Overview and Key Points of the Amendments to the Corporate Governance Code

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On July 21, 2026, the Financial Services Agency (the "FSA") and Tokyo Stock Exchange, Inc. (the "TSE") published the revised version (the "Revised Code") of Japan's Corporate Governance Code (the "CG Code"). This is the first revision in approximately five years, following the previous revision in June 2021.
The revision was made from the perspective of encouraging the realization of effective corporate governance that goes beyond a merely formalistic response, and its content extends to the very structure of the CG Code.
Listed companies are required to submit a Corporate Governance Report (the "Governance Report") setting out matters relating to the Revised Code by no later than the end of July 2027.
This newsletter provides an overview of the revision in Section I, discusses the key points of the revision in Section II, and organizes practical considerations in Section III.

I. <u>Overview of the Revision</u>

Since the CG Code took effect in 2015, a certain degree of progress has been observed in corporate governance reform in Japan. At the same time, however, it has been pointed out that, in order to achieve sustainable growth and increased corporate value over the mid- to long-term, it is important that corporate governance reform be given substance through the efforts of both companies and investors, rather than remaining a formalistic response to the CG Code. Against this background, the aim of the revision is to return to the purpose of the CG Code, which adopts a principles-based approach and the "comply or explain" method, and thereby to give substance to the CG Code itself.
"Revision of the Corporate Governance Code to Promote Growth Investment," published by the FSA and the TSE on the same date (the "Explanatory Statement"), likewise explains that the revision is intended to achieve what may be described as the "substantiation of the Code," returning to the principles-based spirit that underpinned the Code when it was first formulated.
The content of the revision may be organized into (i) amendments to the structure of the CG Code, and (ii) amendments to the content of the individual principles.

1. Amendments to the Structure

Prior to the revision, the CG Code adopted a three-tier structure consisting of General Principles, Principles and Supplementary Principles, all of which were subject to "comply or explain." Under the Revised Code, the Supplementary Principles have been abolished and the content of the principles subject to comply or explain has been limited to conceptual and abstract matters (the "principles-based reformulation" and "streamlining"), while "Interpretive Guidance" — which sets out specific content, purpose and background in order to support responses to each principle — has been newly introduced for all General Principles and for certain Principles.
In addition, a preamble has been newly added in order to re-communicate the purpose and spirit of the Code, expressly stating that (i) the CG Code is also expected to have the effect of encouraging mid- to long-term investment in the market, and (ii) whether or not a company complies with a principle, providing a careful explanation of the reasons is considered conducive to constructive dialogue with investors.

2. Amendments to the Content

The content of the individual principles has also been amended, focusing on the promotion of growth investment, the strengthening of board functions, and the submission of the annual securities report prior to the annual general meeting of shareholders. The main amendments are summarized below.

Overview of the 2026 Revision of the Corporate Governance Code		
Promotion of Growth Investment	**Strengthening of Board Functions**	**Submission of the Annual Securities Report Before the AGM**
Establishing the Path to Growth (Principle 4-1) ▶ Added the wording "establish the path to growth toward those goals" as an example of setting the strategic direction, which is a major role and responsibility of the board **Explanation of the Allocation of Management Resources (Principle 4-1)**	**Independent Outside Directors (Principles 4-8 to 4-12)** ▶ Emphasized, in the Principles and the Interpretive Guidance, the importance of the roles and responsibilities to be fulfilled, the securing of quality and number, and the securing of independence ▶ Positioned "monitoring of management" first among the roles	**Addition to the Principle (Principle 1-2)** ▶ Added to the Principle that submitting the annual securities report before the date of the general shareholder meeting is an important example of developing an appropriate environment for the exercise of shareholder rights

▶ Emphasized that companies should explain specifically what they will do with respect to growth investment (investment in facilities, R&D, human capital, intellectual property and other intangible assets) and the review of the business portfolio, etc. **Continuous Examination (Principle 4-2)** ▶ Added that the board should continuously examine whether the allocation of management resources is appropriate in light of the business strategy and business plan ▶ The Interpretive Guidance cites, as an example, whether financial assets such as cash and deposits and physical assets are effectively utilized for growth investment, etc.	and responsibilities of independent outside directors **Invigoration of Deliberations (Principle 4-14)** ▶ Added to the Interpretive Guidance that companies should promote the strengthening of the functions of the secretariat (corporate secretary, etc.) that supports the chair and the directors, including independent outside directors	**Desirable Timing of Submission (Interpretive Guidance)** ▶ It is most desirable for the report to be submitted at least three weeks before the date of the general shareholder meeting ▶ Consider, to that end, postponing the date of the general shareholder meeting and the record date for the exercise of voting rights from the timing based on conventional practice **Institutional Considerations Proceeding in Parallel** ▶ Integration of the annual securities report with the business report, etc.; unification of audits under the Companies Act and the Financial Instruments and Exchange Act; rationalization of the items to be stated in the annual securities report

II. Key Points of the Revision

1. Principles-Based Reformulation, Streamlining and the New "Interpretive Guidance"

Under the Revised Code, the former Supplementary Principles have been reorganized so that the points on which listed companies should particularly focus are made clear: provisions forming the core of governance have been elevated to Principles, while provisions overlapping with other parts of the Code or with laws and regulations have been deleted.

