

(Provisional translation)

## **The Second Meeting of the Expert Panel on the Revision of the Corporate Governance Code (2025-2026)**

1. Date and Time: February 26, 2026 (Thursday) 9:30 - 12:00
2. Venue: Common Special Conference Room No.1, 13th floor, Common Government Office No.7

### **[Okina, Chair]**

We will now commence the second meeting of the expert panel on the revision of the Corporate Governance Code. Thank you very much for your participation in spite of your busy schedule.

This meeting today is being held in both face-to-face and online formats and will be webcast live. The minutes of the meeting will be available as usual on the FSA website at a later date. Before the meeting begins, the secretariat will explain the items to be noted.

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

I am Konagaya of the Corporate Accounting and Disclosure Division, which serves as the secretariat. Thank you very much for your cooperation today.

Today, the meeting is being held in a hybrid format, combining face-to-face and online participation. If you are participating online and wish to speak, please enter your name in the online conference chat system for all other members. After confirming this, the chair will call on you. If members attending in person wish to speak, please put up a plaque with your name and the chair will call on you. Please return the name plate to its original position after your remarks.

### **[Okina, Chair]**

Thank you very much. We will now move on to the agenda. Today, after the explanation of the materials from the secretariat, we would like to have a discussion.

First, the Financial Services Agency will make an explanation.

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

The secretariat will provide an explanation in accordance with Material 1.

Pages one through five of the document summarize the main opinions received at the first expert panel meeting by issue. Although we received comments on a wide range of issues, we believe that the general direction, which is to review the entire Code with a focus on the Supplementary Principles, and to streamline the Code, was generally agreed upon by the participants.

On page six of the document, we have restated the slide regarding the direction of the reclassification of the Code. At the last meeting, we proposed to newly establish "Notes" under each Principle, but in light of the comments received from the members, we now propose to call it "Interpretive Guidance." The position of the Interpretive Guidance is described in detail in the preamble to the proposed Code revision. As noted on this slide, it is envisioned that the Interpretive Guidance will not be subject to the "comply or explain" approach, but rather will play a role in supporting substantive responses to each Principle.

In addition, at the last meeting, using this slide, the secretariat proposed that we dismantle the 47 Supplementary Principles and sort them in three categories according to their contents. In the revised proposal that we are presenting today, we reclassified not only the Supplementary Principles but also the General Principles and Principles. In this respect, we hope you will kindly understand that the Code appears a little different from the previous explanation by the secretariat.

In this revision, the description of Principles is kept as conceptual as possible, and specific descriptions and examples are included in the Interpretive Guidance as much as possible.

Next, on pages seven and eight of the document, we provide an overview of the proposed revisions. First, the preamble was newly established by referring to the preamble of the draft Corporate Governance Code established in 2015. The preamble contains the same information as summarized under the 6 arrowheads on this page.

First, the purpose of the Code is described.

Next, the Principle-Based Approach and the Comply-or-Explain approach are explained. Here, it is mentioned that, depending on the circumstances of a company, there may be cases where it should choose to explain rather than formally comply, and that if it chooses to explain, it should carefully explain in light of the aim and spirit of the Principle. In addition, it is mentioned that the comply-and-explain approach, which was pointed out by several participants at the first meeting, is desirable as an initiative that contributes to constructive dialogue. In addition, the position of the Interpretive Guidance, which I mentioned earlier, and the purpose of streamlining are also mentioned in the preamble.

The next topic is dialogue with shareholders. As proposed at the first meeting, Sections 1 and 5 on shareholders will be merged from the perspective of organizing and integrating the same topics. In light of the importance of the topic of dialogue between listed companies and their shareholders, the Principles regarding dialogue are placed at the beginning of Section 1.

The next topic is provisions related to the Board of Directors. As described in the first item, those considered to be core responsibilities have been upgraded to Principles, and as I mentioned earlier, the specific descriptions and examples have been moved to the Interpretive Guidance.

Secondly, as mentioned in the second item, to promote the establishment of an appropriate enterprise risk-management framework, the revised Interpretive Guidance for Principle 4.3 states that factors the board may consider include responses to cybersecurity risks, supply-chain disruption risks, and risks of information leakage.

See the third item. At the first meeting, we received several comments on the need to improve the effectiveness and especially the quality of outside directors. In response, we have reiterated and

clarified our intent regarding the roles and responsibilities required of outside directors, ensuring their quality and ratio, and ensuring their independence.

Finally, as per the fourth item, the role and function of the secretariat of the Board of Directors is described in the Interpretive Guidance for the Principles concerning the active board deliberations.

Please see page eight of the document. The next topic is the allocation of business resources. Although the description of the allocation of business resources is included in Section 4, "Responsibilities of the Board," as explained earlier, it is one of the important themes of this revision, so I will explain it here.

First, Principle 4.1 stipulates that the Board of Directors has the role and responsibility of establishing and presenting a path for growth toward the corporate goals, and that the Board of Directors should explain what it will specifically do with respect to the allocation of business resources, including growth investments and business portfolio reviews based on the path for growth. Principle 4.2 stipulates that resources should be allocated appropriately while recognizing various investment opportunities, and that the Board of Directors should constantly review whether the current allocation is appropriate, including whether cash and deposits are being effectively used for investments and other purposes.

The next topic is sustainability. The contents of Principle 2.3, Supplementary Principle 2.3.1 and the first paragraph of Supplementary Principle 4.2.2 have been integrated and organized into the newly established Principle 4.4 and its Interpretive Guidance. In addition, because ensuring diversity within the company continues to be considered important, we have upgraded Supplementary Principle 2.4.1 to a Principle.

The following cross-shareholding is also considered to continue to be an important issue, although such shareholdings are being reduced, and therefore Supplementary Principles 1.4.1 and 1.4.2 have been upgraded to Principles.

The last topic is the disclosure of annual securities reports before annual general meeting. This is newly stipulated in Principle 1.2 from the viewpoint of promoting an appropriate environment for the exercise of rights at annual general meetings. On the other hand, we have described in the Interpretive Guidance as a best practice that the submission should be made at least three weeks prior to the meeting.

On page nine is a list of Supplementary Principles that are upgraded to Principles.

Pages 10 and 11 contain a list of Principles to be moved to Interpretive Guidance.

On pages 12 and 13, we provide a list of Principles to be deleted from the Code.

Finally, on page 14, we have listed the issues we would like you to discuss today. However, we would like to receive your comments on the proposed Code revisions in general, not limited to the items listed here.

That concludes the explanation from the secretariat.

**[Okina, Chair]**

Thank you very much. Before moving on to the discussion, the secretariat will provide an overview of the written comments submitted by Professor Tsumuraya, who is not present today.

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

I would like to read out the written opinion submitted by Professor Tsumuraya.

I would like to express my gratitude to the Corporate Accounting and Disclosure Division of the Financial Services Agency and all those who have contributed to the drafting of the revised proposal. I would like to submit my views for discussion by our members at the second meeting.

In relation to Principle 4.3, Roles and Responsibilities of the Board (3). Given that CEOs are almost never removed from their positions at Japanese companies, and given that the purpose of the Code revision is to realize mid- to long-term growth of companies, why not make the phrase "appointment/dismissal of CEO" into "timely and appropriate appointment of CEO" and "dismissal of CEO" into "encouraging early replacement of CEO" to make it more feasible? However, since the expression "appointment/dismissal (of the CEO)" is quite common, I would appreciate it if the Expert Panel could discuss the pros and cons of this proposal.

That is all.

**[Okina, Chair]**

Thank you very much. This will now be the time for discussion to hear comments and questions from the members. We are very sorry, but we ask you each to speak up to approximately five minutes, as time is limited. The secretariat will hand a memo to the speaker after five minutes have elapsed. Anyone may be the first to speak.

Ms. Kobu, please proceed.

**[Kobu, member]**

Thank you for giving me the opportunity to speak.

First of all, I would like to thank the Corporate Accounting and Disclosure Division of the Financial Services Agency for preparing those materials in a very short period of time.

I believe that the addition of the preamble and the clarification of the streamlining will allow us to present again what the Code is intended to achieve. I believe that the purpose of the Code, which is to ensure transparency and fairness and to promote prompt and decisive decision-making in Japanese companies, has been clarified. So, I agree with you about this preamble formulation and streamlining.

Also, thank you for including shareholder rights and dialogue with shareholders in Section 1. I believe that we, the investors, are special stakeholders who are entrusted with funds by our clients and share risk with the companies in which we invest under our stewardship responsibility. I believe that the positioning of the first Section demonstrates that investors aim for a win-win relationship with the companies in which they invest.

I would like to comment on four points that I believe are necessary to more clearly communicate the intent of the Code revision.

The first point is regarding items 1.5 through 1.7 on pages 16 and 17, which are items to be deleted. I understand that the background for the deletion is duplication with other places. However, I think it is necessary to further emphasize the need to protect the interests of minority shareholders and the common interests of shareholders, as this is still a very important point. For example, in the Interpretive Guidance 4.7, which was also mentioned in the points to be discussed today, dialogues between independent directors and shareholders are mentioned. I would like to see stronger language that independent directors should engage in dialogue with shareholders in order to improve the transparency of the process of protecting minority shareholder interests. I think it needs to be stated that there should be a basic dialogue, not just as needed. I also see the word "advice" in 4.7 (4), but also "monitoring" in (1), and think it might be better to unify it with the more desirable "monitoring."

The second point is the cross-shareholdings. Thank you so much for upgrading the two items to Principles. This is with respect to the voting rights that have traditionally been described, but the fact that this Principle is met means that voting rights are exercised by cross-holding shareholders based on specific criteria. For example, I believe that the phrase "disclose voting results" would enhance the transparency of this Principle.

The third point is one of the items to be discussed and the most important: the appropriate allocation of business resources (4.1, 4.2). I think the intent of the Principle would be conveyed more clearly if a phrase such as "further improvement of capital efficiency" were included in parallel with the wording of Principle 4.1, allocation of business resources.

In addition, in the Interpretive Guidance for 4.2, there is a phrase "whether cash is utilized efficiently in investments." This is a very important point in this revision and in terms of accelerating the growth strategy. Therefore, I think that adding the phrase "assess and disclose whether excessive cash and cash equivalents impair capital efficiency" would be a simple way of expressing exactly what the Code requires. The use of funds from cash and cash equivalents is the responsibility of each company to determine. I think it is important to have that decision-making process disclosed.

Finally, let's talk about 4.12. I agree with the addition to (2) here that the Board of Directors should now include persons with management experience. It would be very desirable for the management of a listed company to assume important responsibility in another company as well, which would lead to a virtuous cycle of corporate value creation. In addition to this, I propose to include the phrase "corporate finance" as an essential skill for the board. With regard to finance, we see skill items such as finance, accounting, and treasury. However, corporate finance is not a skill that only two or three people on the board need to have, but a skill that all board members need to have. I believe that this would broadly convey the message that the Board of Directors would be better able to ensure the interests of minority shareholders and perform its supervisory function better.

That's all from me.

**[Okina, Chair]**

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

**[Iguchi, member]**

Thank you for the opportunity to speak. Thank you very much for your explanation. I feel that the Code is very readable now that you have organized the entire Code in a holistic view. I would be happy to make some comments and opinions.

