

Material 3

Provisional  
translation

## Secretariat Briefing Pack

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April 18, 2024



金融庁

Financial Services Agency, the Japanese Government

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## I. Action Program for Accelerating Corporate Governance Reform

- II. FSA's initiatives following the publication of the Action Program
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  - B) Resolving market environment issues
  - C) Encouraging the management with an awareness of sustainability issues
- III. Opinions for consideration of future initiatives

# Action Program for Accelerating Corporate Governance Reform

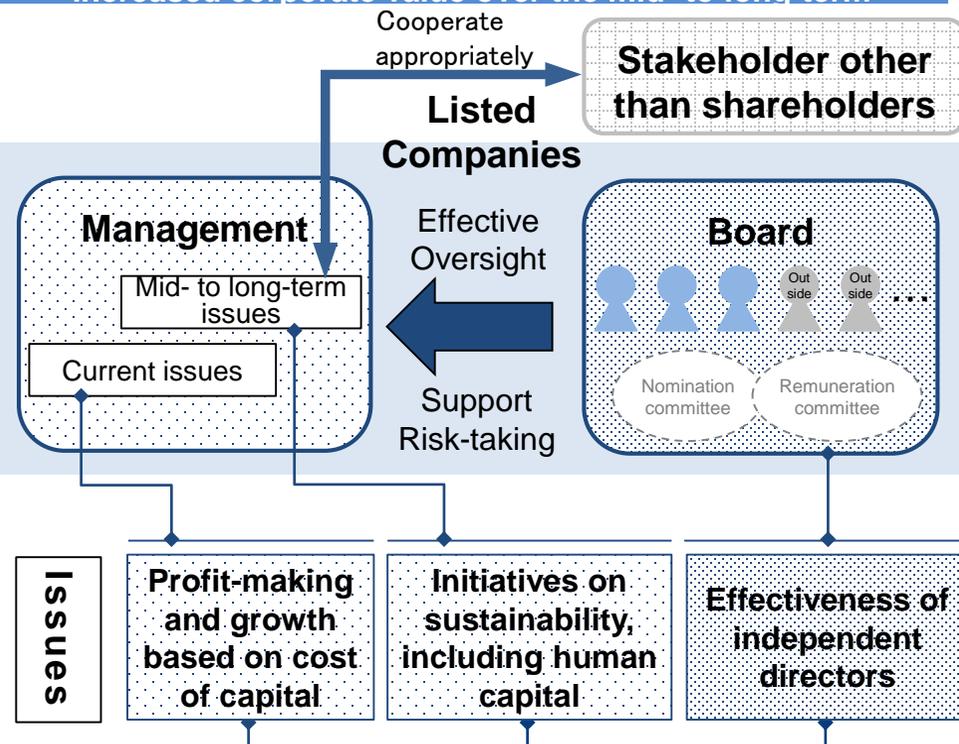
- The Council published the "Action Program" on April 26, 2023, which stated approach to future initiative and specific measures to accelerate corporate governance reform.

## Action Program for Accelerating Corporate Governance Reform: From Form to Substance

### Approach to future initiative

- It is vital to move the focus of reform from form to substance in resolving the issues. To this end, it is necessary to create an environment that promotes self-motivated changes in the mindsets of companies and investors, as well as to make the dialogues between companies and investors more productive and more effective.
- It is appropriate to examine the timing of the revision of each Code in a timely manner based on the status of progress from the viewpoint of the effective implementation of corporate governance reform, not necessarily following the review cycle in the past years.

### 1. Issues for seeking sustainable corporate growth and increased corporate value over the mid- to long-term



### Specific measures

#### A) Encouraging the management with an awareness of profit-making and growth

Encourage the management with an awareness of profit-making and growth based on the cost of capital (such as the proper allocation of management resources toward risk-taking, including a business portfolio review and investments in human capital, intellectual properties and R&D)

#### B) Encouraging the management with an awareness of sustainability issues

Encourage companies to take actions on sustainability through publication of companies' good disclosure practices. Consider measures to improve the diversity of the board and core human resources, such as increasing the percentage of female executives (target of 30% or more by 2030).

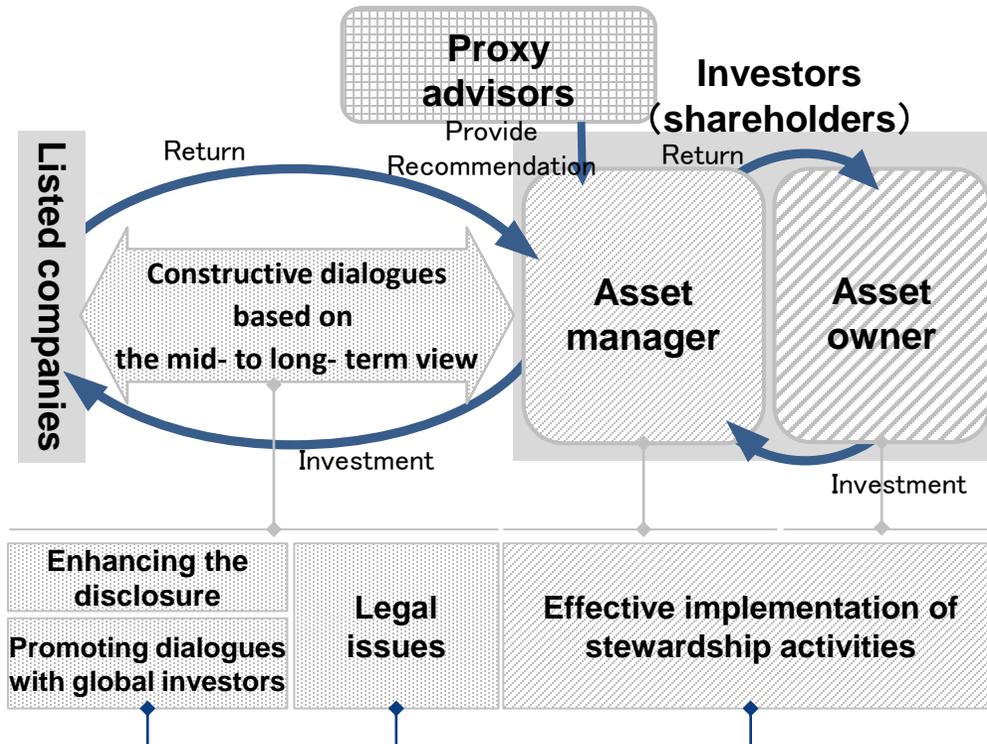
#### C) Improving the effectiveness of independent directors

Promote further improvement of the effectiveness of independent directors through compilation and publication of the actual status and examples of a board, nomination committee and remuneration committee, and educational activities to promote understanding of the roles expected of independent directors

# Action Program (cont.)

## Action Program for Accelerating Corporate Governance Reform: From Form to Substance

### 2. Issues related to dialogue between companies and investors



### Specific measures

#### A) Effective implementation of stewardship activities

Promote the efforts of asset managers and asset owners to deal with the issues relating to the stewardship activities (including allocating sufficient resources, providing incentives for stewardship activities, establishing governance structures of asset owners).

