(Provisional translation)

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

1. Date and Time: April 3, 2026 (Friday) 15:00 - 17:30
2. Venue: Common Special Conference Room No.1, 13th floor, Common Government Office No.7

**[Okina, Chair]**

We will now commence the third 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.

Today's meeting is being held both in face-to-face and online formats. Also, it will be webcast live.

The minutes of the meeting will be available as usual on the FSA website at a later date.

Before starting the meeting, the secretariat will explain some points to be noted.

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

Thank you very much for your cooperation today.

If you are participating online and wish to speak, please enter your name in the chat box of the online meeting system for all other members. After confirming this, the chair will call on you.

If a member who is attending in person wishes to speak, please put up a plaque with your name, and the chair will call on you. Please return your name plate to its original position after your remarks.

**[Okina, Chair]**

Thank you very much.

We will now move on to the agenda. Today, the secretariat will explain the materials, and then we would like to have a discussion.

First, the Financial Services Agency will make an explanation.

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

First, in accordance with Material 1, I will explain the main modifications from the draft code revision presented at the previous meeting.

Please see page one. In the preamble, where the word “company” was the subject, the subject was replaced with “listed company.”

Next, please see page three. Item 9, the sentence “In this context, ‘Interpretive Guidance’ is a part of the Code together with the Principles” is to be deleted in light of the fact that it might make people more aware of the normative nature than necessary, even though it is not subject to comply or explain.

Please see page four, Notes on the 202X Revisions. Regarding the disclosure of annual securities reports prior to the annual general meeting, it refers to the point raised at the expert panel that it is not easy to disclose annual securities reports three weeks or more prior to the shareholder meeting in light of the general practice under the current legal system. It also states that the FSA, in cooperation with the Ministry of Justice, will concurrently consider the legal framework such as consolidation of annual securities reports and business reports, unification of audits, and optimization of disclosure items in the annual securities reports.

Next, please see page nine. Principles 1.5 through 1.7 in the current Code are to be deleted due to overlap with existing laws and regulations. Accordingly, we have added to the Interpretive Guidance of General Principle 1 that the interests of minority shareholders should be taken into consideration. In addition, the description regarding controlling shareholders in the Interpretive Guidance of General Principle 4 has been moved here, as we think it would fit better if it were included in the Interpretive Guidance of General Principle 1.

Next, please see page 20. Regarding the Interpretive Guidance of General Principle 2, the phrase “including a fair price-passthrough within a supply chain” was added as confirmation to “fair and reasonable transaction with suppliers.” In addition, the Code has included the local community as a member of stakeholders other than shareholders since its introduction.

On page 21, the sentence “investments that contribute to local communities resulting in increasing corporate value over the mid- to long-term are important” was added as a supplement.

Please see page 23. Principle 2.2, Ensuring Diversity. The terms “women, global talent and lateral employees” presented at the last meeting were changed to “gender, international experience, career experience (including lateral employees), age, and cultural background” with reference to the wording of Principle 4.11 of the current Code.

Next, please see page 25. Regarding whistleblowing, the proposal presented at the last meeting described the appropriate system for such reporting in Principle 4.3. However, in light of your suggestion that this is an important part of the relationship with employees and should remain in Section 2, we have put it back in Section 2 and changed it to Principle 2.3.

Next, please see page 36. Based on the points raised at the last meeting, “including capital expenditure, R&D, human capital, and intangible assets, including intellectual properties” is now clearly stated in the Principle as an example of growth investment. In addition, in response to a strong request from the Secretariat of Intellectual Property Strategy Headquarters of the Cabinet Office, we have included a supplement to the Interpretive Guidance that refers to the creation, acquisition, strengthening, protection, and monetization of intangible assets, which have been pointed out as important in the context of investment in intangible assets such as intellectual property.

Next, please see page 37. There is one more place other than page 37 where disclosure is required in the Interpretive Guidance while disclosure is not required at the Principle level. Since it would be difficult to understand the action required of companies, we have decided to delete the statements that disclosure is required that were found only in the Interpretive Guidance.

Next, regarding the description of the mid-term business plan on page 37, we have changed the wording to "if ... have created and disclosed a plan," based on your suggestion that it is essential to formulate such a plan.

Please see page 39. We received various comments and suggestions at the last meeting regarding the statement in the Interpretive Guidance of whether cash and cash equivalents are effectively utilized for investment and other purposes. In light of the fact that business resources are not limited to cash and cash equivalents, the phrase was changed to "whether business resources, such as financial assets like cash and real assets, are utilized efficiently in growth investments."

Please see page 41. At the last meeting, it was pointed out that the board of directors' oversight of corporate reporting may not yet be fully fulfilled. In light of this, we have returned the role to "engage in oversight activities in order to ensure timely and accurate information disclosure" to the Principle.

Please see page 43. The fourth and succeeding lines contain a sentence regarding the use of non-executive directors, which has been moved from Principle 4.6 of the current Code. We have removed this in consideration of the fact that the appointment of independent directors is progressing and that an increasing number of listed companies are becoming more oriented toward monitoring boards, as was pointed out at the expert panel meeting.

Please see page 44. Risk management was described as part of Principle 4.3 along with succession and conflict of interest management in the proposal presented at the previous meeting. However, in light of the comments made at the previous meeting and the importance of risk management, we have decided to establish a separate principle as Principle 4.4.

Please see page 47. With respect to Principle 4.7, in the previously presented revision proposal, the sentence "if the organizational structure of a company is either Company with *Kansayaku* Board or Company with Supervisory Committee and independent directors do not compose a majority of the board, the company should establish an independent nomination committee and remuneration committee under the board, comprised primarily of independent directors, and seek appropriate involvement and advice from the committees" was omitted. Without this premise, the previous paragraph cannot be connected to the next paragraph, so we have reinstated the sentence I just mentioned to the Principle.

Please see page 49. The role required of independent directors in the selection and dismissal of management and in compensation decisions was slightly reworded to "should perform their roles and responsibilities, including by proactively making contributions in a nomination committee and remuneration committee, in mitigating management bias and ensuring that ... are appropriate from the perspective of increasing corporate value over the mid- to long- term."

Please see page 54. Regarding the Interpretive Guidance of Principle 4.11. Based on the independence criteria set forth by the Tokyo Stock Exchange, we added the words "such as if the independent director is associated with another entity with certain capital and business ties with the company, there being no potential influence from the associated entities."

Please see page 62. Regarding training for directors and *Kansayaku*. We have received a comment that the term "training" is a bit rude to those who play an important role in the governance of a publicly traded company. Based on this, we have replaced this Japanese word with another word. It is assumed that the English translation will remain the same with the word training.

Next, please see Reference 1. This document is scheduled to be released together with the revised draft of the Corporate Governance Code for public comment, and includes the purpose of the revision and future issues to be considered.

First, in “I. Introduction,” the first two paragraphs refer to the positioning and role of the Corporate Governance Code.

See the third paragraph. The following is also added to Principle 4.1 of the proposed revision. To achieve sustainable growth, companies need to set a path for growth toward corporate goals and to appropriately allocate business resources including growth investments and business portfolio reviews, taking into account their growth stages. Given that appropriate collaboration with shareholders and stakeholders is crucial for sustainable growth and mid- to long-term corporate value creation, companies are expected to execute growth investments that increase corporate value over the mid- to long-term, rather than focusing exclusively on short-term shareholder returns. These have been described.

In the last paragraph of the Introduction, we note that in this revision, we have limited the content of the Principles covered by the comply or explain to abstract and conceptual ones, and we have established new Interpretive Guidance. This also mentions that companies are expected to implement the Principles in accordance with the aim and spirit of each Principle, depending on their own circumstances, and to provide carefully tailored explanation of their initiatives, regardless of whether they choose to comply or explain.

Next, on page 2, “II. Revised Code” summarizes the three points in the proposed revisions to the Code that we would like companies to pay attention to: promoting growth investments, enhancement of the Board, and disclosure of annual securities report before the annual general meeting.

The first point, promoting growth investment, refers to the roles and responsibilities of the board of directors, which was added to Principle 4.1 in this revision. In addition, in relation to whether business resources, such as financial assets like cash and real assets, are utilized efficiently in growth investments, which is to be stated in the Interpretive Guidance of Principle 4.2. As pointed out by the experts, it was added that holding these assets, including cash, should not always be denied, and as long as the company can explain the necessity and rationality of holding these assets, holding an appropriate level of cash, etc. can be considered as part of the allocation of business resources.