Accordingly, "Interpretive Guidance" has been newly introduced for all General Principles and for certain Principles. Although the Interpretive Guidance is not itself subject to comply or explain, it serves to support substantive responses to each principle and includes the thinking and purpose underlying the principle, as well as measures considered to be one of the best practices or good practices for implementing it.

Before the Revision	After the Revision
Three-tier structure of General Principles, Principles and Supplementary Principles ▶ All of them, including the Supplementary Principles, were subject to comply or explain ▶ Specific methods and examples were also set out in the body of the Principles and Supplementary Principles ▶ A "Background and Purpose" section was appended to each General Principle	**Two-tier structure of General Principles and Principles (Supplementary Principles abolished)** ▶ Comply or explain applies only to the General Principles and the Principles ▶ Specific content, purpose and background are set out in the "Interpretive Guidance" (not subject to comply or explain) ▶ The "Background and Purpose" section has been consolidated into the "Interpretive Guidance"

2. Promotion of Growth Investment (Allocation of Management Resources)

The central theme of the revision is the appropriate allocation of management resources, including growth investment.

First, Principle 4-1 provides that the board of directors should regard it as one of its major roles and responsibilities to "establish the corporate goals (business principles, etc.) and the path to growth toward those goals, and thereby set the strategic direction of the company." The revision added "establish the path to growth toward those goals" as an example of setting the strategic direction; establishing a path to growth is not, in itself, imposed as a separate obligation. The Interpretive Guidance nonetheless states that the board bears the role and responsibility of establishing and presenting a path to growth that takes into account the company's strengths, including its competitive advantages, and its diverse stakeholders. On that basis, when formulating and publishing business strategies and business plans, the board should aim to realize growth, present the basic policy on earnings plans and capital policy in light of its cost of capital, present targets for profitability and capital efficiency, and explain specifically what it will do with respect to the allocation of management resources — including growth investment (investment in facilities, research and development, human capital, intellectual property and other intangible assets) and the review of the business portfolio — in order to achieve those targets.

In addition, under Principle 4-2, the board is to continuously examine whether the allocation of the company's management resources is appropriate in light of the business strategies and business plans formulated and published with a view to achieving growth. The Interpretive Guidance cites, as an example of matters to be examined, whether management resources such as financial assets (including cash and deposits) and physical assets are being effectively utilized for growth investment and similar purposes.

In this regard, the Explanatory Statement expressly states that holding such assets, including cash and deposits, is not always to be denied, and that holding an appropriate level of cash and deposits may itself be regarded as part of the allocation of management resources, insofar as the company is able to explain the necessity and reasonableness of holding them.

The Interpretive Guidance further indicates that, in considering investment targets, companies should be fully aware that a variety of investment opportunities exist, including (i) whether the investment target is sought internally (investment in facilities, research and development, human capital, intellectual property and other intangible assets) or externally (M&A, business alliances, investment in start-ups, etc.); (ii) whether the horizon is short-term or mid- to long-term; and (iii) whether the investment is domestic (investment in human resources in regional areas, development of regional bases, etc.) or overseas. The Explanatory Statement also cites disclosure of capital allocation as an example of how the allocation of management resources may be explained.

3. Strengthening of Board Functions

With respect to independent outside directors, in order to enhance their effectiveness, the roles and responsibilities they should fulfil, the securing of their quality, the securing of their number, the securing of their independence, and the exercise of their functions have each been organized into separate principles (Principles 4-8 through 4-12).

(i) Principle 4-8 lists, first among the roles and responsibilities expected of independent outside directors, "to monitor management through important decision-making at the board, including the appointment and dismissal of senior management," thereby clarifying that the monitoring of management is their principal role and responsibility.

(ii) Principle 4-9 requires the securing of the "quality" of independent outside directors, and its Interpretive Guidance indicates that the board may consider formulating criteria regarding the knowledge, capabilities and other qualities necessary in order to appoint appropriate individuals as independent outside directors.