First, as Ms. Kobu mentioned, thank you for including the explanation in the preamble to instill the concept of the comply-or-explain approach. In particular, as explained earlier by Mr. Konagaya, it is important to explain important initiatives regardless of whether the company complies or explains, as stated on page three, in item 6.

On the other hand, I am a little uncomfortable the phrase "should constructively assess the company's decision to explain" at the end of item 7. Since the Corporate Governance Code is soft law without penalties in the first place, I believe that there is a concern that discipline will disappear and fall apart if investors unconditionally welcome "explain." Therefore, I believe that the condition "if carefully explained" would be a good idea here.

Next, I would like to discuss the positioning of the Interpretive Guidance beginning in item 9 on page three. As explained earlier by Mr. Konagaya of the Secretariat, many Principles and Supplementary Principles have been included in the Interpretive Guidance. For this reason, I believe that the positioning of the Interpretive Guidance is critical in the design of the Code. From the perspective of promoting the Code in substance, I am not necessarily opposed to such a measure, but I think the wording in item 9, "Interpretive Guidance is to be used as a reference," is weak wording.

I am concerned that unless a system is created whereby companies must refer to the Interpretive Guidance before making a comply or explain decision on matters of Principle, this may result in a relaxation of the Code rather than the promotion of the Code in substance. I think it would help to promote the Code in substance by, for example, expressing that "the contents indicated in the Interpretive Guidance must be referred to, but the specific method of implementation is left to each company."

Next, I would like to comment on each Principle. First, I think the overall view is very clear now that you have reclassified the Principles. On the other hand, several principles are contained in one Principle, and in some places, it is difficult to determine what is to be complied and what is to be explained. I believe that Principles 1.1, 1.2, 4.1, 4.2, 4.3, etc. would fall into that category. So, although it is very technical, I think it might be a good idea to clarify by adding a branch number to the Principles.

Below I comment on individual Principles. First of all, thank you for including in Principle 1.2 the submission of the annual securities reports prior to the date of general shareholder meetings. I think this is a very important matter for the Japanese capital market, not only in terms of providing investors with more information prior to shareholder meetings, but also in light of the global criticism that among the capital markets of developed countries, only the Japanese market has not been able to achieve the disclosure of annual financial reports before the general shareholder meetings. I also think it is very important that the Interpretive Guidance clearly states that the submission should be made at least three weeks before the meeting and that consideration should be given to moving back the date of the shareholder meeting, if necessary.

One of my concerns about Principle 1 is that it no longer refers to anti-takeover measures or MBOs, which were included in the former Principles 1.5 and 1.6. I believe that one of the reasons for this is that the TSE is strengthening corporate disclosure, but as you know, in the capital markets, there are cases where a company's response can become a major problem. The Interpretive Guidance for General Principle 1 on page seven already describes the rights of minority shareholders and capital policy. I think there is a way to add a note here about anti-takeover measures and MBOs.

Next, I would like to discuss Principle 4.2 on page 22. While there are some advanced Japanese companies, taken as a whole, the capital efficiency of Japanese companies is inferior to that of the rest of the world. In this context, I believe it is important for the Board of Directors to constantly review the appropriateness of the allocation of business resources. In particular, I believe that the part on page 23 of the Interpretive Guidance, which states that the board should persistently review "whether cash is utilized efficiently in investments" is very important. Currently, institutional investors' voting criteria usually apply a cash-rich standard, i.e., a more stringent standard for companies with more

cash. We also often discuss the effective use of cash and cash equivalents in our dialogue with companies. I believe this indicates that excessive cash holdings are recognized as a major issue not only by so-called activists, but also by institutional investors with a mid- to long-term perspective.

Next, I would like to discuss the Interpretive Guidance for Principle 4.4 on page 25. I am very sorry to point out the details, but here is a description of the role of the Board of Directors in overseeing sustainability matters. I think the items listed here are quite biased toward downside risk items. I think it should be included that the Board of Directors also oversees the use of human capital, which is a very important business resource for companies and investors, as disclosure has just been strengthened in the annual securities report.

The last topic is about the Interpretive Guidance for Principle 4.13 on page 32. This is where double reporting by the internal audit department and the Board of Directors is described. I believe that most corporate scandals, including the recent scandals, are usually the result of internal audit departments that are not functioning properly and are not reporting well to outside directors and the Board of Directors, allowing management to run amok. Therefore, there is no choice in this item, and I believe this should be upgraded to Principle 4.13.

That is all. Thank you very much.

**[Okina, Chair]**

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

**[Kobayashi, member]**

Thank you for the opportunity to speak. I missed the last meeting due to some business, and I am joining today for the first time. Thank you. I am also vice chairman of the Kansai Economic Federation, and I would like to express my opinions from the standpoint of the business community and companies.

10 years have passed since the formulation and application of the Code, and during this time, I believe that we have made considerable enhancement or progress in engagement with shareholders who provide valuable capital to the corporation. On the other hand, I believe that concerns have arisen that the distribution of value-added created by companies may be skewed toward shareholders, or that the allocation of value-added to investment in growth and human resources, as well as to business partners and local communities, may not always be sufficient.

But are these two factors antithetical to shareholders and other multi-stakeholders? Data shows that companies that invest in growth or have a high labor allocation rate also have a high return to shareholders and, furthermore, corporate growth. Thus, in order for a company to grow further than it is today, it must create value through co-creation with its shareholders and other diverse stakeholders, and distribute and return that value in a fair and balanced manner. I believe that by doing so, companies can create a virtuous cycle of sustainable growth.

As this revision of the Code marks the 10-year milestone, I would like to reiterate that the Code must encourage companies to work toward sustainable growth and mid- to long-term value creation through sound collaboration and dialogue with various stakeholders, and to support substantive governance reforms.

From this perspective, looking at the current Code, although it includes consideration for multiple stakeholders, Section 1 of the General Principles is about shareholders, and Section 2 is about other stakeholders. I believe this could easily be perceived as shareholder biased and could encourage short-term thinking in corporate management.

Therefore, I believe that the current General Principles 1 and 2 should be merged into a new General Principle 1, and the concept of placing equal importance on multi-stakeholder groups should be clearly articulated. I believe that companies should then clearly state the importance of deepening dialogue and fairly and appropriately distributing the value created to their various stakeholders, after clearly explaining to them the company's purpose and the direction of its mid- to long-term growth in terms of both economic value and social value.

These are the general comments. Below I would like to make three points on specific issues.

First, I would like to discuss the preamble. I think it is very good that this preamble is newly established, as it clarifies the purpose and positioning of the Code. Furthermore, I generally agree with the content of the proposed revisions.

However, I think the wording of the Interpretive Guidance is a bit strong in describing the General Principles and the thinking behind the Principles. Given that this is essentially intended to promote understanding of companies, I believe that expressions such as "perspective" or "viewpoint" would be better.

We should also avoid expressions that could be perceived as overly normative. I believe that the statement on page three of the current proposal, "Interpretive Guidance is a part of the Code together with Principles" should be deleted because the Interpretive Guidance may also be perceived as having normative characteristics.

Furthermore, the phrase "should be" that appears throughout the Interpretive Guidance for each Principle should be reworded to the same effect, e.g., "it is important to" would be appropriate.

Second, I would like to discuss the approach to the utilization of business resources. I think it is really important to encourage the active use or allocation of business resources for the growth of a company. However, I believe that the allocation of a company's business resources is an exclusive management decision that should be carefully considered by management from a mid- to long-term perspective. The current proposed Interpretive Guidance 4.2 addresses only cash and recommends their assessment and explanation. I believe that this is not appropriate and should be deleted, as it may impede corporate autonomy and independence, and may also impede sustainable corporate growth by encouraging excessive shareholder returns at the request of some investors.

Lastly, the timing of the disclosure of the annual securities report. The disclosure three weeks prior to the meetings is mentioned. However, the objective is not the timing of disclosure, but how to provide useful information that contributes to shareholders' decisions prior to the shareholder meeting. In that sense, we should consider what information is appropriate to disclose, not the entire annual securities report, but what information within the report is appropriate to disclose.

That is all from me. Thank you very much.

**[Okina, Chair]**

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

**[Nakagami, member]**

Thank you very much. I feel that today's proposed revisions are very well organized as a whole and the content is very complete. First of all, I would like to express my respect for the efforts of the secretariat. On that basis, I would like to make a few points from the viewpoint of whether we can make the spirit of the Code clearer and devise a way to take the process from formality to substance one step further.

First, let's talk about the preamble. I understand that the purpose of the Code is to encourage decisive decision-making and risk-taking, not restrictions for management. On the other hand, regarding the comply-or-explain method, I think this expression inevitably gives the impression that they should comply first. If, as Peter Drucker said, "the purpose of management is to create customers," then management should truly be a matter of ingenuity. In particular, if we are to break away from cost-cutting, one-size-fits-all management under deflation and aim for growth-oriented management, management must be even more "free acting."

In this broad direction, why not include the phrase "explain or comply" to encourage management ingenuity, or "comply and explain" to equate the degree of freedom of management more explicit?

The second point concerns Principle 4.2. It also states that the company should persistently review whether cash and deposits are being effectively utilized for investment and other purposes. I believe this is very important for a growth-oriented Code. However, I would suggest that as a prerequisite for its utilization, you add: "The Board of Directors shall estimate, discuss, and disclose what is the optimal level of cash and cash equivalents for the company."

There are three perspectives in determining the optimal cash deposit level. One is "steady-state working capital." This means cash flow management, taking into account payment peaks, etc. The second is a "sudden crisis response fund" to prepare for things like the Lehman shock and the COVID-19 pandemic. The third is "sudden investment response funds," which are required for large-scale M&A and growth investments. I believe that only after these three factors are quantitatively determined can the argument be made to invest in growth be valid. I believe that disclosing the optimal cash and cash equivalents level could be a reasonable explanation for short-term shareholder return requirements, as mentioned earlier by Mr. Kobayashi.

The next perspective is the responsibilities of outside directors. In Japan, the primary role of outside directors still tends to be understood as advisory and contributory. However, what General Principle 4 explicitly states is supervision from an independent standpoint. I believe that the primary responsibility of an outside director is precisely supervision, and advice is secondary. Therefore, I believe that the revision should be based on the current reality in Japan by deleting phrases such as "advice" and "contribution" in Principles 4.7 through 4.11 and making the supervisory responsibilities clearer.

Finally, we are currently experiencing an increase in contingencies such as activist responses and unsolicited takeovers. In a contingency, two things are particularly important: an understanding of the director's role and code of conduct, and the ability to quantitatively calculate and evaluate corporate value. In that sense, why not explicitly include "acquiring knowledge of the latest trends in corporate value calculation and governance" in the list of qualities and actions that should be constantly improved in Principle 4.14? And the word "training" also seems a bit inappropriate for a director who is responsible for supervision. For example, how about changing this to something like "quality improvement"?

That is all for my first round of statements.

**[Okina, Chair]**

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

**[Matsuda, member]**

Thank you very much. First of all, I think it is very commendable that you have made such a major change and revised it with such an overall emphasis on a principle-based approach, and I very much appreciate the direction you have taken. Although it has been said that streamlining and the principle-based approach are the way to go, I think it is very important to reverse this order and clearly indicate that the principle-based approach is the way to go. With that in mind, I would like to make three points.