On the second point, enhancement of the Board. Over the past decade, the percentage of independent directors on the board of directors has increased, creating an environment for more effective oversight by independent directors. In light of this, we mention that the revised proposal emphasizes the importance of the roles and responsibilities to be fulfilled, ensuring quality and quantity, and ensuring independence. We also added a statement that enhancing the function of the board secretariat, which plays an important role in supporting the directors, should be promoted. As for future issues, the document mentions that, as pointed out by the expert panel, it has been suggested that the board should eventually have a majority of independent directors, considering the role it is expected to play in providing highly effective supervision from an independent and objective standpoint.

Regarding the third point, disclosure of annual securities report before the annual general meeting, we have included here the same text that we included at the end of the preamble to the proposed Code revisions.

Finally, see page four. Regarding the timing of the application of the Code, it is conceivable that companies will be required to submit a corporate governance report that describes matters related to the revised Code by July of next year at the latest.

That concludes the explanation from the secretariat.

**[Okina, Chair]**

Thank you very much. This will now be the time for discussion, during which we will ask for comments and questions from you. We are very sorry, but we ask you each to speak up to approximately 5 minutes, as time is limited. The secretariat will hand a memo to the speaker after 5 minutes have elapsed.

Anyone is welcome to begin.

Mr. Iguchi, please proceed.

**[Iguchi, member]**

Thank you for your explanation. Also, thank you for taking into account the diverse opinions that came up last time. I agree with you overall, but I would like to comment on two points.

The first point is about the position of the Interpretive Guidance that I mentioned at the last meeting. I understand that the purpose of this revision of the Code is not to relax the Code, but to substantiate it, and therefore, I believe that the positioning of the Interpretive Guidance, which contains many principles, is extremely important. In this regard, as explained earlier by Mr. Konagaya, it is important that the end of page three indicates a mechanism for applying the Code, in which companies should decide whether or not to adopt the Code in accordance with their actual circumstances, while referring to the Interpretive Guidance.

In addition, I believe that the expression “should” used in the Interpretive Guidance, which was also discussed at the last meeting, should be retained.

In addition, after the Code is finalized, I believe it will be disseminated globally to many foreign investors, etc. At that time, I hope that you will clearly explain this mechanism embedded in the Code and strongly emphasize the substantiation of the Code rather than the relaxation of the Code.

I also understand that, in a sense, this is the first major change since the establishment of the Corporate Governance Code. So, I would like to ask you to periodically reflect on how this revision has affected governance at the follow-up meetings that will probably continue to be held after the Code goes into effect. If necessary, I hope you will connect that to the next revision of the Code.

The second point is about the newly added Principle 4.4. Looking at past corporate frauds, I believe that in many cases, the cause of major corporate frauds was the lack of a functioning internal control or internal audit department. As you know, with the recent series of corporate frauds in large companies, I think this part will be the focus of attention of the capital market. At our last meeting, I mentioned that the section of double reporting by the internal audit department in the Interpretive Guidance of Principle 4.14 on page 33 should be upgraded to a Principle. You have newly established Principle 4.4, which clearly states that the board of directors shall oversee internal controls. This will allow companies to take certain actions against such corporate fraud.

That is all. Thank you very much.

**[Okina, Chair]**

Thank you very much. Ms. Sisson who is participating online, please proceed.

### [Sisson, member]

I would like to begin by thanking the FSA and the Tokyo Stock Exchange for graciously hosting this session.

International Corporate Governance Network welcomes the continued work of the JFSA and the TSE Council of Experts on advancing corporate governance reform in Japan.

We appreciate the hard work of the policy teams and appreciate their efforts to reflect the views of investors in their current draft Code.

We would like to re-iterate our strong support for several areas of the new draft:

We welcome the clear expectation that companies should consider and apply the interpretive guidance when implementing the Code. The explicit statement that the guidance is intended to serve as a reference point is particularly helpful in supporting consistent and effective application, and in driving alignment with investor expectations.

We are pleased that the draft Code maintains a strong emphasis on the timeliness of disclosures. In particular, we strongly support the expectation that companies seek to disclose their Yuho at least three weeks in advance of the AGM. This will enhance efficiency and improve the quality of dialogue between shareholders and companies. However, we once again strongly emphasise that three weeks is a baseline or minimum investor expectation and should not become the default best practice, as companies continue to improve their governance over time. We also support continued efforts to streamline and optimise the reporting framework through consolidation of requirements.

We welcome the strengthened focus on capital allocation and efficiency. Investment in growth, including R&D, technology and workforce, is fundamental to long-term value creation, and investors expect more proactive and disciplined use of capital in these areas. We therefore support the clearer expectation that companies assess whether excess cash holdings may be impairing capital efficiency, as well as the inclusion of real assets as an illustrative example under Principle 4.22.4 guidance. Given the importance of these measures, we suggest upgrading them from the guidance to the principle.

At the same time, we believe further enhancements would be beneficial. In particular, companies should be expected to provide clearer disclosure on their optimal capital structure, target balance sheet positioning, and approach to cross-shareholdings. While the retention of annual assessment and disclosure requirements is positive, greater specificity is needed, including explicit expectations to set and disclose clear reduction targets and exit timelines, alongside a more granular disclosure of cost of capital assessment methodologies. We also support language discouraging companies from impeding cross-shareholders seeking to sell.

We are pleased that the Code retains a clear and robust focus on directors' fiduciary duty to all shareholders. As providers of capital who bear the economic risk of loss, shareholders should remain the primary reference point for board decision-making. This principle should underpin the overall application of the Code.

We also welcome the strengthened references under General Principle 1's guidance to appropriate board action in protecting shareholder interests in the context of anti-takeover measures, capital policy, including share options and management buyouts, and related party transactions. However, given this is a critical area of board responsibility and an important safeguard for investors, we believe it should be reinstated from the guidance to the principle section, with explanations encouraged.

We believe it is helpful that oversight of risk management and internal control has been more clearly delineated, including through its separation from Principle 4.3, ensuring that these critical functions receive appropriate focus and attention at board level.

Finally, we support the amended language on board diversity, which better reflects the objective of enhancing board quality and effectiveness. Continued progress in this area remains an important component of strong governance, such as requiring companies to clarify their rationale with regards to diversity and desired board composition and to have a more comprehensive and wide-ranging approach to candidate selection.

We believe there remain several areas where the Code could be further strengthened:

We welcome the enhanced expectations regarding independent directors for prime listed companies with a majority owner. However, to align with international best practice, the Code should go further. Majority independent boards should be established as the baseline for most companies. We believe this should be the expected direction of travel, rather than framed as exceptional or limited to circumstances involving controlling shareholders.

Further work on the quality of independent directors is needed to ensure they are sufficiently qualified, have sufficient experience, and are truly independent. The authority of the nomination and remuneration committees must also be strengthened.

The Code should more clearly address independent board leadership. As a matter of best practice, companies should appoint an independent chair. At a minimum, the designation of a lead independent director should be encouraged as an interim measure. We note that appointing a Lead Independent Director remains optional for companies retaining a *kansayaku* structure. Clearer expectations about the LID’s authority, information access, and coordination would materially strengthen independence.

The Code does not currently address disclosure of individual vote counts in director elections. This is an important transparency mechanism that would strengthen shareholder oversight and should be incorporated.

We encourage more comprehensive disclosure of executive remuneration frameworks and structures, beyond the policies and procedures referenced in Principle 3.1, to ensure investors have a clear understanding of pay design and its alignment with long-term value creation.

The Code would benefit from a clearer expectation, for example within Principle 4.3, that the board should explicitly review and approve the company’s material financial reporting, consistent with international best practice.

Principle 1.1.1 states that boards *should* consider dialogue and other measures in the case of significant dissent; however, we would suggest the Code should adopt a more robust approach, such as an expectation that boards understand investor views and create a formal action plan to address their concerns.

We reiterate our view that it is unhelpful for the Code to remain silent on AGM formats. The Code should not endorse or encourage fully virtual AGMs, which risk undermining shareholder rights and limiting meaningful participation, physical participation safeguards shareholder rights and the quality of dialogue. We support hybrid AGM formats, which enhance accessibility for both domestic and international investors while preserving the ability for shareholders to attend and participate in person. A clear statement reflecting international best practice for AGMs should be included.

Finally, we believe further emphasis is needed on the role of independent outside directors in engaging directly with shareholders. Independent directors, alongside chairs and lead independent directors, should be available for engagement on key governance topics to better align Japan with international best practice and enforce accountability. Strengthening expectations in this area will be critical to the long-term effectiveness and credibility of the governance reform agenda.

In conclusion, ICGN reiterates our support for Japan's governance reform agenda and our willingness to continue to be a long-term partner and supporter of this work.

We encourage the government to move forward with this work, and look forward to working with you to support this. Thank you.

**[Okina, Chair]**

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

**[Yamaguchi, member]**

Thank you for giving me an opportunity to speak. I am Yamaguchi from the Japanese Trade Union Confederation. I would like to make two remarks.