#### B) Enhancing the disclosure as a basis for dialogue

Request to disclose the status of dialogues and make clear sufficient and insufficient cases of "Explain".  
Consider measures to provide investors with the information they need prior to the general shareholder meeting and to promote timely disclosure of corporate information.

#### C) Promoting dialogues with global investors

Promote dialogues between companies and global investors by "visualizing" companies that willingly and actively respond to the expectations of global investors and further expand the coverage of English disclosure.

#### D) Resolving legal issues

Consider clarification of "act of making important suggestions" and "joint holders" under the large shareholding reporting rule, transparency of beneficial shareholders, and how to protect minority shareholders in the case of a partial takeover bid.

#### E) Resolving market environment issues

Consider the disclosure and corporate governance issues with regard to quasi-controlled listed companies, follow up on the progress of reduction of cross-shareholdings and consider whether further measures are called for.

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# Report of the Working Group on Capital Market Regulations and the Asset Management Task Force of the Financial System Council (published on December 12, 2023) (excerpt)

- ❑ The Asset Management Task Force of the Financial System Council had discussed efforts for the effective implementation of stewardship activities. Consequently, in a report published in December 2023, the Task Force made recommendations for promoting collective or collaborative engagements.\*

(\* ) Refers to the effort to engage in dialogues with individual companies in collaboration with other institutional investors about specific topics.

## V. Efforts for the Effective Implementation of Stewardship Activities

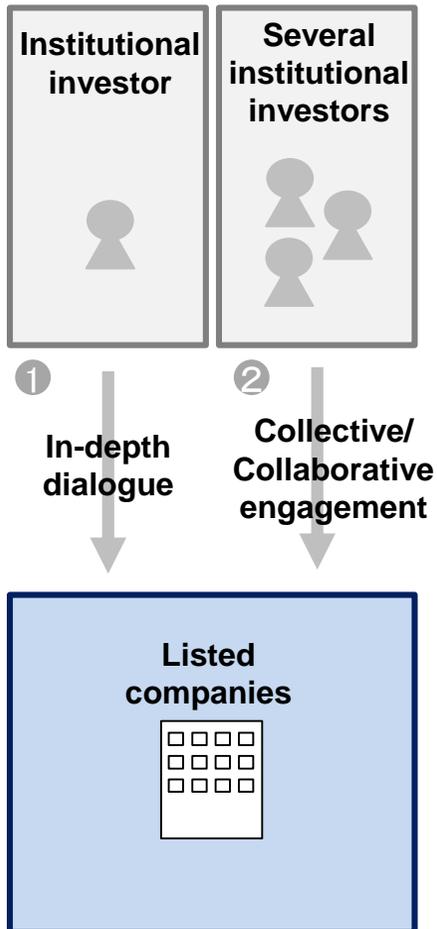
Institutional investors, who play a core role in the investment chain, are required to fulfill stewardship responsibilities to promote the increase of corporate value by engaging with companies from a med - to long- term perspective. In that case, **it is necessary to engage with individual companies based on in-depth knowledge of the circumstances of each company, rather than a formalistic or one-size-fits-all response** based simply on uniform numerical criteria or proxy advisor’s voting recommendations. In order to provide appropriate incentives for such activities, it is important to share the cost of stewardship activities among the investment chain and establish an environment including policy support.

**For effective implementation of stewardship activities** through such engagements, **it is important to encourage institutional investors to make efforts for engagement depending on their status (size, investment policy, etc.) in line with the Stewardship Code**. In order for institutional investors to more actively make such efforts, on the one hand, it is useful to increase the benefits that institutional investors can derive from stewardship activities, and on the other hand, it is also useful to reduce the costs of such activities. In light of this, **it is beneficial for institutional investors to use collective or collaborative engagements actively from the perspective of supplementing qualitative and quantitative resources and reducing costs**.

As an example of specific initiatives in this direction, certain asset owner is adopting passive investment models focusing on stewardship activities in which the management fee structure is different from that of ordinal passive investment with the aim of improving the overall market through stewardship activities, as well as diversifying and enhancing how to approach stewardship activities. In addition, there are initiatives such as collective or collaborative engagement in which the investor engages with companies in collaboration with other investors and monitoring of asset managers by multiple asset owners collaboratively. **It is expected that the effective implementation of stewardship activities will further progress as the number of investors implementing these various efforts increases**.

# Report of the Working Group on Tender Offer Rule and Large Shareholding Reporting Rule of the Financial System Council (published on December 25,2023) (Overview) ~Large Shareholding Reporting Rule~

- ❑ For the large shareholding reporting rule, the working group on Tender Offer Rule and Large Shareholding Reporting Rule of the Financial System Council (published on December 25,2023) recommends as follows.
- ❑ Based on the recommendation, the law to amend the Financial Instruments and Exchange Act, including clarification of the scope of the large shareholding reporting rule, was filed.



## Large shareholding Reporting Rule

- 1 In order for passive investors to have in-depth dialogues with companies, the rules should be clarified to allow investors to use the special reporting rule,\* if all of the following conditions are satisfied**
  - the **purpose** of the engagement **is not directly related to corporate control\*\***
  - the **manner** of the engagement **leaves the adoption or refusal up to the company's management**

\* See next page for details of the current rule  
\*\* For example, suggested changes regarding dividend policy and capital policy
- 2 In order to promote collective/collaborative engagement,\* even in cases where institutional investors agree on voting rights, if the investors' aim of agreement is not to jointly engage in the act of material proposal, and the agreement is not for the continuous exercise of voting rights, they should not be required to aggregate their ownership ratio as "joint holders"**

\* The efforts to engage in dialogue with individual companies in collaboration with other institutional investors

# (Reference) Overview of the current Large Shareholding Reporting Rule

## General Reporting

### Obligations of Large Shareholders

1. If an investor becomes a large shareholder (**over a 5% shares**):
  - The investor must **submit a “large shareholding report” within five business days** of acquiring over a 5% stake in a company.
2. If there are any material changes, such as **a 1% or more increase/decrease** in the ownership ratio following the submission of the large shareholding report:
  - The investor must **submit a “change report” within five business days of the change.**

## Special Reporting

### Outline of the Special Reporting Rule

The rule allows institutional investors who repeatedly and continuously execute buy/sell transactions of shares in their daily operations to report under relaxed frequency of submissions.

<Details of the relaxation>

Only to **judge whether it is necessary to submit a "large shareholding report" and a "change report" on the reference dates pre-registered twice in a month** and submit the report within five business days of the reference dates.

<Eligibility to use special reporting system>

1. The investor's ownership ratio does not exceed 10%.
2. **The purpose of shareholding is not to engage in the act of “Material Proposal.”**

## Joint Holders

### Treatment of Joint Holders

**A shareholder is required to calculate its shareholding ratio by including the shareholding of a person that corresponds to any one of the following (“Joint Holder”).**

1. A person that **has agreed to obtain or assign shares in cooperation with the shareholder**
2. A person that **has agreed with the shareholder to jointly exercise voting rights** and other shareholder rights.
3. A person that has a special relationship with the shareholder, such as a certain capital relationship or a family relationship.

