ICGN
International Corporate Governance Network

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 the MOJ’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.

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