My first point is about how we see the comply or explain approach. We find the description in item 5 on page two. Perhaps the English text is easier to understand. In the brackets, the word either is used in the English text, and I think that is what is meant here. In other words, I understand that it is necessary for companies to correctly understand and practice each of the Principles, either by implementing it or explaining why they do not. Furthermore, it is not simply a matter of choosing one or the other described in the Interpretive Guidance. I believe that it is important to prevent the Interpretive Guidance from being widely interpreted in such a way that companies should explain the reason if they do not want to implement, as well as that they should implement it if they do not want to explain.

Second, in Principle 4.1, Roles and Responsibilities of the Board, investment in human capital is mentioned. It is stated here that an explanation of specific measures that will be taken should be provided. One survey shows that more than 60% of investors believe that human capital investment should be given special emphasis in mid- to long-term investment and financial strategies, indicating that many investors recognize the importance of human capital investment. This is why I believe that companies should first implement the principles described here, and if they do not make these investments that investors expect, they should carefully explain why. In addition, shareholder return is an issue of interest to investors. Considering that the purpose of the Corporate Governance Code is to enhance corporate value through improved governance, I would like to reiterate that it is also in the interest of investors that corporate value is enhanced through human capital investment.

**[Okina, Chair]**

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

**[Kobayashi, member]**

Thank you for giving me an opportunity to speak. First of all, I would like to thank the secretariat for your efforts in organizing the revised proposal you have presented, which is based on the discussions we have had so far.

In March, the Kansai Economic Federation published a written opinion on the revision of the Corporate Governance Code. In this, we believe it is particularly important to create a virtuous cycle in which the added value created by a company is appropriately distributed and returned not only to shareholders but also to employees, business partners, local communities, and other diverse stakeholders, which in turn leads to increased corporate and shareholder value.

In that sense, we highly appreciate that the third paragraph of the concept paper, which you have presented as reference material, states that appropriate collaboration with various stakeholders is essential and that the emphasis should not be on short-term shareholder returns. At the same time, as I mentioned earlier, we want you to add the perspective of creating added value, distributing it appropriately, and creating such a virtuous cycle.

On the other hand, in practice, companies and investors most often refer to the Code itself. We are concerned that the concept paper may be treated as only a temporary document. We hope that you will convey a clear message that this concept paper is to be referred to in conjunction with the Code as a basic guideline to which companies should always return when considering how they should manage their own businesses in the future. For example, we would appreciate it if you could add at the end of the preamble that the content of the concept paper is a basic idea that complements the Code.

Next, I would like to discuss the use of business resources and cash. As stated in the Code or the concept paper, we think it is really important to constantly examine the way the company's assets are being utilized in terms of business resources. In this sense, we believe that it is a certain progress that the description of business resources, including financial assets such as cash and real assets, is made and organized from the perspective of the company's overall business resources, rather than focusing only on specific assets.

Furthermore, various studies and analyses have been conducted in recent years on the actual status of corporate cash and deposit holdings. One such researcher, Associate Professor Kazuo Yamada of Kyoto University, and I recently exchanged views. Statistics show, for example, that companies with high growth potential, R&D-oriented companies, or companies with few tangible fixed assets tend to hold more cash and cash equivalents. In addition, statistical data show that the same trend can be observed in relatively small companies such as start-ups and small and medium-sized enterprises.

In light of these factors, we believe that the background of corporate cash holdings is not uniform and should not necessarily be evaluated as a result of inefficient capital allocation. In other words, the amount of cash and deposits should be determined autonomously according to each company's business characteristics, growth stage, and surrounding environment as part of capital allocation, and it would not be appropriate to uniformly address only the amount of cash and deposits.

One last point, regarding the disclosure of the annual securities report prior to the AGM. We are aware that the Legislative Council and others are currently discussing the review, and we think it is first and foremost important to ensure consistency among the systems. From this perspective, we take a positive view of the addition of the notes on the revisions in the preamble. Even if the unification of annual securities reports and business reports and the streamlining of annual securities reports were to be realized, we believe that careful consideration would still be necessary to determine whether disclosure three weeks in advance would be uniformly feasible from the perspective of corporate practice.

The FSA has said that it will consider the level of effective disclosure at the Disclosure Working Group of the Financial System Council. We hope that the impact on corporate practice will be fully taken into consideration, and that the entire disclosure system will be boldly and fundamentally revised from the perspective of enhancing the effectiveness of dialogue.

That is all from me. Thank you very much.

### [Okina, Chair]

Thank you very much. Professor Ueda, please proceed.

### [Ueda, member]

Thank you very much. Based on your explanations and the quite in-depth discussions we have had, you have incorporated into this new code a discussion that also takes into account the latest developments as the growth strategy is implemented throughout the policy. I sincerely appreciate the efforts of the secretariat.

On top of that, I would like to comment on a few points of concern. First of all, I have one proposal. This is regarding the Interpretive Guidance of Principle 4.11 regarding the independence of independent directors. The purpose and specific criteria are described in the Interpretive Guidance. As an example, it describes a case in which an independent director belongs to another organization that has a certain capital relationship with the listed company. I think this is probably intended for capital tie-ups, parent-subsidiary relationships, group relationships, or cross-shareholdings.

This is good, but I think that not only capital relationship but also business relationship is an important perspective and influence in the independence of independent directors. This would include customer and other business relationships, product and service relationships, or financial transactions.

In fact, when I used to watch the voting process, there was a case where a specific related business entity was an item on the independence checklist for independent directors. On the other hand, at present, when independent directors are appointed in listed companies, I believe that their independence will actually be checked, including this kind of business relationship. Therefore, I have proposed that a transactional relationship be added to certain capital relationships in this 4.11. I leave the decision to the secretariat.

My second point and below are some thoughts and notes. My second point is Principle 4.10 regarding controlling shareholders. Now, from the perspective of market discipline, parent-subsidiary listings are being reviewed, discipline is becoming stricter, and the TSE is taking various initiatives. In fact, I believe we will see an increase in the number of parent-subsidiary listings being dissolved and delisted.

Currently, you have made it clear that they should be in the majority in the Prime Market and 1/3 in the others. That would be fine in this revision, but in some cases, such as when a parent company takes a subsidiary private, the board of directors considers how to do this before the special committee is formed. Also, considering the influence on the special committee, I think it is important to have a majority of independent directors on the board of directors.

Therefore, regardless of the market, I think it would be good in the future to discuss having a majority of independent directors on the board of directors for subsidiaries or dependent companies that have a parent-subsidiary relationship. In this regard, the Ministry of Economy, Trade and Industry (METI) has issued guidelines, etc., and is discussing the details. I would like the government to discuss the ideal form and to continue discussions, including surveys, etc.

The third point concerns the disclosure of the annual securities report prior to the annual general shareholder meeting. As other committee members have pointed out, it is very clear now after you have written this in the notes. Future moves and directions are also clear now. This is an area that has a major impact on practice, so I think the description is very useful as it is easier for companies to work on and they know what direction to go now.

This is a very important point and I am glad you included it in Reference 1. I think the letter in Reference 1 is very important, as Mr. Kobayashi mentioned earlier. I think this is very important because it compactly describes the purpose of this revision, that is, why these revisions were made. I thought a member was right in pointing out that the letter should be available as a set.

Among them, the point on page three of Reference 1, that independent directors should eventually constitute a majority, may be a bit of an overstatement, but I think it is very useful, with the expectation that the discussion in Japan is based on global trends, and that companies should aim for this. I hope that you will continue to carefully educate the public and conduct activities to make this available to companies.

That is all. Thank you very much.

### [Okina, Chair]

Thank you very much.

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

Regarding Principle 4.11 pointed out by Professor Ueda, we have already added the words “business ties” after “capital” on page 54, line 7 of Material 1.

### [Ueda, member]

Sorry, I must have been looking at the older version. Thank you for reflecting this.

### [Okina, Chair]

Thank you very much. Professor Tsumuraya, please proceed.

### [Tsumuraya, member]

Thank you for giving me an opportunity to speak. I sincerely apologize for missing the last meeting in February. I have read the minutes carefully. In light of the points on which your discussion has focused, I would like to offer two opinions, or to be more precise, one opinion and one comment.

First, I think the discussion focused on the positioning of the Interpretive Guidance. I believe there were various opinions about the position of the Interpretive Guidance. I understand that the streamlining has resulted in the inclusion of some very important items in the Interpretive Guidance. Therefore, if the entire section “is a part of the Code together with Principles” is deleted, as the document itself will remain on the FSA website for a long time, it leaves traces that a large part of the Interpretive Guidance was deleted for a long time. Considering the impact of this and other factors, I believe that a minimum reduction would be fine.

