

Update on corporate governance reform in Japan

30 September, 2025



金融庁

Financial Services Agency, the Japanese Government

Corporate governance reform in Japan

- ❑ Corporate governance reform in Japan has particularly focused on creating environments to promote dialogue between companies and investors based on “**a trusting relationship with candid communication**” that truly contributes to **sustainable corporate growth and increased corporate value** over the mid- to long-term.
- ❑ JFSA remains committed to **promoting the effective implementation of corporate governance reform** by encouraging companies and investors to adopt self-motivated changes in their mindsets **to a substance over form**:
 - ✓ from compliance to **value creation**, and;
 - ✓ from a “tick the box” approach to a **principle-based approach**.
- ❑ JFSA’s policy priorities in 2025 include:
 - ✓ reviewing **Japan’s Corporate Governance Code**, and;
 - ✓ launching a study group for companies **to discuss board effectiveness and share good practices**.

Action Programme for Corporate Governance Reform 2025

Issues	Measures taken to date	Future policy priorities
Value creation	✓ Many companies have strived to enhance corporate value based on the request from the TSE.	✓ Promoting investment through encouraging appropriate allocation of business resources (e.g. assessment of the current allocation of resources including cash). ✓ Enhancing disclosure, in the annual securities reports (“ASR”), of human capital management strategies linked to business strategy, a policy on employee compensation, and the year-over-year rate of change in average employee compensation.
Quality disclosure and dialogue with investors	✓ <u>Revised the Stewardship Code</u> to promote collaborative engagement, improve the transparency of beneficial shareholders and streamline the Corporate Governance Code. ✓ Discussed the environment and practical challenges for <u>disclosing the ASR before the annual general meetings (“AGM”)</u>.	✓ Following up and considering further measures for disclosure of the ASR before the AGM. ✓ Collaborating with relevant ministries to update the legal framework including the full digitalisation of AGM materials. ✓ Refining and potentially streamlining the disclosure items required by the ASR.
Board effectiveness	✓ <u>Collected and shared good practices</u> such as dialogue between independent directors and investors and efforts by the <u>board secretariats</u> to stimulate board discussions.	✓ Establishing a consortium for companies and relevant stakeholders to share good practices and discuss the enhancement of the roles of independent directors and the board secretariats (corporate secretaries).

Action Programme for Corporate Governance Reform 2025

Issues	Measures taken to date	Future policy priorities
Market environment issues	✓ <u>Strengthened disclosure requirements on strategic shareholdings</u> in the ASR. ✓ <u>Clarified the scope of “joint holders”</u> for promoting collaborative engagement and preventing investors from evading the large shareholdings reporting rules.	✓ Publishing good practices and issues for disclosure regarding strategic shareholdings. ✓ Considering to raise administrative monetary penalty for violation of the large shareholding reporting rules. ✓ Promoting review and disclosure regarding parent-subsidary listings and group management as well as considering necessary listing rules to protect minority shareholders.
Sustainability-conscious management	✓ Discussed <u>sustainability disclosure and assurance frameworks</u> to ensure international comparability. ✓ <u>Collected and shared good practices</u> on gender and other diversity among directors and officers, as well as on management and dialogues recognising corporate culture.	✓ Discussing further on sustainability disclosure and assurance frameworks. Reviewing liability for false statements of non-financial disclosure in the ASR (possibly adopting a safe harbour rule). ✓ Advocating for the development of global standards with regard to human capital.

Action Programme for Corporate Governance Reform 2025

Statement related to the revision of the Corporate Governance Code (excerpt) (i)

I . Introduction

It is suggested that future policy priorities should remain on the effectively implementing corporate governance reform by encouraging companies and investors to adopt self-motivated changes in their mindsets. At the same time, it is essential to create environments, potentially by **reviewing the Corporate Governance Code**, to promote dialogue based on “a trusting relationship with candid communication” that truly contributes to the sustainable corporate growth and increased corporate value over the mid- to long-term.

In the review process, attention should be paid to costs and disclosure burdens for listed companies. **In this regard, the Corporate Governance Code should be streamlined. For example, provisions should be deleted, integrated, or simplified if they have already become part of corporate practices since the formulation and revisions of the Corporate Governance Code. Additionally, any duplication with statutory requirements enacted after the last revision of the Corporate Governance Code in 2021 could be excluded.** Furthermore, efforts will be made to once again promote understanding of the principles-based and the “comply or explain” approach that the Corporate Governance Code adopts.

II . Following up on the Action Program and suggested future policy priorities

1. Driving value creation capacity

[Future policy priorities]

- **The Corporate Governance Code could be reviewed** to promote the effective oversight of boards and enhance quality disclosure in line with each company’s strategies and challenges, aiming to achieve the efficient allocation of available resources by companies. The following points should be considered:
 - (i) There are various investment opportunities for allocation of business resources including capital expenditure, R&D, establishment of regional places of business, startups and other growth investments, and investments in human capital and intellectual property. **It is important for the management to seize these various opportunities.**
[...]
 - (i) With respect to investments for allocation of business resources ((i) above), consideration should also be given to clarification of assessment and accountability in whether each company **persistently assess appropriateness of the current allocation of resources, such as whether it is effectively utilising cash for investments** (cash hoarding issue).