- ❑ For the transparency of beneficial shareholders, the working group recommends as follows.

### Overview of the current rule

- ❑ Under the current rule, companies and shareholders can ascertain the status of nominal shareholders through disclosure of the status of shareholders, such as the shareholder registry under the Companies Act and Annual Securities Reports.
- ❑ On the other hand, there is no system under which companies and shareholders can ascertain the status of beneficial shareholders,\* except for those who are subject to the large shareholding reporting rule (holding over 5%).

\* Shareholders who are not a shareholder on the shareholder registry (nominee shareholder) but who have the authority to give instructions on voting rights or the authority to invest in relevant shares



- From the viewpoint of promoting dialogues between companies and shareholders/investors, in order to efficiently identify the beneficial shareholders, **relevant authorities should consider taking the following measures;**
  - (1) Call on **institutional investors to respond when issuer companies ask them** about the status of their holdings by clearly stating principles of conduct for institutional investors, and
  - (2) **Make the above responses mandatory under law**

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# Amendments to Annual Securities Reports Regarding the Status of Corporate Governance

- Based on the Report by the Working Group on Corporate Disclosure of the Financial System Council (published in June 2022), from the perspective of providing information for constructive discussions between investors and companies on the legitimacy of cross-shareholdings, additional disclosure on cross-shareholdings is now required in Annual Securities Reports.

Annual Securities Reports (main items)

## Part 1 Company Information

### I. Overview of the Company

- Status of Employees

### II. Business Overview

- Management policy, management environment, issues to address, etc.
- Concept and Initiatives on Sustainability
- Business risks
- Analysis of financial position, operating results, and cash flows

### III. Facilities

### IV. Information on the Company Submitting Financial Reports

- Status of Corporate Governance

### V. Financial information

- Consolidated financial statements, financial statements, etc.

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## Status of Corporate Governance (new item)

### (1) Outline of Corporate Governance

- Outline of Corporate Governance system (Structure of the board of directors and committees, etc.)

<new> Activities of board of directors, nominating committee and compensation committee, etc. (Frequency, details of discussions, attendance of individual directors, etc.)

### (2) Status of directors and officers (List of directors' biographies)

### (3) Status of audits

- Status of audits by corporate auditors (system, activities, etc.), Status of internal audits

<new> Efforts to ensure the effectiveness of internal audits (including with and without dual reporting lines)

- Status of accounting audit, and details of audit fees

### (4) Remuneration for directors and officers (policy, details of performance-linked compensation, individual remuneration, etc.)

### (5) Status of cross-shareholdings

- Policy, information by individual issues, etc.

<new> Explanation of business transactions and business alliances with the issuer of cross-shareholdings

# Good Practices for Disclosure of Narrative Information

- As an effort to accumulate and disseminate practices for improving disclosure, the Financial Services Agency (JFSA) has held sessions of "Study Group on Good Practices for Disclosure of Narrative Information" and published (updated) "Good Practices for Disclosure of Narrative Information" every year since FY2018.

## Good Practices for Disclosure of Narrative Information

- In FY2023, based on Cabinet Office Ordinance on Disclosure of Corporate Affairs, which was revised in January 2023, JFSA compiled examples of "sustainability information," which was newly required to be included in Annual Securities Reports and published them as "Good Practices for Disclosure of Narrative Information 2023" (published on December 27, 2023). JFSA also added examples of "Overview of Corporate Governance" and updated them on March 8, 2024.
- The Good Practices includes "Key Disclosure Points Expected by Investors, Analysts, and Experts" and "Major Initiatives Taken by Companies." In addition, for each disclosure example, comments on points highlighted as good practices are in the blue boxes.
- ⇒ Companies are expected to further enhance disclosure in their Annual Securities Reports by referring to the Good Practices.

### 記述情報の開示の好事例集 2023

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- はじめに ～「記述情報の開示の好事例集」について
- 有価証券報告書のサステナビリティ
- 有価証券報告書のサステナビリティ
- 1. 「全般的な事項」の開示例
- 2. 「気候変動関連等」の開示例
- 3. 「人的資本、多様性等」の開示例
- 4. 「人権」の開示例
- 5. 「個別テーマ」の開示例

### 好事例として採り上げた企業の主な取組み① (古河電気工業株式会社)

経緯や問題意識

- 2018年11月から、古河電工グループビジョン2030の策定やマテリアリティの特定に関する議論を開始。その後も経営会議や取締役会で議論を重ねた。また、このようなサステナビリティに関する議論を集約し実行の質・スピードを高めるための社長を委員長とするサステナビリティ委員会を設置し、そこで議論した内容を経営会議や取締役会でもらに議論を深める体制と仕組みを整えてきた。

要する環境データについては、一定の精度を確保した開示し、確定値を

経営上の重要課題[サステナビリティに関連する]設定、ESG役員報告が明確になった

情報については、有価証券報告書にはそ

### 1-2 投資家・アナリスト・有識者が期待する主な開示のポイント：全般的な事項

投資家・アナリスト・有識者が期待する主な開示のポイント

- サステナビリティ開示に関しては、まずサステナビリティ全般から説明するとサマリーとしてわかりやすく有用
- 企業の全体概観とサステナビリティの関わりについて開示することは有用
- マテリアリティの特定において2軸での整理をする場合、その会社にとって特に重要な項目は何か明確になるよう、重要度の最も高い象限に項目を集中させ過ぎないことが有用
- 4つの枠組みのうち、最も重要なものはガバナンスとリスク管理である。ガバナンスにおいては、
  - ① 全般的なガバナンス体制が開示されていると、サステナビリティなどの程度重要視しているのが読み取れるため有用
  - ② 取締役会がどのように経営陣を監督しているかに加え、実効性に関する評価について開示することが有用。具体的には、監督を行うスキルやコミットメントがあるか、取締役会がどのような議論が行われているか、経営者をどのように評価しているかを記載することが挙げられる
- リスク管理では、そのプロセスを記載する必要があるため、事業等のリスク等を参照するだけでは情報が不足する可能性がある。また、事業にかかわるリスクだけでなく、機会についても記載することが有用

### 1-1 投資家・アナリスト・有識者が期待する主な開示のポイント：全般的な事項

開示項目	古河電気工業株式会社(1-5~1-8)	株式会社三井住友フィナンシャルグループ(1-9~1-12)	古河電気工業株式会社(1-7)	株式会社三井住友フィナンシャルグループ(1-9)	古河電気工業株式会社(1-6)	ローム株式会社(1-14)
① 全般的な事項	●	●	●	●	●	●
② 取締役会	●	●	●	●	●	●
③ リスク管理	●	●	●	●	●	●