In fact, I would like to say that it would be better to delete the part “together with Principles” because it could be mistaken to be subject to comply or explain. However, the part “is a part of the Code” is a fact because it is in fact a part of the Code, and I don’t think there is any need to remove it. In order to preserve the message that the Interpretive Guidance is important, I think it would be good to delete the part “together with Principles” so as not to create misunderstandings, but I would oppose the deletion of the other parts. That is an opinion.

The other is my impression. I infer from the minutes of the meeting that there was considerable discussion about the disclosure of annual securities reports three weeks in advance. Currently, it is quite difficult in practice to disclose more than three weeks in advance, and the company that actually disclosed this fiscal year three weeks in advance did so on June 5 and held its annual meeting on June 26. Thus, for example, if a company that holds its annual meeting on or around June 15 takes action to delay the meeting by two weeks and accelerate the disclosure of its annual report by five days, the AGMs that have been so staggered will again be re-concentrated at the end of June. If the annual securities reports of two or three dozen companies were to be disclosed at once on June 5 or June 6, investors would have to read all of those two or three dozen companies’ annual securities reports to reflect their voting rights. If such an atmosphere is created in which the investor has to read everything because it was disclosed three weeks ago, the gulf between the investor, who conversely has difficulty doing so, and the company may deepen, and I believe that there is such a possibility.

As an opinion, I would like to suggest that if the FSA is seriously aiming to have companies seriously consider the option of delaying the date of the shareholder meeting, the language here and in the preamble that the annual securities report should be submitted at least three weeks before the date of the shareholder meeting should be reversed to the phrase that the shareholder meeting should be held three weeks after the submission of the annual securities report. I am well aware that this is a ridiculous argument that neglects the position of the annual securities report and the annual general meeting. However, I felt that you could emphasize the intention to encourage the holding of the annual general meeting after disclosure. This is just my impression.

Thank you very much.

### [Okina, Chair]

Thank you very much. Professor Matsuda, please proceed.

### [Matsuda, member]

Thank you very much. I am very grateful to the secretariat and all others for reflecting very appropriately the various opinions of the previous meetings.

On that basis, I would like to make one remark. I read Reference 1 and thought it was a very good, convincing description. I would especially like management to read these convincing statements, so I would very much appreciate it if you could make them known in such a manner. In addition, I felt that your clarification of the importance of the internal audit function in the case of changes to the design of the organization was a very useful point, as many companies are now examining the design of their organizations. The above are my impressions.

I would like to make two points about the Corporate Governance Code, although they are somewhat detailed. The first point is about risk management in Principle 4.4. I made a statement on this at the last meeting. This is an important matter, and I am very grateful that it is now described separately. On top of that, I don't have any objection to the statement, but if I look at Principle 4.4, it says that "The board should establish appropriate enterprise risk management systems." This is, of course, a natural responsibility of the board of directors, but of course it is not enough to just put in place a system. The appropriate response to risk must also be properly discussed. The contents are also very important.

The second half of the Interpretive Guidance actually does a good job of addressing that. If we read the section below "cybersecurity risks" to the end, we will see that it clearly states that "responses to these risks should be appropriately conducted," and I think this is sufficient. However, if the Interpretive Guidance is divided into a first half and a second half, and the appropriateness of the content is written in the second half, I felt that it would be good to include a word about the appropriateness of the content in the Principle as well.

This is more of a detail, but the second half of the section, under "cybersecurity risks," is a little difficult to read because the originally separate sentences were joined as they were. Specifically, there is no subject in this sentence. Oversight and enforcement are very important, so I think it would be good if you could clarify a little more about who is supposed to do this.

In addition, three risks are listed, and these three risks are probably included as examples of company-wide risks. If you don't clearly state that, the expression may be inappropriate, but it may appear that you are just laying out the risks that have recently occurred. It would be easier to understand the Interpretive Guidance if it were made clear that these are examples of company-wide risks. This is the first point.

My second point is regarding Principle 4.1. I understand that the text in brackets in Principle 4.1 seems to say three things about corporate philosophy and strategy. It seems to be saying: 1) formulate the philosophy and strategy properly, 2) discuss them thoroughly, and 3) explain them properly to investors and other stakeholders. However, 2) discuss them does not seem to be in the Interpretive Guidance. If one reads the Interpretive Guidance carefully, there would be no reason not to discuss them in order to do all this. However, when we look at the actual state of board meetings at various companies, it is also true that we see a lot of companies that are still lacking in discussion. So, I think the statement in Principle 4.1 that constructive discussions should be held is very important. I hope you will include this in the Interpretive Guidance as well.

One more thing. Three times in the Interpretive Guidance, there is an expression "should disclose" or "if disclosed." While this is important, it would be easier to understand if it could be integrated or summarized more clearly. I will leave the revised text to you. I hope that you will consider the Interpretive Guidance so that companies can actively discuss and explain them, and so that there will be a better understanding of them.

That is all. Thank you very much.

**[Okina, Chair]**

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

**[Kobu, member]**

Thank you for giving me an opportunity to speak. I think it should be really hard work to put together this revised proposal. Thank you very much to the Corporate Accounting and Disclosure Division for putting this together. I would like to express my two major opinions.

The first point is about the Interpretive Guidance. Today, Mr. Iguchi, Ms. Sisson, and Professor Tsumuraya have given their opinions, and I agree with all of them. As for the handling of the Interpretive Guidance, it is expected that companies will actually implement specific measures after thoroughly mulling over the contents of the Interpretive Guidance corresponding to the Code, which I believe is very useful to implement substantive and effective corporate governance, which should results in an increase of corporate value. In order to clarify such positioning, as Professor Tsumuraya said earlier, I think it would be very clarifying if all but the part "together with Principles" were restored.

In the explanation, Mr. Konagaya pointed out the concern of making people too aware of the normative nature. I believe this is well delineated in item 9 on page three. I too think it would be good to reiterate the position of the Interpretive Guidance in the Code.

The second point is capital policy in the Interpretive Guidance for General Principle 1, in the middle of page nine. Thank you for keeping the original 1-3 in place. It says that companies should explain their basic strategy with respect to their capital policy. In order to promote a more substantive dialogue between companies and shareholders, I think it would be helpful to add the word "dialogue" here as well, such as "basic explanation of capital policy and dialogue with shareholders," to convey what is being sought, rather than mere disclosure. I think that would make it clearer that capital policy decisions are made based on such dialogue regarding investment in growth from a mid- to long-term perspective, as described in the Code.

### [Okina, Chair]

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

### [Hasegawa, member]

Thank you for giving me an opportunity to speak. First of all, having read the latest version after two rounds of discussions, I can see that a lot of opinions have been incorporated and that the secretariat has worked very hard. I would like to take this opportunity to thank you. Although the addition of the preamble has made the document a bit more voluminous, it has made the objectives and ideas very clear and easy to read. I also think that the document you included as a reference is very easy to understand, as it clearly outlines the three main objectives of this revision.

At the last meeting, there was quite a difference of opinion between the industry and the investor side regarding the disclosure of the annual securities report more than three weeks prior to the shareholder meeting. In the preamble, you discuss the need for disclosure more than three weeks in advance, and also take into consideration the opinions of the corporate side. I, as a corporate side, would like to express my gratitude for the fact that the report clearly states that it is not easy to disclose information more than three weeks in advance in the current practical operation, and that efforts will be made to integrate the annual securities report and business report, and the audits under the Financial Instruments and Exchange Act and the Companies Act in the future.

One of the members mentioned earlier that the annual general meeting could be pushed back. As a practical matter, it is quite difficult for those who are actually involved in the actual practice to get shareholders, voting advisory firms, and others to understand the decision to delay the shareholder meeting, especially the change in the record date for the dividend. It is not impossible, but it would be a very painstaking adjustment. This would mean that companies would make a corporate effort to disclose as much as possible three weeks in advance.

However, some of the issues mentioned, such as the integration of reports, unification of audits, and, as a major issue, the arrangement of correspondents for audit firms, are still becoming real major problems. I sincerely hope that both the government and the public will take prompt action to resolve these issues. Otherwise, it will still increase the burden on companies and will not lead to a true increase in corporate value. I would very much appreciate your help here.

This process will probably be captured in numbers from now on, how many companies disclosed how many days before the meeting this year, and so on. I hope that you will watch not only the figures but also the progress in solving this issue.

Also, from the company's point of view, there are still several points in this that are too finely stated in the sections that must be explained with respect to the company's autonomy. I would like to reiterate that.

