Asian Corporate Governance Association

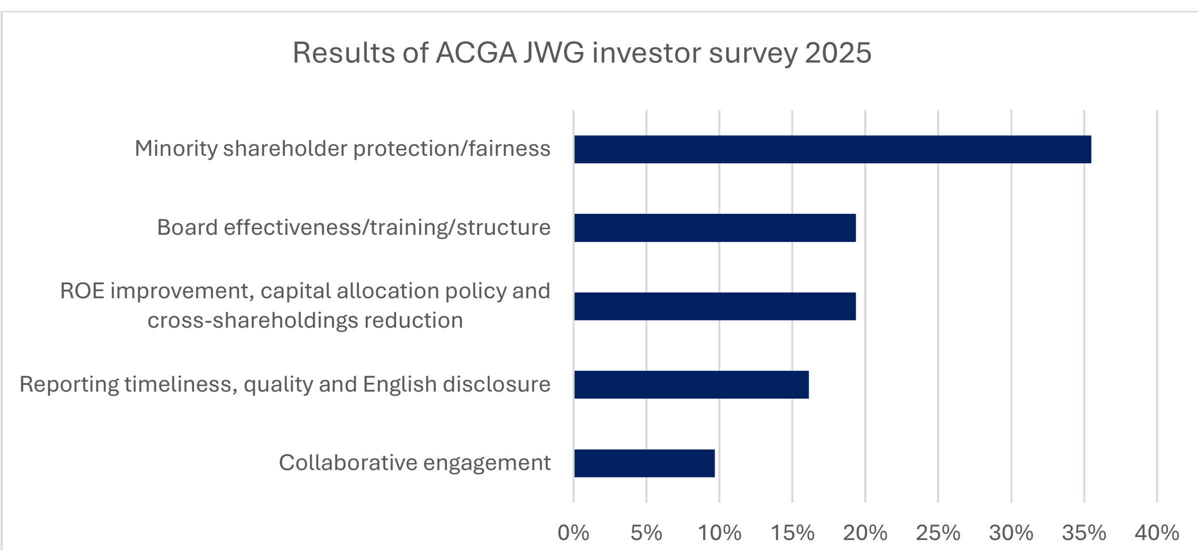
Investor priorities for advancing corporate governance reform in Japan December 2025

Japan has been advancing corporate governance (CG) reforms at a steady pace over the last decade, starting with Shinzo Abe's three arrows in the early 2010s. The journey, ignited by the issuance of the Japan Stewardship Code in 2014 and the Corporate Governance Code in 2015, has seen remarkable progress, including over 90% of Tokyo Stock Exchange (TSE) Prime Market companies now having at least one-third independent directors and more than 85% establishing nomination and compensation committees by 2023[1]. In March 2023 TSE requested all Prime and Standard Market listed companies to adopt management conscious of cost of capital and stock price, with disclosures expected in corporate governance reports. Japan's Financial Services Agency (FSA) followed in April 2023 with its Action Program for Accelerating Corporate Governance Reforms: From Form to Substance. These reforms along with other factors have helped equity markets in Japan to reclaim new highs.

The current year has seen the pace of change picking up. Japan now has ongoing discussions for both Corporate Governance Code revision, as well as Companies Act amendment. This commentary identifies critical advocacy priorities for continued reform in Japan, based on a survey of ACGA Japan Working Group (JWG) investor members, clustered into key thematic areas with an impact on governance and shareholder returns. ACGA recommends that in general revisions should continue to be principles-based.

This survey was conducted by ACGA after its Japan delegation in October 2025 and the results are summarised in Chart 1 below. It displays the frequency with which an advocacy issue was mentioned as a top three priority by our survey respondents.

Chart 1: Governance issues identified as a priority by ACGA members



Source: ACGA research

1. Minority shareholder protection through TOB/MBO rules improvement and better equipped special committees

   Transparency and disclosure requirements around listed subsidiary buyouts and other going private transactions are considered critical to enhance minority protections and investor confidence. While the revised TSE Code of Corporate Conduct, effective from July 2025, has addressed some of these issues, Japan lacks a mechanism similar to the UK Takeover Panel to improve bid processes and price fairness.

