Corporate Accounting and Disclosure Division
Policy and Markets Bureau
Financial Services Agency
3-2-1 Kasumigaseki
Chiyoda-ku
Tokyo
100-8967
Japan

14 May 2025

Dear Shintani-san,

Subject: Revisions to the Corporate Governance Code and Relevant Listing Rules

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the Revisions to the Corporate Governance Code (hereby referred to as "the Code") and Relevant Listing Rules.

We are grateful to the Japan Financial Services Authority and Tokyo Stock Exchange for welcoming our CEO, Jen Sisson, to contribute to this process via participation in the Council of Experts on the revisions to the Code, and we appreciate that many of our suggestions from the Council meetings have already been incorporated in this consultation.

Led by investors responsible for assets under management of over $100 trillion, ICGN is an authority on global standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 40 countries. ICGN's *Global Governance Principles*[1] and *Global Stewardship Principles*[2]*,* written from an investor perspective, are widely used by our members in their company assessments and voting decisions, and by regulators when developing corporate governance rules.

We support the direction of travel of the Code's revision, and are pleased to see significant progress during a crucial time of reform. We also believe that further opportunities for continued enhancement exist.

We recommend ensuring there are opportunities for reflection on feedback, such as by reconvening the Council before finalisation, or signalling an intention to revisit and strengthen the Code within the next couple of years. In addition, we believe it is important to conduct a periodic post implementation review. ICGN would be happy to assist in contributing to this.

With this in mind, we offer the following comments:

General Comments

We welcome the adoption of a principles-based approach, and 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

[1] ICGN, Global Governance Principles (2021)

[2] ICGN, Global Stewardship Principles (2024)

reference point for board decision-making. This principle should underpin the overall application of the Code.

We also believe that the Code should be focused on clearly articulating best practice, not designed to be a minimum baseline. We believe greater specificity would help set clearer expectations where practice remains uneven, without forcing universal adoption.

We note the removal of language affirming the interpretive guidance forms “part of the Code together with Principles”. We believe this sentence should be reinstated to remove ambiguity about the guidance’s status relative to the principles.

We would also suggest that the Code cross-reference other relevant guidelines so that readers can gain a comprehensive understanding of corporate governance expectations in this area.

Timeliness of Disclosures

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. Shareholders are pragmatic and open to a range of methods to achieve earlier disclosure, such as extending the record date to provide companies with more preparation time, and or extending the window for holding annual general meetings (AGMs). We also support continued efforts to streamline and optimise the reporting framework through consolidation of requirements.

The Comply or Explain Framework

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

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

Capital Allocation and Cross-Shareholdings

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 4.2 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, ICGN believes cross-shareholdings should be wound down to zero. This ambition should be reflected in the Code, with companies 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.

Protecting Shareholder Rights

We 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 are also pleased to see strengthened language around ensuring appropriate procedures are in place to safeguard the interests of minority shareholders.

Streamlining the Code

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

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

Board Independence and Effectiveness

We welcome the enhanced expectations regarding independent directors for prime listed companies with a controlling shareholder. 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.

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 (LID) should be encouraged as an interim measure. We note that appointing an LID remains optional for companies retaining a *kansayaku* structure. Clearer expectations about the LID's authority, information access, and coordination would materially strengthen independence.

The Quality of Independent Directors

We believe further work on the quality of independent directors is needed to ensure they are sufficiently qualified, have sufficient experience, and are truly independent. Investors continue to observe a gap between form and substance in Japanese boardrooms, where structural requirements are met but the skills, experience and oversight capabilities of directors do not always reflect the demands of the role. We would encourage the Code to set clearer expectations around board composition in terms of competence and capability, not only independence. Language should be added to clarify that skills related to “competence and capability” are those considered necessary for companies to achieve long-term value creation. This would help companies to identify the right matrices when appointing independent directors.

However, 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.

Shareholder Engagement

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.

Furthermore, 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.

The Role of Committees

The role of committees should be clearly defined, with terms of reference and committee composition publicly available. There should be an expectation of an independent audit committee. We note that especially for Prime companies, we are most in favour of a three-committee structure. These good practices should apply to all companies, including those which are voluntary.

The Code could include stronger expectations of the role and remit of nominations committees, for example by setting expectations on the maximum numbers of board appointments that can be held by directors, the need for inclusion of industry expertise requirements and Board diversity targets. The Code could also reinforce the need to consider a wide range of potential candidates in succession planning.