Action Programme for Corporate Governance Reform 2025

Statement related to the revision of the Corporate Governance Code (excerpt) (ii)

II . Following up on the Action Program and suggested future policy priorities

2. Enhancing quality disclosure and promoting dialogue with investors

[Future policy priorities]

- To encourage listed companies to **disclose the ASR prior to the AMG**, the FSA will follow up on disclosure practices in response to the Minister's request letter. Additionally, **the Corporate Governance Code will be reviewed** in this respect while consideration will be given to the development of necessary regulatory environment.

Revisions to Japan's Stewardship Code (2025)

1 Transparency of beneficial shareholders

- From the perspective of promoting constructive dialogue as well as the development of trust relationships between companies and institutional investors, the draft revised Code states as follows:

(Revised text)

- 4-2. In order to support constructive dialogue with investee companies, institutional investors should, in response to requests from investee companies, explain how many shares they own/hold in the company and should disclose in advance a policy on how they will respond to such requests from investee companies.

2 Collective/collaborative engagements

- From the perspective of promoting constructive dialogue between the companies and institutional investors, the draft revised Code states as follows.

(Revised text)

- 4-6. In 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.

3 Streamlining the Code

- The Code has been streamlined, for example by removing, consolidating, and simplifying the parts that have permeated stewardship practices since the Code was developed and revised.

“Joint holders” under the Large Shareholding Reporting Rule and collaborative engagement

Financial Instruments and Exchange Act

- ❑ Under the “Large Shareholding Reporting Rule,” a holder of stock is required to calculate its “shareholding ratio” by including the shareholding of a person that corresponds to any one of the following (“Joint Holder”).
 - a. A person who has agreed to obtain or assign shares in cooperation with the shareholder
 - b. A person who [has agreed with the shareholder to jointly exercise voting rights and other shareholder rights](#).
 - c. A person who has a special relationship with the shareholder, such as a certain capital relationship.
 - ❑ After the amendment of the Financial Instruments and Exchange Act in 2024 (take effect as of May 1, 2026), with respect to an agreement that corresponds to [b. above](#), if the agreement between a holder of stock and “other investors” meets all of the following criteria from i. to iii. (i.e., Collaborative Engagement Exemption), the other investors are not deemed as “joint holders” by exception.
 - i. A stockholder and other investors involved in the agreement are institutional investors.
 - ii. [The purpose of the agreement is not to jointly conduct an act of material proposal.](#)
 - iii. [Shareholders agree only on each individual exercise of rights.](#)
- * “Shareholders agree only on each individual exercise of rights” is satisfied when the following conditions are met:
- (a) An agreement is made at each shareholders’ meeting;
 - (b) A resolution subject to the agreement is specified so that it can be clearly distinguished from other resolutions, and;
 - (c) Shareholders agree to jointly exercise voting rights with respect to the resolution by mutually selecting either to vote for or against the resolution.

“Act of material proposal” under the Large Shareholding Reporting Rule and dialogues with investee companies (1/2)

Financial Instruments and Exchange Act

- ❑ The Large Shareholding Reporting Rule imposes certain disclosure requirements on large shareholders, aimed at increased market transparency and fairness, and ultimately investor protection by promptly providing information concerning large shareholdings to investors, considering that such information is important in terms of influence over management, as well as supply and demand in the market.
- ❑ It is usually required to submit the “Large Shareholding Report” and “Change Report” within five business days after the occurrence of the event for submission. However, disclosures of detailed information on each transaction would impose an excessive administrative burden for the financial instruments business operators who repeatedly and continuously executes buy/sell transactions of shares in their daily operations, so they can use a relaxed required frequency of submissions of the “Large Shareholder Report” and “Change Report.” In such a case, it is only required to judge whether it is necessary to submit a report on the reference dates pre-registered twice in a month, and if submission is necessary, to submit the report within five business days of the reference dates (the so-called “[Special Reporting Rule](#)”).
- ❑ For financial instruments business operators to use the Special Reporting Rule, all the following conditions are satisfied:
 1. The holding ratio of stocks shall not exceed 10%.
*The Special Reporting Rule cannot be used when the purpose is to acquire stocks for which the holding ratio of stocks exceeds 10%.
 2. The purpose of holding shall not be to conduct an “[act of material proposal](#).”
 3. The record date is notified to the authorities.

“Act of material proposal” under the Large Shareholding Reporting Rule and dialogues with investee companies (2/2)

- ❑ “Act of material proposal” refers to any act that result in a material change to, or has a material impact on, the business activities of an issuer. Specifically, it denotes to an act that meets all the following three criteria (also see Reference 2 in Slide 18):
- (i) The action is an act of “proposing” to the issuer.
 - (ii) The matters of the proposal fall under any of the matters listed in Article 14-8-2 (1) of the Order.
 - (iii) The act of proposal is intended to cause a material change in or materially affect the business activities of the issuer.
- ❑ A summary of (i) through (iii), along with their applicability to the act of material proposal is shown below (for details, please see Slides 5 through 10).