   There has been a rise in hostile takeovers and defensive measures weighing on minority rights. In the recent case of one Japanese company, the court allowed the use of a poison pill defense to buy time for additional offers to compete with an unsolicited bid. Generally, in going private transactions, Japanese courts are more focused on procedural propriety rather than determining substantively whether the offer constitutes a "fair price." Investors would like to see Japanese courts take an active role in addressing both procedure and the substantive basis for the offer price. An efficient and timely legal channel enabling investors to challenge fairness of the price could aid better price discovery and transparency, whilst safeguarding the interests of minority shareholders.

   In addition, under existing law, boards do not have a clear fiduciary duty to recommend or reject a tender offer bid (TOB) price and can opt to remain neutral. Special committees need to have appropriately skilled participants to protect the rights of shareholders by making clear recommendations to accept or reject takeover price proposals – a neutral recommendation should not be an option.

   The Companies Act allows for a controlling shareholder owning 90% or more of a company to buy out the remaining 10% of shares (a squeeze-out) under Article 179[2]. A 90% squeeze out threshold is in line with best practice globally. However, Article 180 allows for share consolidation by agreement of shareholders. Article 180 is routinely[3] used by companies either acquiring another company or conducting a management buyout (MBO) by acquiring two-thirds of the target company and then holding an extraordinary meeting (EGM) to change the Articles of Incorporation (*teikan*) to allow for a share consolidation, a change that requires a super majority. Once the motion is passed, the remaining shares (up to one-third) are effectively reduced to a fraction of a share and are compulsorily bought by the acquiror. This represents a conflict with Article 179. Amendment of Article 180, or clarification that an acquiror can only squeeze out 10% would help in fairer pricing of takeovers and prevent infringement of minority shareholders rights.

2. ROE improvement, capital allocation policy and cross-shareholdings reduction

   ACGA's members have emphasised the need for efficient and transparent capital allocation policies in the upcoming Corporate Governance Code revision, which should be geared toward increasing corporate return on equity (ROE). Ultimately, raising financial return ratios will sustain long-term investor returns, hence this is a key area of concern for investors and should be a clear focus for boards and management teams.

Investors advocate for companies to disclose clear timelines for unwinding entrenched cross-shareholdings, which impede capital efficiency and dilute accountability[4]. We note that Japanese regulators have accelerated actions resulting in some of the largest insurers[5] committing to fully exit cross-shareholdings but that progress has recently stalled. According to a white paper published by TSE, whilst many Topix 100 companies reduced their cross-shareholdings in 2024, almost 20% of companies increased the number of listed companies held, with some explaining the increase on business grounds, such as strengthening relationships. The same paper shows that the year on year reduction in the average number of cross shareholdings slowed to 4% in March 2024, compared with 11% in March 2023.[6]

Japanese companies listed on the TSE's Prime Market held a total of ¥115 trillion (US$758 billion) in cash and deposits as of March 2025.[7] To support reforms, there needs to be continual movement towards eradicating cross-shareholdings, coupled with better utilisation of the resultant cash to enhance corporate earnings power. In parallel, better communication and alignment between shareholders and other stakeholders may be helpful to prevent a pushback against shareholder rights. Japanese companies are increasingly accumulating cash on the balance sheet due to the unwinding of strategic shareholdings, and this should be deployed in a balanced way between internal capital expenditure to fund future growth, shareholder returns and wage increases, keeping in mind inflationary trends.

3. <u>Board effectiveness, structure, training, and investor access</u>

As our survey (Chart 1) illustrates, investors rank stronger board effectiveness and independent oversight as a critical topic in Japan's CG reforms. According to a white paper published by TSE in 2025, the percentage of companies with an outside director chairing the board currently stands at just 2.9%.[8] Key recommendations from ACGA investor members include phasing out the executive chair role, which can blur governance lines, and shifting to independent chairs or lead independent directors to enhance board independence. Former CEOs would be more appropriately positioned to enter the pool of candidates for independent director roles at other companies rather than being retained in an advisory capacity.