One, in the Interpretive Guidance in Section 2, there is a description of "investments that contribute to local communities." It is peculiar that, while it is declaring capital efficiency in corporate investment, investment in local communities, which is not closely related to capital efficiency, is clearly and explicitly stated here. In this context, this is understandable, since you wrote "resulting in increasing corporate value over the mid- to long-term." However, the same description appears in the Interpretive Guidance of Principle 4.1. Here, "investing in regions such as human capital and establishing regional headquarters" is written in parentheses as a domestic investment. I am uncomfortable with the fact that investment in rural areas is repeatedly mentioned as a destination for corporate investment in different places and in different principles in the Code. I think it might be a good idea to remove this from 4.1 if possible, and only mention it in Section 2.

The second point is the mention of "lateral employees" in Principle 2.2, which I have mentioned before. As I mentioned before, I am very happy to see that women, foreigners, etc. are no longer listed here. However, the only thing that is very strange is that the word lateral employees is still listed. Again, companies now have a variety of hiring practices, and career hiring is the norm. Even in an old company like ours, 70% of our hires are career hires. In addition, companies now avoid using the term "lateral employee." Under these circumstances, it is very unfortunate that "lateral employees" is still mentioned in the Corporate Governance Code, which is the soft law in our country. The Code is a document that will be used as a code in our country for a long time to come and will be seen from an international perspective. Therefore, I hope that you will consider what to do with this wording once again from the perspective of diversity.

In any case, I believe that the revised Code will enhance the value of companies over the mid- to long-term, and that you have created an easy-to-understand Code that will enable a company to engage in dialogue with shareholders, investors, and stakeholders by demonstrating its characteristics and autonomy and by complying or explaining appropriately. So, what I have just asked you to do is not a very big deal. Overall, I would like to agree with the description of the Code.

**[Okina, Chair]**

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

**[Kansaku, member]**

Thank you for giving me an opportunity to speak. I am Kansaku of Gakushuin University. You have reviewed it appropriately in light of the previous discussion, and I would like to fully support it. On top of that, I would like to offer some thoughts.

The first is about comply or explain and the principles-based approach. I think it is very important that you have included a preamble about the basic concepts of the Code and explained them in paragraph four and below on page two, which I think will convey the significance of the Code very well. I would especially like to mention that in our discussion before the previous, I think I mentioned the importance of comply and explain, that it is very important for companies to explain even if they comply. Careful disclosure and careful explanation, that is, even if they comply, clarification as to how each company views and practices the Principles of the Code, will contribute to a substantive evaluation by investors and other stakeholders. Along with that, I think this is important in that such disclosure could lead to further best practices or changes in good practices.

I believe that this so-called code of governance and other so-called codes, known as soft law, are being actively used around the world these days. For one thing, I understand that it is very significant that best practices and good practices themselves are developed through voluntary disclosure and implementation by companies, without having to go through the process of amending laws and regulations. Exactly as stated in the preamble, I would very much appreciate a careful explanation.

The second point, related to the current point, is that while it is natural that the methods used as a means to realize the Principles will continue to change, the Principles themselves can also change. In other words, I think it would be good if you could write, perhaps in the preamble, etc., that the Corporate Governance Code is something that necessarily includes a review. I don't think it is necessary to review them on a regular basis, but I think it is necessary to review them as needed. Along with that, it seems to me that it is important to revise what can be revised and what should be revised, while identifying good practices and best practices.

The last and third is the feedback. As other members have pointed out, I also think that this document, "The Revised Corporate Governance Code to Promote Growth Investments," which clarifies the purpose of this revision, is very important. In this, there is talk of substantiating the corporate governance code. I would like to offer a few words of feedback in this connection.

I think the point that many members thought that although the formality has advanced considerably, there still seem to be areas where the substance has not yet been in place is "2. Enhancement of the Board" on page three. Certainly, the introduction of independent directors, committee systems, etc. has expanded considerably, and the form has changed very significantly. I myself think that the fact that the form has changed is in itself very important and commendable. I think the key is to include substance appropriate to the format.

I am sorry to talk about an old story, but there is one point where the significance of independent directors is discussed. Principle 4.8 on page 48. I believe the advisory function in (4) was the first thing before the revision. My understanding is that you were trying to include in the Principle that companies should have one or two outside directors at the time. At that time, there was an opinion that having one does not mean anything, to which there was an opinion that it has a meaning as an advisory function. Thereby, I understand that the function of advice is the first thing written.

However, now that independent directors, at least in form, make up a significant percentage of the board, I believe that the board is now in a position to fulfill its supervisory function, a function that it is most expected to perform. This has been explicitly stated in this concept paper. I think it is very important that the substance catch up with the form and the supervisory function of the board of directors will be listed first in this revision.

However, as has been suggested in the past, we will probably need to revisit this part of strengthening the functions of the board of directors in the near future. I am sorry to get back to what I was saying. As I mentioned in the second point, I think it is possible to clarify in the preamble that the Code will be reviewed at an appropriate time.

That is all from me. Thank you very much.

### [Okina, Chair]

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

### [Nakagami, member]

Thank you for giving me an opportunity to speak. I am Nakagami. I understand that the revised code is not a code that tells companies what they should do, but a code that encourages them to “think for themselves” through streamlining. I agree with this direction.

On that basis, I would like to offer one suggestion. With the significant streamlining this time, the articles themselves are of course important, but as several members have mentioned, the positioning of the concept paper, “How should this code be read?” will become more important.

The more the Code is meant to encourage people to think for themselves, the more important it should be for companies to ask, “What basis should we think on?” In this regard, we should again note that the Code continues to use the very weighty term “fiduciary responsibility.” This is because I believe that the substance of what is conceived of as fiduciary responsibility will be the axis around which companies will make their own decisions or when they are unsure of their decisions.

I don’t think I need to tell you this, but fiduciary responsibility is not just an abstract ethic, but a very serious responsibility to pursue the best interests of those who have placed their trust, even if that means putting aside one’s own interests and self-preservation. In corporate governance, I understand that this concept requires the board of directors to make decisions based on the “common interests of shareholders” as a position entrusted by shareholders to manage the company.

Specifically, how does the board of directors, as the entity with fiduciary responsibility, ensure the common interests of shareholders in the evaluation, selection, and dismissal of management, capital allocation, and other aspects that may cause conflicts of interest, particularly in the areas of transfer of control, response to shareholder proposals, and handling of misconduct? I believe that if this concept is made clearer, the practices of each company will become even more substantial.

Therefore, in the preamble to the concept paper, a sentence could be added, for example, “The board of directors, as a trustee responding to the confidence placed in it by shareholders, is responsible for ensuring an independent position in the evaluation, selection, and dismissal of management, in the allocation of capital, and in decisions regarding conflicts of interest, and is responsible for ensuring the common interests of shareholders.”

As has been repeatedly discussed, I believe that this revision is a very important step in moving from form to substance. So, I feel it would be very significant if you could once again reinforce the heavy language of “fiduciary responsibility” as the core of its substance.

That is all from me.

### [Okina, Chair]

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

### [Matsuoka, member]

Thank you for giving me an opportunity to speak. I would like to express a few words of gratitude to Chair Okina and the members of the FSA for compiling this report based on the various points of view expressed in the previous meetings.

As stated in the preamble of the Code, I understand that the aim of this revision is to achieve sustainable corporate growth and enhance corporate value over the mid- to long-term by moving beyond formalistic dialogue, to growth investments through the realization of growth oriented governance. I appreciate that this is very much in line with the assertion of Keidanren, which has been advocating the importance of companies shifting their management mindset to an investment-driven one. Although there are still some practical issues remaining that require clarification, we would like to ask that you proceed with the coordination process in line with the current revised draft as presented here

I would then like to comment on the three main points that I requested at the last meeting. The first is the positioning of the Interpretive Guidance. I had expressed my strong concern regarding the misleading statement in the preamble of the previous draft that ”Interpretive Guidance is a part of the Code together with Principles. “ I would very much like to support today’s proposed revision.

As a person who has been involved in corporate activities and capital markets for a long time, I believe that the background, concept, and best practices are not necessarily static or constant, as noted in Reference 1. In this context, I would like the description of this proposal to remain as it is.

In addition, I had addressed and expressed concern last time, on the frequent use of the phrase “should be done” in the previous Interpretive Guidance, which purpose is to provide the background thinking, or so-called good practices and best practices for each Principle. Now though, in the revised proposal, the wordings of Principles 1.2, 4.7, 4.11, etc., have been improved to make it easier to read, addresses discretion of each company, and the Code’s consideration for individual circumstances. I accept that these modifications have resulted in improvements, to which I would like to express my appreciation.

Having said that though, in light of the original role of the Interpretive Guidance, which is to support substantive dialogue on each Principle, I believe that the content of the Interpretive Guidance should encourage autonomous efforts and proactive ingenuity on the part of companies. While the recent revision has made the Code more streamlined, there are still many overly detailed descriptions, such as the fact that some of the supplemental principles of the current Code have been transferred directly to the Interpretive Guidance. I cannot but express disappointment that the accomplishments in the 10 years of governance reform have not necessarily been fully appreciated, and that the level of streamlining of the Code has not reached that of the expectation of corporates.