	(i) and (ii)	(iii)	Whether it falls under the act of material proposal
Matters that have a relatively <u>large</u> impact on the business activities of the issuer	- Selection or dismissal of the representative director - Appointment of a specific person as a director - Absorption merger (only if the company is to be absorbed), stock swap (only if the company is to be a wholly-owned subsidiary), demerger of a core business - Transfer, suspension or abolition of a core business - Acquisitions by third parties - Dissolution - Petition for commencement of bankruptcy proceedings	These proposals generally satisfy condition (iii) regardless of the manner in which they are proposed.	Yes, they fall under the category of the act of material proposal.
Matters that have a relatively <u>small</u> impact on the business activities of the issuer	- Disposal of or acceptance of assignment of important assets - Borrowing a significant amount - Significant changes to the composition of directors - share exchange, share transfer, or share delivery, or split or merger of the company (excluding the above) - Transfer, acquisition, suspension, or abolition of the business in whole or in part - Important changes in the policy concerning dividend distribution - Important changes in the policy concerning the increase in or reduction of the amount of stated capital - Listing or delisting on the Financial Instruments Exchange Market - Significant changes in capital policies	Condition (iii) is satisfied only when made in a manner that does not allow autonomous decisions by the management. (e.g., shareholder proposals) Condition (iii) is NOT satisfied if the decision is left to the autonomy of management.	Yes, they fall under the category of the act of material proposal. No, they do not fall under the category of the act of material proposal.
Others	Matters other than the above	Condition (iii) does not need to be considered.	No, they do not fall under the category of the act of material proposal.

Expansion of the scope of "joint holders"

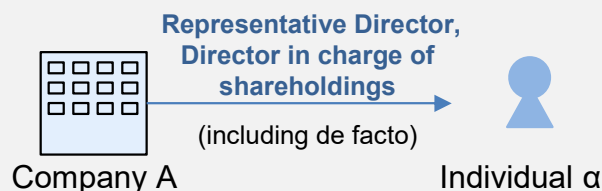
- To appropriately respond to cases that may threaten the fairness of the market, such as cases where multiple investors secretly fail to submit the reports required by the law, the objective criteria relating to "joint holders" (persons who are deemed to be "joint holders" judged by certain relationships) are to be introduced as follows.

Amendment of Cabinet Orders and Cabinet Office Ordinance

If any of the following relationship exists, a person falls under a "deemed joint holder."

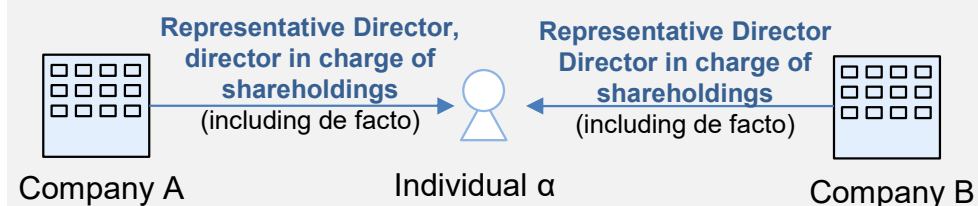
Directorship

(1) Company A and individual α , who is the representative director or a director of the company



(* except for when Company A is a financial instruments business operator etc. ("FBIO") without the purpose of conducting act of material proposal)

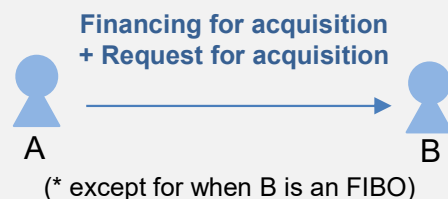
(2) Companies A and B sharing the same representative director or a director of the company



(* except for when Company A or B is a FBIO without the purpose of conducting act of material proposal)

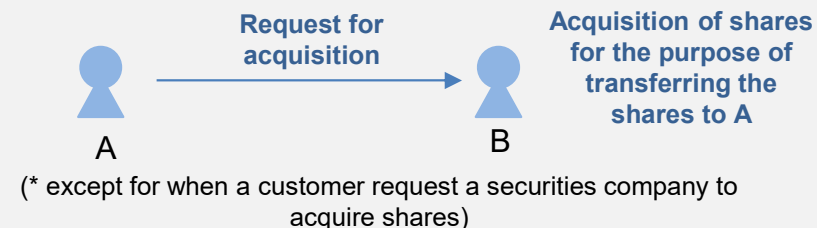
Funding

(3) A, who provided the fund, and B, who received the fund



(* except for when B is an FIBO)

(4) A, who requested B for an acquisition of shares, and B, who acquired shares for the purpose of subsequently transferring the shares to A



(* except for when a customer request a securities company to acquire shares)

Other

(5) A, who requested B for conducting act of a material proposal to a company, and B, who carried out the request.

