Norges Bank Investment Management

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Date: 12.05.26

Corporate Accounting and Disclosure Division
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Re: Consultation on Proposed Revisions to Japan's Corporate Governance Code

We refer to the public consultation by Financial Services Agency (FSA) and Tokyo Stock Exchange (TSE) on proposed revisions to Japan's Corporate Governance Code (the Code). We welcome the opportunity to contribute our perspective.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank that manages the Norwegian Government Pension Fund Global. As of 31 December 2025, we managed USD 2.11 trillion (JPY 329.27 trillion) in assets, of which USD 96.22 billion (JPY 15,012 billion) was invested in shares of 1,096 Japanese listed companies. Japan is our second-largest country allocation. Corporate governance in Japan has been a longstanding focus of our engagement with FSA, TSE, and Japanese companies.

We understand FSA and TSE's intention to promote substance over form. We share that objective and we welcome a number of the substantive improvements in the revised Code, including the strengthened expectations on capital efficiency, the repositioning of constructive shareholder dialogue into Principle 1, reflecting its central importance to the Code, and the separation of internal control and risk management oversight into a dedicated standalone principle. However, the revised Code relocates several provisions from standalone comply-or-explain principles to interpretive guidance, removing them from the accountability framework on which investor monitoring depends. A secondary consequence is that the revised Code removes from the Corporate Governance Report the requirement to disclose director independence criteria and concurrent positions held by directors and auditors, both of which are material to our assessment of board quality.

This response sets out our views across four themes most affected by the restructuring.

1. Shareholder rights and minority shareholder protection

We welcome the explicit expectation under General Principle 1 and its interpretative guidance that companies with a controlling shareholder develop a governance system to protect the interests of minority shareholders. However, the relocation of specific protections — anti-takeover measures, capital policy, and related party transactions — from standalone comply-or-explain principles to interpretive guidance represents a reduction in the accountability framework available to investors.

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On anti-takeover measures: the removal of former Principle 1.5 is a concern. The Companies Act provides a floor, not a governance standard, and investor expectations for shareholder approval and proportionality go beyond its requirements. The G20/OECD Principles state that anti-takeover devices should not be used to shield management and the board from accountability.[1] NBIM does not support the introduction or renewal of anti-takeover measures absent a compelling justification.[2] We recommend retaining a principle-level expectation that takeover response policies require shareholder approval for adoption.

On related party transactions: revised Principle 4.3 does not establish minimum RPT governance requirements. NBIM's position is that material related party transactions should be beneficial to all shareholders, conducted on market terms, approved by independent board directors, approved by non-conflicted shareholders if extraordinary, and disclosed with full details of parties, rationale and terms.[3] The G20/OECD Principles require that RPTs be approved in a manner that protects shareholders from conflicts of interest, and recognise that shareholder approval — including by non-interested shareholders — is appropriate for non-routine or large transactions.[4] We recommend that a standalone RPT principle is restored requiring: independent committee review; a shareholder approval mechanism for material transactions; and standardised annual disclosure.

On cross-shareholdings: revised Principle 1.4 retains the annual assessment and disclosure requirement but without reduction targets or timelines, companies can satisfy it without any commitment to change. Cross-shareholdings can depress returns on equity, compromise director independence, and create conflicts of interest in voting. In 2025, we voted against board members at 116 Japanese companies where we assessed that cross-shareholdings were excessive and misaligned with shareholders' interest.[5] The G20/OECD Principles note that cross-shareholdings allow shareholders to exercise control disproportionate to their equity ownership[6]. Principle 1.4 should require companies to disclose reduction targets and exit timelines for cross-shareholdings, together with the cost of capital methodology used to assess each holding.

On individual vote counts in director elections: the Code does not address how director election votes are counted or disclosed. Board members should be elected with an individual vote count at the shareholder meeting, with the vote tally published.[7] Individual vote counts enable shareholders to send targeted accountability signals on specific candidates and are particularly important where concerns relate to a director's independence, tenure, or commitment rather than the full slate. We recommend including an expectation within the Code that listed companies conduct and disclose individual vote counts in director elections.

2. Disclosure and transparency: Yuho before the AGM

We welcome the expectation under revised Principle 1.2 and its interpretative guidance that companies submit their annual securities report (Yuho) at least three weeks before the general shareholder meeting. However, this expectation sits in interpretive guidance and is not subject to comply-or-explain.

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[1] OECD Principles, Chapter II, Principle II.H.2
[2] NBIM Voting Guidelines
[3] NBIM Position Paper: Related-Party Transactions
[4] OECD Principles, Chapter II, Principles II.F and II.F.1
[5] NBIM Responsible Investment 2025
[6] OECD Principles, Chapter IV, Principle IV.A.3
[7] Individual vote count in board elections | Norges Bank Investment Management

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The Yuho contains information material to voting decisions — including director remuneration, cross-shareholding disclosures, and governance arrangements — that is not available in the convening notice. Even among the 69.6% of Prime Market companies that do disclose the Yuho before the AGM, 85% do so within three days — too late for institutional investors to incorporate the information into their voting analysis.[8] We recommend elevating this interpretative guidance to a comply-or-explain principle, establishing the three-week standard as a governance floor rather than an aspiration.

We also note that only 27.5% of Prime Market companies provide simultaneous Japanese and English disclosure of the Yuho, with only 10.4% of companies providing a full English translation.[9] This limits the ability of international investors to make fully informed voting and investment decisions. We also recommend that the Code encourages companies to review their voting record dates and AGM scheduling to facilitate timely disclosure.

