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Aquaxis Law Firm - Newsletter (July 2026)

EXPLANATION OF KEY POINTS IN THE INTERIM DRAFT OF THE 2026 COMPANIES ACT AMENDMENT

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1. Introduction and Executive Summary

On March 19, 2026, the Corporate Law Subcommittee of the Legislative Council compiled the "Interim Draft Proposal on the Review of Corporate Law (Regarding Shares, Shareholders' Meetings, Etc.)" which proposes amendments to the Companies Act ("**Interim Draft**").[1]

The Interim Draft was open for public comment from April 2 to May 22, 2026[2], and a draft outline is expected to be formulated in the future, taking into account the results of the public comment period. This newsletter provides an overview of the Interim Draft to help readers easily grasp the key points of the proposed amendments under consideration.[3]

Executive Summary

<u>Equity Compensation and Capital Formation</u>

- **Expansion of Free Share Grants**

The Interim Draft would permit companies to grant shares to employees and other personnel without consideration, extending a benefit currently available primarily to directors and executive officers. This reform is intended to simplify equity compensation arrangements and reduce reliance on technically complex in-kind contribution structures.

- **Relaxation of In-Kind Contribution Rules**

The draft would reduce procedural obstacles to in-kind contributions by:

  - ➢ Eliminating the need for inspector review where asset value is approved by a special shareholder resolution; and
  - ➢ Reducing liability exposure for contributors, directors, and certifying officers.

Importantly, directors' liability for valuation shortfalls would shift from the current negligence regime with a reversed burden of proof to an ordinary negligence regime, substantially reducing litigation risk and facilitating the use of intellectual property and other non-cash

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1 Ministry of Justice: Compilation of the "Interim Draft Proposal on the Review of Corporate Law (Regarding Stocks, Shareholders' Meetings, Etc.)" (March 18, 2026)

2 Call for Comments on the "Interim Draft Proposal on the Review of Corporate Law (Regarding Stocks, Shareholders' Meetings, Etc.)" | e-Gov Public Comments

3 In this newsletter, we will focus on key points to provide a clear overview of the main amendments without delving into detailed discussions. Since the Interim Proposal lists both Proposal A and Proposal B for many items, it is helpful to consult the Supplementary Explanation of the Interim Draft on the Review of Corporate Law (Relating to Shares, Shareholders' Meetings, etc.) (hereinafter referred to as the "Supplementary Explanation") to understand the background of the discussions in detail. Note that in the following, the Companies Act is referred to as the "Act," and the Enforcement Regulations of the Companies Act are referred to as the "Enforcement Regulations."

assets in financing transactions.
Practical implication: These reforms are expected to be particularly beneficial for startups and technology companies seeking to utilize intellectual property as contributed capital.

M&A Reforms

- **Expansion of the Share Delivery System**

  The scope of Japan's share delivery regime would be broadened to permit:
  - ➢ Additional acquisitions of existing subsidiaries;
  - ➢ Acquisitions satisfying substantive subsidiary requirements; and
  - ➢ Acquisitions of partnerships and foreign entities.

The Interim Draft also proposes eliminating creditor protection procedures currently required in share delivery transactions.
Practical implication: The reforms should make share-for-share acquisitions more attractive and increase the use of share consideration in Japanese M&A transactions.

- **Easier Squeeze-Outs Following Tender Offers**

To facilitate post-tender offer acquisitions, the Interim Draft proposes reducing the threshold for a shareholder to qualify as a "special controlling shareholder" from 90% to two-thirds in certain tender-offer-driven cash-out transactions, provided fairness protections such as MOM (Majority of Minority) safeguards are present.
Practical implication: This proposal could materially streamline post-TOB squeeze-out processes and reduce transaction execution costs.

Modernization of Shareholders' Meetings

- **Virtual Shareholders' Meetings**

The Interim Draft would codify and expand the framework for virtual-only shareholders' meetings, including for unlisted companies. It also introduces safe-harbor protections limiting challenges to shareholder resolutions based on communication failures unless there is willful misconduct, gross negligence, or a material impact on the outcome.

- **Digitalization of Meeting Procedures**

Several digitalization measures are proposed:
  - ➢ Abolishing the right to request hard-copy meeting materials after a transition period;
  - ➢ Eliminating the requirement to provide written voting methods if electronic voting is available; and
  - ➢ Simplifying electronic delivery of meeting notices by reducing the need for repeated shareholder consent.