From the perspective of substantiating governance reform, it is clear that blindly accepting the contents of the Interpretive Guidance without considering the company’s business characteristics and management strategy is not the correct answer. In order to promote appropriate implementation of the Interpretive Guidance, I emphasize again that it is extremely important in the implementation phase to carefully explain the intent of the Interpretive Guidance and how to refer to them to companies that are subject to the revised Code, and to encourage them to put them into practice. I ask for the cooperation and support of all parties concerned.

The second is regarding the statement in the Interpretive Guidance of Principle 1.2 regarding the disclosure of the annual securities report before the annual general meeting. It is the desire of companies as well to provide the information that investors say they need to exercise their voting rights as quickly as possible. However, the reality is that companies are caught between such desire and practical constraints, including compliance with laws and regulations. In the previous meeting, regarding 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, I mentioned the fact that it would be difficult in substance for a significant number of companies to respond to that if the revision of this Code goes ahead without the necessary environmental measures are taken.

In the preamble to the revised draft presented this time, the government's recognition of "the difficulty given general practices under the existing laws and regulations" take into account the burden on companies, as well as the government's policy to proceed with taking measures for necessary environmental improvements "to consider the legal and regulatory framework in parallel." Regarding the timing of the AGM that was mentioned earlier, it was also pointed out that there is still the issue of the voting on the proposal for distribution of surplus profit under the Companies Act.

The fact that the proposed revision reflects the government's policy where companies can now begin their concrete efforts to study and prepare for the disclosure based upon the premise that, an environment will be set where necessary legal, regulatory and other conditions will be in place, to enable a full-scale introduction of the new Code, should provide some reassurance to companies, so with that, I would like to agree with this revision. I would also like to ask for the cooperation of all parties concerned in understanding and disseminating this matter. In addition, I would like to request that investors, in particular, take into account the reality of the situation in order to avoid any unreasonable demands to be made to companies using the Code as a shield in the absence of an environment that would allow for disclosures three weeks in advance.

Finally, I would like to touch upon the reference to cash and cash equivalent in the Interpretive Guidance Principle 4.2. The way in which business resources are employed to achieve sustainable growth and increase corporate value is at the very core of each company's management, and should be left to the decision of each company. In this regard, I pointed out in the previous meeting my strong discomfort with the statement which focuses only on cash and deposits as the subject of constant verification, including whether they are being effectively utilized for investment in growth. In the proposed revision, the reference has been revised to "business resources, such as financial assets like cash and real assets." This wording has improved the description based on the actual situation, which now conveys that it is important to show how capital allocation is or will be done. With that, I support this.

In order to make this revised Code effective, I believe that not only the understanding of companies who are to put efforts in its implementation is essential, but also the understanding of shareholders and investors towards sustainable growth and enhancement of corporate value over the mid- to long-term is crucial. Therefore, I believe it is extremely important to work in tandem with the substantiation of stewardship activities. Therefore, I would like to ask you to follow up on the third revision of the Stewardship Code without delay. Thank you very much.

**[Okina, Chair]**

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

**[Takei, member]**

First of all, this revision meets the policy in connection with the current state of the Japanese economy and various policy issues in the Japanese economy, and I think it is an important revision because so much has been done that should be done here. Thank you very much for your hard work.

In particular, as stated in the concept paper, the importance of efforts toward growth investment via growth pathways is well stated. Also, reaffirmation of the importance of board functions. In particular, I personally believe that one of the greatest functions of CG code is the visualization of board functions. This has been done with this Corporate Governance Code for 10 years, and I think it has been a great benefit that it has really visualized the very important role of the board function. Several areas that have become important over the past decade have been properly updated and revised. These points are also important as major directions for the future. This is also written in the concept paper, and I hope that you will continue to emphasize this point in your explanations of the revisions.

This is also related to growth investments. Recently, there has been an extremely high level of uncertainty in the management environment surrounding companies, such as the situation in the Middle East. Therefore, we must implement various initiatives and investments for growth. In such circumstances, it is very often necessary to take a mid- to long-term perspective. In the revision of 4.4, you have also written about cybersecurity. It also describes points such as the risk of supply chain disruption and the risk of information leakage of technology in economic security. We really need to work on these in the mid- to long-term. It clearly states that we should not think of it simply as a cost, but also as a growth and revenue opportunity. The board and management will work together to create a path for growth, including these very mid- to long-term issues. The path to growth is a value creation story, but how do we create value for society and thereby create medium- and long-term corporate value? I think these things are clearly indicated in this revision. I think the revision contains a deeper message beyond simply writing what is happening now. I would like to see the FSA promote such a deep message in various forms of explanations, rather than writing more detailed explanations.

As for the section on intellectual property and intangibles on page 36, I think this revision is fine. In particular, the Interpretive Guidance in this revision on page 36 states that “Investing in intangible assets, including intellectual properties, should be addressed strategically in terms of their creation, acquisition, strengthening, protection, and monetization, in recognition of their role as a source of competitiveness and corporate value.” I think it is very good that you have written so well in the Interpretive Guidance, because it is very difficult to convey the true intent unless you write exactly this much. I also think it is very clear that you have written the discussion of intellectual property and intangible assets in parentheses this time as a form of growth investment in Principle.

One more point. In line with the upgrade to the Principle, I hope that you will consider continuing the disclosure of human capital, intellectual property, and intangible assets in the corporate governance report as in the past. Since the importance of this is only increasing, I think it is a good idea to continue to make this disclosed in the corporate governance report.

One last point, which is not proposing the revision of the current wording of the Code, is about the term “the Board.” Of course, there are some matters that can be spun off into various committees, not discussed by all of the directors together, so I hope you will explain in your concept paper or some other commentary that it could be in an appropriate form. The current code also mentions “optional approaches” in 4.7, but I hope you will also write about the rational use of the various types of committees. It would be fine to add this as an explanation rather than an additional rewording of the Code.

One more time to emphasize, the revision of the Code is really important. I am sure that the world will hear your explanation in various ways in the future, but I think it is important that you continue to send out an important message. Thank you for your hard work.

### [Okina, Chair]

Thank you to all members for your valuable input.

If anyone of observers have any comments, please proceed. You have 5 minutes. The Ministry of Economy, Trade and Industry will provide feedback.

### [METI]

Thank you very much. METI would like to support this proposal and would like to make five comments.

First, I believe that the direction of streamlining is a very good thing in terms of corporate growth, that is, clarifying the principles on which to focus. We also recognize that the emphasis on the fact that there are cases in which a company should actively choose to explain the reasons for not complying with the Code in light of its own circumstances, rather than complying with the Code, will ultimately lead to the substantiation of the Code.

On top of that, it states now that the use of business resources, including growth investments, will be verified. In addition, investments in equipment, research, human capital, and intangible assets are now explicitly stated in the Principle of the Code as an example of growth investments. We believe these are the main features of this revision. We believe that these will change the allocation of corporate resources to a growth-oriented approach, and will lead to the direction that the government as a whole is aiming for.

There is concern that the allocation of business resources, including cash and cash equivalents, may lead to excessive short-term returns. We believe that this must be dispelled. The concept paper of Reference 1 clearly states that holding assets, including cash and deposits, is not always denied, that is, as long as the company can explain the reasons, rationality, and necessity, holding an appropriate level of assets can be considered as part of the allocation of business resources. METI believes that the message presented in the concept paper is also important, and METI, together with the FSA, will work to ensure that the correct understanding of this message is disseminated to prevent misperceptions among companies and investors.

The second point is the inclusion of a new section that encourages the development of a risk management system from the perspective of economic security. As Mr. Takei mentioned, in light of the increasingly severe international economic environment, we believe that it is important for not only governments but also companies to take measures for economic security. It should be noted that the report also states that economic security initiatives can lead to profit opportunities, and we believe that it will be important in the future to have a system where this can be evaluated by investors.

Third, it also includes collaboration with stakeholders other than shareholders, such as investment in local communities, price shifting throughout the supply chain, and optimization of transactions and other activities. I think it is very important to remind investors that these business partners and local communities are the foundation of companies' activities, and that collaboration with them will lead to mid- to long-term improvements in corporate value.

Fourth, METI believes that the role of directors, including independent directors, is very important, and that a board of directors' firm oversight will help to promote management with a sense of urgency. From this perspective, we believe it is important to strengthen the functions of the corporate secretary, a secretariat that supports the board of directors, and we have proposed this in the direction of METI and in the Corporate Governance Guidance for Enhancement of "Growth Power" that we issued last year. However, I think it is important that this corporate secretary actually understand the true purpose, specific role, and what it is supposed to do for Japanese companies, and that it actually functions effectively. METI will continue to work with the FSA to understand and publicize this point, with the ultimate goal of achieving an effective board of directors.

