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Corporate Governance 2026

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Japan: Trends and Developments

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Anderson Mori & Tomotsune

Trends and Developments

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Anderson Mori & Tomotsune

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Introduction

Recent trends in Japan's corporate governance include revisions to governance-related legal frameworks, specifically: (i) revisions to the Companies Act; and (ii) revisions to the Corporate Governance Code and the Stewardship Code.

As for (i), revisions to the Companies Act are the first since 2019, and discussions are underway over wide-ranging revisions, centring on three key areas – that is, the ideal form of:

- issuance of shares;
- shareholders' meetings; and
- corporate governance.

Most recently, an interim draft was published on 23 March 2026, and the revisions will be finalised based on public comments and future deliberations.

As for (ii), while the Corporate Governance Code, which was established in 2015, sets forth the principles and guidelines on corporate governance for listed companies, the Stewardship Code, which was established in 2014, defines the desirable actions and responsibilities of institutional investors. Both codes form the two pillars of the framework for corporate governance of, primarily, listed companies, setting out the code of conduct for both companies and investors. Consideration surrounding the third revision of the Corporate Governance Code started in 2025, ten years after its enactment. The third revision of the Stewardship Code was published on 26 June 2025, ahead of the Corporate Governance Code.

The difference between (i) and (ii) is that while (i) is broadly enforceable as a law against companies (falling under what is known as "hard law"), each code constituting (ii) is principally not legally binding (falling under what is known as "soft law").

The following discussion will focus on the key points regarding the status of each revision (or deliberations on the revision).

Turning to recent M&A trends in Japan, privatisation and MBO transactions backed by PE funds have become increasingly prominent. (A management buyout (MBO) is a type of M&A transaction in which the management, either on its own or in collaboration with external capital such as PE funds, acquires its company's shares from existing shareholders to secure control.) One reason for the recent increase in such privatisations is the growing pressure on listed companies to either reconsider their market segment or go private, driven by stricter continued listing criteria and progress in market restructuring, both led by the Tokyo Stock Exchange (TSE). In particular, for listed companies whose fiscal year ends on March 31st, if they do not satisfy the continued listing criteria as of 31 March 2025, they will be delisted unless the deficiency is remedied during the one-year improvement period, making the question of whether they can remain listed even more critical. In addition, since 2023, the TSE has been urging companies – especially those with low price book-value ratios (PBRs) – to improve management with a greater awareness of capital efficiency and share price performance. These increasing burdens of listing maintenance costs and corporate governance obligations have also become factors encouraging privatisation.

In addition, taking advantage of these corporate governance reforms and the TSE's calls for improvement among low-PBR companies, so-called activist investors have become more vigorous, and the number of listed companies for which unsolicited takeover proposals from activists represent a realistic risk is also on the rise.

Such changes in the environment are also strengthening the incentive for listed companies to bring in a trusted PE fund as a white knight or co-investor and pursue medium- to long-term value creation through privatisation.

Privatisations by PE funds, which are expected to attract even greater attention going forward, may serve as a litmus test for the operation and actual implementation of corporate governance at each listed company.

Revisions to the Companies Act

Revisions to the Companies Act address numerous topics in line with the above three key areas. This chapter of the guide will introduce the current state of discussion concerning the ideal form of shareholders' meetings.

Establishment of a legal framework for virtual-only shareholders' meetings
Taking the opportunity which arose as a result of the COVID-19 pandemic, virtual-only shareholders' meetings (ie, shareholders' meetings without a physical venue) have been operating in practice for some time against the backdrop of the provisions of a special law – the Act on Strengthening Industrial Competitiveness – and the revision aims to legislate it as an official system under the Companies Act. It is expected that the revised Companies Act will set out requirements and procedures for conducting a virtual-only shareholders' meeting and also organise the steps to be taken in the event a procedural defect exists (in particular, how to remedy the impact on the effectiveness of resolutions in the event of communication interferences), in addition to providing other matters.

System allowing for the identification of beneficial shareholders
A system allowing for the identification of beneficial shareholders is drawing attention in relation to the response to activist investors. Discussions on the establishment of a framework that enables listed companies to request information from so-called nominal shareholders (in cases where a trust bank or a securities company is registered as the shareholder) about the closest intermediary or the holder of the authority for giving instructions (beneficial shareholder) are underway. As for specific details under consideration, proposals have been made on whether or not to impose obligations on intermediaries to provide information, as well as on matters concerning proxy attendance by beneficial shareholders at a shareholders' meeting and their exercise of voting rights (ie, suspension of their voting rights as a sanction in the event of failure to provide information). Whether such provisions will actually be codified will be determined through future deliberations, taking into account the results of the public comment and other relevant factors.

This issue is also linked to the revisions to the Stewardship Code outlined below. Going forward, the key focus will likely be on the co-ordination with the large shareholding reporting system (which, broadly speaking, requires shareholders holding a certain percentage or more of the shares of a listed company to report their holdings) under the Financial Instruments and Exchange Act, as well as determining how far-reaching the sanctions, such as the suspension of voting rights, can be designed.

Other matters to be considered in relation to the digitalisation of shareholders' meetings
The revision plans to develop legislation regarding the ideal form of electronic provision of materials for shareholders' meetings, the exercise of voting rights in writing, and the notice of convocation of shareholders' meetings by electronic or magnetic means. The aim is to develop a legal framework to promote the digitalisation of various procedures relating to shareholders' meetings, while remaining mindful of the digital divide.