Practical implication: These proposals reflect a broader policy objective of transitioning listed companies toward predominantly electronic shareholder communications.

Shareholder Engagement and Activism

- **Beneficial Owner Identification**

The Interim Draft proposes a new framework allowing companies to identify beneficial

owners behind nominee shareholders and requiring certain shareholding disclosures, with sanctions that may include suspension of voting rights.
Practical implication: Listed companies may gain significantly greater visibility into their shareholder base, facilitating engagement with institutional investors and activist shareholders.

- **Changes to Shareholder Proposal Rights**

The draft contemplates raising or eliminating the alternative threshold allowing shareholder proposals based solely on a minimum number of voting rights, together with extending deadlines for proposal submissions to alleviate administrative burdens associated with electronic provision requirements.
Practical implication: These reforms are intended to reduce abusive or burdensome shareholder proposal activity while easing compliance obligations.

Streamlining Shareholder Resolutions

The Interim Draft recognizes that many shareholder resolutions are effectively determined before the meeting through advance voting. Accordingly, it proposes:

- Deeming resolutions approved once necessary voting thresholds are satisfied through advance voting;
- Limiting grounds to challenge resolutions where all eligible shareholders have voted in advance; and
- Relaxing the unanimity requirement for written shareholder resolutions by permitting approval where shareholders holding at least 90% of voting rights consent and there is no opposition from remaining shareholders.

Practical implication: These reforms could meaningfully reduce the procedural burden and risk associated with conducting shareholder meetings, particularly for companies with dispersed or difficult-to-contact shareholders.

Corporate Governance Reforms

- **Companies with Nomination Committees**

To encourage broader adoption of the three-committee governance structure, the draft would permit boards with a majority of outside directors to override nomination committee decisions regarding director nominations and removals. Similar revisions are proposed for compensation committees.

- **Enhanced Audit Committee Independence**

Restrictions are being considered on executive officer-directors accessing audit committee records, reinforcing the independence and effectiveness of oversight functions.

- **Expanded Liability Limitation Agreements**

Executive directors and executive officers would become eligible to enter into liability limitation agreements (excluding conflicts-of-interest matters), a measure intended to attract management talent and encourage appropriate business risk-taking.

Reduced Disclosure Burdens

The Interim Draft contemplates integrating business reports and securities reports so that companies may rely on a single disclosure document in certain circumstances.

Practical implication: This could substantially reduce duplicative reporting efforts and compliance costs for listed companies.

2. Matters for Consideration in the Interim Draft

The following are details of the Interim Draft which consist of three parts: (1) a review of regulations concerning the issuance of shares; (2) a review of regulations concerning the conduct of shareholders' meetings; and (3) a review of regulations concerning corporate governance and other matters.

2.1 Review of Regulations Concerning the Issuance of Shares

2.1.1 Review of the Scope of Free-of-Charge Share Allocations

Under current law, when issuing shares, it is necessary to specify the subscription price of the offered shares or the method for calculating such price; however, listed companies may allocate shares free of charge to their directors or executive officers as compensation.[4] On the other hand, since such gratuitous grants of shares are not currently permitted for employees and others, the "contribution-in-kind structure"[5] is used as a method to grant shares to employees and others (without imposing a financial burden on them). However, as this method has been criticized as being overly technical, the Interim Draft proposes establishing regulations to allow the free grant of shares to employees and others, with a view to expanding the scope of entities eligible for such grants.

Furthermore, the Interim Draft notes that further clarification is needed regarding whether shares granted without consideration constitute "wages" under the Labor Standards Act and whether such grants conflict with the principle of payment of wages in currency.[6]

As noted above, while there are already examples under current law of companies granting shares to employees and others as incentives through in-kind capital contributions, it is expected that the use of share grants as incentives will increase if the amendment permits the grant of shares to employees and others without consideration. For companies that have granted shares in this manner in the past, as well as those considering introducing such a practice in the future, conducting such grants in accordance with the procedures established by the amendment will become a new option; therefore, they must consider their response in light of the ongoing discussions regarding the amendment.

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[4] Article 202-2 of the Act.

