

Current Developments Toward the Revision of Japan's Corporate Governance Code

In October 2025, Sanae Takaichi of the Liberal Democratic Party became Japan's first female prime minister. She dissolved the House of Representatives at the opening of the ordinary Diet session in January 2026, and after a decisive victory in the national election, launched her second cabinet on February 18. Backed by strong public approval and expectations for proactive fiscal policy, Japan's equity markets rallied following the formation of the new cabinet. However, since early March, uncertainty has resurfaced due to heightened concerns over the situation in Iran. At the same time, Japan's corporate governance (CG) reforms have continued to advance steadily. This article outlines the discussions over the past six months and the direction of reform going forward.

Japan's Corporate Governance Code (the "CG Code"), first introduced in 2015, has been revised twice - once in 2018 and again in 2021. Following deliberations at the Financial Services Agency's "Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code" (30th council held June 2, 2025; see Vol. 1¹ for details), discussions have now shifted to the "The Expert Panel on the Revision of the Corporate Governance Code" (the "Panel"). At the Panel's second meeting on February 26, 2026, the Proposed Revisions of the CG Code² for the upcoming five-year revision - scheduled for mid-2026 - was released. A summary is provided in the Appendix.

The Panel includes Jen Sisson, CEO of ICGN; Kaoru Kobu, Head of ESG at Invesco Asset Management; and George Iguchi, Chief Corporate Governance Officer at Nissay Asset Management, alongside corporate representatives, business and labor organizations, and legal professionals. The key themes under consideration for the current revision include:

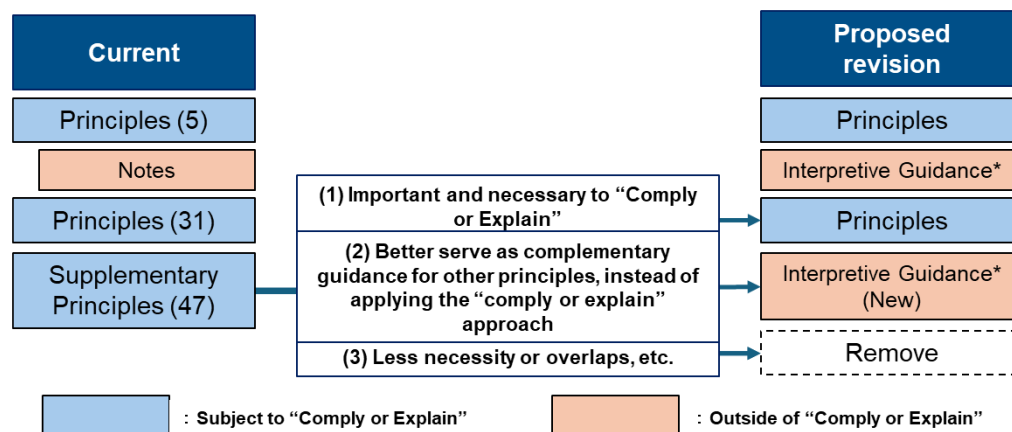
- 1) streamlining of the CG Code and the significance of "principles-based approach";
- 2) allocation of business resources, including cash and deposits;
- 3) earlier disclosure of Annual Securities Reports ahead of general shareholder meetings;
- 4) strengthening the functions of board secretariat; and
- 5) the quality, number, and independence of outside directors.

¹ <https://www.jss-ltd.jp/english/newsletter/pdf/JSS%20Japan%20Insights%20-%20September%202025.pdf>

² https://www.fsa.go.jp/en/refer/councils/revision_corporategovernance/material/20260226/03-2.pdf

The Figure below outlines point 1) the streamlining of the CG Code:

[Figure] Streamlining of the Corporate Governance Code



Source: Financial Services Agency, "2nd Meeting of the Expert Panel on the Revision of the Corporate Governance Code" Material 1: "Secretariat Briefing Pack"

- Supplementary Principles considered highly important and appropriate for "comply or explain" discipline will be elevated to Principles;
- provisions that function better as support for other Principles and promote more substantive implementation will be presented as new "Interpretive Guidance"; and
- provisions that have become less necessary due to established market practice or overlap with rules introduced after the CG Code's initial publication will be removed.

For point 2), on the allocation of business resources including cash holdings, the draft revision explicitly states under Principle 4-1 that boards should "explain specific measures that will be taken in order to achieve growth related to allocation of business resources such as growth investment and review of their business portfolio." The Interpretive Guidance for Principle 4-2 also notes that the boards "should persistently review the allocation of company business resources (...) including whether cash is utilized efficiently in investments."

Regarding point 3), the Interpretive Guidance for Principle 1-2 notes that "it is best to submit Annual Securities Reports at least three weeks before the general shareholder meetings." It further encourages listed companies "should consider moving back the dates of general shareholder meetings and the record dates for exercising voting rights from the customary time under the current practice and take further measures to ensure appropriate exercise of rights by shareholders."

