The Future Direction of Corporate Governance Reform in Japan: The Crucial Role of Engagement in Reform

Corporate governance reform in Japan was initiated with the aim of promoting sustainable business development and improving corporate value over the medium to long term. Approximately ten years have passed since the establishment of the Stewardship Code in 2014 and the implementation of the Corporate Governance Code in 2015, and Japanese companies' corporate governance is now largely compliant in form. Going forward, efforts are needed to go beyond mere formal compliance, aiming to give substance to corporate governance reform for both companies and investors.

Under these circumstances, the Financial Services Agency held the "The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code: 30th meeting"[1] on June 2, 2025. This meeting presented a follow-up to the Action Program 2024 for implementing corporate governance reforms and proposed draft future directions, broadly covering the following five key points: 1) Driving value creation capacity, 2) Enhancing quality disclosure and promoting dialogue with investors, 3) Improving board effectiveness, 4) Addressing issues in the market environment, and 5) Encouraging management to be aware of sustainability issues. This paper briefly summarizes the main points in the first half. In the latter half, it introduces the key findings from the "Survey on the Actual State of Stewardship Activities," which examined efforts to enhance the substance of stewardship activities related to promoting dialogue with investors (point 2 above). The focus for this part is placed on the results concerning asset managers' engagement with companies. Furthermore, this report concludes that the practice of constructive engagement contributes to the substantive advancement of corporate governance reform.

The main points of discussion regarding the Follow up on the Action Program for Corporate Governance Reform 2024 and Future Policy Priorities - Draft - [2] are as follows. Based on these points, discussions continue toward implementing further corporate governance reforms. Notably, as there are differing opinions regarding the revision of the Corporate Governance Code, deliberations are expected to proceed taking these views into account.

1) Driving value creation capacity: Management must rigorously prioritize capital costs and stock prices. Emphasis should be placed on capital allocation that supports sustainable growth such as business portfolio review and investment in R&D, human capital, and intellectual

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[1] https://www.fsa.go.jp/en/news/2025/20250602.html

[2] https://www.fsa.go.jp/en/refer/councils/follow-up/material/20250602-02.pdf

property rather than relying solely on dividend increases or share buybacks. Clarifying accountability for excessive cash holdings is also crucial. Consider reviewing the Corporate Governance Code regarding investment in intellectual property and human capital, as well as the allocation of management resources.

2) Enhancing quality disclosure and promoting dialogue with investors: Further promoting pre-shareholders' meeting disclosures of annual securities reports (considering revisions to the Corporate Governance Code). Streamlining disclosure requirements in annual securities reports (including simplification). Constructive dialogue based on “a relationship of cautious trust” with investors is essential. Continuing to collect and share case studies through the “Survey on the Actual State of Stewardship Activities” (explained later in this paper).
3) Improving board effectiveness: The shift from the “number” to the “quality” of independent outside directors is crucial, with a future direction proposed for companies listed on the Tokyo Stock Exchange Prime Market to have a majority of independent outside directors. Additionally, strengthening the role of the board of directors' secretariat (corporate secretary) is also a key challenge.
4) Addressing issues in the market environment: Calls for the reduction of substantive cross-shareholdings and measures against pressure made to discourage divestment, and strengthening protections for minority shareholders in parent-subsidiary listings.
5) Encouraging management to be aware of sustainability issues: The SSBJ Standards (Sustainability Disclosure Standards) were published in March 2025, with disclosure becoming mandatory for some large companies starting in 2027. Establishing safe harbor rules to reduce the risk of misstatements in non-financial information is also under consideration.

Next, we present an overview of the survey results concerning asset managers' engagement practices from the “Survey on the Actual State of Stewardship Activities.”[3] This survey involved detailed interviews and analysis of asset managers, asset owners, proxy advisory firms, and others regarding the practical implementation of stewardship activities (particularly engagement).

In Japan, the quality of dialogue between investors and companies is strongly emphasized from a policy perspective. This survey aims to visualize the current state, organize desirable practices and challenges, thereby contributing to the qualitative improvement of future engagement, enhancing corporate value, and ultimately advancing substantive corporate governance reform.

[3] https://www.fsa.go.jp/singi/follow-up/siryou/20250602/04.pdf (in Japanese only)

This survey examines two perspectives on engagement practices from investors and companies regarding cases where constructive dialogue has developed and cases where it has not.

Investor Perspective	Corporate Perspective
Cases developing into constructive dialogue	Cases developing into constructive dialogue
・Engagement with global top-tier companies ・Disclosure of business portfolio management ・Leveraging a global investor network ・Implementing engagement with long-term active funds ・Responding to corporate culture transformation	・After thoroughly researching the company, investors provide precise proposals and advice on what would be best, from a medium-to-long-term perspective ・During discussions, investors share our extensive analysis results
Cases not developing into constructive dialogue	Cases not developing into constructive dialogue
・The purpose of dialogue is solely to improve disclosure or conform to voting criteria ・Insufficient coordination between corporate SR and IR personnel leads to redundant dialogue content ・Engaging in dialogue has become an end in itself	・Only interested in the most recent data ・Pursuing only short-term gains of their own funds ・Attempting to extract undisclosable information ・Persistently asking CEOs and CFOs only about minute, immediate performance metrics ・Asking questions out of a sense of obligation to report to asset owners

Source: Financial Services Agency, “The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code: 30th Meeting,” Material 4: “Survey on the Actual State of Stewardship Activities,” Provisional translation by JSS.

According to the survey results above, investors are expected to engage in constructive dialogue that focuses on corporate long-term strategy, sustainability challenges, capital policies, and other areas, using specific examples to promote sustainable growth and enhance corporate value. On the other hand, companies are required to engage in meaningful dialogue that contributes to enhancing corporate value, not merely in superficial exchanges focused solely on improving disclosure, explaining proposals, or addressing questions that do not conflict with voting criteria. Furthermore, implementing engagement during normal times deepens mutual understanding and strengthens relationships between companies and investors. Engagement between companies and investors should be treated not as adversarial but as a dialogue for mutual understanding. We believe such engagement plays a crucial role in making corporate governance reforms substantive.

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