3. Board roles: capital efficiency and executive remuneration

On capital efficiency: we welcome the strengthened language on capital efficiency and business resource allocation under revised Principles 4.1 and 4.2, and the expectation that companies assess whether excess cash holdings may be impairing capital efficiency. However, capital management has been subsumed into Principle 4.1 and lost its standalone principle status. The persistent capital efficiency challenges among Japanese listed companies are well documented, and the TSE's March 2023 request to Prime and Standard Market companies to implement management conscious of cost of capital and stock price has demonstrated that direct, targeted expectations produce measurable changes in company practices.[10] Subsuming capital management into a broader strategic direction principle risks diluting that signal.

We are also concerned that the treatment of cash alongside real assets under Principle 4.1 may reduce the scrutiny applied to cash holdings. There has been a steady increase in the cash and deposits held by Japanese companies in the last 15 years, whilst the ratios of capital investment and R&D to sales have consistently lagged the US and EU.[11] Companies should disclose their optimal cash level with a clear economic rationale, separately from any discussion of physical or other financial assets, enabling investors to assess whether cash reserves reflect genuine operational needs or uninvested capital that impairs returns.

On executive remuneration: revised Principle 4.2 and the interpretive guidance state that the proportion of management remuneration linked to mid- to long-term results and the balance of cash and stock should be set appropriately. The link between remuneration and capital efficiency is direct: boards that tie executive incentives to long-term equity value creation encourage the capital discipline that the Code seeks to promote. In our view, a substantial proportion of total annual remuneration should be provided as shares locked in for at least five years and preferably ten, regardless of resignation or retirement. The board should disclose a ceiling for total remuneration for the coming year and should develop simple pay practices, with allotted shares carrying no performance conditions.[12] The interpretive

[8] FSA 2nd Meeting of the Expert Panel on the Revision of the Corporate Governance Code. Material 2. Secretariat Briefing Pack – Data February 26, 2026
[9] TSE Listing Department, Summary Report of English Disclosure Implementation Status Survey
[10] Action to Implement Management that is Conscious of Cost of Capital and Stock Price (Prime and Standard Markets) | Japan Exchange Group
[11] FSA 2nd Meeting of the Expert Panel on the Revision of the Corporate Governance Code. Material 2. Secretariat Briefing Pack – Data February 26, 2026
[12] CEO remuneration | Norges Bank Investment Management

guidance to Principle 4.2 should be strengthened to include expectations on long-term equity ownership by executives, remuneration transparency, and structural simplicity.

4. Board composition: independence, expertise, and director development

The revised Code increases the independent director requirement for Prime Market companies with a controlling shareholder from one-third to a majority (revised Principle 4.10). This is welcome, as is the special committee alternative. However, the Code falls short of investor expectations in four respects, First, majority independence should be the baseline for all Prime Market companies, not solely those with a controlling shareholder. NBIM expects a majority of shareholder-elected board members in a non-controlled company to be independent of management, dominant shareholders, and related third parties.[13] With only 26.2% of Prime Market companies having majority-independent boards as of end 2025, the Code should signal this as the expected direction of travel for all listed companies.[14]

Second, the Code continues to delegate the definition of independence to exchange listing standards (revised Principle 4.11). Minimum independence criteria should be codified at Code level, addressing: a cooling-off period for former executives and professional service providers; thresholds for cross-shareholding and business relationships; and a maximum tenure beyond which independence is presumed to be compromised. In our April 2026 response to the TSE's concurrent consultation on listing rules regarding minority shareholder protection, we set out detailed views on independence criteria, including the need for a materially longer cooling-off period than the one year proposed by TSE, extension of the professional adviser category to include bankers and financial advisers, a qualitative disqualification test based on involvement in material decisions, and treatment of executives at cross-shareholding companies as non-independent.[15] These positions apply equally to the standards boards are asked to establish under Principle 4.11.

The Code also does not establish a clear expectation for an independent chair or Lead Independent Director (LID). NBIM's position is that the chair should be an independent, non-executive director.[16] Principle 4.12 should be strengthened to make an independent chair or LID an explicit expectation, with the LID designated as a shareholder contact and required to disclose their mandate and engagement activities.

Third, independence is necessary but not sufficient. An independent board that lacks relevant industry knowledge cannot effectively challenge management or evaluate strategic proposals. NBIM's position is that a majority of board members should have fundamental industry insight, and that at least two independent members should have direct experience working in the industry.[17] We recommend that Principle 4.9 should clarify that industry expertise is an explicit component of the skills assessment, and that companies should disclose how each independent director contributes relevant industry insight.

The Code's diversity provisions address characteristics such as gender and nationality but do not address nomination process rigour. A process that draws from a narrow pool risks producing boards that are structurally independent but lack the breadth of perspective needed for effective oversight. Boards should have a formal nomination process extending to a broad range of candidates with different competences and backgrounds, and should disclose how that process ensures breadth of

[13] Board independence | Norges Bank Investment Management
[14] Appointment of Independent Directors/Auditors | Japan Exchange Group
[15] Tokyo Stock Exchange Consultation on Revisions to the Listing Rules regarding Minority Shareholder Protection | Norges Bank Investment Management
[16] Separation of chairperson and CEO | Norges Bank Investment Management
[17] Industry expertise on the board | Norges Bank Investment Management

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consideration.[18] We recommend clarification within Principle 4.13 that boards should disclose how their nomination process ensures a wide range of competences and backgrounds is considered.

Fourth, the training obligation under revised Principle 4.15 requires companies to arrange suitable training opportunities and disclose their policy. We support this. However, the formulation is permissive: directors retain discretion over whether to use the opportunities provided. Principle 4.15 should be strengthened to require: ongoing board assessment of whether directors' knowledge remains adequate; disclosure of concrete training activities undertaken, not merely the training policy; and integration of training needs into the annual board evaluation under Principle 4.13.

We appreciate the FSA and TSE's consideration of our perspective and remain available to discuss any of these points further.

Yours sincerely

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