Human capital development is an important focus area for company growth and mandatory training and disclosure for both directors and management should be considered as part of Japan's governance reforms. Boards are responsible for effective functioning of the company and an iterative programme of training on developing areas of risk and opportunity should enhance director competency and strategic oversight. In addition, special committee members should have relevant financial experience and be appropriately skilled in understanding financial ratios and capital structure.

Greater access to independent non-executive directors (INEDs) by investors supports transparency and accountability, allowing shareholders more effectively to hold management responsible. Such access allows investors to gain insight into the board's decision-making processes, enhancing accountability beyond management interactions. In the absence of an independent chair, the appointment of a lead INED may serve as an important contact point for investors, with lead INEDs meeting independently of executives regularly to foster a culture of genuine independence on Japanese boards.

Board evaluation results should be disclosed in an appropriate form to enable investors to understand board dynamics and efficacy. We note that board evaluation disclosures in Japan are often high-level, relying on internal self-assessments that conclude effectiveness without reporting specific findings or actions taken, rendering them boilerplate and uninformative. Few companies use external consultants consistently or share remedial plans, in contrast with markets like Australia where results can drive deeper engagement.[9]

4. Reporting timeliness, quality and English disclosure

In addition to the advocacy priorities detailed above, investors emphasise the importance of advancing disclosure timelines, notably in delivering the *Yuho* securities report and *Jigyo Hokokusho* business report well before Annual General Meetings (AGMs). Early and comprehensive disclosures enable meaningful shareholder analysis and participation. Enhanced English language disclosure is also fundamental to attracting international capital. Integrated reporting under the Financial Instruments and Exchange Act (FIEA) can help reduce disclosure duplicity and enable resources to be focused on publishing *Yuho* reports 21 days before the AGM.[10] ACGA supports the trend towards adoption of integrated reporting which merges the *Yuho*, governed by the FIEA, with the *Jigyo Hokokusho* under the Companies Act, into one machine-readable document. This eliminates duplication, as both reports cover overlapping fiscal-year data including financial performance and governance, thereby freeing resources for faster audits, translations and timely release before AGMs.

We recommend that issuers consider amending their articles of incorporation and set the record date for the general meeting of shareholders later than the end of the fiscal year. If the record date can be delayed by one or two months, the general meeting of shareholders can be held in July or August which will also help to reduce pressure on resources and relieve clustering of AGMs.

In addition to timely disclosures before AGMs another important topic is the format of the AGM meetings. According to surveys,[11] hybrid AGMs now account for approximately 40% of all shareholder meetings worldwide. ACGA supports hybrid AGMs with opportunities for virtual participants to ask questions but does not favour fully virtual AGMs. AGMs provide a meaningful option for engagement and participation in person should remain an option.

The number of listed subsidiaries in Japan declined in 2024 from 324 in 2014 to 230. However, we note that listed companies with major shareholders holding between 20% and 50% equity method affiliates increased from 741 to 987. This trend is especially pronounced in the less stringent Standard Market.[12] ACGA recommends extending transparency and disclosure requirements to include equity affiliates as well as subsidiaries so that similar minority protection rules can be applied for both in all segments.

5. Collaborative engagement

The third revision of Japan's Stewardship Code in June 2025 and clarification of "material proposal" and "joint holders" under the large shareholding reporting rules of the FIEA has paved the way for collaborative engagement to be an important option for institutional investors. ACGA has previously highlighted importance of secure data protocols, equitable treatment of all shareholders to engagements and cost benefit analysis in a pragmatic approach to Ultimate Beneficiary Ownership rules in legislative amendments, as mentioned in our response[13] to the public consultation on revisions to the Stewardship code.

