reports before the Annual General Meeting of Shareholders.

Next, in "3. Improving board effectiveness," the importance of a board secretariat that functions autonomously and supports directors, including the chairman and independent outside directors, rather than standing only on the executive side, is mentioned.

Please see page nine. Here is a bulleted list of directions for consideration of Code revisions suggested by Action Program 2025. We believe that the points explained on pages seven and eight can be summarized in these four points.

On pages 10 and 11, the secretariat would like to explain its proposal on how to proceed with the idea of streamlining the Code.

First, please see the column on page 10 entitled "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 company." "It is necessary to go back to the spirit of the Code and consider initiatives that suit the situation of each company." "It is important to explain in substance rather than complying with each code in a formalistic manner." These points have been indicated.

The "Development in other jurisdictions" section provides information that may be helpful in addressing these issues. For example, the UK Code has guidance and the German Code has recommendations, which provide advice to companies and specific examples of how to respond to each principle instead of applying the "comply or explain" approach. In addition, the most recent revision of the Code in the United Kingdom adopted a targeted approach with the intention of improving the quality of governance while reducing the reporting burden on companies.

Next, please see page 11. In this section, we have provided directions on how to proceed with the streamlining of the Code, based on the points explained on the previous page. The current Corporate Governance Code has five basic principles, as shown on the lower left, and each principle is

accompanied by its own concept. In addition, a total of 31 principles and 47 supplementary principles are provided under the basic principles. In particular, those supplementary principles, as Inoue mentioned earlier, are in part too detailed and specifically stated. For this reason, we believe that it may be a good idea to dismantle these 47 supplementary principles and divide them into three categories according to content.

One, we believe that the supplementary principles that continue to be recognized as important and need to be attached to the comply-or-explain discipline should be upgraded to principles. Two, shall be complementary guidance for other principles, etc., instead of applying the comply-or-explain approach. For those that are considered appropriate to promote a more substantive response, we think it may be a good idea to establish and describe new notes, as shown in the lower right-hand corner of the slide. Three, we suggest deleting at this time those sections that are no longer necessary to be included in the Code because they have become more prevalent in practice, or because they have become duplicated since the Code was established.

On pages 12 and 13, the preamble attached to the original draft of this Code, developed in 2015, is included for reference. The Code's goals and the implications of the principles-based approach and comply-or-explain methodologies are also discussed. This is a statement that is still considered meaningful 10 years after its formulation. However, this is only a preamble to the draft and is not attached to the current Corporate Governance Code.

Finally, on page 14, we have summarized the issues we would like you to discuss today. One, first, as a general comment, we would like to ask for your opinions on the current status and future challenges of corporate governance reform, and what topics should be discussed at this meeting in light of these challenges. Two, we would like to know if there are any principles in the Code that are being obstructed from being substantiated by formal or superficial compliance, and if so, please point them out.

Three, in relation to the streamlining of the Code, please let us know your opinion on the direction of the development of the Supplementary principles as shown on slide 11. Also, four, from the viewpoint of streamlining, I wonder if it might be possible to consolidate matters on the same subject that are listed in multiple places in the current Code. One example is that the statements regarding shareholders are divided into sections one and five. We would appreciate your opinion on this point as well.

Finally, we would like to ask for your opinion on the inclusion of a preamble to the Code from the perspective of reiterating the purpose of the Code, which is principles-based and in the comply-or-explain approach.

That concludes the explanation from the secretariat.

[Okina, Chair]

Thank you very much. Next, the Tokyo Stock Exchange gives us an explanation.

[Watanabe, Director, Listing Department, TSE]

I would like to introduce the recent activities of the TSE based on the document five.

Please see page two. TSE is promoting governance and market reforms from the perspective of revitalizing the Japanese economy and providing an attractive market. Recently, we have asked listed

companies to promote management that is conscious of cost of capital and stock price in 2023, and we have started Growth Market Reform in September 2025.

Page three is a summary of the request we issued in 2023 for management that is conscious of cost of capital and stock price. Specifically, as shown in the top item on the left side, we requested that management practice management that is conscious of cost of capital and return on capital with the aim of improving corporate value over the medium- to long-term.

Page four shows the status of listed companies' responses. The prime market is on the left, and the standard market is on the right. In the prime market, listed companies have been disclosing their initiatives in response to our requests, and roughly 90% of the total companies have disclosed their initiatives. 70 percent of them, or 63% of the total, update their initiatives based on dialogues with investors, etc., and disclose the details of the updates, indicating that the PDCA cycle has begun to rotate.

On the other hand, in the standard market, just under 50%, or 48% of the total companies disclosed their initiatives in the most recent survey. 40 percent of them, or 20% of the total, disclose updated information. Still the other half of the companies have yet to disclose.

Pages five and six are line graphs showing the change in the stock price after our request, with the end of March 2023 as 100. In order to demonstrate this, groupings were made. The red line at the top are companies included in the case studies. We provide a collection of good examples of companies that have received positive feedback from investors. This shows the stock price performance of the companies listed there. As can be clearly seen when compared to the next standard market, companies that are pursuing initiatives that are highly regarded by investors also show high stock price performance.

In the figure on page seven, PBR is taken as market valuation on the vertical axis and ROE as return on capital on the horizontal axis. As a guide, lines are drawn at PBR of 1x and ROE of 8%, dividing the total into four quadrants and illustrating how the companies' distribution changed before and after the request.

This highlights companies that are highly regarded by investors, such as those in the case studies. Overall, you can clearly see the distribution shifting from the lower left to the upper right. We have summarized on the right side of this page what efforts are being made by these companies. For example, those companies are taking drastic measures such as M&A, investment in growth, and reviewing their business portfolios, and the results are being well received by investors.

Pages eight and nine present the results of the same analysis of the prime and standard markets, respectively. See prime market on page eight. Although the transition from the lower left to the upper right can be seen here as well, the transition is weaker than that of the companies listed in the case studies. The figure on the right shows more specifically the distribution of PBR and ROE. As can be seen here, many companies still seem to be stuck in the 8% ROE, 1x P/B ratio, and so on.

Page nine is an analysis of the standard market, and the trends are very similar.

Since the beginning of this year, we have been exchanging opinions with domestic and foreign institutional investors regarding our initiatives. The feedback we received there is described on page 10 and beyond.

First of all, we have received positive feedback about the changes in companies in general. On the other hand, we have received some rather harsh comments regarding the effectiveness of our efforts. Although the disclosure of plans has progressed, the question is whether they will be properly implemented in the future. They cannot increase their allocation to Japanese equities unless the

plans are actually done and they recognize a solid improvement in ROE, ROIC, and other numbers. We have received such comments.

In the course of these efforts, we have also received comments from investors that, since the focus has shifted a bit to figures such as P/B ratio of 1x and ROE of 8%, some companies seem to think that they are safe as long as they exceed these guidelines. Some have expressed that they are not satisfied with that, but would like companies to aim higher.

On page 11, we have also received comments on future issues and TSE initiatives. First, investors seem to appreciate that there is a growing understanding of the concept of cost of capital, etc., with the cooperation of listed companies. However, investors are still somewhat dissatisfied with how this is reflected in the management of companies. Specifically, investors feel that it has not led to many drastic management decisions, such as withdrawing from unprofitable businesses and allocating resources to growing businesses. The key to this is that the management understands it and act accordingly, and they have expressed the hope that this will be firmly supported by the TSE.

Investors are also saying that although share buybacks are increasing, ad hoc shareholder returns have no meaning for the share price. Investors expect medium- to long-term improvements in corporate value, and foreign investors have expressed the opinion that they would like to see companies make solid investments in their core businesses to achieve this.

These are the feedbacks from investors. We also conducted a questionnaire survey of listed companies regarding the challenges they face in implementing our request and the support they expect from the exchanges. The results are presented on page 12.

We have received a variety of responses on issues in the categories of organization and structure, content of initiatives, and dialogue with investors. In light of these issues, they would like the exchanges to introduce case studies of other companies' efforts that can be used as a reference. They would like to see opportunities for the TSE to provide a thorough explanation of the TSE's initiatives to management and others. We have received such comments.

