

24 April 2026

To: TSE Listing Department
Tokyo Stock Exchange
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Chuo-ku, Tokyo 103-8220
Japan

By email to
jojo-kikaku@jpx.co.jp

Dear Sir/Madam,

ACGA Comments on Revisions to the Listing Rules Regarding Minority Shareholder Protection

The Asian Corporate Governance Association (ACGA) welcomes the Tokyo Stock Exchange's (TSE) proposed revisions to its listing rules relating to minority shareholder protection. These reforms represent a meaningful step forward in Japan's ongoing corporate governance journey.

At the same time, we believe several key parameters should be recalibrated to better reflect the realities of the Japanese market. In particular, the opposition threshold that triggers enhanced disclosure for minority investor voting dissent, the definition of a quasi-controlling shareholder, and the timeline for follow-up disclosure warrant further refinement.

In addition, we welcome the TSE's proposed revisions to director independence criteria as a positive step toward strengthening minority shareholder protection in quasi-controlled companies. These changes will bring Japan's framework more closely in line with global and regional best practices which apply heightened scrutiny and a strong presumption against independence for material connections to substantial shareholders. However, we recommend a stronger approach to the assessment of director independence where cross-shareholding (also known as strategic or allegiant shareholding) relationships exist, extended cooling-off timelines and explicit consideration of non-capital (business) relationships, such as but not limited to active involvement in major business lobbying groups and industry associations.

ACGA's principal recommendations are summarised below.

- Lower the minority shareholder voting opposition trigger from 50% to 20% votes against management, reflecting actual investor signalling behaviour in Japan.
- Reduce the quasi-controlling shareholder threshold from 40% to 20%, consistent with equity-method affiliation standards and effective control realities.
- Shorten the follow-up disclosure window from six months to four months, to enable timely response before board nominations for subsequent AGMs are finalised.
- Treat cross-shareholding affiliations as incompatible with independence rather than merely a disclosure trigger.
- Broaden independence criteria to address non-capital relationships including business lobbying group ties.

We expand on each of these points below, supported by data from TSE's Study Group materials, the January 2026 TSE Progress Report, and international comparative evidence.

Background and context

The urgency of these reforms to strengthen minority shareholder protections is clearly underlined by data from TSE's own Study Group. As of July 2025, 998 listed companies, approximately 26.3% of all TSE-listed companies, had a quasi-controlling shareholder (defined as holding 20% or more but less than 50% of voting rights, excluding parent companies and individual shareholders).¹ This represents a steady increase from 756 companies (21.0%) in 2018.

Whilst the number of listed subsidiaries has declined from a peak of 313 to 215 as of July 2025, largely due to parent companies taking subsidiaries private or selling stakes in response to governance pressure, significant structural conflicts of interest persist. TSE data shows that 46% of listed subsidiaries continue to deliver a return on equity (ROE) below 8%, notably higher than 40% of parent companies with a similarly low ROE. Indeed, the ratio of loss making listed subsidiaries (13.3%) is more than double the percentage of parent companies that are loss making (5.8%). That low ROE is an issue in Japan is reflected in the stark contrast with only 20% of companies in the S&P 500 index with ROE below 8%.² Further, the TSE's January 2026 Progress Report reveals that only about 60% of listed subsidiaries have responded to the TSE's request for cost-of-capital management disclosures, compared with 90% of parent companies.³

These figures highlight the need for regulation that drives genuine behavioural change among listed companies, rather than mere paper compliance and formal disclosures.

I. Disclosure of Minority Shareholder Approval Rates

1. Scope (Quasi-controlling shareholder definition)

TSE Proposal: The threshold for defining a quasi-controlling shareholder for the purpose of requiring disclosure to minority shareholders in conflicted voting situations is proposed at 40% of voting rights.

ACGA Recommendation: Lower the threshold to 20%, consistent with the equity-method affiliation standard under Japanese accounting rules and with the effective control realities identified by TSE's own Study Group. The proposed 40% threshold appears both arbitrary and high on the following basis.