First, there are quite a few areas where similar things are written in the Principle and the Interpretive Guidance. Given the importance of streamlining, it is better to keep the Principles as simple and straightforward as possible. In that sense, for example, Principles 1.2 and 1.3 may not be necessary if the Principle and Interpretive Guidance are almost identical. In particular, I think Principle 1.3 could be included in the Interpretive Guidance for Principle 1.2. In this way, I would like to ask you to simplify the substance of the Principles as much as possible.

Second, on the contrary, some important ideas may be missing. Specific references to capital policies, MBOs, etc. in former Principles 1.3 through 1.7, which were mentioned earlier, have been deleted. I am not opposed to removing those in and of itself, but I think the policy underlying Principles 1.3 through 1.7, which were originally in place, would have been a caution against conflicts of interest. However, in General Principle 1 (Section 1), all content regarding conflicts of interest with or between shareholders is gone. This very important policy that conflicts of interest should be prevented should be clearly stated in Principle 1 in some form. There is reference to Principle 4.3, but it seems to me that 4.3 is something for the Board of Directors to consider, and that management's attention to conflicts of interest among shareholders and with shareholders is a separate issue.

Third, some of the content appears to be a bit mixed. Specifically, in Section 4, Principle 4.3, in particular, you will find a section on the Board of Directors' role and responsibility for supervision, which includes a section on the succession, as well as the risk management system, along with the conflict-of-interest discussion mentioned earlier.

What I would like to say here is that I think risk management is a bit bigger than that. I also serve as an independent director. An important role of the Board of Directors is, of course, to provide major direction, as stated in Principle 4.1, and to support risk-taking, as stated in Principle 4.2. Along with that, I have recently been reminded that it is very important to properly control the risks taken. In light of its importance, it seems to us that squeezing it into Principle 4.3 as the development of a risk management system is somewhat trivializing it.

The Interpretive Guidance also discusses risk-taking in 4.2 and risk control in 4.3. However, they both seem to be more about risk-taking, for example, where it talks about risk control, it is described as "could also lead to profit opportunities." I am sure there is a reason why this description must be included, but I would like to see these risk-taking-related contents clearly mentioned in 4.2, and the importance of risk management and risk control more clearly stated.

I would like to mention a few other things that I noticed on an individual basis. Principle 2.4 mentions ensuring diversity. I think this is very important, but in order to keep the Principles as simple as possible, I think it may be time to remove the title "including active participation of women."

Whistleblowing in Principle 2.5 has been removed from General Principle 2 (Section 2) and is summarized in Principle 4.3 as the responsibility of the Board of Directors. That's fine, but General

Principle 2 describes the relationship with stakeholders, and I think this should remain in General Principle 2 (Section 2) as the most important of these is the issue of the relationship with employees.

Finally, in Principle 4.1, there is the phrase "mid-term business plan." I think you have organized the terms "business plan" and "business strategy" quite well, but I am a little uncomfortable with the fact that this remains only here. I agree with your statement that they should give a proper explanation if they fail to meet their commitments, but I don't think the term "mid-term business plan" is necessary any more.

**[Okina, Chair]**

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

**[Sisson, member]**

I would like to start by thanking JFSA and Tokyo Stock Exchange for hosting this session. ICGN welcomes the continued work of the Council in advancing corporate governance reform in Japan.

ICGN strongly supports the expectation that companies publish their Annual Securities Reports at least three weeks before the AGM. The Code should set this as a clear best-practice standard. Companies unable to meet it immediately should demonstrate progress and explain any alternative timing.

We welcome consideration of adjusting AGM and record dates, we encourage companies to consider moving away from the fiscal year-end record dates, which are inconsistent with global practice and contribute to AGM clustering and constrained engagement.

While the Ministry of Justice's work to consolidate reporting requirements is very helpful, progress through the Code must not wait for legislative change. Three weeks should be treated as a minimum baseline to enable meaningful engagement ahead of voting - not a maximum threshold.

Boards are responsible for deploying capital to drive long-term value creation. While we welcome the draft revised Code's stronger expectations on capital policy and efficiency, further reinforcement is needed to position capital allocation explicitly as a growth driver.

For example, we would welcome clearer expectations on the consideration and disclosure of optimal capital structure, desired balance sheet positioning, and cross-shareholdings. While retaining annual assessment and disclosure requirements is positive, greater specificity is needed, including explicit expectations to set and disclose reduction targets and exit timelines.

We also support language discouraging companies from obstructing cross-shareholders seeking to sell.

We welcome the strengthened language in the revised Code on the comply or explain approach, particularly the explicit discouragement of boilerplate disclosure.

Where companies choose to explain rather than comply, the objective is not simply disclosure but accountability. An explanation should demonstrate why the alternative approach better serves shareholders in the company's specific circumstances. This requires meaningful engagement with investors including listening to and responding to their views.

We support streamlining the Code where provisions duplicate binding legal requirements, provided the substance of expectations is preserved and the Code continues to stand alone as a benchmark for best practice. Streamlining must not weaken standards. Governance practice remains uneven, particularly outside the Prime market, and even the most established codes retain explicit reference to core governance principles, regardless of high compliance.

Care should be taken to avoid any perception of weakened expectations or backsliding, particularly where requirements are softened or moved into guidance.

We believe references to appropriate board action to protect shareholder interests in relation to anti-takeover measures should be retained and strengthened. Boards should be expected to act to protect shareholder interests, not merely to avoid unfair harm.

Transactions such as capital raisings or management buy-outs should be conducted in a manner that is beneficial to shareholders, or at a minimum does not cause harm.

We therefore recommend strengthening the Code's requirements on anti-takeover measures by explicitly requiring boards to act to protect shareholder interests. Shareholders need more than explanations and procedures in relation to poison pills; they require clear expectations of board action.

In some cases, such as Principle 4.3, further disaggregation may also be helpful to ensure that these important matters receive sufficient prominence.

Enhanced expectations around director training disclosure and board effectiveness reviews are welcome improvements that should help raise standards across the market.

We also welcome the strengthened expectation that Prime Market companies maintain a majority of independent directors on each committee.

However, to align with international best practice, the Code should go further. Majority independent boards should be the norm for most companies, rather than framed as exceptional.

The Code should also more clearly address independent board leadership. Ideally, companies should appoint an independent chair, or at minimum a lead independent director as a transitional step.

We note that the Code does not yet address disclosure of individual vote counts in director elections, an important transparency measure that warrants inclusion.

We encourage more detailed disclosure of compensation frameworks and structures, in addition to the policies and procedures referenced in Principle 3.1.

We are pleased to see the strengthened language on constructive dialogue with shareholders, and in particular the added expectation that outside directors should engage in dialogue where topics warrant it.

We believe this could be strengthened further. If the governance reform agenda is to fully achieve its goals, it will require a continued cultural shift towards genuine two-way dialogue between companies and their shareholders.

We reiterate our position that the Code should not endorse or encourage fully virtual AGMs, which risk undermining shareholder rights and limiting meaningful participation.

We support hybrid AGM formats, which can extend access to international and domestic investors while preserving the ability for shareholders to attend and participate in person.

We would like to see a strong statement supporting the best international practice for AGMs in the Code.

In conclusion, ICGN reiterates our support for Japan's governance reform agenda.

Japan has established itself as a leader in its approach to governance reform, and we want to see that leadership position maintained and strengthened.

We encourage the Government not to slow its pace of reform. We look forward to continued dialogue and are ready to contribute the global investor perspective to the Council's ongoing work.

**[Okina, Chair]**

Thank you, Ms. Sisson. Professor Kansaku, please proceed.

**[Kansaku, member]**

I am Kansaku of Gakushuin University. Thank you for the opportunity to speak. Thank you very much for preparing the Code in such a short period of time, based fully on the discussions at the previous meeting, as well as various additional reviews to brush up the Code that were identified during the work process. I basically fully agree with your suggestion.

I would like to make three comments on the general point of view and two comments on specific issues.

First, as I mentioned at the first meeting, I had major concerns about streamlining. I was concerned that a very useful description would be dropped from the Code. However, I am relieved this time. You examined each item closely from three perspectives: those that are prevalent in practice, those that are duplicated in the Code, and those that overlap with laws and regulations. I don't think this review is about streamlining per se. In that sense, I am first reassured that the description that I would like to see retained is still there, and I express my approval in that regard.

Second, I would like to discuss the Interpretive Guidance. The Interpretive Guidance serves to support substantive responses to each Principle. In addition to the ideas and objectives behind the Principles, they also include measures that are considered to be among the best or superior methods for implementing the Principles, and are integral to the Principles. In other words, the Interpretive Guidance also forms part of the Code. In section 9 of the preamble, you have made this very clear, and I think this is also very important.

I understand that this review is not being done to relax the Code by any means, but from the perspective of promoting substantive implementation. From this perspective, I am relieved that you have included the above-mentioned statements in paragraphs 9 and 12 of the preamble.

The third point of general discussion is about the preamble. You have reinstated the preamble, including the points I just mentioned. The positioning of the Interpretive Guidance I mentioned earlier. At the beginning, in paragraph one, you wrote clearly the purpose of the Code, which is to improve corporate value over the mid- to long-term by aiming to realize aggressive governance. I basically agree with these points.

Next, I would like to make two points on specific issues. First, I would like to address your addition to Principle 1.2 regarding disclosure of annual securities reports prior to the AGM. This is included in Principle 1.2, and the Interpretive Guidance also states that disclosure should be made at least three weeks prior to the date of the AGM. I specialize in corporate law. I understand that the basis of governance over corporate management is the exercise of shareholder rights granted to shareholders under the Companies Act. In other words, I believe that corporate governance will become more substantive when shareholders exercise their shareholder rights more effectively, combined with effective stewardship activities in accordance with the Stewardship Code, which, as stated in the preamble, goes hand in hand with the Code. For this reason, I think it is extremely important that the annual securities report be disclosed prior to the AGM to allow sufficient time for review.

In that sense, I really think that this disclosure three weeks or more in advance could be included in the Principle. However, considering the realistic possibility of dealing with this in practice, etc., I think it is unavoidable to include it in the Interpretive Guidance rather than the Principle at this time. However, I feel that, at least in the future, disclosing the annual securities report at least three weeks in advance is a matter that should be included in the Principle. The Legislative Council of the Ministry of Justice is currently discussing amendments to the Companies Act, where researchers and practitioner committee members from the investor side have repeatedly pointed out the importance of disclosure prior to the AGM. Rather than stipulating such things in the form of hard law, such as the Companies Act, I think it is absolutely necessary to first have them addressed by the Corporate Governance Code.

Another comment on specific issues relates to Principle 4.1. I would like to offer a few comments on the description of the mid-term business plan, which was pointed out by Professor Matsuda earlier. Regarding the sentence of the Interpretive Guidance for Principle 4.1 following "In addition," "recognizing that a mid-term business plan (*chuuki keiei keikaku*) is a commitment to shareholders, the board and the management should do their best to achieve the plan," I have the impression that the wording may be a little too strong.

