Mr. Toshitake Inoue
Director-General, Markets and Policy Bureau
Mr. Akito Konagaya
Director, Corporate Accounting & Disclosure Division
Financial Services Agency (FSA)

CC: Mr. Katsumi Ao, Director & Senior Executive Officer, Tokyo Stock Exchange

19 January 2026

Dear Inoue-san and Konagaya-san,

CGI Global Recommendation Regarding Japan's Corporate Governance Code

Thank you for the opportunity to comment upon the review of Japan's Corporate Governance Code.

The Chartered Governance Institute (CGI) is the world's premier qualifying organisation for Company Secretaries and Governance Professionals. Our nine divisions[1] support 28,000 Members and 43,000 Students, who work in practice across 80 countries.

Established in 1891 under Royal Charter in the United Kingdom, our vision is to inspire good governance for a sustainable world. We do this by enabling organisations to unlock the value of good governance for long-term success and resilience through public advocacy, chartered governance qualifications and continuous professional development programmes for Company Secretaries and Governance Professionals.

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GENERAL OBSERVATIONS

CGI Global applauds the FSA's leadership in the development of public policies and initiatives to help strengthen governance practices in Japanese companies. More recently, we welcomed the announcement by the FSA, together with the Tokyo Stock Exchange, to establish an Expert Panel of the Revision of the Corporate Governance Code (Code).

We have reviewed the public materials relating to the first meeting of the Expert Panel held on 21st October 2025 and note the priorities set out in the FSA's Action Programme for Corporate Governance Reform (2025) summarised as:

1. **Driving corporate value creation** and sustained growth through enhanced disclosures demonstrating the efficient allocation of resources, entrepreneurship and appropriate human capital management.

2. **Improving board effectiveness** particularly with respect to managerial oversight and independent decision-making and the importance of professional secretarial services.

[1] CGI Divisions are established in Australia, Canada, Hong-Kong/China, Malaysia, New-Zealand, Singapore, Southern Africa, United Kingdom & Ireland, and Zimbabwe.

3. **Enhancing quality disclosure and promoting investor dialogue** by publishing the annual securities report ahead of the AGM, employing technology in AGM proceedings, and improving company and investor engagement.

4. **Addressing issues in the market environment** in relation to strategic shareholdings and large shareholding reporting rules, and the governance of parent-subsidiary listings.

5. **Encouraging management awareness of sustainability issues** particularly as referenced by the Sustainability Standards Board of Japan and in terms of improving gender diversity on boards.

Structure and content of the Code

We agree that Japan's Code should be streamlined. For example, the text included in the "notes" section is general narrative and not specifically instructive which could be removed and provided as guidance elsewhere. This would substantially reduce the overall length of the Code and focus the readers attention on the substance of the principles.

Japan's Code should include an "Introduction" to clarify the purpose of the Code and its relationship with the TSE Listing Rules. This should include clarity around the expectations on companies to disclose a statement as to whether they have applied the General Principles, or any reasons for non-compliance with the Supplementary Principles.

We emphasise that any streamlining of the Code, should not come at the expense of the removal of principles which remain core to good governance practices. We also note the absence of some core principles which should be added to the Code as noted in our commentary which follows.

DETAILED OBSERVATIONS

While many of the priorities set out in FSA's Action Programme have resonance with CGI Members, we have limited our commentary to the areas of most relevance to the role of the Company Secretary which is related to "board effectiveness."

Our commentary takes account of prominent corporate governance codes around the world, and we have referenced the OECD Corporate Governance Factbook 2025[2] (OECD Factbook) which examines approaches to governance in 52 markets.

1. Referencing the role of the Company Secretary[3]

We encourage Japanese companies to appoint the position of a Company Secretary, reporting to the Board Chair, responsible for advising the board and senior leadership on governance matters. This is consistent with the recommendations provided in the materials to the Expert Panel stating that:

"The board secretariat plays an important role by operating independently from the executives and providing support to the chair and directors including independent directors. It is noted that as boards increasingly focus on their monitoring role, the board secretariat will become even more crucial as a link between board oversight and executives and play a vital role during emergencies."

A Company Secretary is a senior position akin to a lawyer or an accountant. It is a prestigious profession which commands multi-disciplinary knowledge including law

[2] OECD Corporate Governance Factbook 2025
[3] CGI Global Letter to FSA, 25 September 2025

and regulation, board responsibilities and oversight, and disclosure and transparency. These subjects are taught in the CGI's post-graduate flagship course, the Chartered Governance Qualifying Program, and delivered across all nine CGI divisions.

In many advanced economies, the role is legally recognised for ensuring the proper application of good corporate governance. For example, as required in the UK Companies Act (2006), some US State Laws, India's Companies Act (2013), Hong Kong's Company Ordinance and South Africa's Companies Act (2008). This is reiterated in Corporate Governance Codes, for example:

"All directors should have access to the advice of the Company Secretary, who is responsible for advising the board on all governance matters. Both the appointment and removal of the Company Secretary should be a matter for the whole board.[4]"

"A listed entity should have a Company Secretary who is accountable directly to the board, through the chair, on all matters relating to the proper functioning of the board[5]."