[5] This refers to the issuance of shares or the disposal of treasury stock by first granting monetary claims to employees or other parties, then allocating newly issued shares to them, and having the employees or other parties who act as underwriters contribute those monetary claims as in-kind capital contributions.

[6] Articles 11 and 24 of the Act.

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2.1.2 Revision of the Share Delivery System

Under current law, a system (the "**Share Delivery System**") is in place whereby an acquiring company, in order to make the target company its subsidiary, acquires the target company's shares and delivers shares of the acquiring company to the transferor of those shares as consideration. In order to expand the circumstances under which such share delivery is permitted, the Interim Draft proposes that the following situations be allowed: (1) when acquiring additional shares of a subsidiary; (2) when making a company a subsidiary by satisfying the substantive requirements for subsidiary status;[7] and (3) when making a partnership or a foreign company a subsidiary.

Furthermore, under current law, creditor protection procedures at the parent company making the share delivery are required as part of the share delivery process;[8] however, since these procedures take one month to complete, the Interim Draft proposes that they be abolished to facilitate a smoother share delivery process.

If the scope of the share delivery system is expanded and the procedures are simplified, it is likely that M&A transactions utilizing share delivery will become more prevalent than before.

2.1.3 Review of the System for Contributions in Kind

Under current law, when a stock company receives a contribution in kind, it must, as a general rule, file a petition with the court to appoint an inspector and undergo an inspection by that inspector to verify the value of the contributed property.[9] The Interim Draft proposes that, if the value of the property to be contributed in kind is determined by a special resolution at the general meeting of shareholders, an inspection by an inspector will not be required on the grounds that this procedural burden could have a chilling effect on in-kind contributions (such as contributions of intellectual property rights to startups). Furthermore, regarding the scope, requirements, and details of the liability of contributors of in-kind capital to make up for any shortfall, several proposals have been put forward with the aim of mitigating this liability in the event that the value of the contributed assets declines. Furthermore, regarding the scope of liability for directors and certifying officers concerning the obligation to make up for any shortfall, the Interim Draft proposes to revise this in the same manner as the liability of contributors of in-kind capital; specifically, a proposal has been put forward to change the liability to one based on negligence without a reversed burden of proof (from the current law, which imposes liability based on negligence with a reversed burden of proof where the director must prove absence of negligence).

If these revisions are implemented, the use of in-kind contributions is likely to be promoted, and the utilization of in-kind contributions such as intellectual property rights may become more widespread, particularly among startups and similar entities.

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[7] Enforcement Regulations, Article 3, Paragraph 3, Items 2 and 3.
[8] Article 816-8, Paragraph 1 of the Act.
[9] Article 207, Paragraph 1 of the Act.

2.2 Review of Regulations Concerning the Conduct of Shareholders' Meetings

2.2.1 Virtual Shareholders' Meetings and Virtual Bondholders' Meetings

Under the Act on Enhancement of Industrial Competitiveness ("**Industrial Competitiveness Act**"), a special provision has been established in the Companies Act (Article 66 of the Industrial Competitiveness Act) allowing listed companies that meet certain requirements and have received confirmation from the Minister of Economy, Trade and Industry and the Minister of Justice to hold general meetings of shareholders without a specified "venue" (which is otherwise required under current law) ("**Virtual Shareholders General Meetings**").[10] According to the supplementary explanation to the Interim Draft,[11] as of the end of December 2025, 79 companies had held Virtual Shareholders General Meetings under this special provision, and 479 companies had amended their articles of incorporation to permit the holding of Virtual Shareholders General Meetings.

To address the demand for holding such Virtual Shareholders General Meetings and the need to extend this provision to unlisted companies, the Interim Draft proposes establishing various regulations (including implementation requirements) in the Companies Act, while drawing on the relevant existing framework. Special provisions (safe harbor rules) regarding actions to rescind resolutions of general meetings of shareholders are also under consideration. The Interim Draft proposes that, even if a stock company had taken measures to prevent communication failures to the extent reasonably necessary, and the method of resolution at the general meeting of shareholders nevertheless violated laws, regulations, or the articles of incorporation due to a communication failure, such a resolution may be rescinded only if: (1) the communication failure was caused by the company's willful misconduct or gross negligence, or (2) the fact that the method of resolution at the general meeting of shareholders violated laws, regulations, or the articles of incorporation due to the communication failure has an impact on the resolution (it is proposed that this be grounds for annulment of the resolution). Furthermore, in conjunction with Virtual Shareholders General Meetings, the Interim Draft proposes to establish regulations for virtual bondholders' meetings that do not specify a venue.