- From an accounting perspective, Japan presumes significant influence (triggering equity-method affiliation) at 20% of voting rights under Japanese GAAP pursuant to ASBJ Statement No. 16. In contrast, the TSE proposals require disclosures at a 40% threshold. This creates a conceptual inconsistency; a shareholder with presumed significant influence for accounting purposes may still be regarded as a minority shareholder for governance protection purposes.
- The TSE's December 2023 Study Group document on the roles of independent directors has noted that "it has been pointed out that even 20% or 30% of voting rights may constitute effective control, if you take into account the ratio of exercise of voting rights at shareholders meetings in recent times and special circumstances."⁴ This internal TSE recognition that 20–30% holdings can constitute effective control is inconsistent with setting the regime-triggering threshold at 40%.
- We note that the proposed 40% voting rights threshold for requiring disclosure of minority shareholder approval rates is relatively high compared with international benchmarks. For example, the UK Listing Rules apply a controlling shareholder regime at 30% of voting rights which includes enhanced disclosure and voting protections for minorities. In the United States, control is assessed on a facts-and-circumstances basis, meaning that shareholders with stakes well below 40% can still be regarded as having controlling influence. Given that a shareholder with just 33.4% of the voting rights in Japan can already block special resolutions, we believe the threshold for requiring disclosure of minority

shareholder approval rates should be set meaningfully lower than 40% to improve transparency for minority investors.

Recommendation 1: Lower the quasi-controlling shareholder threshold from 40% to 20% of voting rights, consistent with the equity-method affiliation standard and TSE's own Study Group analysis. This would extend meaningful minority shareholder protections to a materially larger universe of listed companies, more accurately reflecting where effective control is actually exercised.

2. (a) and (b) Contents of disclosure and fifty percent minority opposition trigger

TSE Proposal: Enhanced disclosure and engagement are triggered when more than 50% of minority shareholders oppose a resolution for director appointment.

ACGA Recommendation: The proposed threshold of 50% appears excessively high and should be lowered to 20%, better reflecting actual patterns of voting dissent and international best practices. Significant opposition from minority investors in Japan often materializes at much lower levels, typically in the 20–40% range. Requiring minority opposition to exceed 50% before management is required to respond fails to recognise the practical reality of shareholder meetings in Japan, where minority votes against management proposals frequently serve as an important early sign of governance concerns. A lower threshold would encourage more timely and constructive engagement between companies and their minority shareholders and reflect actual voting dynamics as described below.

- Based on ACGA's experience of collaborative engagements in Japan, companies and their management are acutely sensitive to shareholder support levels. Even dissent well below 50%, such as 20–30% minority opposition, already constitutes a significant reputational event that warrants board-level engagement.
- Japan's Stewardship Code Version 3.0, released in June 2025, explicitly encourages institutional investors to pursue collaborative engagement and to make their concerns known through shareholder meeting voting. A governance framework that requires 50% opposition before triggering engagement effectively lags the stewardship regime it is meant to complement.
- In the United Kingdom, the Corporate Governance Code explicitly requires companies to provide a full explanation and engage with shareholders whenever 20% or more of votes are cast against the election or re-election of a director. Taking into account the UK market's more dispersed ownership structures, the TSE's proposed 50% minority opposition threshold is significantly higher than the closest international benchmark and risks missing important early governance signals that commonly appear in the 20–40% range of minority dissent in Japanese shareholder meetings.

In addition, we recommend that companies should clearly explain the formula and methodology used to calculate minority shareholder support and opposition rates, including the definition of 'minority shareholders' (excluding the quasi-controlling shareholder and related parties), the chosen denominator (e.g., total minority shares outstanding or votes cast by minorities), and how abstentions, withheld votes, and non-votes are treated (for example, excluded from the denominator or counted as lack of support). To ensure transparency and comparability, the minority-only results should be presented side-by-side in the same tabular format as the full aggregate voting results (including those of the quasi-controlling shareholder), with absolute numbers of shares or votes where practicable.

We welcome the expectations for outside directors set out in the Explanatory Materials for Listed Companies. To further align with Japan's Corporate Governance Code, we recommend that the role of outside directors in engaging with shareholders be explicitly articulated and disclosed as part of the post-shareholder meeting report.

Recommendation 2: We recommend lowering the minority shareholder opposition trigger from 50% to 20%. In addition, TSE should issue explicit guidance discouraging formulaic 'boilerplate' engagement disclosures, requiring evidence of substantive dialogue.

2. (b) Six-month disclosure window

TSE Proposal: Where more than 50% of minority shareholders opposed a resolution, the company must disclose its engagement outcomes and remediation measures within six months of the AGM.

ACGA Recommendation: We recommend shortening the follow up disclosure window from six months to four months after the AGM, with alignment to board nomination processes.