Finally, I believe that the ultimate goal of the Code is not to end with its revision, but to have companies actually understand it and use it in dialogue and collaboration with their shareholders and stakeholders, thereby realizing proactive growth investment. To this end, in addition to the Code, METI intends to develop various policies, including taxation and legal systems that will encourage growth investment. Thank you very much.

## [Okina, Chair]

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

## [Japan Association of Corporate Directors]

I am Maruo of the Japan Association of Corporate Directors. Thank you for giving me an opportunity to speak today.

First of all, I would like to express my sincere respect for the efforts of the members of the FSA in compiling this draft revision with substantial content in the face of a wide range of opinions. After reviewing the proposed revisions, I would like to comment only on four important points on behalf of the Japan Association of Corporate Directors.

First, I would like to discuss the promotion of growth investments. We recognize that the promotion of growth investment in the revised proposal is in the direction of actively encouraging the effective use of business resources such as cash, deposits, and other financial assets and real assets for investment for growth in order to achieve sustainable growth and increase corporate value over the mid- to long-term. The Association basically agrees with the contents of Principle 4.1 and Principle 4.2 of the proposed revision, as well as with the contents of 1 of the concept paper 2, as a matter of course. We believe that this is the same direction as our association's goal, which is to enhance the earning power of companies and enrich the Japanese economy by making full use of corporate governance.

On the other hand, as we stated at the second meeting, we also believe that the statements in the CG Code should not be used by short-term profit-oriented activist investors as an argument for using earnings, cash and cash equivalents, etc. for short-term shareholder returns. In this regard, I believe that the comments such as "Market participants who have the strongest expectations for the improvement of corporate governance are usually shareholders with mid- to long-term holdings" and "recent concerns over the growth of investment activities based on short-termism in the market place" in the "Objectives of the Code" at the beginning of the proposed revision, as well as the comment "rather than focusing exclusively on short-term shareholder returns" on page one of the concept paper, adequately reflect the views of the Association. We thank you for that.

The next point is related to nominations. The Association particularly stresses the importance of strengthening and ensuring the effectiveness of the nomination functions of management and directors. Therefore, we are in favor of the upgrading to the Principle of the description of the election and dismissal of the CEO in Principle 4.3.1 of the proposed revision and the upgrading to the Principle of the description of the use of a voluntary nominating and remuneration committees in Principle 4.7.

On the other hand, the Association believes that, from the perspective of improving corporate value over the mid- to long-term, it is particularly important to establish a board structure with an effective supervisory function through mechanisms such as a nominating committee with a majority of independent directors, in order to review the business portfolio and appoint a management team capable of appropriately and decisively implementing growth investments. Therefore, we believe that even a voluntary nominating committee should be able to fulfill the same roles and functions as the nominating committee in a company with a nominating committee, where its authority is legally or institutionally guaranteed.

Third, regarding the quality of independent directors. As stated in Principle 4.9 of the proposed revision, the Association has long pointed out the importance of ensuring the quality of independent directors. I am very much in favor of establishing this as a new principle of independence. The Interpretive Guidance of Principle 4.8 also mentions the role of outside directors in the event of an emergency. However, I think it would be a good idea to go a little further and add a statement to the effect that, in the event of an emergency, the director should not give priority to his/her own legal responsibilities, reputation, or his/her own interests, but should act in light of mid- to long-term improvements in corporate value and the common interests of shareholders.

Finally, the fourth point. As stated in the sentence on page three of the concept paper explaining the purpose of the revision, and as pointed out by Professor Ueda and Ms. Sisson, we speculate that in the near future, especially for companies that are members of the Nikkei 225 and JPX 400, which are in the middle of strong international competition in the Prime Market, independent directors will make up the majority of the board, similar to boards in the United States and the United Kingdom. We are entering a stage where the quality of independent directors will truly define the quality of the board of directors.

The Association has a Director Training Committee, and President Tsukuda of Board Advisors Japan, who chairs the committee, has contributed an article to the latest issue of Shoji Homu (Commercial Law). He stated that in order to improve the quality of independent directors, it is necessary, for example, to invite outstanding independent directors, establish a selection process, conduct mutual evaluation and replace directors without fail, provide training opportunities, and strengthen the secretariat’s function.

As Chairman Toyama has always stated, improving the quality of outside directors will truly enable the selection and dismissal of CEOs, the top priority of governance. We expect that not only the “number” of independent directors but also the “quality” of independent directors will be improved, thereby promoting more decisive decision-making by corporate boards. From this perspective, we will continue to contribute to the further improvement of governance in cooperation with the relevant ministries and agencies as well as the TSE.

That’s all from me. Thank you very much for the opportunity to speak today.

**[Okina, Chair]**

Thank you very much. The Japanese Institute of Certified Public Accountants, please proceed.

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

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

First of all, we would like to reiterate our support for the efforts to revise the Code in order to give greater substance to corporate governance reform. This revision represents a major overhaul of the system. So, it is important to provide companies and investors with sufficient explanation so that the revised Code can be properly understood and promoted. In addition, as has been the practice to date, we believe it will be important to follow up more carefully on the status of adoption after implementation and promptly take any necessary measures.

With regard to the disclosure of corporate information, we believe that the supervisory function of the board of directors is extremely important. This is essential for improving the reliability of disclosed information, ensuring management transparency, and earning the trust of investors. We believe that explicitly stating this function in the Code will contribute to highly effective governance by the board of directors and dialogue with shareholders and investors. From this perspective, we consider it very significant that the description of the board’s supervisory function regarding disclosure has been restored, and we would like to express our appreciation.

On the other hand, we have some concerns about the phrase “engage in oversight activities in order to ensure timely and accurate information disclosure” which is stated as one of the roles and responsibilities of the board of directors in Principle 4.3. With respect to disclosure, an essential and important role and responsibility of the board of directors is to oversee that fair disclosure is made, fully including information discussed at board meetings. The word “accurate” is used in the current wording, but we have the impression that it may be too narrow.

We are concerned that if the emphasis is placed on accuracy, the members of the board of directors may focus too much on minor details, which could cause them to stray from the original intention of the provision. For example, the phrase “timely and fair” information disclosure would better express the true purpose of board oversight and ensure the quality of disclosure that contributes to effective communication with investors. We believe this would be more appropriate wording.

Finally, we would like to comment on the notes added to the revised preamble regarding the submission of annual securities reports at least three weeks prior to general shareholders' meetings. As indicated in the draft, we believe it would be desirable to proceed, in parallel, with institutional considerations, such as the consolidation of disclosure documents and unification of audits that we undertake under the Companies Act and the Financial Instruments and Exchange Act. However, as many of members have said today, views differ depending on one’s position. From the standpoint of an external auditor, I understand that companies have various approaches to, and views on, how to achieve this objective.

The disclosure requirements for annual securities reports have been expanding, including through the amendment to the Cabinet Office Ordinance regarding sustainability and human capital disclosure in February of this year. In this context, companies bear the greatest burden in terms of preparation, and it has become increasingly important to ensure sufficient time both for their preparation and for our audit and assurance work in order to secure the reliability of disclosures. To this end, we would like to ask all parties concerned to consider a system that promotes flexibility in the timing of general shareholders' meetings, such as making it easier to defer the dates of general shareholders' meetings.

In addition, we understand that the Disclosure Working Group of the Financial System Council plans to organize the items to be included in the annual securities reports. We would like you to consider the overall disclosure system, including stock exchange disclosure, from the perspective of making it both effective and efficient.

**[Okina, Chair]**

Thank you very much. If any member would like to make further comments on the comments we have received so far, you can comment within two or three minutes.

Ms. Kobu and Mr. Kobayashi, please.

### [Kobu, member]

Thank you very much. I learned a lot from your comments today. In this context, I would like to comment on the comments we have received.

The first point is about the fiduciary responsibility that Mr. Nakagami mentioned earlier. Indeed, the words “fiduciary responsibility” are clearly stated at the very beginning of the “Objectives of the Code” on page one. This is a very heavy word and will deliver the core essence of the Code in formulating the various responses required by the Code. Therefore, I think it would be helpful for the reader to have a concrete explanation of what this fiduciary responsibility is, as Mr. Nakagami suggested earlier.

Second, I am sorry to be persistent, but I would like to discuss the Interpretive Guidance. I have looked at Reference 1 again, which was pointed out by a lot of members. What the new Interpretive Guidance is for is clearly stated. It supports effective implementation of the Code. I believe that the Code should clarify such importance of Interpretive Guidance to avoid the misunderstanding. I again speak up because I think it would be very helpful to the reader to clarify that this is part of the Code and that companies should refer to it when responding to the Principles.