"The Company Secretary is responsible for advising the board through the chairman and/or the chief executive on governance matters and should also facilitate induction and professional development of directors.[6]"

The G20-OECD Corporate Governance Principles also emphasise the importance of the Company Secretary in relation to exercising objective independent judgement and fulfilling Independent Director responsibilities:

"The Chair or lead independent director may, in some jurisdictions, be supported by a Company Secretary." [7] *"The contributions of non-executive board members to the company can be enhanced by providing access to certain key managers in the company such as, for example, the Company Secretary.…*[8]*"*

We recommend that Principle 4.13 of Japan's Corporate Governance Code be amended to explicitly refer to the provision of support to the board of directors by having access to a professional Company Secretary. An example of how this might be considered is shown as track changed to the original text, as follows:

Principle 4.13 Information Gathering and Support Structure

In order to fulfill their roles and responsibilities, directors and kansayaku should proactively collect information, and as necessary, request the company to provide them with additional information. Also, companies should establish a support structure for directors and kansayaku, including providing sufficient staff and access to a Company Secretary who should be appointed or removed by the board, and is responsible for advising on governance matters. The board and the kansayaku board should verify whether information requested by directors and kansayaku is provided smoothly.

2. Strengthening independent board decision-making

[4] UK Corporate Governance Code (2024) Section 2, Provision 16, Page 9
[5] ASX Corporate Governance Council, Corporate Governance Principles and Recommendations (2019), 4th Edition, Recommendation 1.4, Page 8
[6] Hong Kong Corporate Governance Code, Section F
[7] G20-OECD Principles of Corporate Governance (2023), Principle V.E, Page 39
[8] G20-OECD Principles of Corporate Governance (2023), Principle V.F, Page 42

Increasing the proportion of Independent Directors

We welcome the fact that nearly all Prime Market companies now have one third or more independent directors on the Board and an increasing number (over 25%) now have a majority of independent board members. Ideally, this should be the case for all listed companies, particularly for those with controlling shareholders.

Independent Directors are essential to an effectively functioning board providing constructive challenge, strategic guidance, and holding management to account. In this regard, we encourage Japanese companies to support Independent Directors with regular training opportunities. The OECD Factbook noted that six markets mandate 50% or more independent board members (including the USA), and 20 jurisdictions recommend this in Corporate Governance Codes[9].

We recommend that Principle 4.8 of Japan's Code be amended to increase the proportion of independent directors as follows:

Principle 4.8: Effective Use of Independent Directors
Independent Directors should fulfil their roles and responsibilities with the aim of contributing to sustainable growth of companies and increase corporate value over the mid to long term. Listed c~~C~~ompanies, ~~listed on the Prime Market~~ should therefore appoint a majority~~t least one third~~ of their directors as independent directors ~~(two-thirds if listed on other markets)~~ that sufficiently have such qualities.

Independent board leadership

According to the OECD Factbook, 76% of markets require or encourage the separation of the roles of the Board Chair and Chief Executive Officer (CEO), up from 44% in 2014. Even in the USA, which has no separation requirement, 60% of S&P 500 companies now have a split the Chair and CEO roles according to a 2024 Spencer Stuart Survey[10].

Other markets offset the power of this combined position with stricter independent director requirements – for example India and Singapore require 50% of independent board directors, rather than 33%, for companies that combine the role[11].

We therefore recommend that a new Supplementary Principle be added to Principle 4.3 recommending that Board Chairs be independent upon appointment and distinct from management as follows:

Principle 4.3: Roles and Responsibilities of the Board (3)
NEW: The Board Chair should be independent when appointed. There should be clarity between the role of the Board Chair responsible for leadership of the board and that of the role of the CEO responsible for leadership of the company.

Activating the role of the Lead Independent Director

[9] OECD Corporate Governance Factbook 2025, Page 154
[10] 2024 U.S. Spencer Stuart Board Index
[11] OECD Corporate Governance Factbook 2025, Page 155

Given that it is common for the role of the CEO and Chair to be combined in Japanese companies, shareholders are often keen to understand how powers of decision-making are balanced – for example with the appointment of a Lead Independent Director (LID), otherwise known as a Senior Independent Director (SID) in the UK. The LID may also serve as a helpful point of contact with the company in the event that the Chair is unavailable to engage with shareholders or other stakeholders.

The LID position does not appear to be very common on Japanese boards despite being described in the Code. By contrast, in the US, 66% of S&P 500[12] companies have a lead (or presiding) director - although the role is decreasing as more companies appoint independent board Chairs.