(iii) Principle 4-10 maintains the existing levels as to the "number" of independent outside directors — at least one-third for Prime Market listed companies (at least two for companies listed on other markets) — and further provides that a Prime Market listed company with a controlling shareholder should appoint at least a majority of independent outside directors who are independent of the controlling shareholder (at least one-third for companies listed on other markets).

That said, the Explanatory Statement notes the view that, in due course, Prime Market listed companies operating globally should appoint a majority of independent outside directors, and comments to the same effect were submitted in the public consultation. Developments in future discussions should therefore be monitored.

(iv) Principle 4-11 provides that the board should establish and disclose independence standards that focus on securing, in substance, the independence of persons serving as independent outside directors, taking into account the independence criteria set by the financial instruments exchange.

(v) Principle 4-12 provides that independent outside directors should exchange information and share views with other independent outside directors from an independent and objective standpoint, and should establish a framework for liaison and coordination with management and for cooperation with the Audit & Supervisory Board Members or the Audit & Supervisory Board.

Next, with respect to the invigoration of board deliberations, the Interpretive Guidance to Principle 4-14 adds that it is important to promote initiatives such as strengthening the functions of the so-called board secretariat (corporate secretary, etc.), the department that supports the board. It is stated that the board secretariat should desirably go beyond a purely administrative role in operating meetings and should actively manage the board and its subordinate committees — including by determining appropriate agenda items — so that they serve as forums for effective discussion. Principle 4-14 also expressly provides that listed companies should establish a support structure for directors and Audit & Supervisory Board Members, including in terms of the personnel of the departments that support the board.

4. Submission of the Annual Securities Report Prior to the Annual General Meeting of Shareholders

Principle 1-2 now expressly refers to "submitting the annual securities report before the date of the general shareholder meeting" as an important example of developing an appropriate environment for the exercise of shareholder rights at the general shareholder meeting.

The Interpretive Guidance states that, because annual securities reports contain a wealth of information that is useful and highly reliable for investors' decision-making — such as governance information including executive remuneration and cross-shareholdings — it is in principle most desirable for them to be submitted at least three weeks before the date of the general shareholder meeting, and that companies should consider, to that end, postponing the date of the general shareholder meeting and the record date for the exercise of voting rights from the timing based on conventional practice.

That said, the Explanatory Statement notes that the FSA itself recognizes that, taking into account the burden on companies, disclosure at least three weeks before the date of the general shareholder meeting is not necessarily easy given the practices that have become common under the current legal framework. It states that the FSA will, in cooperation with the Ministry of Justice, also proceed in parallel with institutional considerations — including the integration of the annual securities report with the business report, etc., the unification of audits under the Companies Act and audits under the Financial Instruments and Exchange Act, and the rationalization of the items to be stated in the annual securities report — as discussed at the Legislative Council. For the time being, companies will likely proceed with their consideration to the extent feasible, taking into account their own financial reporting and audit schedules.

III. Practical Considerations

Listed companies are required to submit a Governance Report setting out matters relating to the Revised Code by no later than the end of July 2027. The guidance for preparing Governance Reports corresponding to the Revised Code has already been published, and it is stated that no significant revision of the format of the Governance Report is planned in connection with this revision.

In addition, the Revised Code expressly states that, rather than simply indicating compliance with a principle, explaining the reasons for compliance — for example by setting out the specific content of the company's initiatives — is also a desirable practice conducive to constructive dialogue. On the other hand, where a company chooses to explain, it should do so carefully and with ingenuity in light of the purpose and spirit of the relevant principle; confining itself to a superficial explanation using "boilerplate" language is stated to run counter to the purpose of comply or explain.

Although companies are not necessarily required to implement everything set out in the Interpretive Guidance, they must interpret the purpose and spirit of each principle taking into account not only the content of the principle but also the matters set out in the Interpretive Guidance and, in light of their own circumstances, choose to comply or explain, or take other action, in line with that purpose and spirit (TSE and FSA, "To Personnel in Charge at Listed Companies").

Please note that, for companies listed on the Growth Market, only the General Principles continue to be subject to comply or explain.

IV. Conclusion

While the revision makes the text of the principles more concise, it requires the board of directors to explain specifically "what it will do" with respect to the allocation of management resources, including growth investment. In this sense, the revision may be said to encourage a shift from a formalistic response to a substantive one.

With the deadline of the end of July 2027 in view, listed companies are encouraged to begin preparations at an early stage, focusing on the following four points: (i) enhancing the explanation of "what the company will do" with respect to the allocation of management resources, including growth investment; (ii) reviewing the effectiveness of the board, including the quality, number and independence of independent outside directors; (iii) considering the schedule relating to the general shareholder meeting, including whether the annual securities report can be submitted before the meeting; and (iv) reviewing the description in the Governance Report, taking the Interpretive Guidance into account as well.

[Reference Materials]

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