If these amendments are enacted, the safe harbor rule will limit the circumstances under which a communication failure will constitute a ground for rescinding a resolution of a general meeting of shareholders; consequently, the number of companies – including unlisted companies – that introduce and hold Virtual Shareholders General Meetings is likely to increase.

2.2.2 System for Identifying Beneficial Owners

Under current law, except in certain cases, there is no system in place to identify "beneficial owners" (those who have the right to direct the exercise of voting rights or the authority to dispose of shares) who exist behind shareholders listed or recorded in the shareholder

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[10] Article 298, Paragraph 1, Item 1 of the Act.
[11] Supplementary Explanation, Page 31

register (nominee shareholders). On the other hand, in recent years, it has been recognized that engaging in constructive dialogue with shareholders is important from the perspective of enhancing the medium- to long-term corporate value of stock companies. The Interim Draft notes that, particularly for listed companies that are investment targets for institutional investors, the inability to identify beneficial owners is hindering constructive dialogue. Drawing on the EU's Second Shareholder Rights Directive, the draft proposes: (1) a system whereby the corporation identifies beneficial owners (with administrative fines as sanctions for violations); and (2) a system requiring shareholders to submit (or notify the corporation of) a report on large shareholdings or changes in shareholdings,[12] with the voting rights of violators suspended.

If the amendment described in (1) above (whose purpose is to "promote constructive dialogue between corporations and their shareholders") is implemented, the use of the beneficial owner identification system under the amended Companies Act would make it possible to identify beneficial owners without relying on investigations by private companies, potentially leading to more substantive dialogue with such shareholders. Furthermore, if the amendments were to permit beneficial owners to attend general meetings of shareholders by proxy and exercise voting rights by proxy under certain circumstances, this could impact the practical procedures companies follow in managing general meetings. Additionally, if the amendment mentioned in (2) above (whose purpose is to "ascertain and disclose important information regarding control of a stock company") is enacted, it is likely to have a significant impact on practical operations, particularly given that it establishes a serious sanction of suspending the voting rights of violators. It is also important to note that the exercise of voting rights by violators is expected to constitute grounds for the annulment of resolutions passed at general meetings of shareholders.

2.2.3 Other Considerations Regarding the Digitization of Shareholders' Meetings (Abolition of the System for Requesting Written Delivery of Shareholders' Meeting Materials, Elimination of the Requirement to Exercise Voting Rights in Writing, and Promotion of Electronic Notification of Shareholders' Meetings)

Under current law, shareholders of a stock company whose articles of incorporation stipulate measures for the electronic provision of general meeting materials may request that the company provide them with a written document detailing such measures. If the directors implement electronic provision measures, they must provide shareholders who have requested a written document with a written document detailing those measures.[13] However, given that the number of shareholders affected by the digital divide is believed to be declining in the modern era, a proposal has been put forward to abolish the written delivery request system (subject to a certain transition period).

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[12] However, it is stipulated that submission to the Prime Minister in accordance with the provisions of the Financial Instruments and Exchange Act may be substituted for submission to the company (Interim Draft, p. 16; Supplementary Explanation, p. 63).
[13] The system for requesting written documents; Article 325-5, Paragraphs 1 and 2 of the Act.

Also, a review of the exercise of voting rights in writing is also under consideration. Under current law, when convening a general meeting of shareholders, directors must stipulate that shareholders who do not attend the meeting may exercise their voting rights in writing or by electronic means.[14] Further, if the number of shareholders is 1,000 or more, directors must, as a general rule, stipulate that shareholders who do not attend the meeting may exercise their voting rights in writing.[15] In this regard, given that among listed companies the exercise of voting rights via electronic means is becoming more common than by written means, the Interim Draft proposes that, when the number of shareholders is 1,000 or more and shareholders who do not attend the general meeting of shareholders are permitted to exercise their voting rights via electronic means, the company should no longer be required to provide a means for the exercise of voting rights in writing. In other words, it would be sufficient for the company to make available either voting by mail (written ballot) or by electronic means).