## Key Disclosure Points Expected by Investors, Analysts and Experts\*: Cross-Shareholdings

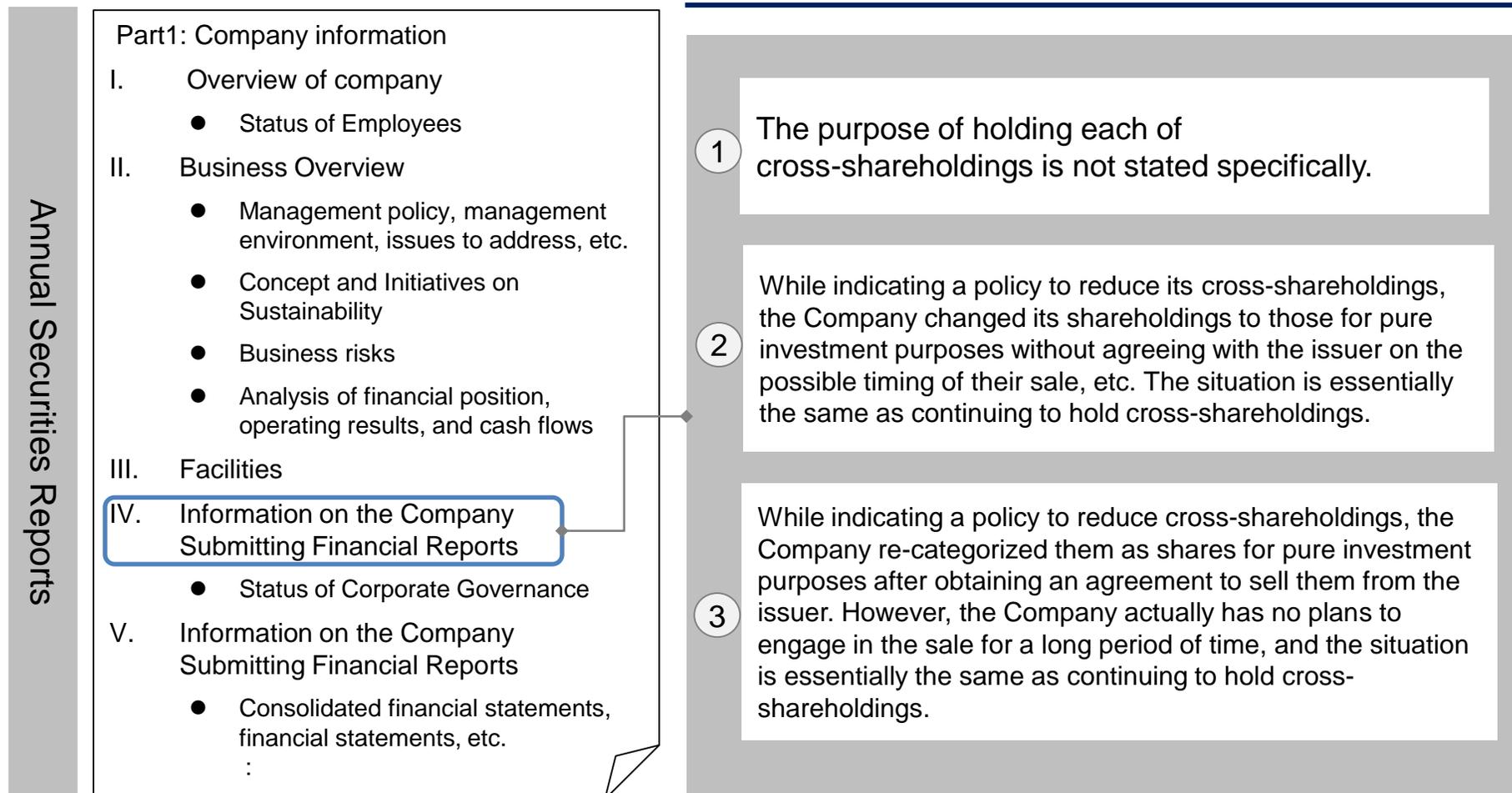
- Examples of disclosure about "Cross-Shareholdings" are introduced in the "Good Practices for Disclosure of Narrative Information," as well as disclosure points expected by investors, analysts, and experts.

Key Disclosure Points Expected by Investors, Analysts, and Experts	Good examples for reference
<ul style="list-style-type: none"> <li>It is important to disclose the results of reductions in cross-shareholdings not only on a book value basis but also <u>on a market value basis</u>.</li> </ul>	<ul style="list-style-type: none"> <li>T&amp;D Holdings, Inc.</li> </ul>
<ul style="list-style-type: none"> <li>When explaining the reasons for cross-shareholdings, it is reasonable to <u>relate them to important business contracts</u>, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Sumitomo Metal Mining Co., Ltd.</li> </ul>
<ul style="list-style-type: none"> <li>Statements that when cross-shareholders indicate their intention to sell their shares, <u>companies will not hinder the sale of the cross-held shares</u> are helpful for stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>NEC Corporation</li> </ul>
<ul style="list-style-type: none"> <li>In cases where cross-shareholdings are re-categorized as pure investment, it is important to disclose <u>the reason for the re-categorization, the criteria for exercising voting rights after the re-categorization and the expected period until sale</u>.</li> </ul>	-

# Results of the 2023 Securities Report Review and Matters to Be Noted (Excerpt)

- In Results of the 2023 Securities Report Review and Matters to Be Noted, the following were pointed out as key issues regarding cross-shareholdings.

## Key Issues



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# Amendments to Annual Securities Reports Regarding the Creation of a New Section for Sustainability Information (promulgated and enforced on January 31, 2023)

- A new section for disclosure of sustainability information was created, and the sustainability disclosure in Annual Securities Reports (statutory) became mandatory for the fiscal year ended March 31, 2023.

Annual Securities Reports (main items)

## Part 1: Company Information

### I. Overview of the Company

- Status of Employees

### II. Business Overview

- Management policy, management environment, issues to address, etc.
- **Concept and Initiatives on Sustainability (new item)**
- Business risks
- Analysis of financial position, operating results, and cash flows

### III. Facilities

### IV. Information on the Company Submitting Financial Reports

- Status of Corporate Governance

### V. Information on the Company Submitting Financial Reports

- Consolidated financial statements, financial statements, etc.

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## Approach to Sustainability and Sustainability-Related Efforts

### (1) Governance

Disclosure required of all companies

The system of governance over sustainability-related risks and opportunities (Example of description: Describe the organizational systems and roles of the board of directors and voluntarily established committees.)

### (2) Strategy

To be disclosed based on judgment on materiality

Efforts to address sustainability-related risks and opportunities (Example of description: Describe the risks and opportunities identified by the reporting company and measures taken to address them.)

Disclosure required of all companies

Policies for matters regarding human resources, such as personnel training and the development of the workplace environment

### (3) Risk Management

Disclosure required of all companies

Process of identifying, evaluating and managing sustainability-related risks and opportunities (Example of description: Describe the methods of identifying and evaluating risks and opportunities and the reporting process.)

### (4) Metrics and Targets

To be disclosed based on judgment on materiality

Information used for evaluating and managing the results of addressing sustainability-related risks and opportunities (Example of description: Describe the target for the reduction of GHG emissions and the actual reduction.)

Disclosure required of all companies

The specifics of the metrics related to the policies for personnel training and the development of the workplace environment and the targets for and the results of the indicators.

Disclosure required of all companies (Note 1)

Information on the ratio of women in managerial positions, the ratio of male workers taking childcare leave, and the gender pay gap should be described in the "Employees" column.