Summary of recommendations

Drawing from these priorities and prevailing market realities, reflecting the view of our members, we believe Japan's CG reforms should pursue:

- **Legal clarification of minority rights in TOB situations**: Prompt amendment or administrative guidelines clarifying squeeze-out limits and enhancing disclosure on buyouts to eliminate shareholder abuse and restore confidence.
- **Stronger board independence and leadership:** Enforce gradual phasing out of executive chair roles. Promote boards with independent chairs, mandatory director training, and board diversity to improve oversight and strategic decisions.
- **Transparent capital allocation:** Companies should disclose explicit capital allocation strategies, accelerate unwinding cross-shareholdings and link executive remuneration to ROE and shareholder returns to align interests. Cash on balance sheets should be used appropriately to support shareholder returns, wage increases and strategic investments.
- **Advancing disclosure timeliness and quality:** Mandate earlier disclosure of governance and financial reporting, expand English disclosure, and streamline integrated reporting to reduce duplication.
- **Enhanced shareholder dialogue:** Improve frameworks to enable earlier and more effective engagement between boards and investors, ensuring responsiveness to shareholders before AGMs. Publish board evaluation results and make it easier for institutional investors to access INEDs.

Conclusion and next steps for reform in Japan

Japan's corporate governance reforms have transformed capital market dynamics, integrating principles of transparency, accountability, and shareholder alignment far beyond traditional compliance. The 2023 Action Program symbolises the regulatory drive to move from form to substance, sharply focused on value creation, capital efficiency, and investor trust. Our investor advocacy survey provides a clear signal for the next steps—addressing minority rights, strengthening board independence and leadership, improving capital allocation disclosures, and enhancing governance transparency and dialogue.

Sustaining this momentum will not only solidify Japan's position as a leader in Asian governance reform but will also catalyse broader investor confidence and economic growth. It is imperative that the reforms which have so far been led by the regulators, come to life in the practices of companies and are embedded in their corporate culture. The revisions to the Corporate Governance Code and Companies Act can be part of a dynamic governance framework aligned with global best practices and investor expectations.

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[1] TSE statistics and data.

[2] The Japanese Companies Act (Act No. 86 of 2005, last amended Act No. 90 of 2014) governs squeeze-outs under Articles 179 (demand for share cash-out by special controlling shareholders holding over 90% voting rights) and 180 (share consolidation). These align with global practices for minority buyouts, where Article 179 enables direct cash acquisition without a shareholder meeting after board approval, while Article 180 requires a special resolution (two-thirds voting rights of attending shareholders per Article 309(2)(iv)) at an extraordinary general meeting (EGM).

[3] Taiheiyo Cement's transaction papers and Benesse Holdings' as examples which explicitly link an Article 180 consolidation to a post TOB squeeze out of remaining shareholders, usually describing the consolidation and cash settlement for fractional shares as the final step to achieve full ownership.

[4] https://www.troweprice.com/institutional/us/en/insights/articles/2025/q1/tracking-progress-on-japan-efforts-to-unwind-cross-shareholdings-na.html

[5] Japanese regulators, particularly the Financial Services Agency (FSA), have pushed major non-life insurers to unwind cross-shareholdings—mutual equity stakes cementing business ties that hinder capital efficiency by tying up funds and diluting accountability to minority shareholders. This accelerated after a 2023 price-fixing cartel scandal involving firms like Tokio Marine, MS&AD, and Sompo, prompting FSA demands in February 2024 for faster divestments by end-February deadlines.

[6] https://www.jpx.co.jp/english/equities/listing/cg/tvdivq0000008jb0-att/vk0khi0000002vfp.pdf, page 173

[7] https://asia.nikkei.com/spotlight/esg/japan-to-pressure-companies-to-start-spending-750bn-in-cash-reserves

[8] https://www.jpx.co.jp/english/equities/listing/cg/tvdivq0000008jb0-att/vk0khi0000002vfp.pdf, page 29

[9] ACGA report, "Activating Asia", published October 2024. https://www.acga-asia.org/thematic-research-detail.php?id=508

[10] ACGA Open letter: https://www.acga-asia.org/advocacy-detail.php?id=518&date2=2025&sk=&sa=

[11] https://www.lumiglobal.com/resources/global-agm-evolution-insights-and-lessons

[12] Metrical report, Smartkarma. Standard Market companies have 152 subsidiaries, 326 affiliates compared to the Prime Market (88 subsidiaries, 224 affiliates).

[13] https://www.acga-asia.org/advocacy-detail.php?id=519&date2=2025&sk=&sa=

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