A review of the notification of the convening of a general meeting of shareholders by electronic means is also under consideration. Under current law, in the case of a company with a board of directors and where the exercise of voting rights by written or electronic means is permitted, notices convening a general meeting of shareholders must, in principle, be provided in writing.[16] However, as an exception, if the consent of the shareholders is obtained, a notice may be issued by electronic means in lieu of a written notice.[17] That said, since obtaining individual consent from shareholders is particularly cumbersome for listed companies, the Interim Draft proposes that when a company obtains shareholders' consent, enters or records their email addresses or similar information in the shareholder register, and then issues notices of the convening of a general meeting of shareholders via electronic means to those shareholders for whom such entries or records exist, the company will not need to again obtain the aforementioned individual consent from those shareholders.

While the proposed amendments reflect the progress of digitalization in society, further consideration is needed regarding the specific methods for obtaining "consent" from shareholders in connection with electronic notices convening general meetings of shareholders.[18] Therefore, we believe that specific practical measures will need to be examined in light of future discussions.

2.2.4 Review of Regulations Concerning General Meetings of Shareholders and Other "Deliberative Bodies" (Streamlining of General Meeting Resolutions When Voting Rights Are Exercised in Advance; Relaxation of Requirements for Written Resolutions; Relaxation of Requirements for Requests to Compel the Sale of Shares, Etc.)

Although the outcome of matters to be resolved at a general meeting of shareholders is often

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[14] Article 298, Paragraph 1, Items 3 and 4 of the Act.
[15] *Id.*, Paragraph 2.
[16] Article 299, Paragraph 2 of the Act.
[17] *Id.*, Paragraph 3.
[18] Supplementary Explanation, Page 78

already determined prior to the meeting itself due to the exercise of voting rights in advance, companies face a significant burden because failure to conduct the meeting appropriately could constitute grounds for the annulment of the resolution. Furthermore, general meetings of shareholders are not being utilized as forums for meaningful discussion.

In response to these concerns, two proposals have been put forward: (1) a proposal to deem a resolution of the general meeting of shareholders to have been adopted if the requirements for such a resolution are met as a result of the prior exercise of voting rights (by stipulating this in the articles of incorporation), and (2) a proposal stating that, where the requirements for a resolution of the general meeting of shareholders are met through the prior exercise of voting rights by all shareholders entitled to vote, the fact that the proceedings of the general meeting of shareholders constituted a violation of laws, regulations or the articles of incorporation, or were grossly unfair, will not constitute grounds for the annulment of the resolution.

Additionally, regarding the written resolution system for general meetings of shareholders, current law requires that all shareholders express their consent.[19] In this regard, there are cases where the written resolution system cannot be utilized because the consent of a small number of shareholders cannot be obtained (e.g., due to the inability to contact one shareholder), so the Interim Draft proposes to allow a written resolution where shareholders holding at least 90% of the total voting rights of all shareholders consent to the proposal (provided that the consenting shareholders would have voted in favor of the resolution on the relevant proposal at a general meeting of shareholders, thereby satisfying the requirements for a general meeting resolution), and provided there is no opposition from the other shareholders. Furthermore, a review of resolutions at bondholders' meetings is also under consideration; to enable more flexible decision-making, a proposal has been made to relax the requirements for unanimous written resolutions.[20]

Also, under current law, a "special controlling shareholder" of a stock company may demand that all shareholders of that stock company sell all of their shares in the company to the special controlling shareholder.[21] However, if an acquirer seeking a cash-out acquires shares representing two-thirds or more, but less than 90%, of the total voting rights of all shareholders, the acquirer cannot exercise the special controlling shareholder's right to demand the sale of shares, even though the outcome of the cash-out is clear. Instead, the acquirer must convene a general meeting of shareholders to approve the cash-out, resulting in time and procedural costs. Therefore, from the perspective of promoting the growth of Japanese companies through M&A, among cash-out transactions preceded by a tender offer (pre-tender offer cash-out), a "special controlling shareholder" may file a request for the sale of shares, etc., only in the case of a tender offer in which fair procedures to safeguard the interests of general shareholders (including the establishment the Majority of Minority (MOM)

[19] Article 319, Paragraph 1 of the Act.
[20] Article 735-2 of the Act.
[21] Demand for sale of shares by a special controlling shareholder; Article 179, Paragraph 1 of the Act.

condition).[22] To safeguard the interests of general shareholders the Interim Draft proposes to lower the required voting rights holding ratio to two-thirds for a shareholder to qualify as a “special controlling shareholder” eligible to make such a request.