The Code aims at continuous growth of companies and enhancement of corporate value over the mid- to long-term and being strongly bound by the mid-term business plan seems a bit contradictory to that. Of course, I believe that the positioning of the mid-term business plan may be decided by each company. Of course it is acceptable for a company to have a mid-term business plan that it must adhere to as a commitment to its shareholders. However, I am a bit skeptical as to whether all companies have to do so. I would appreciate a slight modification to this section if possible.

That is all. Thank you very much.

**[Okina, Chair]**

Thank you very much. Next, Mr. Yamaguchi, who is participating online, please proceed.

**[Yamaguchi, member]**

Thank you for the opportunity to speak. I am Yamaguchi from the Japanese Trade Union Confederation (RENGO). First of all, I can only imagine the difficulty you have had in taking the various opinions that have emerged in the process of revising the Corporate Governance Code and compiling them into a revised draft. I would like to thank the Corporate Accounting and Disclosure Division of the Financial Services Agency for their efforts. I would like to make one general point and one statement on individual details.

The accumulation of cash and deposits by Japanese companies has been pointed out by other members. The reference materials presented by the secretariat also show the ratios of cash and deposits, capital investment to sales, and R&D investment to sales for Japan, the US, and Europe. I am afraid I am talking about another council, but it has been pointed out that improving corporate value over the mid to long term is important, and that human capital, and R&D investment are important for this purpose. However, in reality, I believe that there is a tendency to emphasize short-term earnings and to focus more on shareholders than on other stakeholders.

Various people have made elaborate analyses of the pros and cons and causes, but the RENGO believes there are 3 possibilities. The first is that management may have a short-term profit-oriented mindset. Second, even if it is not written in the Corporate Governance Code, there may be something that makes management be compelled to focus on, or interpret that they should focus on shareholders or short-term earnings. The third concern is that investors may be acting in a way that encourages shareholder focus or short-term earnings.

One of the materials presented by the secretariat this time shows the perception gap between managements in the companies and investors regarding the allocation of business resources. The graph shows that while managements believe that enhanced shareholder returns are necessary to achieve cost-of-capital conscious management, the investor side does not consider this to be very important.

On the other hand, some institutional investors have mentioned as a voting criterion that a company falls below a target value, such as ROE, for three or five consecutive fiscal years. I believe that this may be a factor that could steer management toward a focus on short-term profitability.

Moving on to individual issues. In the proposed revision, other members commented on the inclusion of stakeholders other than shareholders in Principle 2. In response, while I believe this is certainly true, appropriate collaboration with employees and other non-shareholder stakeholders is maintained as a General Principle. Principle 4 also states that companies shall aim to achieve growth and realize specific details regarding the allocation of business resources, including a review of its business portfolio through growth.

There listed a number of factors to consider when allocating investments. However, in order to achieve mid- to long-term corporate growth, I believe it is important to be more conscious of redirecting business resources to investments in human capital, facilities, and R&D, which have been kept low in the past.

Lastly, Principle 4.2 clearly states that companies should persistently review whether cash and deposits are being effectively utilized for investment and other purposes. I expect this to contribute to more mid- to long-term growth.

**[Okina, Chair]**

Thank you very much, Mr. Yamaguchi. Ms. Hasegawa, please proceed.

**[Hasegawa, member]**

Thank you for the opportunity to speak. First of all, I felt that this revised edition was very slim, easy to read, and clearly aimed compared to the current Code. I would like to thank and honor all of you for your efforts in bringing together in this way the various opinions that have been expressed so far.

When you explained to us in advance, I also discussed some details with you. However, since we do not have much time today, I would like to express my opinions on 4 points that I consider important.

First, let us discuss the purpose of the Code. There is a section called "Principles-Based Approach and Comply or Explain." I think it is very good that the comply or explain concept is well written. In addition to that, it also says that even when a company complies, specific efforts should be indicated. Although the company may not always get full marks even if it complies, I think it is a good thing to have the opportunity to explain what it thinks and what it does.

However, while the "Application of this Code" states that the Interpretive Guidance assumes the role of best practices and good practices that is not subject to comply or explain, it clearly states, as pointed out before, that the Interpretive Guidance is integral to the Principles and form part of the Code. I think there are pros and cons to this. As someone who manages a company based on the Code, when it is written like this, I feel that I have to go beyond good and best practices and do this well. Without stating that this is a part of the Code together with Principles, this statement would be sufficient to understand that this is a good and best practice. So I think it would be acceptable to remove this statement.

The second point is Principle 1.2, which has been on the agenda for a while now, regarding the disclosure of annual securities reports more than three weeks in advance. As a manager of a publicly traded company, I am of course well aware that we should submit our annual securities report at least three weeks prior to the AGM so that shareholders can read it carefully, make a decision, and vote. If so stated, we at companies will make every effort to comply with the statement, and in fact, we are working to disclose the report as soon as possible, taking this into consideration.

However, I would like to make sure that the investors and shareholders who are requesting this fully understand that this kind of situation will place a heavy burden on companies. Also, in terms of preparation for the shareholder meeting, an audit needs to be performed. We hear that there are still issues to be addressed in terms of whether the audit firms will be able to cope if all companies disclose three weeks in advance, and whether a transitional period will be provided, which is also a concern.

As I have said here before, if you are going to write here that annual securities reports should be issued more than three weeks in advance, I would like you to at least work on legislation such as the consolidation of annual securities reports and business reports as soon as possible. Corporate Governance Codes are supposed to enhance the corporate value of Japanese companies. Therefore, I do not believe that the burden should be unilaterally placed on companies. Since we are here, what I would like to ask is for the entire country to support and assist the movement of companies.

In addition to that, in the same context, it also describes moving back the date of AGM and the record date. It is quite difficult for a company to create that environment, and the articles of incorporation need to be changed. In particular, moving the record date for determining the dividend backwards will not be agreed upon without proper explanation to the shareholders. If this is to be done, it is also true that companies would have to move with a good deal of effort on an SR-like occasion. I am in favor of writing it here for various reasons, but I would very much like to receive support from all quarters.

The third point is regarding the description of Principle 2.2, ensuring diversity within a company, including the active participation of women. Here, there is still a mention of women, global talent, and lateral employees. This way of writing seems very discriminatory in a way from us, companies that are talking about eliminating the unconscious bias. I wonder if we should consider mid-career and career hires as a form of diversity, especially now in a social situation where there is already a considerable flow of human resources.

The Interpretive Guidance states that "reflecting a variety of experiences, skills and characteristics." If possible, I would like the Principle to be worded in such a way that it conveys a little more about the utilization of diverse human resources, rather than using the clear language that is currently used.

Finally, the fourth point concerns the Interpretive Guidance for Principle 4.1. A considerable amount of space is devoted to investment examples of what is implemented to achieve management strategy, business planning, and capital policies that take into account the phases of a company in order to increase corporate value. In order for a company to grow, it is very important to know how to effectively invest the assets stored within the company and thereby generate profits that exceed the investment. But it is too specific about that investment. In particular, there are examples of various investments in parentheses, but I very much doubt that these examples of investments are really necessary.

Without going into too much detail, those who run a company should understand what will make the company grow more capital efficient and profitable, and the directors should be discussing how to achieve this. If you go into too much detail about the investment, they may feel that they have to explain this every step of the way, in terms of the integration I mentioned earlier. I believe any major description of the investment, such as domestic or foreign, human capital, etc. may remain. For example, I don't understand how the investment in regions would increase the capital efficiency of a company. Thus, I think it might be a good idea to remove the bracketed, slightly over-written examples. I think we should allow companies to explain their investments. I hope you will take this into consideration.

That is all. Thank you very much.

**[Okina, Chair]**

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

**[Matsuoka, member]**

Thank you very much for the opportunity to speak. I am also the chair of the Subcommittee on Capital Markets at Keidanren, so my comments will reflect the voices of many listed companies.

First, I fully agree with the streamlining that is set forth in this revision, and I believe that this should be thoroughly implemented. I greatly appreciate and support the efforts of the FSA to reduce the total volume of the Principles and Supplementary Principles to less than half of the current level.

However, there are still some parts of the revised Code that do not seem to be based on current corporate management efforts and innovations, and some parts that I feel uncomfortable with in light of the actual situation. Of these, there is one general point and two specific points that I believe must be revised in the proposed revision, and will touch on these first.

The first issue I see regarding the entire Code is the positioning of the Interpretive Guidance. As explained earlier by the FSA, the Interpretive Guidance is not the text of the Principles, but rather is intended to assist the interpretation of the Principles and support its implementation of. Nevertheless, the volume of the Interpretive Guidance is very large and redundant, and there is a concern that the Code as a whole may be perceived as more detailed.

In particular, as other members have pointed out, 9 of the preamble clearly states that the Interpretive Guidance is not subject to complying or explaining. Nevertheless, many of the Interpretive Guidance

end with the phrase "should do so-and-so," as in the main body of the Principle, or as if to press for compliance. In addition, I am very concerned that the statement "Interpretive Guidance is a part of the Code together with Principles" in 9 of the preamble may cause further confusion, and I request that it be deleted.

The Interpretive Guidance provides companies and investors with material points to consider when putting the Principles into practice, with specific examples and other information. Therefore, the way the proposed revision is written should encourage management to improve their own ability to determine and explain their resource allocation policies that are best appropriate for their business characteristics and other factors. The proposed revisions appear to be far from that.

From the perspective of impressing upon investors the results of the governance reforms achieved in the 10 years since the Code was formulated, and from the perspective of aiming for the Code to be a framework that supports autonomous management based on corporate ingenuity, I believe it is extremely important to demonstrate a stance away from excessive detailed rules in this revision of the Code. The Interpretive Guidance also includes a number of specific initiatives that should originally have been left to the discretion of each company. Instead of saying that so-and-so should or ought to be done, I think it should be modified to say that so-and-so is important, so-and-so is desirable, so-and-so is conceivable, and so on.

Next, I will discuss individual areas. The first is regarding the statement in the Interpretive Guidance for Principle 1.2 regarding disclosure of the annual securities report prior to the annual shareholder meeting.

First, I believe that this should be discussed from a comprehensive, overall perspective, including the current legal and institutional framework in Japan, rather than through a simple comparative discussion or by taking up some opinions.

Also it is true that there are strong criticisms and questions based on reality amongst the business community. For example, there are persistent voices questioning whether investors really use all the information in the annual securities reports, and asking why measures such as adding information including cross-shareholdings to business reports under the Companies Act is not sufficient

However, based on the past history, Keidanren is willing to discuss the possibility of creating an environment itself in which annual securities reports are disclosed prior to the annual general meeting. However, on the other hand, the fact that the Interpretive Guidance states that the most desirable submission date is at least three weeks prior to the date of the shareholder meeting is difficult to deal with in practical terms under the current legal and institutional framework, and I believe that there are problems with the statement as it stands.

Currently, the Legislative Council of the Ministry of Justice and other bodies are discussing the streamlining of corporate and audit practice, as pointed out earlier, including the consolidation of the annual securities report and business reports, etc. It is difficult to deal with a situation in which only the revision of the Code is made in the absence of these institutional frameworks. Until a new framework is in place, I do not believe it is appropriate to give a specific time frame. Therefore, I request that the statement that the most desirable submission date is at least three weeks prior to the date of the shareholder meeting be deleted.