### [Okina, Chair]

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

### [Kobayashi, member]

Thank you very much. First, I will make two points about the details. As mentioned earlier, regarding the expression “ensuring the expertise [‘quality’ in Japanese] of independent directors” in Principle 4-9, I am somewhat uncomfortable with the expression “quality” because each director is essentially an individual and depends on his or her own qualities. From my experience as a director and outside director, I feel that the word "quality" may not be the most appropriate expression. It may be preferable to refer to the qualifications expected of independent directors. We hope you will consider it.

Also, as I mentioned in the second meeting, Principle 4.5 now includes initiatives around sustainability. This was originally in Section 2, but was moved to Section 4 because this relates to the board’s exclusive authority. To begin with, I think that the sustainability is very much about how it is implemented and enforced, rather than something that is overseen. Also, while 4.1 through 4.4 correspond to the General Principle, sustainability suddenly appears in 4.5 and is somewhat out of place. Again, it seems to me that it would be more appropriate to position this as a General Principle related to overall management in Section 2, since appropriate responses to sustainability issues are considered essential from the perspective of enhancing corporate value and sustainable growth.

Next, I have a request for future government councils. First, since the Code is actually operated by companies, the primary users of the Code are companies. That is why we have been invited to participate in this council. I think it is necessary to continue to have the voices of companies better heard and reflected.

Also, as Ms. Matsuoka mentioned earlier, increasing the effectiveness of corporate governance reform will require discussion of the effectiveness of the stewardship code on the other side, the investor side. This was revised last year, and I think it is making a lot of progress.

Furthermore, about the influence of proxy advisory firms, which I mentioned last time. Proxy advisory firms have significant influence in terms of promotion of dialogue and engagement between companies and investors. I hope that you will discuss how this should be done at follow-up meetings in the future.

Finally, as we have repeatedly stated, we are proud of the fact that Japanese companies have created value together with their employees, business partners, local communities, and other stakeholders —not solely for shareholders. I think it is important to encourage companies to take autonomous initiatives while taking into account these multi-stakeholder perspectives. I sincerely hope that this revision will encourage Japanese companies to invest in growth and value creation while building on their strengths. Thank you very much.

### [Okina, Chair]

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

### [Iguchi, member]

Thank you very much. Regarding Principle 4.5, exactly as Mr. Kobayashi mentioned, I do not believe that the board of directors needs to be involved in all sustainability matters. However, what Principle 4.5 says is very narrowly focused on what is necessary from the perspective of increasing corporate value. Therefore, it is important for the board of directors to supervise this area, and in that sense, I think Principle 4.5 is very meaningful. In fact, governance is also a disclosure item in the SSBJ standards, which are similar to the IASB standards that companies are required to comply with. How the board of directors oversees the company is an important disclosure item. I believe that Principle 4.5 is very meaningful in the sense that they are consistent with these standards.

### [Okina, Chair]

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

### [Sisson, member]

Thank you. Regarding the annual securities report, as investors, we appreciate there are reporting burdens and challenges for companies. This is a critical need for investors, and it is a responsibility of public companies everywhere in the world.

Investors are open to and happy to support changes in timing of meetings and the integration of reporting. Companies should also be open to change and should seek to meet the needs of shareholders and owners on this.

I think disclosure like this ahead of AGM is a common practice achieved by public companies all over the rest of the world.

We must reiterate that the Code should be about good practice, not basic minimums. We should not seek to lower the expectations of the Code but must remain aspirational.

This should set a high standard to encourage continued long-term improvement to meet investors' expectations.

**[Okina, Chair]**

Thank you very much. Professor Ueda, please proceed.

**[Ueda, member]**

Thank you very much. Regarding Mr. Kobayashi's last point about stakeholder relations, this is fine in Japanese. I would like to ask you to discuss this issue with people from other countries. The General Principle says "stakeholders other than shareholders" in English. General Principle 1 says shareholders, and Principle 2 says stakeholders. Since the stakeholder part is so important in Japan, it is understandable that you want to be precise and distinguish it from shareholders to clarify this definition in Japanese. When you write "other than" like this in English, it sounds very distinctive. I think this English translation has been like this for a long time, but I believe just stakeholders would be fine. It is a matter of expression, not substance, but it caught my attention when I read it.

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

**[Okina, Chair]**

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

**[Nakagami, member]**

Just two quick points from me. Since one of the main points of the revision is the separation of Principles and Interpretive Guidance, I believe that the Interpretive Guidance should once again be well positioned. As Professor Tsumuraya pointed out, even if the expression "integral with the Principles" is avoided, I would agree with the opinion that it is not necessary to cut down since it is actually a part of the Code.

I agree with the Principle 4.1, to encourage growth investments. However, what was somewhat disconcerting was the fact that the contents of growth investments in brackets, such as capital expenditure, R&D, human capital, and intellectual properties, were all combined with "and" [in Japanese]. I understand that capital expenditure is related to tangible fixed assets. So, I think it should be "," not "and" after capital expenditure.

More to the point, I believe that the tangible fixed asset turnover rate of Japanese companies is currently very low. In addition, the ratio of intangible assets to market capitalization is low for Japanese firms. This, conversely, means that the ratio of tangible fixed assets is high. Therefore, I think it would be appropriate to emphasize investment in R&D, human capital, and intangible assets such as intellectual properties, rather than in tangible assets such as facilities, or at least to distinguish them with a comma.

**[Okina, Chair]**

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

**[Hasegawa, member]**

Thank you very much. I would also like to make a statement regarding the integration of the application of the Code as just mentioned by Mr. Nakagami and Professor Tsumuraya. I commented on this when you came to me the other day to explain. It is "a part of the Code together with Principles." When it is one, it is very strong, but in reality, it is part. So, I think it is acceptable to leave the expression "a part of," including the part "when implementing each Principle of this Code."

Even if we say here that the positioning of the Principle and Interpretive Guidance is very important, when it says they are one and the same, companies are not sure where to say yes or no, comply or explain. If you delete the expression "together with Principle," companies can read it without much trouble.

Also, regarding the investment part that Mr. Nakagami mentioned, something about your thoughts on investment is very strongly indicated here, and I feel that everything is written here. It seems to me that you could establish a distinction among the tangible investments necessary for corporate growth, investments in solid growth businesses, and investments in human capital and intellectual properties for the future. It is very difficult to read when similar wording appears over and over again in the Principles and the Interpretive Guidance, so I would appreciate it if you could consider this again, including whether it should be included in the Principles or the Interpretive Guidance.

**[Okina, Chair]**

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

**[Matsuoka, member]**

Thank you for the opportunity to speak again.

On the point that has been raised here multiple times, many companies have raised questions as to why it is necessary to deliberately leave the phrase "in this context, Interpretive Guidance is a part of the Code together with the Principles." From the viewpoint of the purpose of the Interpretive Guidance itself, its existence or its contents, there is no real reason why it should be said as being a part of the Code itself. I must say, on behalf of many companies who have expressed doubts, that whereas in the Code it is clearly written that the Guidance refers to best practices or the background of the principles, there is no reason why a fraction of the sentence should deliberately remain as such. It is not a matter of whether there is any impact or issues, but doubts have arisen as to the intention of keeping a part of the sentence. Thank you very much.

**[Okina, Chair]**

Thank you very much. If you have any additional comments, not only on the current point, please do not hesitate to make.

I would like to conclude today's discussion, even though it is a little earlier than scheduled. The revised code has been brushed up with a lot of your input. I think many of you have commented that this is exactly what we need to do for sustainable growth, written in a way that is appropriate for the new era.

We also received additional very valuable input today. I would like the secretariat to consider it and reflect it on the Code. There is a difference of opinion on the position of the Interpretive Guidance until the very end, and I would appreciate it if this point could also be considered again.

This revised proposal that you discussed today will be revised based on your comments and adjusted by e-mail or other means. I would like to ask you to leave the final scrutiny and judgment to me after your review. We would then like to solicit public comments at a later date, if you agree.

Thank you very much.

Now, the secretariat will explain the procedure for future public comments.

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

We would like to seek the opinions of a wide range of interested parties on the proposed revision of the Code by submitting it for public comment at the Tokyo Stock Exchange for approximately one month. We would also like to submit the English version for public comment in the same manner.

That is all from the secretariat.

### [Okina, Chair]

Thank you very much.

I would like to thank you all for taking time out of your extremely busy schedules to engage in vigorous discussions on each of the three occasions since October. I would like to take this opportunity to thank you very much.

There is still some work to be done, but I would like to conclude today's experts' meeting. We look forward to your continued cooperation in the future. Thank you very much for your time today.

[END]