If the streamlining of general meeting resolutions in cases where voting rights are exercised in advance is achieved as described above, we believe that the burden on listed companies regarding the operation of general meetings and related matters could be alleviated to a certain extent, and that it will be necessary to re-examine the details of their “general meeting scenarios”. Furthermore, if the requirements for written resolutions are relaxed as described above, we believe this could help reduce the administrative burden of managing general meeting resolutions, particularly for non-public companies where shareholder relationships are complex or where there are shareholders whose whereabouts are unknown. Additionally, regarding the relaxation of requirements for requests to sell shares (a review of the cash-out procedure), further consideration is needed regarding the specific details of “fair procedures to safeguard the interests of general shareholders”[23] as determining the fairness of such procedures is not necessarily straightforward, and there is a risk that their applicability could be disputed later, thereby undermining predictability. On the other hand, regarding the view that setting MOM conditions is mandatory to avoid undermining predictability, the Ministry of Economy, Trade, and Industry has been pointed out that “it is difficult to go so far as to say that setting MOM conditions is always desirable”.[24] It seems there is also the issue of how to reconcile these differing viewpoints, and we believe it is necessary to pay close attention to future discussions on this matter.

2.2.5 Review of Regulations Concerning Shareholders’ Right to Propose Resolutions

Under current law, in companies with a board of directors, as a general rule, only shareholders who have continuously held, for at least six months, either: (1) voting rights representing at least one-hundredth of the total voting rights of all shareholders; or (2) 300 or more voting rights, may exercise the right to submit shareholder proposals (provided, however, that the articles of incorporation may specify a lower percentage, number, or period than these requirements, and that there is no holding period restriction for non-public companies).[25] However, in stock companies with a large number of issued shares or small investment units, even shareholders with an extremely low percentage of voting rights are granted the right to submit shareholder proposals. In response to concerns such as the potential for abusive exercise of this right, proposals have been put forward to either abolish the voting right requirement (300 or more voting rights) or raise it to a specific number (500, 1,000, 1,500, etc.).

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[22] The “Majority of Minorities (MOM)” condition refers to “a condition for the completion of a tender offer requiring that a majority of the shares held by general/minority shareholders be tendered” (Interim Draft, p. 24).

[23] Supplementary Explanation, Page 100

[24] Ministry of Economy, Trade and Industry, “Guidelines on Fair M&A Practices—Toward Enhancing Corporate Value and Safeguarding Shareholder Interests”— (June 28, Reiwa 1), pp. 40–41, Supplementary Explanation, p. 102.

[25] Article 303, Paragraphs 1, 2, and 3; Article 305, Paragraphs 1 and 2 of the Act.

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Further, under current law, the right to submit shareholder proposals must be exercised no later than eight weeks prior to the date of the general meeting of shareholders; if this right is exercised in accordance with the law, the company must include a summary of the proposal in the notice of convocation,[26] and companies obligated to distribute reference materials for the general meeting of shareholders must also include the proposal and the reasons for it in those materials.[27] In this regard, the system for the electronic provision of general meeting materials (introduced by the 2019 amendment to the Companies Act) requires companies to take measures to provide reference materials for the general meeting electronically three weeks prior to the meeting. Consequently, the company's preparation period has become shorter, and practical compliance with the right to submit shareholder proposals has become a significant burden. In response to these concerns, proposals have been put forward to extend the "eight-week" period, among other measures.

If these amendments are enacted, it is expected that the costs and burdens associated with companies' practical compliance with shareholder proposal rights will be reduced.

2.2.6 Other Matters (Review of the System for Appointing Investigators and the System for Appointing Inspectors Regarding Procedures for Convening General Meetings of Shareholders, Etc.)