(Matters for attention regarding description)

- ✓ Regarding detailed information, recommending references to other published documents (integrated reports, data books, etc.) is permissible. (Note 2)
- ✓ Even when the information on future prospects described by the reporting company have turned out to be different from the actual results, the company may not necessarily be held liable for misstatement if the description provides specific explanations to an extent generally considered to be reasonable.

(Note 1) This applies to companies subject to the obligation for information disclosure based on the Act on Promotion of Women's Participation and Advancement in the Workplace (Act No.64 of 2015) or the Act on Welfare of Workers Who Take Care of Children or Other Family Members Including Child Care and Family Care Leave (Act No.776 of 1991).

(Note 2) Except in cases where the recommended reference to another document may constitute a material misstatement, such as when the reporting company recommends a reference to another document while knowing of the presence of a material misstatement in the referred document, the reporting company may not necessarily be subject to punitive measures or monetary penalty under the Financial Instruments and Exchange Act merely because of the presence of a misstatement in its voluntary disclose document.

## Key Disclosure Points Expected by Investors, Analysts, and Experts: Sustainability (1/2)

- Examples of disclosure about “Sustainability” are introduced in the "Good Practices for Disclosure of Narrative Information," as well as disclosure points expected by investors, analysts, and experts.

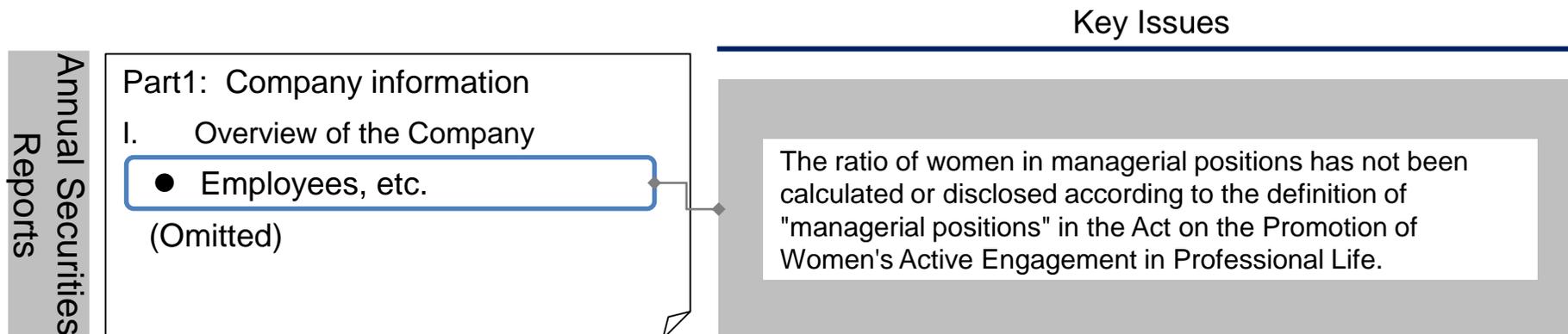
Key Disclosure Points Expected by Investors, Analysts and Experts	Good examples for reference
<ul style="list-style-type: none"> <li>Comparability, transparency, and uniqueness are important aspects of sustainability-related information. It is important to disclose how the company is working on sustainability and to disclose company-specific efforts, such as what it is focusing on and what its strengths are.</li> </ul>	<ul style="list-style-type: none"> <li>Meiji Holdings Co., Ltd.</li> <li>Nagase &amp; Co., Ltd.</li> <li>SEGA SAMMY HOLDINGS INC.</li> </ul>
<ul style="list-style-type: none"> <li>Although strategies, metrics, and targets are considered to be items that each company discloses based on its own judgment of materiality, when discussing the overall picture, it is important to indicate what kind of thinking and policies are adopted with regard to strategies, metrics, and targets as well.</li> </ul>	<ul style="list-style-type: none"> <li>Furukawa Electric Co., Ltd.</li> <li>RICOH COMPANY, LTD.</li> <li>LIXIL Corporation</li> <li>Joshin Denki Co., Ltd.</li> </ul>
<ul style="list-style-type: none"> <li>It is important to explain how corporate value is created through sustainability initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>Furukawa Electric Co., Ltd.</li> <li>NISSIN FOODS HOLDINGS CO., LTD.</li> <li>Seiko Epson Corporation</li> <li>CAPCOM CO., LTD.</li> </ul>
<ul style="list-style-type: none"> <li>As for KPIs related to ESG and sustainability, it is important to explain why the KPIs were selected and how they were calculated.</li> </ul>	<ul style="list-style-type: none"> <li>Sojitz Corporation</li> <li>The Awa Bank, Ltd.</li> </ul>
<ul style="list-style-type: none"> <li>When disclosing metrics and targets, it is important to include a consideration of current conditions in addition to targets and actual results.</li> </ul>	-

## Key Disclosure Points Expected by Investors, Analysts, and Experts: Sustainability (2/2)

Key Disclosure Points Expected by Investors, Analysts, and Experts	Good examples for reference
<ul style="list-style-type: none"> <li>Non-financial information is required in lieu of financial information because financial information cannot indicate future directions, such as very long-term policies and plans. Therefore, it is important to link non-financial information with financial information and to align the timing of disclosure.</li> </ul>	<ul style="list-style-type: none"> <li>Furukawa Electric Co., Ltd.</li> <li>DENSO CORPORATION</li> </ul>
<ul style="list-style-type: none"> <li>It is important to provide future information with a timeline, not just the current situation.</li> </ul>	<ul style="list-style-type: none"> <li>Kirin Holdings Company, Limited</li> <li>Sangetsu Corporation</li> <li>Sumitomo Mitsui Trust Holdings, Inc.</li> <li>CAPCOM CO., LTD.</li> </ul>
<ul style="list-style-type: none"> <li>It is important to actively disclose necessary information rather than disclosing limited information in preparation for third-party assurance</li> </ul>	<ul style="list-style-type: none"> <li>Furukawa Electric Co., Ltd.</li> <li>DENSO CORPORATION</li> <li>MARUI GROUP CO., LTD.</li> </ul>
<ul style="list-style-type: none"> <li>Strong commitment and appropriate allocation of resources by management are needed to improve disclosure and sustain measures</li> </ul>	<ul style="list-style-type: none"> <li>NTT DATA CORPORATION</li> <li>MARUI GROUP CO., LTD.</li> <li>TOPPAN Holdings Inc.</li> <li>Sumitomo Mitsui Trust Holdings, Inc.</li> </ul>

# Results of the 2023 Securities Report Review and Matters to be Noted (Excerpt)

- In Results of the 2023 Securities Report Review and Matters to be Noted, the following were pointed out as key issues regarding employees.



## Examples of issues

(Based on actual disclosure examples)

【Employees】  
(Omitted)  
(Ratio of women in managerial positions, ratio of male workers taking childcare leave, and gender pay gap)  
Ratio of women in managerial positions: 20.0% (Note 1)  
(Note 1) Employees in "management positions" are in charge of organizational management who hold a position of deputy section manager or higher.