On page 13, we summarize what we plan to do in the future based on the situation to date.

In the prime market, disclosure has progressed to a certain degree. So, we will continue to provide listed companies with practical content, such as updated case studies, to encourage their positive initiatives. For the standard market, half of the companies have yet to disclose. However, it is clear that forced implementation will not be very effective, and we recognize that the challenge is how to encourage managers to engage in these activities autonomously and voluntarily. We would like to consider how we can encourage this in the future.

As was also noted in the investors' opinions, many companies feel relieved by what they have done so far. We would like to encourage the listed companies to work together to go even further.

Finally, we would like to continue to improve on communication between companies and institutional investors.

The rest is for reference only and will not be explained in detail. See page 15, for example. In exchanging views with investors, for example, Principle 5.1 of the Corporate Governance Code states that there should be constructive dialogue with shareholders. For that matter, even companies that declare that they are compliant, when investors request an IR interview, they are sometimes turned down without any reasonable reason from the investor's point of view. We believe that there is sometimes a discrepancy between the perception of investors and listed companies regarding compliancy, and this is one of the issues that needs to be improved.

In addition, we have attached other documents such as the appointment of independent outside directors, the establishment of the Nominating and Compensation Committee, and the ratio of compliant to each of the Code's principles.

That is all I have to say.

[Okina, Chair]

Thank you very much. Before moving on to the discussion, the secretariat will give a brief overview of the written comments received from Mr. Kobayashi and Ms. Sisson, who are absent today.

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

I would like to provide an overview of the written opinion received from Mr. Kobayashi and Ms. Sisson.

First, I would like to introduce Mr. Kobayashi's written opinion.

10 years have passed since the Corporate Governance Code was first applied, and the "earning power" of companies has certainly improved. However, challenges still remain in achieving sustainable growth and increasing corporate value over the medium- to long-term. I would like to make three points in furthering the discussion on the revision of the Code.

First, regarding the streamlining of the Code, I agree with the direction of going from formality to substance. On the other hand, in recent years, new issues have been added to the Code one after another, and many companies have been forced to formally deal with them, which we are aware is problematic. Therefore, it is appropriate to reiterate the purpose and spirit of the principles-based approach in the preamble. In doing so, I suggest that the fair distribution of value added among diverse stakeholders be included. In addition, the Code should not only be streamlined, but also simple and easy to understand. For example, as for the Principle 4.8, Effective Use of Independent Directors, it has become an objective to meet the requirement for the number of independent directors, and the principle is only formally complied with. Furthermore, formal recommendations for approval or disapproval by proxy advisory firms need to be corrected. As in the US, I believe it is necessary to consider regulations to strengthen the transparency and accountability of proxy advisory firms.

Next, the allocation of business resources should essentially be left to the autonomous judgment of companies, and is a matter for management to decide on its own responsibility. In light of this, an extremely careful discussion is required on whether the Code should discipline the promotion of investment through the appropriate allocation of business resources. In the first place, corporate retained earnings are also characterized as a reserve for future investment, research and development, and contingency planning. If this is included in the Code, companies will be forced to be conscious of short-term capital efficiency, which could result in increased pressure for shareholder returns.

In addition, in relation to the disclosure of annual securities reports prior to the general shareholders' meeting, companies should essentially provide explanations to shareholders through their own originality and ingenuity, and extremely careful discussion is required in order to regulate such disclosure under the Code. In recent years, the disclosure burden on companies has increased, and this is one of the factors preventing companies from allocating business resources to the formulation of growth strategies and dialogue with investors. It is necessary to fundamentally review the nature of disclosure and reorganize it across systems.

That is all.

Next, I would like to introduce Ms. Sisson's opinion letter.

At the outset, ICGN agrees in general with the direction of this revision. We then offer our opinions on a few issues that we believe are of high priority from the perspective of foreign investors.

First, with respect to the timing of disclosure, we welcome efforts by companies to disclose earlier. On the other hand, the practice of aligning the voting record date with the end of the fiscal year is unique to Japan, far removed from global standards. We support this change in practice, as it would also eliminate the longstanding issue of the concentration of the timing of the annual shareholder meetings. Disclosure prior to the shareholder meeting should be made further in advance than one or two days, from the perspective of allowing time for investors to fully understand the information and for the Company to explain it to them.

While we are basically in favor of streamlining the Code, care must be taken not to oversimplify it or eliminate provisions that still play an important role. While progress has been made in improving governance in large Japanese companies, it has not yet reached all companies, and caution should be exercised in hastily removing or reclassifying provisions. In addition, when introducing the concept, it is essential to organize the relationship with the principles that are subject to the comply-or-explain approach. In order for the original role of the principles-based approach to be fulfilled, a good quality explanation should be made.

It is also recommended that several issues be clearly stated in the Code to further strengthen the Code. For example, the Code should include having a majority of the board of directors be independent directors, independent director leadership, including independence of the chair, clarification of committee roles, and promotion of director training. The establishment of a compensation structure linked to contributions to shareholder value, disclosure of the status of governance initiatives, disclosure of the number of votes received by candidates in the director election process, and high-quality evaluation of the board effectiveness will also contribute to further improving governance practices.

Capital allocation is an important governance responsibility. In particular, we seek to continuously improve capital efficiency and ROE. I also believe that cross-shareholdings should be reduced to zero, and the Code revision will support this effort, resulting in more efficient resource allocation. Clearer disclosure of the justification for continuing to hold cross-shareholding and the timeline for their elimination is expected.

Regarding shareholder meetings, we oppose fully virtual shareholder meetings, but support hybrid shareholder meetings because they provide more opportunities for participation for a larger number of shareholders.

That is all.

[Okina, Chair]

Thank you very much.

We will now hear comments and questions from you members. Since today is the first meeting, I would like to ask for your comments not only on what the secretariat and members have explained, but also on any other issues, including how to proceed with this meeting.

As time is limited, I ask each of you to speak for up to about five minutes so that all of you are able to comment. After five minutes have elapsed from the start of the comment, the secretariat staff will hand a memo to the speaker. If you wish to speak, please put up your nameplate. I will call on you.

Now, would you please give us your opinion?

Ms. Kobu, Mr. Nakagami, and Mr. Iguchi, please proceed.

[Kobu, member]

Thank you for the opportunity to speak. I would like to make 3 points: one about the Code as a whole, one about dialogue with shareholders and balance sheets, and one about the board of directors.

I would like to thank once again the corporations and the Financial Services Agency for the progress that has been made in governance in Japan. I agree with you about launching streamlining for the purpose of substantive implementation. In doing so, I would like to ask you to take care to communicate that this is to encourage further evolution of governance. I hope you aim to strengthen governance in substance rather than form, depending whether the reason why comply has become a mere formality, on page 15 of the TSE document, is the way the Code is written or the lack of sufficient involvement of management and the board in the decision-making process of compliance.

I also agree with the establishment of the preamble. In the preamble, I hope you will note what the Corporate Governance Code is set up for, and that strengthening governance and improving capital efficiency is not just for investors, but to create positive outcomes for all stakeholders, including employees.

The second point is dialogue with shareholders. I understand the trend toward streamlining the Code, but I ask that the importance of dialogue with shareholders never diminish from its current state. Please allow me to comment on the use of cash and cash equivalents, which I believe the dialogue with shareholders is important for.

The amount of cash and deposits held by Japanese companies has doubled over the past 20 years, and the ratio of cash and deposits to total assets has doubled as well, to over 15%. In the US, on the other hand, there has been virtually no change in that level. The Life Insurance Association of Japan's annual survey on efforts to increase corporate value also shows that companies place more emphasis on shareholder returns than investors as a key element of their medium- to long-term investment and financial strategies, while investors place more emphasis on capital structure. I would like to emphasize that many investors want an optimal capital structure and effective use of capital, and not simply shareholder returns. I believe that what investors want is for companies to make investment decisions for growth, for their boards to monitor them closely, and for them to be accountable through dialogue with their shareholders.