If this is required, then at the very least, if there is language that states that such environmental development necessary to promote pre-AGM disclosure, including hard law, is to be promoted, and that this is the premise on which the pre-AGM disclosure is to be promoted, then I believe that Japanese companies can be encouraged to make a positive commitment to pre-AGM disclosure, and that it can be realized.

Specific examples include reviewing and streamlining the content of disclosures in annual securities reports, reducing the burden of preparing for shareholder meetings, and reviewing overall disclosure, including disclosures other than business reports and annual securities reports.

The second specific area is the description of cash and deposits in the Interpretive Guidance for Principle 4.2. Determining policies for allocating capital resources and explaining that to various stakeholders is one of management's key responsibilities, and recognize that it is up to the management of each company to decide how to allocate its capital investment.

It is stated that companies should persistently review whether cash and deposits are being effectively utilized for investments and other purposes. I cannot help but feel strongly uncomfortable with the expression that could be mislead that cash and deposits are the only capital resource, whereas in reality capital resources are not limited to cash and deposits, but include a wide variety of others .

In practice, if it is required from the viewpoint of promoting constant assessment of capital allocation that various types of capital resources be listed, I would ask for consideration for the language to be amended such as the following:"It is important to constantly assess whether various capital resources, such as cash and deposits and other financial assets, land, equipment and other real assets, as well as debt including policy financings and capital are effectively combined and effectively used for investments and other activities that contribute to the companies' growth

I have first touched upon the important points. Thank you.

**[Okina, Chair]**

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

**[Ueda, member]**

Thank you for the opportunity to speak. I would also like to thank you again for your presentation of the revised proposal based on the previous discussion, while also taking into account our opinions and making various preparations during that time.

First, I agree with you about the major direction of the revised Code, for which you have taken into account the discussion. In particular, this time, you established the preamble and structured it as follows: General Principles, Principles, and Interpretive Guidance. I think it has been reorganized into an easy-to-understand structure that goes into each issue from a larger perspective, and I think it is a very good structure.

It is also good that in the preamble, the essence of the Code, comply or explain, is explained, and that it is well explained, including the comply-and-explain approach that has developed over the past decade. Especially since the Japanese market have a large number of listed companies and a broad base, I think it is very important to explain these matters clearly and carefully in words and in the Code that can be picked up by companies. With that in mind, I would like to make a few comments.

First, I would like to discuss the Interpretive Guidance which other members have made comments on. The definitions have been clarified and the descriptions have been expanded to reflect previous discussions, which I believe is one of the major pillars of this revision. In particular, it is useful to explain the position that while not subject to comply or explain, they support a substantive response to Principles, and the thinking behind it. Even if you do explain, the response will be completely different depending on whether or not you understand the background thinking and purpose.

Furthermore, I think it would be very useful to have best practices or good practices that point out what is the most important thing for a company to do in line with the Code.

I believe that the expected behavior will be defined based on the Code in order for companies to specifically address the Interpretive Guidance as their own business. I have often heard the old saying about corporate governance that it is important to make a Buddha and put a soul in him, which I have heard for about a quarter of a century. I believe that the very part of putting the soul into the product has been clearly stated this time.

However, as I mentioned earlier, the number of listed companies subject to the Corporate Governance Code is very large in Japan, and it is a challenge to ensure that all listed companies understand the purpose of the Code and what specific actions are expected of them.

From that perspective, I believe the Interpretive Guidance is best practice at this time. However, it would be good to design a mechanism in advance that allows for flexibility in the Interpretive Guidance if circumstances change or if the company's activities become more advanced and the Guidance are no longer necessary.

Regarding this flexible operation, for example, the Interpretive Guidance for Principle 4.1 includes descriptions of specific investments such as capital expenditure, research and development, human capital investment, and intellectual property. It also describes mergers and acquisitions. In addition, Principle 4.3 also includes a section on cybersecurity and geopolitical risks, which are particularly important in ERM.

These are all important management guidelines, but perhaps some companies may argue that we are getting into too many individual issues. On the other hand, I believe that an important role of the Code would be to demonstrate this to companies that are not aware of it. On the other hand, I would like to reiterate that I would like to see a flexible review of the Guidance in the event that circumstances change in the future.

In this regard, many members, especially business executives, have commented earlier that the word "should" may be a bit too strong. It seems to me that this is a concern from the companies about the fact that the Guidance are seen as something subject to comply, and I think it is very plausible.

In order to dispel these concerns, I would like to see a clear explanation of the position and implications of the Interpretive Guidance in the preamble. Furthermore, after the Code is revised, I hope that the FSA or TSE will conduct educational activities on these matters so that companies will utilize the Code without misunderstanding.

The second point is about the disclosure of the annual securities report prior to the AGM. I feel that there is now a growing momentum regarding disclosure prior to the AGM. This is an area in which the practice is moving forward, and today, many of our members, especially investors, have expressed their hope that Japan will take action on this issue.

On the other hand, there were opinions from the corporate side that they would like to take a cautious approach in light of the moves by the Legislative Council of the Ministry of Justice and that it would have a large impact in practice. This is an area of significant change in practice and an area where laws and institutions are intertwined, and the concerns of companies are well understood.

On the other hand, the annual securities report is the most important disclosure document for Japanese companies. I believe that the accuracy, comprehensiveness, and reliability of annual securities reports are the foundation of investors' trust in listed companies in our country.

Furthermore, just now, the legal system for disclosure of sustainability and other information is being developed, and I believe that the annual securities report will become an even more important

document. It is not only beneficial for investors to exercise their voting rights based on this information, but it is also beneficial for companies to have their voting rights exercised based on such reference information.

Therefore, in the Code, I believe that it is necessary not only to do what can be done at present, but also to stretch a little and look ahead to the future and provide direction. I believe that there are companies that are actually working hard and are ahead of the curve. It is hoped that the efforts of such companies will be shared and spread as reference examples. I think this is also the role of the Code.

Next, I would like to discuss cash and cash equivalents. I believe that the proper allocation of cash and deposits, especially business resources, is also positioned as a development and mobility force for our nation's economy and society as a whole through the corporate value of each company. Therefore, from a macro perspective, this part of the Code is very important.

However, I am concerned that the emphasis on cash and cash equivalents may be misunderstood in some cases. Cash is, in a sense, the end result. What is important is the process of how the cash position is held and the need for cash. I think it is important to know what kind of funds need to be allocated there, and furthermore, whether the Board of Directors has a mechanism to monitor and make decisions on such matters, and whether it is fulfilling its responsibility to explain this to shareholders and stakeholders.

The most important thing is that the balance sheet is well managed and that it is based on the business environment or business. Therefore, in a business with high volatility, it is natural risk management to take some cash position. Therefore, instead of trivializing it to cash, we can look at it from the larger perspective that it is first and foremost a management issue.

However, on the other hand, some companies are very conscious about borrowing from banks even under negative interest rates, and even if ROE is low as a result, they seem to have a strong desire to reduce debt and have a high capital adequacy ratio. Since the Corporate Governance Code includes both management and the Board of Directors in a broad sense, it would be good to discuss this from a broader perspective, not from the small perspective of cash and cash equivalents.

Since this is also connected to the results of cross-shareholdings, which we have been urging to improve through the Corporate Governance Code, I would like to ask you to discuss this issue from a slightly broader perspective. Perhaps the problem is the excessive cash deposits that are being held in idleness without adequate discussion or explanation.

Also, thank you for including the defensive governance, which other members have also suggested about, in the preamble. There has been a bit of discussion about this, so I would appreciate it if you could summarize it for us in light of this.

One final point is about the positioning of the Code. I believe that the Corporate Governance Code is the most central provision for corporate management reform in Japan. Derived from this, I believe there are various normative documents from METI, TSE, or other government agencies such as the Cabinet Office. It is a natural obligation of directors, but I think that by reiterating that the Corporate Governance Code is positioned at the center of these related documents, and consideration should also be given to related documents, efforts based on the system surrounding the company will be more integrated and will encourage improvements. I would appreciate your consideration.

That is all. Thank you very much.

**[Okina, Chair]**

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

**[Takei, member]**

Many of the members would make many comments on where to modify. But before that, I would like to make several points that I think how important this revision is from the overall perspectives.

First, as you know, the most important thing now is to promote growth investment. How should we proceed with that growth investment? In this context, I would like to emphasize again that this revision of the Corporate Governance Code sends a very strong and excellent message toward that end.

In particular, the phrase "path for growth" is written. I translate "path for growth" as value creation stories. It is written throughout as a top priority in this revision. For example, on page two, it states, "based on the company's explanation of its path for growth over mid- to long-term." 4.1 also clearly states that "the board and management should construct the path for growth toward corporate goals." 4.2 also states, "whether allocation of the company's business resources is appropriate in light of its disclosed business strategy and business plan created with the aim of achieving growth." There is a very strong message of investing in growth based on the path for growth. These are really important points. The fact that this revision is dealing with the very issues that the Japanese economy is facing right now is emphasized in today's materials, and I think it is important to firmly send out such a message once again.

In addition, I think it might be a good idea to add "path for growth" to the business principles, business strategies and business plans that the company is aiming for in (1) of 3.1, Full Disclosure. I leave that decision to you. Instead, I think it is important that this time around, it is written that disclosure of the path for growth is the cornerstone of growth investment and is important to make a solid growth investment. These are the first points.

The second point is that it properly incorporates the changes that have occurred over the past 10 years. 10 years ago, in 2015, Companies with Supervisory Committee had just come into effect and there were very few Companies with Supervisory Committee. Currently, the majority of companies are Companies with Supervisory Committee, although there are also Companies with Three Committees (Nomination, Audit and Remuneration). This revision has been properly updated to address precisely the changing role of the Board of Directors. I would like to clarify this point as well.

For example, around page 19, it clearly states that the ideal division of responsibilities between the board and management should be constantly reviewed. This is also a very important message. In addition, the section "it should ensure that major operational decisions are based on the company's strategic direction" has been deleted from 4.1. It is no premise more that operational decisions are to be decided at the Board of Directors. I think this is another change over the past 10 years.

Also, in 4.7, as Mr. Nakagami mentioned earlier, the description of advice was lowered from 1 to 4. I think it's too much to say don't give advice, so you revised it to say that advice is not the main thing. These messages are also sent well.

Also, the statement related to the board secretariat around 4.13. It clearly states that the Board of Directors is expected to proactively implement measures to promote substantial and active deliberation and that, in order to create effective forums, it is desirable to set appropriate agendas in light of the roles and responsibilities of the applicable meeting body. In those streams, the importance of the board secretariat is also described.

Thus, this revision neatly organizes the role and the nature of the Board of Directors. This is a very important update for the past 10 years. In this way, the key issues regarding the way the Board of

Directors should be in order to invest in growth have now been appropriately updated. These are also very important points of this revision.

Also, the words like "qualified" and "succession candidates" are used around 4.3 or 4.8 and 4.9. I would express this as core competence. Not only about skills in the skill matrix, but also about core competencies, what qualities are important, are written this time. This is also a very important point.

As such, there are substantial important updates to the Principles that need to be done this time around, and I think this is a great revision.

