

# Revision of the Stewardship Code

26 June, 2025

Financial Services Agency

## I. Background

1. Since Japan's Stewardship Code was developed in February 2014, approximately ten years have passed, during which the following two revisions have been made: one in May 2017 and one in March 2020. Under both the Stewardship Code and the Corporate Governance Code, there has been some progress on corporate governance reform. On the other hand, it has been pointed out that, to achieve sustainable corporate growth and increase corporate value over the mid- to long-term, sufficient results can be expected not only based on satisfying matters of form but that matters of substance also matter, and this can be achieved by promoting self-motivated changes to take place in the mindsets of companies and investors.
2. Under these circumstances, on 7 June 2024 the "Action Program for Corporate Governance Reform 2024: Principles into Practice" (hereafter, "Action Program 2024") was published by the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code. From the perspective of effective implementation of stewardship activities, the document recommended a further revision to Japan's Stewardship Code to promote collective/collaborative engagement and to increase the transparency of beneficial shareholders, contributing to constructive dialogue between investors and companies.
3. In response to the recommendation, the Expert Panel on the Stewardship Code (2024) met three times from October 2024 and discussed the revision of the Code. Building on the discussions, the Financial Services Agency (hereafter "FSA") published an exposure draft revision to the Stewardship Code to call for comments from the public.  
After a review of the comments received, the revised Code has been finalised.

## II. Background and key revisions

1. To achieve sustainable corporate growth and increase corporate value over the mid- to long-term, it is vital to move the focus of reform from form to substance. Sufficient results cannot be expected only by satisfying form. Substance matters. Furthermore, it is pointed out that further detailed requirements, if introduced, may undermine the original purpose of the "comply or explain" approach and may cause corporate governance reform in practice to lose its substance. The "Action Program for Accelerating Corporate Governance Reform: From

Form to Substance” (published on 26 April 2023) therefore concluded that “[i]n order to seek sustainable corporate growth and increased corporate value over the mid- to long-term, it is appropriate to deal with the [...] issues through various measures, such as the enhancement of information disclosure of companies and investors. In addition, it is appropriate to examine the timing of the revision of each Code in a timely manner based on the progress status from the viewpoint of the effective implementation of corporate governance reform, not necessarily following the review cycle in the past years.” As a result, the Stewardship Code was not revised in 2023 and 2024.

2. The revisions in 2025, partially building on the law revision to clarify the scope of joint holders of the large reporting rules, reflects the recommendations of the Action Program 2024 and is aimed at promoting collective/collaborative engagement and increasing the transparency of beneficial shareholders.<sup>1</sup> Furthermore, for the first time, the Code has been streamlined to make the Code more principles-based, as described below. The revisions are expected to lead to self-motivated changes occurring in the mindsets of investors, contributing to deeper and more effective dialogue between companies and investors. The FSA will keep examining whether to review the Code further in a timely manner, based on environmental changes to dialogue between companies and investors as well as on the progress of corporate governance reform. In future reviews, the FSA will make efforts to streamline the principles depending on the extent to which they permeated.
3. The Code adopts a principles-based approach instead of a rule-based approach; a principles-based approach in this context expects institutional investors to fulfil their stewardship responsibilities focusing on substance, while a rule-based approach prescribes actions to be taken by investors in detail. In its third revision of the Code, the proposed revision returns to the basics of the principles-based approach. To ensure thorough implementation of the approach, we have made efforts to streamline the Code, for example by removing, consolidating, and simplifying the parts that have permeated stewardship practices since the Code was developed and revised. It should be noted, however, that the removal, consolidation, or simplification does not mean that such parts are no longer important.
4. The Code is not a law or a legally binding regulation. The Code adopts a “comply or explain” (comply with the principles or explain why they are not complied with) approach. If an

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<sup>1</sup> Also, the sentence stating “[t]he Councils expect the Financial Services Agency to take appropriate steps so that the Code will be reviewed periodically, about once every three years” has been removed from the preamble part of the Code.

institutional investor finds that some of the principles of the Code are not suitable for it, the investor can choose not to comply with them by explaining a sufficient reason. Going forward, when signatories accept and implement the revised Code, it will be important for the "comply or explain" approach to be reaffirmed not only by institutional investors, who are signatories to the Code, but also by their clients and beneficiaries. In addition, through continuous dialogue between the Code signatories and investee companies, the "comply or explain" approach will permeate and be fulfilled by a wider range of stakeholders, including investee companies.

5. The Action Program 2024 points out “[t]he review should also take into account the viewpoint that it is important to recognise that dialogues and the exercise of voting rights are interrelated and consideration should be given to how dialogue prior to the exercise of voting rights should be conducted and it is also important to be aware of and assess the outcome of engagement.” To achieve sustainable corporate growth and increase corporate value over the mid- to long-term, what matters is dialogue between investors and companies based on a relationship of cautious trust. The Code, which promotes the effective implementation of stewardship activities, remains relevant to the entire corporate governance reform.<sup>2</sup> Dialogues are expected to become even more effective by referring to the revised Code.

### **III. Results of the consultation**

1. Before finalising the revised Code, the FSA published an exposure draft in both Japanese and English, as had been done during the formulation and previous revisions of the Code. We received comments from 46 individuals and institutions. After a careful review of the comments received, the FSA has finalised the revision and published it along with the FSA’s responses to the comments received.
2. Comments received during the public consultation process included some from both companies and investors expressing concern about whether the dialogue counterpart will implement the revised Code in alignment with its purpose, specifically in terms of increasing transparency of beneficial shareholders and promoting collective/collaborative engagement. It is important for the revised Code to be implemented in a way that leads to constructive and purposeful dialogue between companies and investors to enhance corporate value and promote companies’ sustainable growth. Particular consideration should be given to avoiding situations where the revised Code is implemented contrary to the aims of the Code and hinders effective dialogue. The FSA will follow up on how dialogue in alignment with the revised Code progresses and

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<sup>2</sup> Apart from the Code, the Asset Owner Principles (published on 28 August, 2024) provide common principles that are considered useful for asset owners in fulfilling their responsibility (fiduciary duties) to manage their assets while taking into account the best interests of beneficiaries.

will consider next steps as necessary.

3. Additionally, we received several points that institutional investors should consider when engaging in collective/collaborative engagement (Q2-2 of the public consultation), including for example:

- ✓ When institutional investors engage in collective/collaborative engagement, they should avoid participating in initiatives with a box-ticking approach or treating a means to an end in itself. Rather, they should keep in mind that the initiatives should be reasonable from both investors and investee companies.
- ✓ Institutional investors should not engage in dialogue with an aggressive attitude, supported by aggregated shareholdings of multiple investors. In particular, they should not engage in collective/collaborative engagement as a means to pursue short-term profit.
- ✓ In some cases, it is beneficial to send engagement letters to investee companies describing how investors understand and consider the issues, along with the background and reasons for these considerations.
- ✓ Stakeholders throughout the entire the investment chain should properly asset managers' collective/collaborative engagement and support such initiatives.
- ✓ Investors who wish to participate should discuss engagement topics and allocate sufficient time for a two-way dialogue with both the directors and management.

Given these perspectives, it might be advantageous for the FSA to gather and disseminate more good practices.

4. Institutional investors and other institutions that are currently signatories of the Code are expected to revise their published terms of compliance to align with the revised Code. They are expected to disclose and notify the FSA about the renewal of their terms within six months of the revision, i.e., by the end of December 2025.