We recommend that Supplementary Principle 4.8.2 be amended to expand on the role of the Lead Independent Director as follows:

Supplementary Principle 4.8.2 Independent directors should endeavour to establish a framework for communicating with the management and for cooperating with kansayaku or the kansayaku board by~~, for example,~~ appointing ~~a~~the lead independent director (LID) from among themselves. Led by the LID, the independent directors should meet annually to review the Chair's performance and meet on other occasions as necessary. The LID should also provide a channel for communication with shareholders and stakeholders in the event the Chair, or other appropriate director, is unavailable.

3. Clarifying the distinction between the role of the board and management

Many markets now encourage companies to publicly disclose a formal board charter clarifying which matters are reserved for the board and which are delegated to management. This includes a clear description of the role of the board, committees, independent directors, board chair, and chief executive, amongst other matters.

For example, Principle 1 of Australia's ASX Corporate Governance Principles emphasise the importance of a division of responsibilities between the role of the board to direct a company's affairs as distinct from management's role in undertaking day-to-day operations.

> *"A listed entity should clearly delineate the respective responsibilities of its board and management and regularly review performance."*

We recommend that a new supplementary Principle be added under Principle 4.1 regarding the roles and responsibilities of the board as follows:

Principle 4.1. Roles and responsibilities of the Board NEW: The company should disclose a board charter describing the respective roles and responsibilities of its board, leadership, committees and management. The description should clearly describe the matters reserved to the board and those delegated to management.

[12] 2024 U.S. Spencer Stuart Board Index

4. Expanding the scope of board effectiveness reviews

Board effectiveness reviews – of the board, its committees and individual directors – enable an assessment of the incumbent make-up of the board and committees aligned with corporate strategy, the diversity policy and succession planning. In many markets it is common for the Nomination Committee to determine the process for annually reviewing the performance of the board, committees and individual directors – and external appraisals (preferably every three years). Companies are also encouraged to disclose the process for board evaluation, any material issues arising, and actions taken.

We therefore recommend that Supplementary Principle 4.11.3 of Japan's Corporate Governance Code be strengthened as follows:

> Principle 4.11 Preconditions for Board and Kansayaku Board Effectiveness
>
> The board should endeavour to improve its function by analysing and evaluating the effectiveness of the board as a whole, and that of its committees and individual directors.
>
> Supplementary Principle 4.11.3
>
> Each year the board should analyze and evaluate its effectiveness as a whole, and the effectiveness of its leadership and committees, taking into consideration the relevant matters, including self-evaluations of each director. A summary of the results should be disclosed around the process for evaluation and any material issues of relevance arising from the conclusions and actions taken. Additionally, periodic external board effectiveness review should be conducted by an external third party.

5. Strengthening the importance of gender diversity on boards

We note that the materials presented to the Expert Panel referenced the continued importance of sharing good practice on gender diversity and a priority to *"advocate for the development of global standards with regard to human capital."*

Appropriate diversity on boards and across senior leadership contributes to more effective, equitable and inclusive decision-making. This is particularly poignant in relation to gender diversity where many Governments have published national targets requiring companies to disclose Diversity Policies and plans to increase the number of female board directors and senior executives.

According to the OECD Factbook, women hold an average of 29% of Board positions across 52 jurisdictions surveyed. This included 10 jurisdictions which have exceeded 40% female participation on corporate boards, while statistics from the International Labour Organization in 2024 clarify that the proportion of women in senior management roles was 35%.

Within this context, it is important that Japanese companies strengthen their commitment to board effectiveness by ensuring they meet the stated national requirement for females on TSE Prime Market listed companies to comprise 30% of senior managers, directors and kansayaku by 2030. The 2024 Japan Spencer Stuart Board Index[13] confirmed that while the number of companies achieving over 30% is on the rise in Japan, only 16% of the Nikkei 225 and 20% of the TOPIX 100 currently meet this threshold. For a developed capital market, this progress is inadequate.

[13] 2024 Japan Spencer Stuart Board Index

We therefore recommend that Supplementary Principle 2.4.1 of Japan's Code be strengthened to emphasize the importance of female participation on corporate boards in Japan. An example of how this might be considered is shown as track changed to the original text, as follows:

> Principle 2.4: Ensuring Diversity, including Active Participation by Women
> Supplementary Principle 2.4.1
>
> There should be at least one female board director on Prime Market listed company boards and females should comprise 30% of senior managers, directors and auditors by 2030. Companies should disclose~~present~~ their policies and voluntary and measurable goals and timeframes for ensuring diversity in the promotion to core human resources, such as the promotion of women, foreign nationals and midcareer hires to middle managerial positions, as well as disclosing their status. The company's progress towards implementing the policies and achieving the goals in accordance with the timeframe should be regularly reported to shareholders.

To conclude, we reiterate our recognition of the good progress of corporate governance reforms in Japan led by the FSA and other authorities such as the TSE and METI. We encourage continued momentum for applying corporate governance principles into practice and we hope our comments are received as constructive guidance for your consideration.

I remain at your disposal should you have any questions about the content of this letter or for a local representative, please contact CGI's Japan Advisor, Amane Fujimoto (afujimoto@cgiglobal.org).

Kind regards,

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