Third, a minor point. There was a little discussion earlier about the mid-term business plan in 4.1. Although there are still many companies that have created a mid-term business plan, it is not a default standard to do so; thus, the wording such as "if a mid-term business plan is made" would be appropriate.

Also, it is a detailed point, but in 4.10 Independence, it says "there being no potential influence from associated entities of the independent director." I can see the difficulty in drafting here, but I think this is an example of the element of independence. I think it would be easier to understand to simply say "not in a position or relationship to be significantly influenced by management," for example. Several points were made earlier about conflicts of interest. I think a better phrase would be something like "without significant influence from management." There are many elements of independence, and we can't write down all the examples, but I feel a little strange with this "there being no potential influence from associated entities of the independent director," although it may sound too detailed.

Fourth, earlier, there were comments, especially from investors, that they would like to see 1.5 through 1.7 reinstated, and there was talk about independent directors, but I am opposed to reinstating them. There are several reasons to disagree, including that they are already written elsewhere. One point, the investors here are all very fine people, and you are all really great people who are looking for mid- to long-term growth. However, there are some investors who are not such people. Some investors are extremely short-term oriented and quite coercive, and it is doubtful that they are really seeking mid- to long-term corporate value. I believe that this is why there are differences in perception in the field that have led to the various differences in opinion today. In this context, there is some concern that only shareholder returns are growing, and that they are taking away from human capital and other sources of growth investment. In their day-to-day dealings and in events such as MBOs, they are seeking as much return as possible, and this is causing concern that the return is bouncing back to the company as debt, depriving it of the resources to invest in growth in the future. Such points have also been raised. In those various situations, I think this is a balanced expression. The story about independent directors meeting with investors also has various problems on the investor side, such as formalism and short-term orientation, but I think it is too much to write that independent directors must meet with investors anyway, while leaving such problems on the investor side unaddressed. The issues on the investor side should also be solved at the same time. I think that writing too much about such things into the Code leads to talk of the burden being placed only on the company side. So we shouldn't write too much more. Moreover, even the current draft of the text has already received various comments about it being over-written and too detailed. This is written in a really balanced way overall, so I think we should stop adding more to it, including the Interpretive Guidance, although there are many opinions.

Principles 1.5 through 1.7 are also written in 4.3 (3) in the current proposal. I think the current wording is sufficient, so there is no need to reinstate the 1.5 to 1.7 Principles. I am sure there will be minor revisions, but the current draft is balanced, so I think it is basically good to proceed as is.

**[Okina, Chair]**

Thank you very much. Now that everyone has spoken, I would like to ask the observers to speak next. The Japan Association of Corporate Directors, please proceed.

**[Japan Association of Corporate Directors]**

Thank you for the opportunity to speak. On behalf of the Japan Association of Corporate Directors, I, Ota, Vice Chair of the Corporate Governance Committee, would like to express our views.

First, I think the proposed revisions are very good as a whole. I would like to express my respect for the efforts of everyone at the Financial Services Agency who has worked so hard to compile these proposed revisions. On that basis, I would like to make five comments on behalf of the Japan Association of Corporate Directors.

The first point relates to Principle 4.2 of the proposed revision. We basically agree with revision in the direction of actively encouraging the effective use of business resources for growth investments that lead to sustainable growth and enhancement of corporate value over the mid- to long-term.

However, shareholder returns from listed companies in Japan have increased 3.5-fold in about 10 years, from 2013 to 2024. In today's capital markets, with the influence of short-term, profit-oriented investors growing stronger, I believe that there are conspicuous cases in which listed companies respond easily to requests for shareholder returns from investors who are oriented toward short-term profits. Therefore, it is necessary to avoid a situation in which the statements in the Corporate Governance Code are misinterpreted as implying that business resources should be used for these short-term shareholder returns, or that only part of them are to be taken out and used by short-term, profit-oriented investors.

Therefore, with regard to Principle 4.2 of the proposed revision, from the perspective of improving mid- to long-term sustainable profitability and capital efficiency and enhancing "growth power," it would be good to state in a more in-depth manner that companies should not respond easily to short-term shareholder returns, but rather should implement business portfolio reviews, growth investment, etc., appropriately and boldly. I also think it might be a good idea to then make it a little clearer that shareholder returns also should take into account shareholders' profits from mid- to long-term growth, using earnings obtained through the relevant growth investments, etc.

The second point relates to the roles and responsibilities of the Board of Directors in Principle 4.3 of the proposed revision. In order to execute business portfolio reviews and growth investments appropriately and boldly, from the perspective of improving corporate value over the mid- to long-term, it is necessary for Boards of Directors to be equipped, fully and effectively, with the function of appointing a management team capable of carrying out these actions. From this perspective, it is very important to develop a governance structure that will enable these management appointments to be made effectively. For this reason, I think it should be clearly stated that companies listed on the TSE Prime Market should make firm decisions on management and director candidates through a statutory or voluntary nominating committee.

The third point relates to Principle 4.8 of the proposed revisions, which ensures the quality of independent directors. First, as the number and ratio of independent directors increases, it is extremely important to ensure not only the number and ratio of independent directors, but also the quality of independent directors, in order to strengthen the effectiveness of governance. Therefore, I think it is very good that Principle 4.8 of the proposed revision clearly states that the "quality" of independent directors should be ensured.

Since the Corporate Governance Code operates under the "comply or explain" principle, the subject of each Principle basically is listed companies. For example, it is understandable that a listed

company should select, as a candidate for independent director, a person who is qualified to fulfill the role and responsibilities of such a director. However, in practice, some independent directors do not seem to be fully aware of their roles and responsibilities. In particular, there are not a few independent directors who are overly concerned about their own legal responsibilities and reputations in the event of an "exigent circumstances," and are unable to act by placing top priority on improving the mid- to long-term corporate value of the company.

Therefore, the main subject should be independent directors, and I think that the proposed revisions should state more clearly that (i) the roles and responsibilities of independent directors in "normal times" should be to "supervise" management in order to realize the sustainable growth of the company and mid- to long-term improvement of corporate value, rather than to provide advice on detailed points relating to individual business operations, and that (ii) in the event of an "exigent circumstances," the most important mission of an independent director is to express opinions that are deemed appropriate in light of the mid- to long-term enhancement of the company's corporate value, without giving priority to his/her own legal responsibilities or reputation, and to decide to dismiss the CEO or other members of the management team if there is inappropriate behavior on the part of the CEO or other members of the management team.

The subject of Principle 4.7 of the proposed revision also is listed companies. For example, the subject of Principle 4.11 of the proposed revision is independent directors, so, similarly, the subject of Principle 4.7 of the proposed revision also might appropriately be independent directors.

The fourth point concerns strengthening the functions of the board secretariat. The proposed revision refers to the corporate secretary. In the UK, the Companies Act 2006 requires the establishment of a company secretary, and I understand that the content of the proposed revision was written with this in mind. However, in recent years, I believe that Boards of Directors increasingly are having to make decisions that involve high-level legal judgment in situations such as unsolicited takeovers and responses to activist activities. For this reason, I think it is very important to set the agenda for board meetings and to organize the framework of discussions properly from a legal perspective. In the U.S., these functions are performed by a chief legal officer and general counsel, which I believe are similar to a company secretary in the UK. The corporate secretary appears quite abruptly in the proposed revisions, but I think it might be a good idea to mention the chief legal officer and general counsel, who provide advice and support to the Board of Directors from a legal perspective, in the same way as the corporate secretary.

The fifth and final point concerns the submission of the annual securities report prior to the annual shareholders' meeting, pursuant to Principle 1.2 of the proposed revisions. As ICGN mentioned, the Japan Association of Corporate Directors also believes that, in order to ensure effective voting by institutional investors, the annual securities report should be submitted at least three weeks prior to the annual shareholders' meeting.

The Corporate Governance Code operates solely under the "comply or explain" principle. Various environmental improvements, as pointed out by Keidanren, also are necessary, and based on these, at least for companies listed on the TSE Prime Market, annual securities reports should be submitted at least three weeks prior to the annual shareholders' meeting. It may be worth expressly stating in the proposed revision that, if companies think it is difficult to do this, the reasons should be explained, including whether the date of the annual shareholders' meeting can be moved back, and the reasons why the current date of the annual shareholders' meeting and the timing of the filing of the annual securities report have been chosen. I hope that this will encourage the submission of annual securities reports at least three weeks prior to annual shareholders' meetings.

**[Okina, Chair]**

Thank you very much. The Ministry of Economy, Trade and Industry (METI) will provide comments.

**[METI]**

Thank you very much. METI would like to make six brief points.

First of all, we strongly agree that the revision of the Code is primarily aimed at enhancing companies' growth and corporate value over the mid- to long-term, which was the original purpose of the Code. We are also in favor of substantive implementation in terms of growth and value enhancement, and streamlining for the purpose of encouraging this.

Second, that there are cases where "explain" should be actively chosen, and furthermore, the emphasis that "explain" should also be welcomed by shareholders and others, is an important perspective that will lead to the substantive implementation of the corporate response mentioned earlier.

Third, it is important that allocation of business resources and capital allocation are described in detail in the revised Principle 4.1, and we agree with this.

The Value Creation Subcommittee, a council of METI, is also working on growth investment guidance. There, METI hopes to encourage growth to increase corporate value by improving capital efficiency and expanding growth investment.

In this regard, we understand that the term "growth investment" in Principle 4.1 is an abstraction of the investments such as capital investment, R&D investment, human capital investment, and intellectual property investment, which have been positioned in the Principles and Supplementary Principles in the Code to date.

In this revision, these individual investments have been removed from the main body of the Principles. METI, together with the Financial Services Agency, would like to make efforts to disseminate a correct understanding of this so that companies will not mistakenly perceive that the importance of this has decreased.

On top of that, we believe that there are some areas that require more careful consideration regarding the specific manner in which they are described. For example, regarding the purpose of holding cash and deposits, Mr. Nakagami commented earlier that there are various purposes. In particular, if only cash and deposits are mentioned, we could not dispel the concern that cash and deposits would become the only symbolic item and that companies would respond formally only to cash and deposits.

There are various possible situations where cash and deposits are held for various reasons in preparation for risk and performance, for example, to ensure liquidity or to secure flexible funds for future growth investments. We would appreciate it if you could carefully consider more careful wording such as presenting the reasons for holding such cash and deposits, or indicating the points where such cash and deposits are acceptable.

The fourth point is disclosure before the general shareholder meeting. We believe it is necessary to carefully listen to the actual situation of companies and the burden of disclosure, and to consider the possibility of consolidating the disclosure with annual securities reports.

The fifth point is appropriate transactions. With regard to price pass-through and fair trade, we believe it is important for companies on the ordering side to cooperate appropriately with companies on the receiving side, including the promotion of price pass-through, in order to achieve coexistence and co-prosperity of them. We believe that the Code should also include more information on this subject.

Finally, the sixth point is intellectual property. Last December, the Cabinet Office's IP Governance Study Group released an opinion that discussions should be held to enhance more effective provisions for investment in IP. To ensure that the importance of the intellectual property is fully recognized by management, we believe that consideration should be given to putting the term "intellectual property" in the Principle of the Code alongside capital investment, R&D investment, and human capital investment.