AGM Practices and Shareholder Rights

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 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.

Disclosure and Transparency

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 also 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.

Conclusion

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.

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

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

Thank you again for the opportunity to share our perspective. If you would like to follow up with questions or comments, please contact policy@icgn.org.

Yours faithfully,

Jen Sisson

Jen Sisson
Chief Executive Officer, ICGN

Appendix 1.

26 March 2026

ICGN Statement to the Japanese Council of Experts on the Revised Draft of the Corporate Governance Code

I would like to begin by thanking the Japanese Financial Services Agency (JFSA) and the Tokyo Stock Exchange (TSE) for graciously hosting this session.

International Corporate Governance Network (ICGN) 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 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 4.2 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.

Conclusion

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.

END

Appendix 2.

26 February 2026

ICGN Statement to the Japanese Council of Experts on the Revised Draft of the Corporate Governance Code

I would like to begin by thanking the Japanese Financial Services Agency (JFSA) and the Tokyo Stock Exchange (TSE) for graciously hosting this session.

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

Timeliness of Disclosures

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

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

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

Capital Allocation and Cross-Shareholdings

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

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

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

The Comply or Explain Framework

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

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

Streamlining the Code

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

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

We believe references to appropriate board action to protect shareholder interests in relation to anti-takeover measures should be retained and strengthened. Boards should be expected to *act to protect shareholder interests*, not merely to avoid unfair harm. Transactions such as capital raisings or management buy-outs should be conducted in a manner that is beneficial to shareholders, or at a minimum does not cause harm.

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

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

There are a number of additional areas where we would like to encourage further strengthening of the Code:

Board Independence and Effectiveness

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

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

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

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

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

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

Shareholder Engagement

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

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

AGM Practices

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

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

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

Conclusion

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

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

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

END

<u>Appendix 3.</u>

Remarks to the Japanese Council of Experts on Corporate Governance

October 2025

I would like to begin by expressing my gratitude to the Japanese Financial Services Agency (JFSA) and the Tokyo Stock Exchange (TSE) for graciously hosting this session and providing an excellent platform for dialogue.

The International Corporate Governance Network (ICGN) welcomes the continued work of the JFSA and the TSE Council of Experts on advancing corporate governance reform in Japan. As a global investor-led body, representing members responsible for assets under management of more than US$90 trillion, ICGN strongly supports efforts to strengthen governance standards in pursuit of long-term value creation and sustainable capital markets.

We are broadly supportive of the reform agenda and the direction of travel. Our comments focus on several areas of priority for global investors, including timeliness of disclosures, streamlining of the Code, potential enhancements, capital allocation, AGM practices, and the effective use of guidance.

Timeliness of Disclosures

We welcome efforts to bring forward the timing of disclosures, as timely and reliable information is essential for investors to make informed decisions. With particular reference to the Yuho, we are open to a range of methods to achieve earlier disclosure. These could include consolidation of reports, such as combining the Yuho with the business report, adjusting the record date to provide companies with more preparation time, and or extending the window for holding annual general meetings (AGMs).

We would note that the use of the fiscal year-end as the record date is unique to Japan, lacks a clear rationale, and is not aligned with global practices. We believe there would be strong international investor support for a move away from this practice, which would also help avoid situations of “empty voting” where, at the time of voting decisions being made, economic interest may have been sold.

These measures would not only improve the timeliness of disclosure but could also help reduce the long-standing issue of AGM clustering in Japan. A less concentrated meeting season would broaden the ability of investors to effectively review materials and participate in AGMs.

We also emphasise that disclosure “before the AGM” must mean more than a day or two in advance. To allow investors sufficient time to read, digest, and consider reports, companies should work towards providing materials well ahead of the AGM. This will enable investors to engage with the company regarding matters of concern prior to voting, while also allowing the company to provide explanations to investors. Bringing forward disclosure deadlines should be coupled with enhanced dialogue opportunities between companies and investors ahead of voting.

Streamlining the Code

We are, in principle, supportive of efforts to streamline the Code, particularly where provisions are already covered by law or regulation and risk duplication. Reducing unnecessary overlap can improve clarity and effectiveness.

At the same time, care must be taken not to oversimplify or remove provisions that continue to play a vital role in raising governance standards. While practice may have improved among larger Japanese companies, progress is uneven across the wider market. Streamlining should not inadvertently dilute expectations for smaller and mid-cap companies, where practice often lags behind the Prime market. We therefore urge caution in removing or reclassifying provisions prematurely.