I would also like to make a statement here about the cross-shareholdings in Principle 1.4. I would like to express my appreciation once again for the great efforts made by companies and the progress made in information disclosure due to the revision of the Cabinet Office Ordinance. With extremely volatile stock prices today, the need for risk management is greater than ever for companies with cross-shareholdings. I would also like companies that hold cross-shareholdings to understand the need to manage their business in consideration of their own shareholder composition and liquid share ratio, and to take into account the risk premium, or cost of capital.

The issue of cross-shareholdings is truly a challenge for Japan as a whole. At the risk of being scolded, I think it is necessary to discuss the issue, including drastic proposals, which may be somewhat unrealistic, such as, for example, setting a certain period of time and offering some kind of tax benefit

if such shares are sold on this occasion. In our conversations with companies, we sometimes hear them explain that they are building up their cash and deposits or establishing cross-shareholding relationships to avoid risk. I hope they understand that in the current situation, this is partly increasing risk, not avoiding risk.

The third and final point is strengthening the functions of the board of directors. I believe that the function needs to be performed in the interest of minority shareholders. I think we will see an increase in various corporate actions in the future, and I sometimes have concerns about whether the board is really ready to be accountable for these actions. For example, data show that in nearly half of the MBOs of listed companies that have taken place since 2022, the acquisition price was set at a P/B ratio of 1x or less. I believe that the board of directors needs to be strengthened in terms of the interests of minority shareholders so that it is fully accountable for the corporate actions of the Company. In addition, there are now 3 different organizational structures, which are very confusing to global investors, so I think it may be necessary to consider this. I understand that the Japan Association of Corporate Directors has been discussing the organizational structure.

In addition, there is still room for improvement in board independence, diversity, and skills in Japanese companies. I believe that these points need to be further emphasized in the revised Corporate Governance Code.

That is all.

[Okina, Chair]

Thank you very much. Mr. Nakagami, please proceed.

[Nakagami, member]

Thank you for the opportunity to speak in preference to my predecessors.

I believe that the Corporate Governance Code has really been perfected over the past 10 years. In the field of management, this is considered a minimum line to be aware of, and it is also an important nodal point for dialogue in the field of engagement investing. On the contrary, I believe that how the Code, which has reached such a high level of perfection, should be revised is an important theme for this expert panel. In that sense, I agree with the proposal to reiterate and clarify the purpose with a preamble and to streamline the Code. On the other hand, I believe that further substantive implementation will be possible through reclassification and re-editing of the overall structure, rather than mere streamlining.

What I would like to raise here is the issue of "dysfunction of independent outside directors" seen in the field. I believe that outside directors have been developed as a system, and the "quantity" of such directors has been greatly enhanced. However, in the field of investment and management, concerns about its "quality" may be rather widespread. Some of them may consider it as the perfect job for their second life and look hard for a company that will choose them, and the Company that chooses them tends to choose the safest person. As a consequence of this, we sometimes hear statements from executives that outside directors are useless and that they are too scared to let them attend investor meetings. On the other hand, investors seem to distrust outside directors, who seem a bit unreliable, no matter what they ask or don't seem to understand the nature of supervision. I believe that this dysfunctional situation is at variance with the original intent of the Code, and that it is not responsive to the changing environment that Japan's capital markets are currently facing.

First, domestic and foreign institutional investors, who expect Japanese companies to transform themselves, are demanding world-class governance. However, the reality is that there are only a limited number of outside directors who can openly discuss corporate value enhancement measures and corporate governance with institutional investors. If this trend continues, I believe there is a risk that foreign investors will judge that governance of Japanese companies is still inadequate and that Japanese companies will be undervalued in comparison with the global stock market.

Second, in the current environment where activism is becoming more active, and unsolicited takeovers are becoming more frequent, the responsibility of outside directors, who are responsible for making decisions from a standpoint independent of both executives and shareholders, is becoming extremely important. In fact, there have been situations where individual outside directors have been held legally liable. I have experienced many cases of activism and unsolicited takeovers, and even if one tries to respond in a hurry after such an emergency occurs, the corporate value is often severely damaged through poor management decisions, errors in business strategy, or employee turnover. I believe that increasing the effectiveness of outside directors from ordinary times is essential not only for shareholders but also for all stakeholders.

In light of these issues in both investment and management, I would like to propose that the next revision should include a new chapter titled "Responsibilities and functions to be exercised by independent outside directors." Looking at codes around the world, it seems that it is rare to find a chapter dedicated to outside directors. However, our country is in a unique situation, i.e., in a short period of 10 years, a new sort of profession of 10,000 outside directors has been created at the core of corporate management/corporate governance. This unique situation, or the rapid transformation of the capital markets, such as the rise of activism, must be taken into account. For this reason, I believe that it would be a good idea to create a chapter that is separate from the already existing chapter on the board of directors as an institution or mechanism, and focus on the people who are responsible for that institution, the individual outside directors, as the driving force to convert quantity into quality.

Specific images of the new chapters were submitted separately to the secretariat. I assume that the mission of an outside director, the preparedness or qualities required, the code of conduct, and this kind of thing are included. I believe that it is possible to organize and integrate the elements that already exist in the current Code, while at the same time organizing them into a world-class chapter based on each country's code or listing rules, etc.

Finally, outside directors should improve their quality and become truly independent, and thus be relied upon by both executives and investors. In other words, I believe that empowering outside directors will lead to further evolution of corporate management and governance reform in Japan.

That is all from me.

[Okina, Chair]

Thank you very much. Mr. Iguchi, please proceed.

[Iguchi, member]

Thank you for the opportunity to speak. Thank you very much for your explanation. I would like to offer my views in accordance with the "Discussion Topics" on the last page of the document.

One, I agree with adding the three individual items listed on page nine of the document to the Code. The first point, resource allocation, is a very important matter for investors, as Ms. Kobu mentioned, and is a large part of our company's dialogue engagement agenda. It is important for the board of directors, which is responsible for increasing corporate value over the medium- to long-term, to thoroughly examine and explain to investors, as leading companies have already done, how to use the cash flow to invest in the business, how to improve the capital efficiency of the business, and how to return surplus funds to shareholders based on the balance sheet that should be achieved. I also believe that assessment and explanation should include such matters as how to respond to any discrepancies between actual results and plans.

Regarding the second point, the disclosure of the annual securities report prior to the annual general meeting, as mentioned in ICGN's opinion paper by Ms. Sisson, Japan is the only developed country that has not done so, and I believe that this is an urgent issue. In addition, as mentioned in the ICGN's opinion, I also believe that the Code should clearly state that companies should aim for disclosure not just a few days before the AGM, but at a time when investors can fully exercise their voting rights, usually three weeks before the meeting. In addition, I believe that the burden on those in charge of corporate affairs will increase in the future, including full-scale sustainable disclosure. I believe that the integrated disclosure of business reports, etc., and annual securities reports by realizing disclosure before the annual general meeting will greatly reduce such disclosure burdens.

I also agree with the third point, strengthening the functions of the board of directors' secretariat. However, I think it might be better to clarify the expected functions in the Code. I understand that with the increasing independence of the board of directors, there is a need for an organization that has a reporting line and supports the board of directors in setting agendas and other matters as a general counsel to the board. The Action Program 2025, released in June of this year, also includes the phrase "operating independently from executives," which I believe is also required in this context in Japan. I think we need to clarify these functions. I believe this will go a long way toward resolving the concerns that Mr. Nakagami just mentioned, as well as strengthening the functions of outside directors.

However, when we assume these functions, the term company secretary is used in the OECD Governance principles, as well as in codes in the United Kingdom and other countries. I believe this is common globally. I hope that you will consider adding the term "company secretary" to improve the understanding of foreign investors.