METI intends to present the growth investment guidance I mentioned earlier. We would like to send out a message that encourages growth investment, which is essential for the sustainable growth of companies, which is the original purpose of the Code. Thank you very much.

#### **[Okina, Chair]**

Thank you very much. The Japanese Institute of Certified Public Accountants (JICPA) will provide comments.

#### **[Japanese Institute of Certified Public Accountants]**

I am Ojima of the Japanese Institute of Certified Public Accountants. Thank you for the opportunity to speak today.

In recent years, cases of misconduct of various scale have drawn attention. As auditors, we remain committed to fulfilling our role as gatekeepers of the capital markets. As a prerequisite for governance that supports growth-oriented management, which is the focus of today's discussion, we believe that a governance system that supervises management, and an internal control system for appropriate information disclosure, are both essential. I would like to make three remarks on this point.

First point, I agree with the direction of streamlining. On the other hand, we have concerns about the criterion described in (3) on page six of today's Material 1, which states that "those that the necessity of being mentioned on the Code is reduced by implementation in practice" will be removed. Essentially, we believe that the decision to include the Principles should not be based on whether or not they have been implemented in practice, but rather on whether or not it is necessary as fundamental principles regarding corporate governance. For example, we believe that the Code should aim to avoid misleading new market entrants.

The second point is a comment on the responsibilities of the Board of Directors as stated on page seven of Material 1. As I said at the beginning of my remarks, I believe that defensive governance is also essential as a prerequisite for governance that supports growth-oriented management. With respect to directors, the consolidation and reorganization of the themes of the Principles resulted in the deletion of the portion of Principle 4.3 that stated, "the board should engage in oversight activities in order to ensure timely and accurate information disclosure."

The OECD and ICGN Governance Principles include principles for board oversight of corporate reporting. The oversight of the Board of Directors over corporate reporting is recognized as being of great importance globally.

On the other hand, at present, according to information disclosed by the Japan Corporate Auditors Association, with respect to the handling of the annual securities report by the Board of Directors, 38% of companies have neither approved nor reported it to the Board, mainly in the last fiscal year ended March 2025.

Considering this situation, we believe that board oversight of corporate reporting has not yet been sufficiently fulfilled in Japan. We are not in a situation where the current Principle 4.3, "the board should engage in oversight activities in order to ensure timely and accurate information disclosure," should be deleted; so, we hope you could consider maintaining this provision in the revised Code.

The third point is regarding the disclosure of the annual securities report in the Principle 1.2 of the proposed revision. We agree with the disclosure of the annual securities report with sufficient time for review prior to the AGM. However, currently, various events are compressed into the three-months period following the closing date. It is our understanding that companies have to disclose earnings reports, prepare and send materials related to general shareholder meetings, and submit the annual securities report, all crammed into the time before general shareholder meetings. This has resulted in considerable concentration of practice, which is particularly burdensome for preparers and auditors.

Our concern in this context is that accelerating the timing of the disclosure of the annual securities report without changing the date of the shareholder meeting would result in further concentration of practice, which would be difficult to deal with in a realistic manner. We believe it is very important to delay the time of the shareholder meeting from the viewpoint of ensuring the time for preparation of disclosure documents and the audit period.

For this reason, it is very important to state in 1.2 of the current proposed revision that the date of the shareholder meeting and the record date for exercising voting rights, as well as other relevant dates, should be set appropriately. We would like this provision to remain as a Principle.

We believe that delaying the general shareholder meeting would not only enhance dialogue with shareholders prior to the meeting, but would also achieve greater efficiency in corporate disclosure by allowing disclosure under the Companies Act and the Financial Instruments and Exchange Act to be made in an integrated manner.

Finally, we would like to encourage the relevant ministries and agencies to also revise their laws in the direction of unifying the current dual disclosure system so that Japan's statutory disclosure system will be effective and efficient. In addition, we would like you to consider the overall corporate disclosure system, including exchange disclosures.

That is all from me. Thank you very much.

**[Okina, Chair]**

Thank you very much.

If any member would like to comment further on any of the comments we have received so far, I would like them to speak for two or three minutes. Now, please comment in turn: Ms. Sisson, Mr. Iguchi, Mr. Kobayashi, Ms. Kobu, and Mr. Nakagami.

First, Ms. Sisson, please proceed.

**[Sisson, member]**

I want to say that I think, to activate implementation to drive growth, investment and societal value creation, this Code is going to require a new way of thinking.

We need to remember the purpose of corporate governance for listed companies.

This cannot be allowed to slip backwards and become about risk aversion, cash hoarding and resistance to change.

The Code has to be best practice, not the minimum standards. That's the whole point of a comply or explain code.

You have to have a strong and clear focus on director fiduciary duty to shareholders.

That's not short termism. It does not hinder growth. That is just the whole model of being publicly listed companies.

Of course, investing in growth through research and development, technology and employee pay is all very important to long term value creation.

That is why investors as the shareholders want to see more productive use of cash and better capital allocation.

Again, I don't believe that is short termism. That is just good management and that is what will drive the growth we are all seeking.

I agree with colleagues, but it is important that the clear expectation is that the companies should consider the guidance in order to retain quality and not to risk back sliding on the path that we have achieved so far.

**[Okina, Chair]**

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

**[Iguchi, member]**

Thank you for the second opportunity to speak.

I made a statement on the positioning of the Interpretive Guidance in the first round. This is because, as Jen-san mentioned, I was concerned that concerns about the relaxation of the Code would spread domestically and internationally, and that the trust that has been built up by the capital market participants, including the FSA, would be lost.

However, I understood Professor Kansaku's comment, or conversely, that companies feel constrained by the Interpretive Guidance even in the current situation. So, I now believe that the Interpretive Guidance will play a role even with their current positioning. However, we ask that the phrase "a part of the Code together with Principles" here be retained.

In terms of individual issues, there have been various discussions on disclosure prior to the general shareholder meeting. As Jen-san mentioned, what is being discussed at the Legislative Council of the Ministry of Justice is the option of integrating the business report and the annual securities report, and I don't think this necessarily indicates the pros and cons of disclosure of the annual securities report before the shareholders meeting.

In this sense, it is important to take this opportunity as a soft law to stipulate the disclosure of the annual securities report prior to the general meeting, which is common practice in developed

countries, and I believe that this will remain as an important soft law even after the revision of the Companies Act.

There is also the example of the last revision of the Stewardship Code, which stipulated transparency for beneficial shareholders in soft law before hard law, before the discussion in the Legislative Council of the Ministry of Justice, and mainly institutional investors have already responded to it. So, I don't think this is necessarily unprecedented.

Some members also commented on the content of the annual securities report. If the content of the report is reduced for disclosure before the general meeting, the meaning of the pre-general meeting disclosure of the report will be lost. In the case of the annual securities report, the information required for investment decisions is the same information that is required for decisions at a general shareholder meeting.

Second, some mentioned that we should stop using the word "should." If we stop saying "should," the Interpretive Guidance will become a mere explanatory document, indicating domestically and internationally that this is a relaxation of the Code. So I think this should be avoided. As Professor Ueda mentioned, I think it is already stated in the preamble that companies can make choices. However, I think one option would be to state more clearly that the choice can be made with reference to the Interpretive Guidance.

The third is about multi-stakeholderism. I believe that it is impossible to ignore the existence of stakeholders other than investors in corporate management. However, stakeholders' goals vary. The purpose of the Corporate Governance Code is written on page one, but it is only to improve corporate value over the mid- to long-term. Then again, that could be very different from the goals of stakeholders other than investors. Therefore, I believe that the current way is correct, first defining the rights of shareholders in Section 1 and then considering stakeholders in Section 2, in order to match investors who have an eye on improving corporate value over the mid-to long-term.

The third point concerns cash and cash equivalents. As I mentioned earlier, all institutional investors, not just a few, are concerned about excessive cash and deposits. So, I think this statement should be retained. However, I am not saying that everything should be allocated to shareholder returns, but rather that companies should first invest for future growth and then return any surplus to shareholders. As Mr. Nakagami mentioned, one method might be to set a cash-to-cash ratio. Currently, it is stated as "cash is utilized in investments," and I believe that this expression is basically based on such an idea, and this expression should be retained.

Finally, there were several comments regarding the mid-term business plan. I certainly understand that some companies have stopped making mid-term business plans, and I don't think it is necessary to mention this. However, for mid- to long-term investors, it is important that a company indicates its mid- to long-term direction and approach, and it is very important that it implements the PDCA cycle based on this. I believe it is important for the Board of Directors to oversee this.

Therefore, as exactly as Mr. Takei mentioned, it may be necessary to change the wording a little, but I would like to see this remain, not deleted, but with the wording revised.

That's all from me. Thank you very much.

**[Okina, Chair]**

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

**[Kobayashi, member]**

Thank you very much. I would like to reiterate my point regarding the disclosure of cash and deposits or the annual securities report. Cash and deposits, as has been discussed, are sometimes held for various risks. Therefore, I think it is very important to provide a clear explanation of how the assets you have, your business resources, and your mid- to long-term plan and cash allocation, should be used for co-creation. I don't think it is a good idea to only mention cash and deposits.

There was some discussion about bringing forward the disclosure of the annual securities report, but I think there are many issues to be addressed to do so. Realistically, there must be some really useful information for shareholders in the annual securities report. So, I think it is realistic to extract such information and disclose them as early as possible to deepen the dialogue. Of course, this should be based on the discussions of the Legislative Council of the Ministry of Justice as well.

I will comment on two points not mentioned earlier. One is dialogue with shareholders. We are now talking about combining Section 5 with Section 1. However, dialogue includes not only dialogue with shareholders, but also with various stakeholders, and I believe that disclosure and dialogue are a pair. So, one point I would like to make is whether it is possible to create a Section that deals with disclosure and dialogue in an integrated manner.

Sustainability is mentioned in the section on board responsibilities. The structure of the Code is that the General Principles 1, 2, and 3 are broken down into individual Principles. However, I think that only sustainability is not mentioned in the General Principle, but is suddenly mentioned in the Principle, which results in an inconsistency.

On the other hand, sustainability is not just about the Board of Directors, but how the company itself maintains sustainability. So, I think it would be rather appropriate to move this to the front and put it in Section 1 or 2.

Finally, just one more point. You added a preamble, but the subject of the preamble is a company or companies. The subject of the Principles and General Principles is listed companies. If this distinction is intentional, I would like to ask why. If they are not being used differently, it would be good to unify them so as not to cause confusion.

That's all from me. Thank you very much.

**[Okina, Chair]**

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

**[Matsuoka, member]**

I have already made my remarks on the important points, so I would like to make additional points and a final comment.

The first is the role and responsibilities of the Board of Directors. As some of the members pointed out earlier, different companies have different governance structures (under Japanese Law) of Board of Directors, including companies with monitoring boards, or the so-called company with committees, is one of the structures that is promoted. In that aspect, in Section 4, there are various statements that do not fit such Board governance structures. There are expressions with the so-called management board in mind, including, for example, with reference to the establishment of whistleblower system in

Principle 4.3, the use of non-executive directors in the Interpretive Guidance for Principle 4.3, and training for directors and others in Principle 4.14, which do not apply to companies with monitoring boards. If possible, I would like to ask that measures be taken, including mentioning in a the notes, in light of the increase in the number of such companies.

