

Proposed revision to the Stewardship Code for public consultation

XX XX, 2025

Financial Service Agency

I. Background

1. Since Japan's Stewardship Code was developed in February 2014, approximately ten years have passed following two revisions: 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 and that matters of substance also matter, which 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 engagements 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 X times from October 2024 and discussed the revision of the Code. Building on the discussions, the Financial Services Agency has published an exposure draft revision to the Stewardship Code to call for comments from the public in accordance with "III. Issues for consultation" below.

The revised Code will be finalised after a review of the comments received.

II. Key concepts of the review

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 engagements and increasing the transparency of beneficial shareholders. Furthermore, for the first time, the Code has been streamlined to make the Code more principles-based, as described below. It is expected that the revisions lead to self-motivated changes to take place in the mindsets of investors, contributing to deeper and 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 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. 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 trust relationship with tension. The Code, which promotes the effective implementation of stewardship activities, remains relevant to the entire corporate governance reform. It is expected that dialogues become even more effective by referring to the revised Code.

III. Issues for consultation

Increasing transparency of beneficial shareholders [Principle 4]

- Q1-1. What is your view on replacing part of Note 16 with new Guidance 4-2 stating "[i]n order to engage in constructive dialogue with investee companies, institutional investors should, in response to requests from investee companies, explain the status of the shares they own/hold to investee companies"? Please also provide reasons, if any.
- Q1-2. What is your view on adding “[institutional investors] should disclose in advance their policies on how to respond to requests from investee companies” to Guidance 4-2? Please also provide reasons, if any.

Collective/collaborative engagement [Principle 4]

- Q2-1. What is your view on revising Guidance 4-5 to "[i]n addition to institutional investors engaging with investee companies independently, engaging with investee companies in collaboration with other institutional investors (collaborative engagement) is also an important option. When considering methods for dialogue, it should be kept in mind whether they will lead to constructive dialogue that contributes to the sustainable growth of investee companies"? Please also provide reasons, if any.

Q2-2. Are there any points that institutional investors should bear in mind when conducting collective/collaborative engagements? Please provide reasons, if any.

Streamlining the Code [Overall]

Q3. What is your view on streamlining the Code, as shown in the draft, by removing, consolidating, and simplifying the parts that have permeated stewardship practices since the Code was developed and revised? Please also provide reasons, if any.

Other issues [Overall]

Q4. In addition to the issues described above, what is your view on the proposed revisions? Please also provide reasons, if any.