I also agree with the streamlining of the Codes, etc. Although the order may be reversed, I strongly agree, especially with, four, to organize thematically. For example, with regard to matters related to sustainability in chapter two, I believe that the situation has changed significantly since the Code was formulated 10 years ago. Specifically, it is now widely recognized by market participants that important sustainability matters affect cash flow and corporate value. I also believe that a major change is the establishment of a sustainability statement section in the annual securities report and the clarification of the position of board oversight in the SSBJ standards for governance disclosure. Therefore, I believe that many of the principles in chapter two would be summarized in Principle 4.5, Fiduciary Responsibilities of Directors and Kansayaku. I believe that whistleblowing under Principle 2.5 could also be summarized as a compliance matter under Principle 4.3. I would be happy to send any other detailed proposals to the secretariat later, due to time constraints.

I also agree with the reclassification of the supplementary principles in, three. For example, I believe that the board of directors' operations in Supplementary Principle 4.12.1 and the dialogue procedures in 5.1.2, while important, are fairly detailed procedural discussions and may not need to be the subject of the comply or explain approach. In addition, I personally believe that the portion of Supplementary Principle 1.2.5 related to trust bank names is no longer necessary at this time and could be deleted. I would be happy to email the secretariat later with more details on this.

In addition to the three items listed on page nine of the document, we could also consider adding three other items to the Code.

The first point is regarding the cross-shareholdings mentioned in the Action Program and mentioned by Ms. Kobu just now, Principle 1.4.1. Recently, an increasing number of companies have been changing their cross-holdings to pure investment. This means that from the investor's point of view, the response to cross-holdings has become uncertain. So, I think we should add a request for appropriate action after changing to pure investment.

The second point is regarding the disclosure of TCFD as stated in Supplementary Principle 3.1.3. As you know, the TCFD has been absorbed by the IFRS Foundation, and the term TCFD is rarely heard of anymore. So, I think it would be better to replace this term with the term SSBJ standards. I believe this will also encourage sustainable disclosure to Prime-listed companies that are not required to apply SSBJ standards.

The third point is Principle 4.8 Effective Use of Independent Directors. As noted in the ICGN's opinion paper, in recent years, more and more independent outside directors have become board chairs, particularly in Japanese global companies, and this kind of thing is greatly welcomed by the market. In light of this, I believe it may be time to consider including the chairman of the board of directors in the principles. At present, it would be difficult for all Japanese companies to suddenly have an independent outside director chair the board of directors. So, for example, I think it might be a good idea to add it to "Irrespective of the above" in the second paragraph of Principle 4.8, or to "for example" in Supplementary Principle 4.8.2, as one type of example. The fact that the Code does not mention an independent chairman of the board at all is a significant departure from the current situation.

Finally, I agree with, five, that a preamble should be provided to familiarize the public with the principles-based approach. On the other hand, I would like you to add the purpose under 11 on page 13, which is to provide a sufficient explanation that is acceptable to investors in case of explaining without complying. The ICGN's opinion mentioned a good quality explanation. The quality of explanation is also said in other countries, and I believe this is very important. Since the Code is a soft law without penalties, there is a risk that overemphasizing only explaining will make the code merely a guidance, losing its effectiveness in monitoring investors. So, I would very much appreciate it if you could add that.

That is all. Thank you very much.

[Okina, Chair]

Thank you very much. Next, Professor Matsuda, please proceed.

[Matsuda, member]

Thank you very much. I would like to offer some general comments on the three points listed as "Discussion Topics," and then I would like to add a few additional comments later.

First of all, I basically agree with the general comments. I believe that corporate governance has made tremendous progress over the past decade, thanks to the efforts of the FSA, the TSE, and many companies and investors. I remember that when the Corporate Governance Code was introduced, one of the managers said that it would be an instruction manual for management in the

age of equity governance. Now that 10 years have passed, it is time to move on from such handbooks, and I agree with the review at this time. I will provide you with Individual issues separately.

I also agree with you about streamlining. With the passage of 10 years, not only companies but also investors have diversified. In the material prepared by the TSE, there is an explanation of the three-tier structure of companies. I believe that the investor structure is similarly structured, with at least about three layers. Then there would be at least about nine different relationships with three multiplied by three. I think it would no longer be possible to stipulate all of this in a uniform code. I'm sure there are many thoughts, but I think we should keep very large, big-boned policies in the Code, and move others as much as possible to guidelines, advice, case studies, and gap case studies, etc.

Basically, I believe that such gaps case studies are pretty much left to the future direction of the Company, i.e., the autonomy of the Company to pursue its corporate philosophy, formulate management strategies to achieve it, and then move the organization in that way. It would be far more effective to disclose a wealth of initiatives that would be helpful in exercising that autonomy.

I also agree with you about the preamble. However, as for the preamble, I think it should be prepared from the perspective of what management would definitely like to read and should read. In companies where disclosure has not progressed, it is often the case that management has not read the Corporate Governance Code in the first place, or they think it is enough to have the person in charge deal with the Code, and leave it to the person in charge after reading it once. Therefore, I hope that the preamble will be of the kind of content and delivery that we would encourage management to read.

I would like to add a few additional details. There are two main directions for streamlining. For one, upon reviewing it again, I think there is still quite a bit of so-called "how-to" content. I think it is time to remove such sections. I will inform the secretariat of the details later.

Another is that there are areas that are important but dispersed or duplicated, or only formally mentioned, leading to formal responses by companies. We have already heard opinions on sustainability and shareholder dialogue. I have two more points of concern. One point is about diversity. The fact that the principles, while important, are dispersed among several principles and that they are quite specific seems to have given rise to formalistic behavior by companies. I think it is time to follow the UK Code and move in the direction that diversity is very important, but that companies should think about how to fulfill it.

The other point is committees. In particular, the description of the nominating process, including the nominating committee, has been added later by revision, and it has been spread across various provisions. I think this has led to formalistic behavior by companies, where all they have to do is set up a nominating committee. The role of the board of directors is very important, but if we look at advanced companies, the role of the nominating committee will become even more important. I think we should summarize the content in such a way that it shows that this is very important.

The only other thing I would like to mention is that with regard to what is called risk management and defensive governance, it would be good to describe it more collectively. For companies, scandals and other incidents have been increasing in recent years. Group governance has also become a major issue for large companies. Because of the multiple organizational structures, one of our concerns is the nature of the audit. I think it would be good to be able to summarize those things and describe them as very important.

That's all from me.

[Okina, Chair]

Thank you very much. Professor Kansaku, please proceed.

[Kansaku, member]

Thank you very much for the opportunity to speak.

I am in favor of proceeding with the current review of the Code in accordance with the direction of consideration suggested by the Action Program 2025 on page nine.

I would like to comment on a couple of points of concern. This is about the specifics on page nine. Regarding the second item, disclosure of the annual securities report prior to the annual general meeting, as Mr. Iguchi pointed out earlier, I would like you to consider incorporating this into the principles. The core of disclosure is statutory disclosure. Furthermore, among the statutory disclosures, the centerpiece is the annual securities report, which is a continuous disclosure. I understand that the information based on the annual securities report should be the core information, so to speak, of the exercise of shareholder rights or of the dialogue between shareholders and management. Therefore, time should be available to review the disclosed information and engage with management prior to, and well in advance of, the shareholder meeting. For this reason, I think it is absolutely necessary for the further substantive implementation of corporate governance that annual securities reports be disclosed for a certain period of time before the AGM.

Certainly, non-financial disclosures and guarantee programs have greatly increased the burden on companies. On the other hand, the streamlining of these disclosure systems is currently being discussed at the Corporate Legislation Subcommittee of the Legislative Council of the Ministry of Justice and at the Disclosure Working Group of the Financial System Council of the FSA. Therefore, in conjunction with this trend, I would like to request that the disclosure of annual securities reports prior to the Annual General Meeting be promoted in a positive manner.

Next, I would like to discuss the enhancement of the board secretariat, which is described in the third point on page nine. I believe this is also a very important point. I believe that an enhancement of secretariat will be essential, especially as the ratio of independent outside directors grows, and especially when the chairman assumes the position of outside director. Furthermore, from the perspective of human resource development, being assigned to the secretariat of the board of directors, which is expected to play such an extremely important role, would be an extremely meaningful human resource development opportunity for the Company in question. I believe that strengthening the functions of the board of directors' secretariat is a direction that should probably be pursued more and more in the future, such as further increasing the ratio of independent outside directors, as I mentioned earlier, or appointing an outside director as the chairman of the board of directors' meeting. If this is the case, I recognize that the importance of the board secretariat will increase accordingly.