Finally, I understand that the revision of the Code is based on the purpose of streamlining it, under the recognition and understanding fact that significant progress has been made in the last 10 years since 2015 with companies having evolved from putting enormous effort to be valued by investors. I very much look forward to the Code being finalized with such purpose in mind.

**[Okina, Chair]**

Thank you very much. At the beginning, we have received a comment from Professor Tsumuraya that if you have any comments on the term CEO appointment/dismissal, he would appreciate it. If any of you who are going to speak have any comments on this, I would appreciate it. Mr. Nakagami, please proceed.

**[Nakagami, member]**

Thank you very much. Listening to the opinions and comments of people in various positions today, I felt that there are still a distance, misunderstanding, and friction between investors and management. I think that each entity is probably working very hard to have companies grow and create value over the mid to long term, so that we can all be prosperous. However, there are misunderstandings, conflicts, and distance due to differences in position.

Therefore, how about changing the phrase in Principle 1.1, "Based on the content of dialogue with shareholders, companies should take appropriate measures such as internally sharing information and conducting reviews as necessary" to "at board meetings and internally as necessary"? It is very necessary to firmly position the Board of Directors as the entity that has primary fiduciary responsibility to the shareholders, the entity that overcomes misunderstandings, conflicts, and distance, and the entity that discusses growth-oriented governance.

Growth also inevitably requires strong shareholder support. This is because it is risk-taking. Therefore, I think it is important that the Board of Directors be more connected to shareholders in order to facilitate that dialogue.

The other is the function of the secretariat. I think the description of the functions of the secretariat in 4.13 Interpretive Guidance is very well written. My proposal is to include this section in the text, in Principle. I think some simplification is necessary, but why not put this in the Principle text?

It is very important for the secretariat to set the agenda or time for the board to fully discuss the board effectiveness, especially its growth orientation. In addition, in order for the Board of Directors to make decisions extremely quickly and accurately in times of emergency, which has been increasing in recent years, it is essential for the secretariat to firmly set agenda and discuss corporate values and how to respond in the event of an emergency, even in ordinary times.

Therefore, once again, I think a description of the secretariat function might be included in the text.

**[Okina, Chair]**

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

**[Kobu, member]**

Thank you very much. I would like to make one point regarding cash.

The term "cash" may have become symbolic. However, looking back over the past 20 years in the graph on page three of the Material 2 we received, it is clear that the ratio of cash and deposits in Japanese companies is at an extremely high level, and that this is a problem that must be solved as the external environment changes in the future. So, I still think this should be clearly stated in the Code.

I also believe that the goal is not only to reduce the amount of cash and cash equivalents, but that what we are aiming for is to optimize capital allocation and thereby increase corporate value. It would be good to clearly state and make it a common understanding that holding excessive cash and deposits is undesirable because it impedes capital efficiency and has a negative impact on corporate value.

**[Okina, Chair]**

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

**[Ueda, member]**

Thank you very much. I would like to make three comments based on your opinions.

The first point is about streamlining. I would like to emphasize that the image of streamlining should not give the impression that the Code is simplified and easy to implement and is a setback. If so, some pointed out that the word "should" in the Interpretive Guidance is too strong, but, while I truly understand your concern, I believe that this is simply a matter of expression. On the other hand, if we were to change "should" to "may" in English, this is definitely a setback. Therefore, I think that careful explanation and enlightenment are necessary to avoid misunderstanding, while maintaining the expression "should." The minutes of today's meeting will be translated, so I imagined English and thought so.

The second is the treatment of Principles. The Principles are conceptual in nature and universal in nature, as was first explained by the Director earlier, and I believe that they will continue to be used without revision too often in the future.

For example, I think that issues such as intellectual property are very important issues and should be looked at by the entire Board of Directors, but I think that they are specific issues that are important in the context of individual management. This is exactly the kind of content that I think deserves to be included in the Interpretive Guidance. Nevertheless, I hope that the entire government will make efforts to educate the public in light of the importance of this and help to spread understanding.

Finally, I would like to make a brief comment on the opinion letter from Professor Tsumuraya, as the chairperson has asked us to do so. I think "appointment/dismissal" is certainly a very strong word, but it is already an established expression, and I don't expect the reaction to appointment/dismissal be as strong as it used to be. On the other hand, I think the phrase "encouraging early replacement" would be very easy on the ears. However, although the Board of Directors is quite cautious about dismissal as a serious matter, I also think slightly that an "early replacement" might make it rather

easy to dismiss the CEO at an early stage. I think there may be a problem of expression, so I would appreciate your consideration.

That's all from me. Thank you very much.

**[Okina, Chair]**

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

**[Hasegawa, member]**

Thank you very much. My impression from listening to the various opinions is that the gap between investors and academics and the people in charge of corporate management has clearly become apparent.

The obvious differences I thought were regarding the disclosure of annual securities reports more than three weeks in advance and the idea of handling cash and cash equivalents. Again, I think that the corporate side fully understands the need for early disclosure of the annual securities report and disclosure more than three weeks before the meeting. Although some have called for simplification, we are fully aware that it is companies' duty to provide shareholders with solid information as soon as possible.

However, I would like to reiterate that we would like you to understand that this is really placing a fairly large burden on companies. I would like to ask for your support, including in the form of legislation.

Regarding cash deposits, I am very concerned about that term since it is clearly written as cash. Most companies would probably read and understand it as how to use their assets efficiently to grow, not just their cash and cash equivalents. From that perspective, I understand that the term cash remains as a symbolic term.

Since it has been 10 years since the first Code was made, the revised Code will probably be in use for at least 10 years, and it should describe what Japanese companies should be like 10 years from now. Companies should read this carefully as one guideline and take action. Therefore, it is easier for companies to make a decision if you write what you think it should be, without unnecessarily softening the wording. However, if you write it too detailed, companies will be affected. So, I would like to reiterate that I would appreciate it if you could state your basic approach. Thank you very much.

**[Okina, Chair]**

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

**[Takei, member]**

Thank you very much. I would like to add one minor but important point to the previous point I mentioned. I said that the Principles 1.5 to 1.7 are written in (3) of 4.3, but they are also written in 4.7.

The second point is somewhat more essential. Regarding the premise of the growth investment, as well as the cash and cash equivalents, the starting point for all of this is to create a solid growth path and value creation story. From the perspective of emphasizing that a bit more, I think it might be better to write "path for growth" in 3.1 (1). The first half of the section will be read carefully. From there, it leads to the question of what to do, including with the cash and deposits; so I think it would be good to write a little more about that.

As for the appointment/dismissal, as Professor Ueda mentioned, I understand the sentiment, but the wording "early replacement" has a nuance that he/she should quit quickly, and there is also much debate about the length of the term of office. There is some debate as to whether it is good to have a rapid change of top management. So, if the amendment requires the word "early" to be added, I think it might be better to leave the wording appointment/dismissal as is. I think the "appointment/dismissal" should remain as it is a word which a value judgment is difficult to be made for.

Regarding intangible assets and intellectual property as pointed out by METI. Intangibles and intellectual property are really important from a growth investment perspective. Moreover, as a prerequisite for the path for growth and value creation story mentioned earlier, companies must naturally have a competitive advantage. The source of competitive advantage is this intangible asset, intellectual property. So, this is a tremendously important point. So, I think the point that this importance should not fall off is correct. On the other hand, if the policy this time is not to write each concrete issue in the Principles, but to include examples in the Interpretive Guidance, I believe that the disclosure described in the Interpretive Guidance for 4.1 has been made in the corporate governance report so far. Since the Interpretive Guidance now states that IP and intangibles are to be disclosed, the disclosure of this information will remain in the corporate governance report. So, I think, so long as the disclosure will be made as it has been in the past, the concerns that are being made now will be eliminated. This is based on the assumption that we will continue to distinguish the terms disclosure and explanation. Since IP/intangible assets are to be disclosed, I believe that the negative perception in the field as if the disclosure of intangible assets/intellectual property has been regressed can be avoided as a practical matter by retaining their inclusion in the corporate governance report.

#### **[Okina, Chair]**

Thank you very much. I think we have heard comments of you all. The Corporate Governance Code clearly states in its preamble that the Code is designed to enhance corporate value over the mid-to long-term, and emphasizes a path for growth. It also includes a direction to further promote careful explaining, which will enhance explaining more than ever before, and to improve the function of the Board of Directors to enhance corporate value. While we have received such positive feedback from everyone, there are still several points of contention.

One is the position of the Interpretive Guidance. How we should think about the statement "should." One opinion is that it may give the impression that they must act accordingly even though the contents are not subject to comply or explain. On the other hand, there was a comment that the position of the Interpretive Guidance is clearly stated in the preamble and that it is appropriate as it is now.

There was also a suggestion to change the Section on multi-stakeholders. Some of you may feel that the current structure is fine. I think there are differing opinions on this as well.

I think that one of the most frequent comments was about the disclosure of the annual securities report prior to the AGM. With regard to stating that it is most desirable to submit the annual securities report at least three weeks prior to the general shareholder meeting, there was an opinion from the corporate side that priority should first be given to cross-system review, including the development of

hard law and consolidation of the annual securities report and business report. On the other hand, there was a comment that the Code is soft law and that it is important to include it in the Interpretive Guidance in this revision to provide direction.

You also agreed with the general direction of the promotion of growth investment. But there were opinions about how to write specifically and whether to write it in Principle. While some people have suggested that the decision should be based on the circumstances of each company, others have suggested that we should write a little more detail about this.

One of the most frequent comments was about cash and deposits. There was a comment that cash deposits should not be used as a stand-alone example. However, there was a comment that it is appropriate to write this as an example in the Interpretive Guidance because interest is growing and it has become a major issue, as shown in the graph. Some suggested that we could consider how to write it, including the importance of reviewing the balance sheet as a whole, and that the consideration of necessary levels should be stated at the beginning. Including this, we would be happy to discuss the writing style, etc.

What I personally felt, as Mr. Takei and others have mentioned, is that while creation of a mid-term business plan is no longer a universal practice, it is important to present a mid- to long-term outlook. Therefore, I would like to ask you to be a little creative in the way you write about the mid-term business plan.

Several of you also commented on the way to write about diversity. I too think it is a good idea to change the wording a little.

As for the response to emergencies, that is happening quite a bit in the world today. So, I think what is written in the current Code is sufficient. I personally agree with your comment about whether there is anything that could be written, for example, about outside directors or about the secretariat.

Some suggested that the importance of conflict of interest and risk management should be emphasized a little more. In particular, I believe that many of you have expressed the opinion that 1.5 through 1.7 do not need to be reinstated. On the other hand, what is important here is how to consider the interests of minority shareholders and general shareholders, and the perspective of conflicts of interest, which could be emphasized elsewhere a little.

In any case, we have heard so many different opinions from everyone today. The secretariat will be discussing your opinions.

Now, I would like to conclude the meeting. Does the secretariat have any comments?

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

Thank you very much. We will contact you at a later date to schedule the next expert panel meeting. That is all from me.

**[Okina, Chair]**

Thank you very much for the many valuable comments you have given us over the past two and a half hours.

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

[END]