While we note that the UK Corporate Governance Code also allows for a six-month period for companies to report back following significant shareholder dissent (exceeding 20%), we believe a shorter window is more appropriate in the Japanese context. The majority of Japanese companies have March fiscal year-ends and hold their AGMs in June. A six-month deadline would push the disclosure into December, by which time boards have typically already begun deliberations on director nominations for the following year's AGM (often starting as early as October or November). This timing risks making the engagement process largely retrospective, with companies finalising their responses only after key board decisions have already been taken. A shorter disclosure window would strike a better balance, providing sufficient time for meaningful dialogue with minority shareholders whilst ensuring that investor feedback can inform the next board nomination cycle in a timely manner.

Recommendation 3: Reduce the follow-up disclosure window from six months to four months. TSE should also include in guidance a clear expectation that companies with March fiscal year-ends initiate shareholder dialogue promptly after the AGM, to ensure engagement informs board nomination deliberations.

II. Revision of independence criteria

1. (a) and (b) Expansion of independence criteria: major shareholder and cross-shareholding affiliations

TSE Proposal: Major shareholders (and recent executives thereof) are to be deemed non-independent. Executives at companies with cross-shareholding relationships with the listed company must disclose this but are not automatically non-independent.

ACGA Recommendation: We recommend aligning the treatment of cross-shareholding relationships with that of major shareholder affiliations. Such relationships should be regarded as incompatible with director independence, rather than treated merely as a disclosure obligation.

Specifically, directors who are, or have been within the past five years, executives (or recent former executives) of a company with which the listed company maintains a significant cross-shareholding relationship should be classified as non-independent.

Given Japan's characteristically long executive tenures and persistent relational ties, a longer cooling-off period than those adopted in other markets may be appropriate for both major shareholders and cross-shareholding relationships.

To ensure the criteria capture real influence rather than merely legal title, we recommend that the final rules explicitly address beneficial ownership, aggregation of holdings at the group level, a clear distinction between strategic/relational holdings (including cross-shareholdings) and passive investments, and material non-capital relationships such as active involvement in major business associations and industry federations.

The TSE's Study Group materials, ACGA investor members and Japan's broader governance reform trajectory consistently identify cross-shareholdings as a structural threat to board independence rather than an attribute requiring enhanced disclosure.⁵ Cross-shareholdings create reciprocal financial and relational incentives that compromise an outside director's ability to independently represent general shareholder interests.

- Cross-shareholding affiliations can compromise the independence of directors and may hinder the unwinding of such structures, a key objective of Japan's corporate governance reforms. Whilst the current TSE proposal requires disclosure where a director is or has been in the past ten years, an executive of a company with which the listed company has a cross-shareholding relationship, we recommend that TSE address this issue more explicitly. Directors affiliated through cross-shareholdings should be classified as non-independent, rather than subject only to a disclosure obligation. TSE should address more explicitly directors affiliated through cross-shareholding and that any independent director that is working for company's foundation should not be classified as an independent.
- Financial institutions often hold cross-shareholdings both directly and indirectly through banking and trust bank subsidiaries. TSE should clarify that cross-shareholdings held by a financial institution across its group entities are aggregated for purposes of this assessment, ensuring an accurate reflection of the voting discretion retained by the institution and its subsidiaries.

Recommendation 4: Directors who are or have within the past five years been executives of companies that have cross-shareholding relationships with the listed company (or its group) should be reclassified as non-independent, not merely subject to enhanced disclosure. For this purpose, cross-shareholding holdings should be aggregated across group entities.

Non-Capital Relationships: Business lobbying group affiliations

ACGA Recommendation: The proposed independence criteria focus almost exclusively on capital relationships and do not adequately address non-capital affiliations that may compromise director independence in the Japanese context. In particular, the TSE should consider director's affiliations with major business lobbying and trade organisations. Executives who hold senior or influential roles in these organisations may face implicit loyalty conflicts that could impair their ability to exercise independent judgement on behalf of all shareholders, including minority investors.

While capital relationships are clearly an important factor, Japan's corporate governance environment is also shaped by longstanding non-capital relationships. Directors who simultaneously serve in senior positions at sector-specific or general business associations or lobbying groups, especially those closely linked to the listed company or its parent group, may encounter genuine conflicts when representing general shareholder interests.

Recommendation 5: TSE should evaluate whether material involvement in business lobbying organisations associated with a listed company's controlling group should be disclosed as an attribute for independent directors and whether, in some circumstances, such involvement should be treated as incompatible with independence. At a minimum, guidance should explicitly recognise such non-capital relationships as potential independence concerns.

III. Other

1 (a) Revision regarding the Early Business Recovery Act

TSE Proposal: The TSE proposes to align its listing rules with the new Early Business Recovery Act (Act No. 67 of 2025). Specifically, it will require timely disclosure when creditors approve modifications to financial debts and move disclosure for mediation under the Act on Special Conciliation to the conclusion stage only.