Next, I would like to discuss streamlining. I agree with the direction of the reclassification on page 11. I think it is a very good idea to reclassify the supplementary principles into three categories. At the bottom of the list, three, there is a description of deleting items that are becoming less necessary or duplicative. For example, non-financial information and sustainability-related statements have indeed been included in relevant sections of the Corporate Governance Code since its creation and revisions, and I think it is possible to bring these items together. However, many of the supplementary principles say good things, and their deletion should be considered extremely carefully. In this sense, I would like to request that statements that are not subject to the comply-or-explain approach but can serve as a reference or guideline not be simply deleted, but be retained as the second category. I am sorry to repeat myself, but I believe that there are many very good things in the supplementary principles. I would very much appreciate your careful consideration of the deletion.

The question is one and two, whether they should be subject to the comply-or-explain approach, or whether they should be used as a reference as a way of thinking. I think we should go back to the principles and basic ideas of the principles-based approach here. I believe that the principles of the principles-based approach are based on the idea that how they are understood, interpreted, embodied, and put into practice can vary from company to company, i.e., the correct answer is not the same for all companies. If that is the case, then it is necessary to upgrade the very thing that deserves to be a principle to a principle, from a supplementary principle to a principle. Along with that, the principles-based approach mentioned earlier would seem to indicate that it is natural to explain, even if they are complying. How each company thinks about it and how they implement and practice it would need to be explained. With that in mind, I think it is very important and meaningful to have the concept of the principles-based approach, or the concept of comply-or-explain, or in some cases, comply-and-explain, explained in the preamble.

As I mentioned a bit earlier, I think there is room to move forward with the integration of overlapping areas in several places. I would very much like to see that proceed.

This is all I have to say. Thank you very much.

[Okina, Chair]

Thank you very much. Next, Ms. Matsuoka, please proceed.

[Matsuoka, member]

Thank you for the opportunity to speak.

First, I would like to first reiterate that the original purpose of corporate governance for Japanese companies is to achieve medium- to long-term growth of operating companies. On that basis, I agree that the contents of the Code should be streamlined and reorganized to make it more substantive so that the corporate governance reporting requirements will not be too onerous for operating companies, given the passage of time and the progress of initiatives. On the other hand, it is also necessary to pay attention to items that have been prepared based on practical demands in the history of formulation and revision to date, so that they will not be interpreted as policy regressive.

In addition, the comply-or-explain approach is considered as the principle of corporate governance. However, in reality, there is a growing awareness amongst companies and some investors that explaining is undesirable, and the phenomenon of many companies complying in form rather than in substance has been pointed out for a some time now, and has not yet been resolved. It is an important responsibility of companies' management to consider capital allocation in order to enhance corporate value over the medium- to long-term, and it is also important to explain the results of such considerations to stakeholders. However, it is also necessary to consider what is the best choice for the Company, and if not complying, to provide an appropriate explanation of the reasons for not complying and obtain investors' understanding. I would like to reiterate that appropriate explanation is also an important basic alternative in corporate governance.

Corporate governance in Japan focuses on strengthening a company's earnings power and thereby enhancing sustainable growth and corporate value over the medium- to long-term. I believe it is important to link the dialogues companies hold with shareholders and investors with strengthening of earnings power, and to foster an environment in which companies can engage in risk-taking and focus on investment for growth. In doing so, it is important to encourage companies to explain their investment policies appropriately and to approach allocation of their capital resources. However, in

order to assess individual items, I believe it is necessary to examine them with due attention to the way they are described and their impact.

For example, with regard to cash and deposits, I believe that careful consideration must be given so that we do not move towards a trend in which the very rationale for a company to have cash and deposits is denied. In order for management to be fully aware of the risks and opportunities, and to consider and implement investment of capital, it is necessary to consider the lead time and opportunistic aspects, as well as the point in time at which disclosure can be made. Under such circumstances, I would like to emphasize here that its main objective is only to achieve medium-to long-term growth. There is also an asymmetry between companies and investors, which differs in the immediacy and freedom to enter and exit the market. I believe that this also needs to be fully taken into account.

I also believe that it is necessary to hear and consider the actual disclosure burden of companies with respect to the disclosure of annual securities report prior to the annual general meeting, and to consider the feasibility of such a system. In addition, I believe it is important to make the board of directors more effective in promoting corporate governance efforts of Japanese companies. The Corporate Governance Guidance for "Earning Power" released by the METI in April of this year also provides, for example, key points for consideration regarding the structure and framework of the board of directors' secretariat. In revising the Corporate Governance Code this time, I hope that the result will be one that encourages companies to aim for medium- to long-term growth, autonomously explain their approach to management, and be effective.

Thank you for your cooperation. That is all.

[Okina, Chair]

Thank you very much. Next, Ms. Hasegawa, please proceed.

[Hasegawa, member]

Thank you for the opportunity to speak. We are a manufacturer, and we are in a position to run our company using the Corporate Governance Code. So, I would like to talk a little from that perspective.

With the enactment of the Corporate Governance Code in 2015, we have had to make major management changes. In this situation, the fact that the Corporate Governance Code describes to some extent the ideal form of a company was very significant and guiding for me. I believe that governance reform must precede management reform, and this has always been important to me. Looking back over the past 10 years, we have talked within our company about how governance is very different today than it was 10 years ago. I believe that one indication that the Corporate Governance Code has been effective is that it has changed significantly over the past 10 years.

However, after 10 years, there are some things that seem common sense now, or are written in too much detail across multiple principles, making it very difficult to answer the questions. So, I am in favor of streamlining and simplifying at this point.

I would like to talk about some of the issues that have been raised. First, I believe that it is a major task of management to disclose the capital allocation and explain it to stakeholders regarding the importance of recognizing that there are diverse investment opportunities, cash and cash equivalents, and resource allocation. It also goes without saying that the PDCA cycle, in which the effectiveness of an investment is assessed and reflected in the next action, is very important for management.

However, the term "cash and deposits" has been mentioned many times, and I feel a little uncomfortable as a person in management to narrow the focus of assessment and accountability only to cash and deposits. We need to be accountable for what kind of thinking goes into holding them, but some investments must be talked about in the medium- to long-term, and some investments must be talked about in terms of risk. I think it is important to have them explain this clearly and that it will contribute to the Company's growth over the medium- to long-term. As a person in management, I have some resistance to writing uniformly that this is not a good thing.

As for early disclosure of annual securities reports, it is quite understandable that shareholders and investors demand this. I think it would be very desirable for us that they read such documents carefully and then vote at the shareholders' meeting, as well as conduct SR and IR activities. However, for those in practice, the workload has in fact increased considerably, especially in light of the recent addition of non-financial disclosures and even SSBJ. I regret that we have not been able to adequately respond to early disclosure due to these circumstances. Decrease in the number of documents to be submitted before the general meeting. As several members have suggested, I would like you to consider taking steps to reduce the burden caused by the reports, for example, integrating business reports under the Companies Act and annual securities reports under the FIEA, and using them as effective disclosure documents.

In addition, you all mentioned earlier that there are items in the Corporate Governance Code that are only formally complied with. I would not say that this is an impediment to substantive governance reform, but Principle 4, 4.1, and 4.3 describe the roles and responsibilities of the board of directors. However, if you read carefully to the supplementary principles, you will become confused about the division of responsibilities between the board of directors and management. For this reason, I always try to somehow manage to separate the definitions, roles, and responsibilities of the board of directors, the executive board, and the outside directors. However, while the details of the article are very detailed, I get the impression that they are all written together. I would very much like to see the revised version so that the reader can understand what the board of directors is, what the roles of executive officers and management are, and what the roles and responsibilities of outside directors are. We conduct an evaluation of the board effectiveness once each year, and since the draft text of the effectiveness assessment also comes out in line with the Corporate Governance Code, I am very confused as to whether I should say yes or not. I would appreciate a clear definition.