<Issues to be addressed>

- The calculation method and definition of the ratio of women in managerial positions shall be subject to the provisions of the Act on the Promotion of Women's Active Engagement in Professional Life. In relation to the definition of the ratio of women in managerial positions under the law, the Ministry of Health, Labour and Welfare's "Interpretation of Situation Assessment, Information Disclosure, and Certification Standards, etc." states that, in general, those who are called "deputy section managers" are not regarded as "managerial positions."
- In the disclosure example on the left, the company stated that "managerial positions" in relation to the ratio of women in managerial positions refers to employees who hold a position of deputy section manager or higher, and as a result of inquiries with the company, it was found that calculation and disclosure in accordance with the definition of "managerial positions" under the law were not conducted appropriately.

# Setting Numerical Targets for the Ratio of Female Executives at Companies Listed on the Prime Market

- ❑ In June 2023, the government set numerical targets for women’s empowerment in “The Basic Policy on Gender Equality and Empowerment of Women 2023 (The Intensive Policy for Gender Equality and the Empowerment of Women 2023)”.
- ❑ The Tokyo Stock Exchange revised its listing rules in relation to this Policy on October 4, 2023 (enforced on October 10). Additionally, the government has updated the targets in “The Fifth Basic Plan for Gender Equality” (decided by the Cabinet on December 26).

## Government's Target

**The Basic Policy on Gender Equality and Empowerment of Women 2023 (The Intensive Policy for Gender Equality and the Empowerment of Women 2023)**  
(June 13, 2023) (excerpt)

- ① Setting numerical targets for the ratio of female executives at companies listed on the Prime Market, etc.
- Initiatives to include the following provisions in exchange rules by the end of 2023:
- Each company listed on the Prime Market shall strive to appoint at least one female executive by 2025.
  - Each company listed on the Prime Market shall aim to raise the ratio of female executives to 30% or more by 2030.
  - Each company listed on the Prime Market is recommended to formulate its action plan to achieve the aforementioned goals.

## TSE's Revisions to Listing Rules

**Revisions to Listing Rules in Relation to the Intensive Policy for Gender Equality and the Empowerment of Women 2023 and the Desired Investment Unit Level**  
(October 4, 2023) (excerpt)

1. Appointment of female executives
- Appointment of female executives by domestic listed companies listed on the Prime Market shall be prescribed as follows:
    - ① Companies shall strive to appoint at least one female executive by 2025.
    - ② Companies shall aim to raise the ratio of female executives to at least 30% by 2030.
    - ③ It is recommended that companies formulate an action plan to achieve the above goals.
- Note: The above executives may include directors, company auditors, and *shikkōyaku* (as defined by the Companies Act for Companies with Three Committees) as well as *shikkōyakuin* (executives in charge of business administration) and other equivalent officers.

## Government's Target (updated)

**The Fifth Basic Plan for Gender Equality**  
(partly changed and decided by the Cabinet on December 26, 2023) (excerpt)

### Field 1 Expansion of Women’s Participation in Policy Decision-making Processes <Target>

Item	Target (Deadline)
The ratio of female executives at companies listed on the Prime Market (Note 4)	19% (2025)
The ratio of companies listed on the Prime Market that have no female executives (Note 4)	0% (2025)

(Note 4) Executives may include directors, company auditors, and *shikkōyaku* (basically, officers as defined by the Companies Act for Companies with Three Committees) as well as *shikkōyakuin* (executives in charge of business administration) and other equivalent officers (basically, officers elected and dismissed by a resolution at a board of directors meeting as “the appointment and dismissal of an important employee including managers” under the Companies Act. who have important authorities in their operations).

(Source) compiled by JFSA based on the following:

“The Basic Policy on Gender Equality and Empowerment of Women 2023 (The Intensive Policy for Gender Equality and the Empowerment of Women 2023)” the Headquarters for Creating a Society in Which All Women Shine and the Headquarters for the Promotion of Gender Equality (published on June 13, 2023),

“Revisions to Listing Rules in Relation to the Intensive Policy for Gender Equality and the Empowerment of Women 2023 and the Desired Investment Unit Level.” Tokyo Stock Exchange Inc. (published on October 4, 2023), and

“The Fifth Basic Plan for Gender Equality” (partly changed and decided by the Cabinet on December 26, 2023)

# Establishing the Working Group on Disclosure and Assurance of Sustainability-related Financial Information

- ❑ In order to discuss disclosures and assurances of the sustainability-related information while ensuring international comparability, the Working Group on Disclosure and Assurance of Sustainability Information was newly established under the Financial System Council (the first meeting was held in March 2024).

- The sustainability disclosure in Annual Securities Reports started from the fiscal year ended March 31, 2023. (There are no disclosure standards with specific disclosure requirements.) Going forward, it is important that this disclosure is made in accordance with specific standards to enhance comparability and provide useful information to investors. ...①
- The Sustainability Standards Board of Japan (SSBJ) is developing Japanese sustainability disclosure standards (SSBJ Standards) equivalent to IFRS S1 and IFRS S2 finalized in June 2023. The SSBJ published Exposure Drafts of Japanese sustainability disclosure standards in March 2024. ...②
- Considering that the scope of companies applying the SSBJ standards would be companies that center their businesses on constructive dialogue with global investors (all or a part of companies listed on the Prime Market of the TSE), consideration of the specific scope and schedule of the application on the occasion of the publication of the Exposure Draft will lead to appropriate discussions on the Exposure Draft and promote preparations for the application of the SSBJ Standards by companies. ...③

(Note) The Working Group on Corporate Disclosure of the Financial System Council (the report was published in December 2022) recommended as follows:

Given that companies have different impacts on society as a whole, that there are various business categories, that it is necessary to consider the burden on companies, and that policies are applied in stages according to the size of companies in Europe and the US, it is good to consider how to smoothly introduce the system in Japan with the aim to let all companies that submit securities reports disclose necessary sustainability information.

- In addition, investors have expressed their desire to ensure reliability of sustainability information, and international discussions are progressing on assurance of such information. In order to introduce disclosure standards and assurance of sustainability-related information in Japan, it is necessary to consider a review of the law, and it is important to start discussions. ...④

⇒ The Working Group on Disclosure and Assurance of Sustainability-related Financial Information was newly established under the Financial System Council.



(\*1) ISSB: International Sustainability Standards Board, IAASB: International Auditing and Assurance Standards Board, IESBA: International Ethics Standards Board for Accountants

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- II. FSA's initiatives following the publication of the Action Program
  - A) Initiatives toward the effective implementation of stewardship activities (including resolving legal issues)
  - B) Resolving market environment issues
  - C) Encouraging the management with an awareness of sustainability issues

## III. Opinions for consideration of future initiatives

## Prime Minister Kishida's Remarks at the Exchange of the Views on Promotion of Corporate Governance Reform (April 3, 2024)

Today we received valuable opinions from all of you who are globally renowned for your asset management experience and insights into corporate governance.

We believe that it is necessary to constantly strengthen corporate governance reforms in order to ensure a growing reputation about the Japanese market that we received from you.

As it reported, the Tokyo Stock Exchange (TSE) requested listed companies to realize management that is conscious of cost of capital and stock price, including price-book value ratio (PBR). Starting this year, the exchange also makes public a list of companies that are pushing ahead with such efforts.