ACGA Recommendation: We recommend that the revised rules prioritise stronger transparency to protect minority shareholders, given the potential impact of debt reductions or dilution. We agree with requiring disclosure for mediation only upon conclusion to avoid speculative or misleading disclosures and recommend that the final rules clearly specify the timing and minimum content of such disclosure.

We welcome the TSE's proposal to align the listing rules with the new Early Business Recovery Act. Facilitating timely and orderly business recovery for distressed companies is beneficial for the economy. However, given the potential impact on minority shareholders including possible debt reductions or dilution, it is essential that the revised rules prioritise timely, accurate, and sufficient disclosure to protect shareholder interests.

We further support the introduction of prompt disclosure requirements when a resolution to modify creditors' rights is adopted at the creditors' meeting (whether by unanimous consent or majority vote and court approval). To strengthen shareholder protections, we recommend that the TSE require companies to disclose not only the details of the resolution but also its potential impact on equity value, shareholdings, and future cash flows. This will enable minority shareholders to make informed decisions in a timely manner.

1 (b) Handling of improvement period regarding continued listing criteria

TSE Proposal: The TSE proposes that if a listed company does not satisfy the continued listing criteria for net assets and plans to restore compliance using procedures under the Early Business Recovery Act, the improvement period will be extended beyond the standard one-year limit and set for a period approved by the relevant authorities.

ACGA Recommendation: We recommend that any extension of the improvement period beyond one year be subject to strict conditions, including mandatory interim progress reports, enhanced disclosure on the recovery plan, and regular updates during the extended period. We understand the rationale for extending the improvement period when a company plans to restore net asset compliance through the Early Business Recovery Act. However, a prolonged grace period significantly increases uncertainty for minority shareholders. Imposing clear conditions such as mandatory interim progress reports and enhanced disclosure will help prevent the prolonged listing of companies that may ultimately fail to recover, thereby better protecting shareholder interests.

Closing remarks

ACGA thanks TSE for the opportunity to comment on these important proposed revisions. We recognise the significant investment of institutional effort that has gone into developing these proposals through the Study Group process, and we see these reforms as a genuine advance in Japan's minority shareholder protection framework.

While the proposed revisions represent a meaningful step forward, we believe they should be subject to ongoing review. We recommend that the TSE closely monitor the practical implementation of Code changes and evaluate the need for supporting capacity-building measures and enhanced enforcement mechanisms.

In addition, we recognise that the provisions under consultation form part of an ongoing governance review process. These changes should be complemented by corresponding measures in the draft revisions of Japan's Corporate Governance Code, particularly with regard to the analysis of opposing votes at general shareholder meetings and subsequent engagement with investors.

We welcome the draft CG Code's emphasis on boards analysing the reasons behind a considerable number of opposing votes and considering appropriate dialogue with shareholders. However, to ensure consistency and effectiveness, we recommend that the TSE and the CG Code revision process work towards a coherent and effective approach to handling shareholder dissent and investor engagement.

To further strengthen investor engagement, as a matter of general practice, companies without an independent board chair should appoint a lead independent director with specific responsibility for minority shareholder engagement. Companies should be required to disclose the name of the lead independent director, the process for engaging with minority shareholders, and the key outcomes reported to the board.

Thank you for the opportunity to provide feedback on these proposals. We look forward to further engagement as the detailed rules are developed ahead of the planned June 2026 implementation, and we would welcome the opportunity to discuss any of the above recommendations with the TSE Listing Department.

Yours sincerely,

Amar Gill
Secretary General

Dr. Helena Fung
Head of Research and Advocacy

¹ <https://www.jpx.co.jp/english/equities/improvements/study-group/b5b4pj0000032jkr-att/sjcobq0000028kc7.pdf>

² <https://www.jpx.co.jp/english/equities/improvements/study-group/b5b4pj0000032jkr-att/sjcobq0000028kc7.pdf>

³ <https://www.jpx.co.jp/english/equities/improvements/study-group/b5b4pj0000032jkr-att/vk0khi00000ddci.pdf>

⁴ <https://www.jpx.co.jp/english/equities/improvements/study-group/b5b4pj0000032jkr-att/u5j7e500000175z.pdf> (page 9)

⁵ <https://www.jpx.co.jp/english/equities/improvements/study-group/b5b4pj0000032jkr-att/vk0khi00000qz2k.pdf>