As for streamlining and simplifying the Code, as I said earlier, I agree. I also agree with the division of the supplementary principles on slide 11, which you explained, into three levels. For example, the description of information disclosure is complicated by the fact that it is included in three and five of the basic principles, or added to them, and that it appears in various places with various wording, reflecting your various thoughts. The supplementary principles of the Principle 1.2 state what is obvious to companies. Upon review, there are several items that I would like you to organize and that we no longer need.

I would like to mention, however, that if it is left out of the description, it may be a false message that you do not have to do it. If you had worked hard on it and it was removed from the description, the companies would think that you don't have to do this anymore. It is in these areas that I believe there will be a gap in opinion with shareholders and investors. So, I think we may be able to supplement the items to be removed from the description by including them in the notes.

Finally, with regard to comply-or-explain, it is true that companies will inevitably have to comply only formally, as has been pointed out. Looking back on our past reforms, I am sorry to say this, but we tend to make the mistake of just complying what is required. However, over time, the Company is thinking hard about what we have to do, all or not, to truly comply. The fact that the concept of the Code is becoming more widespread and that more companies are improving it indicates that companies are trying to understand what is in the Code, not just formally. I think it is important to ask companies for a statement, either explain or comply, that explains the concept well.

That is all. Thank you very much.

[Okina, Chair]

Thank you very much. Next, Mr. Yamaguchi, please proceed.

[Yamaguchi, member]

Thank you for the opportunity to speak. Up to now, various people have spoken from a broad perspective. I am speaking from the perspective of an employee who is also a stakeholder and a worker who is probably in the closest position and involved in the preparation of such disclosure information.

Regarding the reclassification of the basic and supplementary principles that currently exist, as pointed out in the secretariat's materials, I have actually felt in our conversations with our members that it is burdensome due to the duplication of other disclosure documents. I, now a full-time member of the trade union, was in the Company when various rules were being introduced. As the rules became stricter and stricter, the entire company tended to get caught up in dealing with them, and it was easy to put off discussing or thinking about ways to improve the Company's profits or new business opportunities. The TSE's explanatory materials also included the results of a survey that indicated a lack of resources and a heavy workload. Therefore, I believe it is important to discuss the substantive implementation in light of these points.

Another thing, as has already been mentioned by other members, the amount of cash and deposits of companies has become quite large. On the other hand, international comparisons point out the low level of investment by Japanese companies. Among other things, there is also the fact that the labor share has been stagnant for a long time. I believe it is important to be fully aware of this point and discuss it.

That is all.

[Okina, Chair]

Thank you very much. Next, Professor Ueda, please proceed.

[Ueda, member]

Thank you for the opportunity to speak and thank you as well for your explanation.

10 years after the Code was formulated, corporate governance in Japan has changed, as other members have mentioned. Perhaps the Corporate Governance Code has not been revised every time, as the Director General explained earlier, but there have been regular follow-ups. In recent years, in particular, the TSE's requests for the management that is conscious of cost of capital and efforts to raise the level of awareness have been successful and have actually increased awareness on the part of managers and companies of the need to address this issue. In particular, we saw a considerable and noticeable difference in the stock prices of the companies that disclosed the information, and I felt that the effect of the initiative was apparent.

Against this background, what should we do with the Corporate Governance Code in the future in line with the Action Program? First, I agree with you on the direction. I agree with the direction and the overall point you make here. Let me make a few individual points on this point.

First, before I get into the individual details, I believe the most important point is the fifth. I believe that the preamble is the most important philosophy or the most important fundamental concept in the Code. On the contrary, I just read again the Corporate Governance Code that you distributed today, and I don't see any preamble. The content of the preamble should not be something that only interested parties who know this can understand by looking at the draft or read by looking at the Stewardship Code, but is something that we would like companies to know. We should create a strong preamble once again. The preamble to the draft at the time of formulation is said to be a content that has not faded even after 10 years, so I would like it to be included this time.

I think they inevitably have trouble making decisions in governance responses and individual practice situations. If we can clarify the philosophy and the foothold, it will be a pillar of their decision-making. Therefore, it would be good to have a well-written preamble.

In individual discussions. First, the Code is streamlined. I agree with the streamlining of the Code. Specific details will be worked out in the future. Regarding the deletion, I thought from what you said that we cannot deny the fact that if we delete an item, it will be misinterpreted as unnecessary. One consideration is whether to proceed with careful deletion or communication.

I have the impression that a lot of things are being crammed into the Code and making it more complex. The Corporate Governance Code is probably one of the most successful economic policies of the Japanese government. I feel that many of the various corporate-related policy outlets at the government level are Corporate Governance Codes. While all of these are undoubtedly important for management, some of them seem a little too broad for the scope of the Corporate Governance Code. For example, intellectual property is listed in the Sustainability section alongside human capital, but I feel some discomfort with this placement. Furthermore, I believe that there are some kinds of guidelines for IP governance at the government level.

In addition, there is no doubt that the statements in Supplementary Principle 2.4.1 regarding women, foreign nationals, and mid-career hires are all important management issues. However, under the description of active participation of women, diversity is described, including the hiring process for middle management. I believe that the nature of middle management is a governance issue that should first be considered by the executive side, rather than discussed at a board meeting, for example. I think such a variety of granularity is seen. Since there was some talk about lack of resources, I agree with you about reclassification so that companies can devote resources to the more important corporate governance topics. Regarding the review of the structure, after listening to the discussions at the FSA, other measures on disclosure, etc., and the opinions of the members, I think we can probably summarize it into three points.

The first is the system of corporate governance. This includes the board of directors, committees, the general shareholder meeting, top management leadership, outside directors, and the secretariat. The second point is dialogue with shareholders. This will be the most important pillar of corporate governance in Japan, and I think it will be linked to the Stewardship Code and related to disclosure. The third point is corporate value. Regarding the issue of corporate value, there is a growing debate about finance, including capital policy. In addition, I think you are focusing on reviewing the disclosure system and other aspects of sustainability in the non-financial issues. I think there are these three perspectives, and then various individual stories will come in under them. I think one way to think of it is to make such a reclassification.

I think there are a lot of good points included in the more specific and detailed items that are currently in the Code, in the form of guidance to show how to do. It may be a bit of a daunting task, but I think

therefore it would be good if you would consider how to reclassify the principles, proceeding from the big picture to the specific details.

Finally, let me comment on the substantive implementation of corporate governance. I think we have been discussing for the last 10 years that the Corporate Governance Code has been becoming a mere formality and now needs to be substantiated. At this point, I think the time has come to consider not metaphysical theories of what should be, but individual discussions of concrete substantive implementation, including changes to the code wording. One of the important pillars is to strengthen the function of outside directors, which has been pointed out by many other members. I feel this from my own experience.

Outside directors are expected to contribute to big-picture discussions and decision-making at board meetings from an independent and objective standpoint, while delegating execution to management in normal times. In addition, the number of activists has recently increased, parent-subsidiary listings have been dissolved, and special committees are often set up in situations such as corporate acquisitions, which have been on the rise in recent years. There, outside directors are expected to play a central role from the perspective of enhancing corporate value. In this revision, while I am sure the number will eventually need to be discussed, I think the quality is what is really needed now.

How can we specifically improve quality? First is the clarification of functions, or, as other members have commented, the clarification of roles. Strengthening the nomination process, too. The nominating committee was central to the discussion on leadership in terms of the succession plan. However, I think we can also consider the transparency of the nomination process for outside directors, what kind of people are needed by the Company as a skills matrix, or evaluation of the board effectiveness that can be used as a performance evaluation.

That is all. Thank you very much.

[Okina, Chair]

Thank you very much. Professor Tsumuraya, please proceed.

[Tsumuraya, member]

Thank you for the opportunity to speak. First of all, I would like to express my sincere respect for the efforts of the Secretariat over the past 10 years. I would also like to say a few words in line with "Discussion Topics."