For point 4), strengthening board secretariats, the Interpretive Guidance for Principle 4-13 states that "it is important to promote initiatives such as enhancing the functions of the board secretariat (e.g., corporate secretary) who supports the board." Additionally, Principles 4-7, 4-8, 4-9, and 4-10 clarify expectations for the roles, responsibilities, qualifications, number, and independence of

outside directors, with the aim of improving their overall effectiveness.

At the second Panel meeting, members expressed differing views on key issues such as the handling of cash holdings and the timing of Annual Securities Report disclosures. JSS will continue to follow the discussion at the Panel.

[Appendix] Summary of proposed revisions of the CG Code by topic

Topics	The Status of Progress and Directions of Proposed Revisions of the Code
Preamble	<ul style="list-style-type: none"> ● Using the Preamble of the “Japan’s Corporate Governance Code [Final Proposal]” as a reference, the new Preamble is added including the following contents: <ul style="list-style-type: none"> ➢ Objectives of the Code ➢ Explanation of the “Principles-Based Approach” and the “Comply-or-Explain Approach” ➢ Depending on companies’ situations, there are cases where companies should explain. ➢ Explaining the reasons why companies comply is desirable to promote constructive dialogue. ➢ Role of the “Interpretive Guidance” ➢ Aim of Streamlining the Code
Dialogue with Shareholders	<ul style="list-style-type: none"> ● It remains important to engage in constructive dialogue. Combine Section 5 (dialogue with shareholders) with Section 1 (securing the rights and equal treatment of shareholders) and place them at the beginning of the Code due to their importance.
Board of Directors	<ul style="list-style-type: none"> ● As the enhancement of the board functions remains an issue, provisions related to the core responsibilities of the board are upgraded to Principles, while specific description and examples are moved to the “Interpretive Guidance.” ● To promote the establishment of an appropriate enterprise risk-management framework, add statements in the “Interpretive Guidance” for 4.3 (effective oversight of management and directors) noting that factors the board may consider include responses to cybersecurity risks, supply-chain disruption risks, and risks of information leakage. ● To enhance the effectiveness of outside directors, clarify the aims of their roles and responsibilities, and ensure their expertise, number, and independence (4.7, 4.8, 4.9). ● Add the roles and responsibilities of the board secretariat (e.g., corporate secretary) to the “Interpretive Guidance” for 4.12 (active board deliberations)

	<p>and 4.13 (Information gathering and support structure), then combine these Principles.</p>
Allocation of Business Resources	<ul style="list-style-type: none"> ● Combine and organize 4.2.2 (latter part) (monitoring the allocation of business resources and implementation of strategies regarding business portfolio), 5.2 (establishing and disclosing business strategies and business plans) and 5.2.1 (basic policy and the status of review regarding business portfolio under business strategies) under 4.1 (setting strategic directions for companies' business strategies), 4.2 (establishing environment that supports appropriate risk-taking) and their "Integrative Guidance." ● Clarify that the board has the roles and responsibilities for setting the path for growth toward corporate goals (4.1). ● Clarify that the board should explain specific measures related to allocation of business resources such as growth investment and review of their business portfolio based on the company's path for growth (4.1). ● Clarify that the board should persistently assess whether the current allocation of resources is appropriate, including whether the company effectively utilizes its cash for investments, and that the board should appropriately allocate business resources while recognizing various investment opportunities.
Sustainability	<ul style="list-style-type: none"> ● Clarify the responsibilities of the board. Combine and organize 2.3 (sustainability issues including social and environmental matters), 2.3.1 (initiatives addressing sustainability issues), and the front part of 4.2.2 (basic policy for sustainability initiatives) under the new 4.4 (sustainability initiatives) and its "Interpretive Guidance." ● Upgrade 2.4.1 (ensuring diversity such as in promotion to senior positions, disclosing policies for human resource development and internal environment development) to a Principle as diversity remains an issue.
Cross-Shareholding	<ul style="list-style-type: none"> ● As reduction efforts remain in progress, 1.4.1 (hindering sales of cross-held shares by implying a possible reduction of business transactions) and 1.4.2 (transactions with cross-shareholders) are upgraded to Principles, as these remain important.
Disclosure of Annual Securities Report Before Annual General Meeting	<ul style="list-style-type: none"> ● As Annual Securities Reports contain useful and reliable information for investors' decision-making, add statements to Principle 1.2 (exercise of shareholder rights at Annual General Meetings) from the perspective of promoting companies to develop an appropriate environment for the exercise of shareholder rights at Annual General Meetings.

Source: Compiled by JSS from Financial Services Agency, "2nd Meeting of the Expert Panel on the Revision of the Corporate Governance Code" Material 1 "Secretariat Briefing Pack"

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