With a view to further enhancing the earning power of Japanese companies, it is important for enterprises that have yet to take their first step to steadily put efforts to improve corporate value into practice through dialogue with investors.

In addition, we will actively proceed with creating an environment to give substance to corporate governance. Starting in April next year, companies listed on the Prime Market will be required to disclose important information in English. As you have just recommended, the Financial Services Agency, in collaboration with the relevant ministries and agencies, will advance discussions on the development of an environment that will lead more enterprises to disclose their annual securities reports before their shareholder meetings, with the aim of further promoting dialogue between companies and investors.

I ask the FSA and the TSE to update the Action Program this spring by reflecting these efforts and forge ahead with reforms toward its steady implementation.

In concluding my remarks, the Government of Japan intends to continuously promote corporate governance reforms based also on the inputs we received today, so that we can meet your long-term expectations for Japan.

Thank you very much for today.

# Main Opinions Voiced in the Japan Corporate Governance Forum (1)

- ❑ To accelerate and strengthen corporate governance reforms, JFSA established the Japan Corporate Governance Forum (hereinafter the “JCGF”) to hear a wide range of opinions from stakeholders, including overseas investors.
- ❑ In JCGF, as in the previous year, while some praised the improvements made in corporate governance, issues were pointed out, such as the effective implementation of stewardship activities, the improvement of the effectiveness of the board, and encouraging the management with an awareness of profit-making and growth.

## JCGF event history since April 2023

4th Forum held on May 25, 2023, with the Asian Corporate Governance Association (ACGA)

7th Forum held on September 28, 2023, with ACGA

5th Forum held on June 12, 2023, with U.S. investors, etc.

8th Forum held on October 5, 2023, with ICGN

6th Forum held on June 21, 2023, with the International Corporate Governance Network (ICGN)

### General

- We are pleased that the company itself recognized the need for corporate governance reform and is working on it.
- Corporate **transparency** is improving.
- Some companies do not seem to understand the purpose of corporate governance reforms and seem **to consider these reforms formalistic**.
- Many small and medium-sized companies may not be able to follow the action program. While many companies know what they are required to do in corporate governance reforms, **they are not fully convinced about the reforms**.

### Effective implementation of stewardship activities

- In order to improve the corporate governance of Japanese companies, it is expected that **Japanese asset managers**, which engage with Japanese companies frequently and do not face a language barrier, **will actively increase pressure on companies**.
- **It is important to make a self-motivated effort to fulfill stewardship responsibilities.**
- It is not realistic to engage with **all investee companies** every year. It is important for investors **to engage in a two- or three-year cycle** to improve the corporate governance of investee companies, and to set and **prioritize the themes of the engagement**.
- It is well received by companies that investors **make proposals to solve issues related to topics in which companies do not have knowledge and experience**. In order to make such proposals, it is important to **utilize collective/collaborative engagement**.

# Main Opinions Voiced in the Japan Corporate Governance Forum (2)

## Improvement of the effectiveness of the board

- **The mission of independent directors is to maximize corporate value and protect minority shareholders.** From this perspective, it is essential for companies to appoint independent directors that sufficiently have such qualities.
- **Skills and independence** of independent directors are particularly important for effective corporate governance.
- **Executives** should not be the chairperson of the board who is responsible for **controlling the agenda** thereof; the chairperson should be an independent director.
- **"Diversity of opinions"** is the key. It is important to appoint independent directors who can object to the management for the development of the company.
- It is a best practice to **allow independent directors to engage with investors more easily.**

## Encouraging the management with an awareness of profit-making and growth

- We expect initiatives for **"management that is conscious of cost of capital and stock price,"** but we also hope that companies will **expand self-motivated and substantial measures.**
- Even directors and managers of large-sized companies **lack knowledge about cost of capital and corporate finance.**
- **Share buybacks may be implemented to improve PBR in the short term,** but this is not necessarily desirable.

## Enhancing the disclosure and promoting dialogues

- Since Japanese companies **tend to take actions in the same manner as other companies,** it is expected that effective corporate governance will proceed by **providing good case studies** and setting appropriate incentives.
- It is important to **disclose information in a timely manner,** such as securities reports, prior to the annual general shareholders meeting.

## Resolving market environment issues

- **Rational reasons for cross-shareholdings and voting records of cross-shareholdings have not been disclosed.**
- It is important how the government deals with **cross-shareholdings** of leading companies. If these companies' policies regarding cross-shareholdings change, **it will trigger changes in all Japanese companies.**

## Encouraging the management with an awareness of sustainability issues

- **Sustainability disclosure standards** should preferably be internationally comparable.
- While **gender diversity** of boards in Japan is improving, it is still at a significantly low level compared to other countries, and further improvement is expected.
- The talent pool for female directors and independent directors is small. Companies should recruit talented people from overseas at **the employee level** as well.
- Diversity is important, but it is more important that board members have **the necessary skill sets.**

# Promoting Dialogues with Global Investors: "Visualizing" the Group of Companies

- ❑ From the viewpoint of promoting dialogues between companies and global investors, it is conceivable to publish a list in order to "visualize" companies that are willingly and actively engaging in value-creating management from the viewpoint of investors and have already achieved results.
  - ❑ As a specific list, it is suggested that the following items be disclosed with respect to JPX Prime 150 Index Constituent Stocks, which are selected as "the leading Japanese companies that are estimated to create value," from the viewpoints of profitability and market valuation.
    - Various indicators, such as profitability, market valuation, and growth potential
    - Information about corporate governance (the ratio of independent directors, attributes of the chair of the board, and the ratio of female executives – areas of particular interest to global investors)
- \* Items listed are subject to revision as necessary.

**The status of JPX Prime 150 Index Constituent Stocks as of dd/mm/yyyy**

Code	Company name	Status of various indicators (profitability, market valuation, growth potential, etc.)				Governance items expected by global investors		
		Market capitalization (trillion yen)	PBR (times)	ROE (%)	PER (times)	Ratio of Independent Directors (%)	The Chair of the Board (Inside / Outside)	Ratio of female executives (%)
xx10	aaaaa001	1.1	2.5	18.4	15.2	37.5	Inside	18.2
xx20	bbbb001	0.9	1.1	14.8	7.9	41.7	Outside	8.3
Xx30	aaaaa002	2.8	1.2	14.3	9.1	44.4	Inside	23.1
xx40	bbbb002	2.1	1.2	11.9	11.0	44.4	Inside	22.2
xx50	aaaaa003	0.3	5.3	18.7	25.6	33.3	Inside	13.3
xx60	bbbb003	0.3	5.8	19.0	39.2	66.7	Outside	22.2
xx70	Aaaaa004	1.1	1.8	10.7	19.4	60.0	Inside	20.0
xx80	bbbb004	0.4	6.7	33.7	21.6	40.0	Inside	13.3
xx90	aaaaa005	0.3	15.8	30.8	43.9	37.5	Inside	16.7

## Interviews with Companies:

### Situation of Engagements and Implementation of Corporate Governance Reform

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- ❑ With the aim of effective implementation of stewardship activities, the JFSA conducted a series of interviews with individual companies in order to understand the situation of engagements and well-designed improvement of the effectiveness of their boards.
- ❑ JFSA selected 12 companies from among those listed on the Tokyo Stock Exchange Prime Market, including those interviewed at the 27th Follow-up Meeting and suggested by Keidanren (Japan Business Federation).