First, regarding slide nine, as mentioned by Mr. Kobayashi and Ms. Hasegawa earlier, I think we should not limit ourselves to cash, but rather think about how to distribute the added value to various stakeholders. However, if we think of diverse stakeholders not only in terms of a single point in time, but also in terms of a time horizon, we naturally need to include the concept of R&D and capital investment in this context. Distribution to various stakeholders based on mid- to long-term time horizons as well. There is also a horizontal agency problem in academia these days. Among shareholders, there has been some discussion about the fact that passive investors, whom companies have to stay with forever, have totally different interests from investors who are looking for short-term returns. I think it is good to think of it as the distribution of added value or flow to stakeholders with such a time horizon.

Regarding future issues, as Mr. Nakagami and others have mentioned, how to utilize outside directors is an issue. However, I believe that we should not suddenly go on to substantive implementation, but

that the first problem is that we do not have the information to know if it has been substantiated or not. For example, information on what outside directors' think, what authority they are given, what they do, and how they are compensated for it, is not clear from the current data. So, I think the first step is to have companies provide us with a little more information on how to determine if the reform is in substance. This may not be about Corporate Governance Code. It is then necessary to determine whether it has been substantiated.

As for the second point, my opinion may be a bit different from yours. Regarding only formal compliance, which is an obstacle to the substantive implementation of governance reform. I take issue with the fact that independence is granted to outside directors who come from companies with cross-shareholdings. I guess it depends on your definition of independence. Mr. Takei is just beside us. I very much agree with Mr. Takei's concise definition of a person who is not afraid to say something the president doesn't like to the president and doesn't care if they gets fired. The people at a company whose cross-shares the Company holds probably do not meet that concise definition at all. Even if we leave the definition aside for now, regarding the reduction under the Principle 1.4, can someone from a company whose shares the Company holds discuss the reduction of their own shares? Or can the person monitor the stock price such that it falls in the short term? I have always thought that there is a contradiction in whether such monitoring can be done, as it would worsen the Company's financial position through a decline in its stock price. This may not be about governance codes either, but I would like to ask you to consider this.

Finally, first of all, I agree with three through five regarding streamlining and focusing on principles. I agree, and since you have all discussed in what direction to streamline it, I will not dare to duplicate what you have said. However, as a premise for streamlining, the word "burden" keeps coming up, and I think we should think carefully about what this burden is. If this is just about man-hours and costs, why are we making an elaborate integrated report when it is a voluntary document? I don't think it's just about man-hours and cost. This requires a bit of academic research to accumulate. For example, you may be concerned that you are the only one who has not made it, or that you are the only one who has not disclosed it. Or even if the explanation is enhanced, there is the anxiety and burden of figuring out how to write it, or how it will be communicated to the world, and how it will be read. I think the word "burden" underpins the streamlining, including such things. But even if the burden is reduced by reducing man-hours and costs, if the burden of thinking for oneself increases, the total amount of burden will not change much. So, I think it is necessary to have a more thorough discussion with the issuer to deal with the question of where to revise and which type of burden to reduce.

That is all. Thank you very much.

[Okina, Chair]

Thank you very much. Mr. Takei, please proceed.

[Takei, member]

Thank you.

There are about six points. First, we are now streamlining the Corporate Governance Code, dividing it into two categories: those subject to comply-or-explain and those not subject to comply-or-explain. I feel that the term "notes" is a bit light regarding what is not subject to comply-or-explain. In fact there are already various comments today, and they have considerable significance. As Ms. Hasegawa mentioned earlier, the code has made a considerable positive effect on corporate activities aiming for

growth and also provides important information to help companies to do various growth activities on their own initiative. In that context, the term "notes" in principle carries little weight. In that sense, I would prefer to keep the words supplementary principles and principles in the second category. If you have a better word, please think about it, but I have a concern that "notes" is a bit light. Moreover, various new matters are emerging today. In the discussion of which category such things to be written about for, I think there are quite a few matters that have come up today that we are not sure if they should be called "notes" or not. Regarding the second category, I am not sure if the word "notes" is really the right word. I think it is a pretty heavy subject, even though it only relates to wording.

Second, the CG Code serves a very important purpose after these 10 years. Regarding the preamble, the today's draft included items seven, eight, and beyond on page 12 of the document. When the Governance Code was originally being promoted, the intent was to encourage investment for growth, particularly in ways that would contribute to economic growth strategies. It has been done in order to bring about a "strong economy" in recent terms. This is in the preamble, and the preamble contains an important purpose. I think it is really important to include this text as a preamble in order to go back to those purposes one more time after these 10 years.

Even now, in very real time, economic growth strategies and investment for growth are the most important themes for the Japanese economy, and that is exactly what the Corporate Governance Code is taking the lead in doing. In order not to stagnate the 10 years of progress that have made this possible, I hope that you will do the streamlining and the restoration of the preamble with that purpose in mind.

Third, one thing that has been happening recently, not only in Japan but also in Europe and the US, is the adverse effects of short-termism. I think we have to face this issue properly this time. Short-termism is really becoming quite strong. Originally, in preamble eight, the double code says that companies shall face the patient capital among investors, and that companies shall face investors from a medium- to long-term perspective. However, there is an inevitable tendency toward short-termism. Earlier, Professor Tsumuraya talked about horizontal agency. Investment in various R&D, investment in local regions, investment in people, and investment in intellectual property, which are also mentioned in the Action Plan, are inevitably subordinated by several requests from short-termism. That is not the intent of the original Code. In other words, it would be good to confirm that we are doing this from the perspective of properly encouraging investment for growth, so that there is a certain deterrent effect on the short-termism, and so that it is clear that the intent of the code is not the short-termism but mid- to long-term improvement.

Related to this, as a fourth point, I believe that the most important thing for substantive implementation now is for companies to first properly draw up a value creation story, build it with commitments from both of the management and the board, and then publicize it to the outside world. Value creation story is the starting point for investment for growth. As mentioned earlier, the five principles for strengthening "earning power" were issued by METI in April of this year, and these principles clearly state that companies should build and publish their value creation stories. A value creation story is a series of stories about how to solve social issues and how to improve corporate value over the medium- to long-term through what kind of business model, in order to realize the Company's purpose and its medium- to long-term vision. The components of the value creation story should be that it is rooted in the Company's strengths, differentiation, and competitive advantage. Proper consideration must be given to solving social issues and stakeholder interests. Multiple scenarios based on long-term changes in the business environment should be considered. In addition, the Company should have not only a P/L perspective, but also a B/S and cash flow perspective, and should consider capital efficiency and growth potential over the medium- to long-term, etc.

The public corporations covered by the Code should create a value creation story that incorporates all of these elements. Perhaps this is the most important point. Through Corporate Governance Code, we communicate companies that we want them to work on it first. Moreover, a company must first read the above phrase that there is this kind of corporate value and value creation. The double-code

relationship is that the Company first reads the upper phrase, the value creation story, and then interacts with investors as the lower phrase. First of all, I think that reading the above phrase, "value creation story," should be enough to dispel many concerns about short-termism. So, I think we should first write properly that the value creation story should be read properly.

In the current Code, sections related to value creation stories are scattered. It is scattered in five or six places, including Principle 3.1 (i), Supplementary Principle 3.1.3, 4.1.2, 4.2.2, and 5.2. I think it would be better to put this in one place and specify that the first step is to create a value creation story. Incidentally, there may be room for consideration as to whether the term "mid-term business plan" in 4.1.2 should be retained. In any case, I think the Code should state that the value creation story should be properly created.

Relatedly, Principle 3 now begins with disclosure, but I think it would be better to change the way Principle 3 is written so that it is disclosure-based on the creation of a value creation story. Value creation stories should be properly created. Moreover, it should be created through a joint effort between management and the board. If the board is properly involved in building the value-creation story, it can help to deal with aspects such as acquisitions without consent. We will make it clear that we want them to properly create such value creation stories. I believe that these points are important themes within the top priority of the Corporate Governance Code, which is substantive implementation and efficiency.

