Remarks to the Japanese Council of Experts on Corporate Governance

June 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.

It is an honour to represent the International Corporate Governance Network (ICGN) and our global membership, we greatly value the opportunity to share perspectives and contribute to the discussions on advancing corporate governance in Japan.

Japan has made significant strides in advancing governance reform, and we strongly support the ongoing efforts to sustain and build upon this remarkable journey of progress.

We welcome the proposals noted as future policy priorities. I would like to comment on the following areas in more detail, at this early stage, hoping that ICGN can provide some insight into the key matters for institutional investors around the world.

1) Engagement practices

We strongly support the central goal to foster "a relationship of trust" between companies and investors through high-quality disclosure and engagement.

This is critical to the success of the reform agenda. It is crucial that we remember that the investors are the owners of the company and are focused on the company's best interests in creating long-term sustainable value.

2) The proposed updates to the Corporate Governance Code

We also believe that it is a good idea to revisit and revise the Corporate Governance Code.

In order to support high quality governance, we agree that it is important to remove redundancies and duplication and to reaffirm the principles-based and "comply or explain" approach of the Code, to reduce box-ticking behaviour.

However, we would also caution that we should not oversimplify the Code, and that it is important for the Code to continue to be a clear set of expectations of good governance practices, even if some of those practices have been widely adopted.

We would also encourage continued progress on increasing independence levels, and certainly agree that, at a minimum, it is important to encourage Prime Market companies to appoint a majority of independent outside directors.

We also welcome efforts to formalize and encourage the role of a company secretary in Japan, in line with global best practices.

3) Resource allocation and Capital Efficiency

Resource allocation and Capital Efficiency are consistently noted as key areas of focus for investors, so we welcome the continued focus on this important issue in the future priorities.

It is good to see the proposals to clarify the Board's accountability for resource allocation, including scrutiny of excess cash holdings.

We also agree that it is helpful to encourage management to focus on profitability exceeding cost of capital and to promote value accretive strategic investments in R&D, human capital, and intangible assets.

As a core governance responsibility, oversight of the setting of this strategy, business model, capital allocation and execution of these plans should sit with the Board.

4) Priorities around the content, structure and timing of Annual Securities Reports

Timely, accessible disclosure of material information for investors has been a long-standing urgent priority for ICGN and our investor members.

We are very pleased to see the strong encouragement from the Minister of Finance that companies should publish their Yuho before their AGM, and we support efforts to further strengthen this encouragement in the next phase of the action plan.

To help with this, we also think the proposals to streamline and combine reporting requirements will be helpful. Ensuring that material information is available to shareholders to allow them to exercise their ownership rights should be the guiding principle.

We also think that priorities around enhancing digitalization and removing the need for hard copy documents will be helpful to reduce burdens on companies.

Consistent with our message to jurisdictions around the world, we also strongly support the introduction of mandatory sustainability disclosures aligned with SSBJ/ISSB standards.

5) Annual General Meetings

I would like to add that it is important that the governance reform agenda also protects the critical role of the Annual General Meeting.

We are concerned about the proliferation of moves around the world to allow for virtual only AGMs, and we strongly suggest that this should not be pursued in Japan.

We should not focus only on reducing burdens and streamlining, we must also ensure that shareholder's ownership rights are protected and respected.

The AGM is a key mechanism for corporate accountability. Fully virtual AGMs significantly limit the ability of shareholders, especially minority shareholders, to interact with boards and management, ask unmoderated questions, and make statements from the floor.

Investors have a strong preference for hybrid meetings, or in person meetings.

Ensuring that this critical forum for engagement, exercise of voting rights and therefore appropriate accountability is protected must be core to the reform program, if we want to continue to promote trust and confidence in the market as an attractive place to invest.

Conclusion

I will close by saying that in my view, it is a very good idea to establish a “Consortium for the effective implementation of corporate governance” to gather and update case studies and a “Forum for companies and investors” to share best practices in engagement, as well as to promote disclosures that build trust and support long-term value creation. ICGN would be happy to support these efforts and to contribute to the ongoing discussions.

Thank you again for the opportunity to address the Council today.

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