We also encourage further dialogue with market participants, including our members, to identify specific areas where adjustments may be most appropriate.

We note that there can be challenges in the use of Guidance rather than Code provisions and how this differentiation interacts with the "Comply or Explain" Principle. This issue is not unique to Japan, but it is particularly relevant to the success of the Japanese governance framework.

Japanese Corporate Governance needs to move into a phase of effective implementation – of focusing on the substance of good governance. So, the integrity of the "Comply or Explain" principle is essential. It is only effective if companies provide thoughtful, transparent, and specific explanations when they choose not to comply with the Code. We encourage measures that reinforce high-quality explanations and discourage boilerplate disclosure, so that the principle can function as intended. For example, the Council or TSE might consider publishing examples of high-quality explanations to set clearer expectations.

Potential Enhancements to the Code

ICGN believes there are also opportunities to strengthen the Code further. In particular, we would recommend that the Code seeks to clearly articulate expectations around:

Board Composition and Director related matters:

- Board independence: Boards should seek to achieve a majority of independent directors.
- Independent board leadership: The Code should underscore the importance of independent board leadership, ideally through an independent chair, or at minimum a lead independent director as a transitional measure as companies move towards a fully independent chair.
- The role of committees should be clearly defined, with terms of reference publicly available. There should be an expectation of an independent audit committee. We note that especially for Prime companies, we are most in favour of a three-committee structure. These good practices should apply to all companies, including those which are voluntary.
- The Code could include stronger expectations of the role and remit of nominations committees, for example by setting expectations on the maximum numbers of board appointments that can be held by directors, the need for inclusion of industry

expertise requirements and Board diversity targets. The Code could also reinforce the need to consider a wide range of potential candidates in succession planning.
- We would like to see more elaboration on expectations around the boards ongoing development and specifically the director training policy.

Remuneration related matters:

- Remuneration alignment: Remuneration policies should be explicitly aligned with the creation of long-term shareholder value.
- They should also include recommended lock in periods.

Other governance matters:

- Disclosure of governance practices: Companies should provide clear disclosure on how they are applying the Code in practice, to give investors meaningful insight.
- Individual vote counts in board elections should be disclosed
- The importance of high-quality board effectiveness reviews could be reiterated
- As per the UK Corporate Governance Code, the code could include an expectation that Chairs, lead independent directors and other independent directors should make themselves available to shareholders to participate in engagement meetings.

These enhancements would strengthen board accountability, sharpen alignment with shareholder interests, and promote enhanced confidence in Japanese corporate governance practices.

Capital Allocation and Shareholder Value

We emphasise that governance reform must remain firmly focused on capital allocation, which is a critical governance responsibility. Boards must ensure that capital is allocated efficiently and in ways that support long-term value creation.

In particular, we call for continued improvement in capital efficiency and a strong focus on return on equity. We also urge that cross-shareholdings be wound down to zero. While notable progress was achieved in reducing cross-shareholdings in the past, progress appears to have stalled in recent years. Renewed and accelerated action in this area, enhanced by expectations in the Code, would help ensure capital is deployed more effectively, reduce entrenchment, and enhance market confidence. More transparent disclosure of rationale and exit timelines for remaining cross-shareholdings should be expected.

AGM Practices and Shareholder Rights

ICGN is not supportive of fully virtual AGMs, which risk undermining shareholder rights and limiting meaningful participation. We therefore believe the Code should not endorse or encourage fully virtual AGMs.

At the same time, we support the use of hybrid AGMs, which can broaden access to international and domestic investors while maintaining the ability for shareholders to attend and engage physically. Hybrid formats offer a balanced approach that upholds rights and facilitates wider participation.

Conclusion

In conclusion, ICGN reiterates our support for Japan's governance reform agenda. We encourage the Council to balance efficiency gains through measures such as streamlining and reducing duplication with the need to maintain ambitious governance standards across the market.

Strengthening timeliness of disclosure, enhancing independence, sharpening focus on capital allocation, and reinforcing shareholder rights will all contribute to more resilient companies and more sustainable long-term value creation in Japan's capital markets.

ICGN and its members stand ready to contribute to the dialogue and share global perspectives to support the Council's work in shaping a governance framework that benefits investors, companies, and the economy.