Fifth, related to this, of course, value creation stories must be created across the Company, and I think the integrated report is an example of this. The creation of an integrated report can help to cross-functionalize various functions within the Company and create collaboration. Turf minded organizations become cross-functional, and collaboration is born. Such collaboration is described in the dialogue in 5.1.2 (ii). I would like you to write not only about dialogue, but also about collaboration, because creating value-creating stories naturally requires collaboration.

The sixth and final point is the enhancement of board functions. The major efficacy of the Corporate Governance Code over the past decade has been, I believe, the visualization of board functions. The visualization of boards has advanced considerably and significantly over the past 10 years. As Mr. Nakagami mentioned earlier, there are still many issues to be addressed. In this context, I think it is important to first properly discuss the value creation story with management in order to consider effectiveness of the board. The board must understand the value creation story, deepen it, and talk about it with investors. How the board is involved in the construction of the value creation story is also important. In this sense, I believe that properly creating a value creation story will contribute considerably to the effectiveness of the board.

Also, as Ms. Hasegawa pointed out earlier, the division of roles between the board and management, as described in the five principles mentioned earlier, was not well recognized 10 years ago. Various things, such as not micromanaging, doing things from a medium- to long-term perspective, and encouraging sound risk-taking, are written in Principles 2, 3, and 4 of the five principles. The substance of the board is precisely based on the works of the board and the executive, and this is also tied to the role of executive oversight, which is what the board is there to do. I hope you will also refer to Principles 2, 3, 4, etc. of the five principles and take this time to substantiate the board.

That is all.

[Okina, Chair]

Thank you very much.

We have heard from our members. If you have further comments, please put up your nameplate. If you have any further comments after hearing views of others, please do not hesitate to comment.

I myself am very much in favor of your opinion in the direction of streamlining. I believe that the extremely important mission of this time is how to substantiate the reform. Toward the end, Mr. Takei referred to the opinions of various people. How to grow is fundamentally very important, and I believe that such a purpose is being restored in the preamble this time. In addition, how the board of directors' functions in creating value, how the management and board function, and the roles of these, as well as the roles of outside directors and committees, which many of you mentioned, are important points in substantive implementation. We have received many other valuable comments, which we will definitely consider further in the future.

Mr. Sameshima from the Ministry of Economy, Trade and Industry, please proceed.

[METI]

Thank you very much. METI would like to focus on five points.

The first is about streamlining. We recognize that streamlining should be promoted in line with the original purpose of the Code, which is to improve profitability, economic growth, and corporate value over the medium- to long-term. From that perspective, I am in favor of streamlining the Code. However, there are some important items that were added based on real needs, and we believe that consideration should be given so as not to be regarded that their policy importance are lost in accordance with the elimination from the Code.

The second is the substantive implementation of the Code. As you mentioned, there are many companies that merely comply the Code formally. It is important to use each of these principles as an opportunity to select the most appropriate means for the Company, depending on the realities of each company. For this reason, we believe it is important to provide an appropriate explanation of the reasons for not complying with the code, even when the Company will not comply the code. In other words, in order to increase effectiveness, it is necessary to share and spread awareness that appropriate explanation is also an important axis.

Third, as Mr. Takei mentioned, a METI study group released Corporate Governance Guidance for Enhancement of "Growth Power" (CG Guidance for "Growth Power") in April to strengthen "growth power" and to achieve sustainable growth. The essence of this is to link dialogue with investors to strengthening growth power, and to coordinate relationship between the board and the management team so that the company can boldly take risks and focus on growth investments. As for the revision of the Code, also, it is important for companies to be able to make appropriate investments for growth and we believe that a direction that encourages the allocation and consideration of corporate resources is basically desirable. Of course, careful consideration is necessary for specific descriptions and wording. For example cash and deposits are also necessary for medium- to long-term growth investments and for sustainability. Therefore, as for the description where only cash and deposits are singled out, and the statement is made to assess how they are used, the careful consideration is necessary so that the rationale for holding on to cash and deposits itself is not negated.

In the future, METI, with the cooperation of the FSA, plans to analyze the details of capital investment, R&D, human resource investment, and M&A as growth investments, and to develop the necessary measures to expand these investments. We will introduce it to you when the time is right.

The fourth is the disclosure of annual securities reports prior to the AGM. In this regard, the Legislative Council of the Ministry of Justice and others are working to consolidate the financial statements and

business reports, and to improve the environment for integrated disclosure. We believe that the consideration is necessary including such environmental improvements.

Finally, the fifth point is the board secretariat. CG Guidance for “Growth Power” also touches the secretariat. For example, the role of the secretariat should be clearly defined and its importance shared within the Company. A department that integrates and specializes in governance-related matters should be established. The department should have a sufficient number of people and sufficient knowledge. It is explicitly stated that these matters should be considered in line with the actual situation of each company. Regarding the importance of the secretariat, we, too, would like to make it known, along with the FSA's measures, to encourage the board of directors to be more effective.

That is all.

[Okina, Chair]

Thank you very much. Next, Mr. Yoshida of the Japanese Institute of Certified Public Accountants, please proceed.

[Japanese Institute of Certified Public Accountants]

Thank you for the opportunity to speak. I am Yoshida of the Japanese Institute of Certified Public Accountants. I would like to make two comments, taking into account that we are in charge of auditing statutory financial statements.

The first is the disclosure of the annual securities report prior to the annual general meeting. From the perspective of ensuring that information useful for shareholders to exercise their voting rights is provided prior to the annual general meeting, we believe that it is desirable to ensure that sufficient time is allowed for shareholders to exercise their voting rights and information is disclosed prior to the annual general meeting.

On the other hand, as many of the members have said, if sustainability information based on the SSBJ standards is to be incorporated into annual securities reports in the future, the burden on companies will increase even further. If so, I hope that you will discuss the revision of the Code with a view to effective and efficient disclosure by moving back the holding of shareholders' meetings and integrating disclosure documents.

As Professor Kansaku introduced today, we would like to add that we believe that the regulations need to be amended to unify the disclosure requirements of the Companies Act and the FIEA, as an efficient disclosure system.

The second is to strengthen the functions of the board of directors and other bodies. We believe that it is desirable for the Code to clarify the role and involvement of the board of directors and *kansayaku* board, etc., as supervisory bodies with respect to annual securities reports. In such a case, it would be desirable to consider the issue in step with the discussion of the confirmation statement in the annual securities report, which is being conducted separately by the Disclosure Working Group of the Financial System Council.

That is all from me. Thank you very much.

[Okina, Chair]

Thank you very much. Mr. Maruo of the Japan Association of Corporate Directors, please proceed.

[Japan Association of Corporate Directors]

I am Maruo from the Japan Association of Corporate Directors. Thank you for the opportunity to participate as an observer and for the opportunity to speak. Let me make two points only.

First, the importance of the secretariat is addressed in this meeting. Of course, we recognize the importance of this, but we believe that the role and arrangement of an experienced and independent chairperson is more important to improve the effectiveness of the board through appropriate agenda setting. We believe that the contribution of the chairperson is essential for the operation of a board of directors that has a proper balance between execution and supervision.

Second, the scope of knowledge required for management, such as sustainability and human capital management, is expanding and increasing every day. To further improve the effectiveness of the board of directors, we believe it is necessary for management to continue to study and update their knowledge by attending training sessions on a regular basis. It is also stated in the current Corporate Governance Code Principle 4.14, but we would like to see the revised Code further call for its implementation. Training programs are offered by various organizations.

That is all. Thank you very much.

[Okina, Chair]

Thank you very much.

Since we have heard all of your opinions today, and since we are approaching the appointed time, I would like to conclude today's discussion.

Finally, please let us know if there are any other announcements from the secretariat.

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

The secretariat will inform you of the date of the next expert panel meeting at a later date, based on your availability.

That is all.

[Okina, Chair]

Thank you all very much for your valuable input today.

With that, I would like to conclude today's expert panel meeting. Thank you very much.

[END]