As for other matters, the court does not appoint the investigator responsible for examining the status of a stock company's business and assets ("**Paragraph 2 Investigators**") (who are eligible for appointment at a general meeting of shareholders convened pursuant to the provisions of Article 297 of the Act (request for convening by shareholders)) are currently under review following criticism that their independence and neutrality from the proposing shareholders are not ensured (a note also indicates that there is a proposal to abolish the Paragraph 2 Investigator system).[28]

Furthermore, under current law, the parties entitled to file a petition for the appointment of an inspector regarding procedures for convening a general meeting of shareholders are limited to the corporation itself or a shareholder holding at least one-hundredth of the total voting rights of all shareholders.[29] However, a proposal has been put forward to include directors, executive officers, and auditors among those entitled to file such petitions.

<u>2.3 Review of Corporate Governance Guidelines and Other Regulations</u>

2.3.1 Review of the System for Companies with Nomination Committees, etc.

According to the Japan Association of Corporate Directors, as of May 1, 2026, there were 99 companies listed on the Tokyo Stock Exchange that had established nomination committees,

[26] Articles 303, Paragraph 2, and 305, Paragraph 1 of the Act.
[27] Enforcement Regulations, Article 73, Paragraph 1, Item 1; Article 93, Paragraph 1.
[28] Article 316, Paragraph 2 of the Act.
[29] Article 306, Paragraph 1 of the Act.

etc.[30], which is not a large number. The reasons cited for this include a tendency among companies to harbor unease and concerns about entrusting authority to outside directors, given that a nomination committee (composed solely of certain directors) has the authority to determine the content of proposals regarding the appointment and removal of directors, and the board of directors cannot overturn such decisions made by the nomination committee.[31] In response to these concerns, the Interim Draft proposes that, in cases where a majority of the directors on the full board are outside directors, the board of directors be permitted to amend the nomination committee's decisions regarding the content of proposals for the appointment and removal of directors through a board resolution. Furthermore, the Interim Draft proposes that, should the authority of the nomination committee be revised, the authority of the compensation committee be similarly revised.

Also, under current law, any director may inspect or make copies of the minutes of the Audit Committee meetings at companies that have established a Nomination Committee or similar body.[32] However, since a director who also serves as an executive officer (and who is the subject of deliberations by the Audit Committee) can inspect or copy those minutes, a review of the Audit Committee's authority is being considered. This includes proposals such as prohibiting directors who also serve as executive officers and executive directors from inspecting or copying the minutes, in order to ensure the effectiveness of the Audit Committee's oversight.

Generally, while companies with nomination committees and similar bodies have a system in which the functions of "supervision" and "business execution" are separated (a system highly regarded from a governance perspective), it is also true that adoption has been slow for the reasons mentioned above. However, if the amendments are enacted, we believe there is a possibility that more companies will consider and implement such a structure.

2.3.2 Review of the Limited Liability Agreement System

Under current law, only non-executive directors, auditors, accounting advisors, and accounting auditors are permitted to enter into limited liability agreements, and directors and executive officers who are executive directors are not permitted to do so. However, from the perspective of securing management talent, the Interim Draft proposes allowing directors and executive officers who are executive directors to enter into liability limitation agreements (provided that the liability for acts involving conflicts of interest is excluded from the scope of the liability limitation).

Given that there have been cases in recent years where substantial claims for damages against executive directors and other executive officers have been upheld, we believe that if this amendment is enacted, it will help secure talented management personnel on a global scale and promote appropriate risk-taking by management.

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[30] https://jacd.jp/news/iinkaisecchi.pdf
[31] Article 404, Paragraph 1 of the Act.
[32] Article 413, Paragraph 2 of the Act.

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2.3.3 Streamlining the Disclosure of Business Reports, Etc., and Securities Reports

In response to concerns that the preparation of business reports (including financial statements and consolidated financial statements) and securities reports imposes a significant burden on companies, measures such as consolidating these into a single securities report are under consideration. For example, if a listed company submits a securities report containing all disclosure items required for business reports by the effective date of the electronic disclosure measures, the preparation of business reports will no longer be required.

A key point is the requirement to submit the securities report by the effective date of the electronic filing system (the earlier of the date three weeks prior to the general meeting of shareholders or the date the notice of convocation is issued). However, by eliminating the need to prepare two separate documents through this consolidation, we believe that the burden on companies will be reduced to a certain extent.

3. Conclusion

Since the proposed amendments include many changes that will have a significant impact on corporate practices, it is important to continue closely monitoring developments regarding these amendments. Our firm intends to provide updates on the content of this newsletter as well.

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