#### Interviewed companies (in alphabetical order)

- ANA HOLDINGS INC.
- Ebara Corporation
- Inabata & Co., Ltd.
- Kao Corporation
- Kobe Steel, Ltd.
- Mitsui Chemicals, Inc.
- Nitori Holdings Co., Ltd.
- Omron Corporation
- SANYO SHOKAI LTD.
- Sony Group Corporation
- TDK Corporation
- Yamaha Corporation

The JFSA expresses sincere gratitude to all the interviewed companies

# Overview of Interviews with Companies (1): Situation of Engagements

- ❑ Sharing of examples of other companies that serve as useful references based on the company's situation and continuous engagements by investors who are familiar with the company's business are likely to lead to constructive dialogue. Companies welcome any opinions, even if severe, that are considered to contribute to the enhancement of corporate value.
- ❑ On the other hand, although such cases are rare, in cases where investors do not listen to the company's explanation at all and communicate their requests one-sidedly, or do not ask additional questions in response to the company's answer and just continue one-sided questions, it's hard to make two-way communication and develop constructive dialogue.
- ❑ Institutional investors need to pay attention again to whether their engagements enhance corporate value and capital efficiency from a mid- to long-term perspective and promote sustainable growth instead of engagements themselves to objects.

## Engagements from company's view

### Tendency in meaningful engagements

- Investors bring new awareness to companies based on their present situation.
- It is possible to learn about good practices of other companies that can be used as a reference when promoting our own initiatives.
- Continuous dialogue from a mid- to long-term perspective develops into advice tailored to the company's changing circumstances and growth phase.
- Investors well-versed in the business are engaged in dialogue.
- The theme of the dialogue is set according to the company's responders, such as the CEO, CFO, and other people in charge.
- While it is not comfortable to listen, there are indications that will contribute to sustainable growth and increased corporate value over the mid- to long-term.
- Companies can obtain objective assessments based on insights gained from data facts.

### Tendency in meaningless engagements

- (There are few meaningless engagements, so companies can obtain some kind of awareness and viewpoints in most cases)
- Without considering the present situation of the company, investors pursue the company severely only with idealism.
  - There is no concrete advice on how the ideal theory demanded by investors will be realized.
  - Discussions progress only by pointing out the appropriateness of formal numerical standards, and there is a lack of explanation of why the standards are necessary.
  - Even if companies answer each checklist in the template one by one, there is no additional questions from investors and these simple question-and-answer sessions tend to be continued in a matter-of-fact manner.
  - Some investors ask questions from a short-term perspective and persistently demand figures that cannot be disclosed.

# Overview of Interviews with Companies (2): Situation of Engagements

- ❑ In response to TSE's requests, companies are changing their behavior and utilizing engagements as a tool for increasing corporate value.
- ❑ In order to meet the expectations of companies, diverse institutional investors also need to make careful preparations and engage in dialogue in order to fulfill their own roles.
- ❑ In order to make engagements that contribute to the sustainable growth and the enhancement of corporate value over the mid- to long-term, both sides need to cooperate with each other and continuously confirm the objectives and effects of the dialogue.

With the aim of improving the engagements	Company's Initiatives	Before the dialogue	<ul style="list-style-type: none"> <li>● By introducing materials before the engagement, we guide investors to read the materials in advance.</li> <li>● We recognize the necessity of engagements more through repeating them and we strengthen the IR department.</li> </ul>
		At the time of dialogue	<ul style="list-style-type: none"> <li>● When CEOs or CFOs engage in dialogue directly, they explain the company's big vision and discuss investors' views towards it.</li> <li>● The board believes that engaging by independent directors only will contribute to promoting investor's understanding, so we provide various opportunities to do so.</li> </ul>
		After the dialogue	<ul style="list-style-type: none"> <li>● We feed back the results of engagements internally, including to the board, in addition, the feedback is provided to investors.</li> <li>● We analyze and disclose issues that investors frequently ask questions about, such as business-specific ROIC and M&amp;A reviews.</li> </ul>
	Requests to institutional investors	Before the dialogue	<ul style="list-style-type: none"> <li>● We would like investors to review our disclosure materials in advance so that we can start the engagement within a limited time under the same viewpoints.</li> <li>● We would like investors to inform us of the engagement agenda in advance so that we can assign appropriate explainers.</li> </ul>
		At the time of dialogue	<ul style="list-style-type: none"> <li>● It is easier to explain and convince management and directors if there are good examples that have led to improved performance and increased corporate value.</li> <li>● Regarding shareholder returns, we would like to discuss whether we should invest in growth business or return to shareholders based on our stage.</li> </ul>
		After the dialogue	<ul style="list-style-type: none"> <li>● We would like to make improvements based on the advice from investors and report them at the next engagement so that we can obtain additional advice.</li> <li>● Since we have to provide overlapping explanations to multiple teams from the same asset management company, we would like investors to share our basic information within the asset management company.</li> </ul>

## Overview of Interviews with Companies (3): Implementation of Corporate Governance Reforms

- Through dialogues, companies are making creative efforts to implement initiatives of corporate governance reforms.

(Improvement of the effectiveness of the board)

- Appointing independent directors as chairs and the majority of the board improved the objectivity and transparency of the discussions.
- In addition to the board meetings, we provide opportunities for informal and frank communication which lead to the vitalization of the board.
- Most time of the board meeting is spent on strategic discussions (medium-term plan, human resources development, M&A, etc.) and exchange of opinions.
- The secretariat of the board plays an important role to improve the effectiveness of the board. We would like to discuss the secretariat's initiatives with other companies.
- The board clearly documents and discloses the policy regarding culture, roles and responsibilities of the board that is basis for the creation of corporate value.

Key Takeaways

(Impressions for TSE's requests)

- We are facing the requests seriously and carrying them out honestly. We are using them as leverage to finish reforming our weak points.
- The requests are a natural trend in the world, and we believe that proactive efforts are appreciated by the market.
- The requests are excellent, but management with an awareness of capital cost and stock price does not seem to be fully penetrated in Japan.
- The necessary levels of ROE and other figures grasped through engagements are utilized in discussions on strategy and plan formulation at the board meetings.

Encouraging the management with an awareness of profit-making and growth

(Human Capital)

- We would like to ascertain the essential objectives that Global Excellent Companies set, not the domestic perspective.
- We disclose employee engagement scores as KPIs by conducting a survey not only at domestic bases but also globally.
- Depending on the characteristics of the business, we set ambitious KPIs in order to increase the number of female managers and directors.

(Enhancement of non-financial activities)

- We try managing by visualizing how non-financial activities are linked to financial indicators and lead to the enhancement of corporate value.

(Resilience)

- Resilience is important from the perspective of sustainability for long-term management. We focus on supply chain resilience.

Encouraging the management with an awareness of sustainability issues