Review of rules regarding shareholders' meetings as a "meeting body"
With a view to rationalising the resolution of shareholders' meetings in cases where voting rights have been exercised in advance, the revision studies the feasibility of a system whereby a resolution of a shareholders' meeting is deemed to have been passed if a certain threshold of voting rights (required for the adoption of a proposal) have been exercised in advance. (Under the current system for resolutions in writing, this is only possible with 100% approval of the voting rights.) A review of the current requirements for resolutions in writing is also under consideration.

Review of rules regarding shareholder proposals
As for shareholder proposals, there are discussions on abolishing or revising the voting rights threshold (currently, 300 or more voting rights) and whether or not to revise the deadline for exercising the proposal right (currently, eight weeks prior to the day of the shareholders' meeting). These are matters that could have an impact on the way shareholder proposals are put forward by activists, who have been on the rise in recent years.

Other matters
In addition to the above, the system for investigators and inspectors of procedures at shareholders' meet-

ings (which is not necessarily widely utilised) is on the table for discussing revision.

Revisions to Codes

Corporate Governance Code

With regard to the Corporate Governance Code, it is assumed that revision work will proceed based on the five key areas outlined in the Action Programme for Corporate Governance Reform 2025 (so-called Action Programme 2025, published in 2025), namely:

- driving value creation capacity;
- enhancing quality disclosure and promoting dialogue with investors;
- improving board effectiveness;
- addressing issues in the market environment; and
- encouraging management to be aware of sustainability issues.

The proposed revision at the time of publication of this chapter of the guide (16 June 2026) raises "streamlining" of the Corporate Governance Code as the theme for its ideal form as a whole. Specifically, while upgrading the core sections for governance to principles with the aim of substantialising the Corporate Governance Code, the portions that overlap with other sections of the Corporate Governance Code or laws and regulations will be removed; and, given that the Corporate Governance Code is also intended to assist management in considering and implementing initiatives to enhance corporate value over the medium to long term, the revised Corporate Governance Code is planned to be drafted with maximum conciseness and a clear focus.

Turning to the details, in addition to reaffirming the importance of constructive dialogue with shareholders in settings other than a shareholders' meeting, the proposed revision raises, as major themes: the explicit clarification of the board of directors' accountability regarding the allocation of management resources, including portfolio reviews; the deepening of other functions of the board of directors; and the substantialisation of information disclosure.

More specifically, noteworthy points include the following:

- with regard to policies for promoting constructive dialogue with shareholders, the proposal requires the formulation and external disclosure of the specifics in greater detail, such as the designation of officers in charge of dialogue, the ideal form of organic collaboration among related divisions, the means of dialogue, and policies for feedback to shareholders' opinions;
- in connection with the allocation of management resources, the proposal envisages an in-depth description on the effective use of financial assets such as cash and deposits, and real assets; and
- in relation to information disclosure, the proposal intends to set the early submission of an annual securities report (disclosure before a shareholders' meeting) as a principle.

The Corporate Governance Code is scheduled to be revised around mid-2026 after further deliberations.

Stewardship Code

In the revision of the Stewardship Code in 2025, while streamlining the code was one of the themes, ensuring transparency of beneficial shareholders and promoting collaborative engagement were also raised as major themes.

Specifically, as a prerequisite for engagement (dialogue) between an institutional investor and a listed company, a recognised issue was ensuring the transparency of the institutional investor, including the status of its shareholding. This recognition led to a specific guideline explicitly stating that: "In order to support constructive dialogue with investee companies, institutional investors should, in response to requests from investee companies, explain how many shares they own/hold in the company and should disclose in advance a policy on how they will respond to such requests from investee companies."

In addition, as for the ideal form of engagement (dialogue), it was explicitly specified that not only dialogue by an institutional investor alone but also dialogue in collaboration with other institutional investors (collaborative engagement) is an important option.

As mentioned above, dialogue with institutional investors is also an issue under discussion concerning the revisions to the Companies Act, and the existence of the revised Stewardship Code will be taken into consideration in future revisions to the Companies Act.

Privatisation and MBO Transactions Involving PE Funds

As noted above, in recent years, privatisation and MBO transactions have been on the rise, driven by corporate governance reforms and the TSE's calls for low-PBR companies to improve management, resulting in increased costs of remaining listed and heavier governance burden, as well as heightened activist activities leveraging such environmental changes. Privatisation and MBO transactions continued to remain active in 2025 too, and it was also a year in which a greater number of large-scale transactions emerged.

Taking a broad look at privatisation transactions involving major listed companies in 2025, it is clear that both PE-fund-led TOBs and management-led MBOs have come to occupy important positions in the market. For example, even in 2025 alone, the Blackstone TOB for TechnoPro Holdings (completed at approximately JPY500 billion), the EQT (a European investment fund) TOB for Fujitec (completed at approximately JPY400 billion), and the KKR and JIC Capital MBO for Topcon (completed at approximately JPY300 billion) attracted significant market attention. It is viewed that as the capital base of funds, including Japanese funds, has expanded globally and their execution capabilities have matured, acquisition transactions are becoming larger and more complex.

The following will discuss the tender offers for Fujitec and for Topcon as representative examples of TOB and MBO transactions targeted at companies listed on the TSE Prime Market and which involved PE funds.

Tender offer for Fujitec

- For many years, activists such as Oasis Management had made severe criticisms regarding Fujitec's governance structure, particularly its relationship with the founding family and the independence of its management. Accordingly, this transaction attracted attention not merely as a privatisation by a PE fund, but as an acquisition proposal for a target company that had long accumulated governance improvement demands.
- On 15 October 2024, EQT, a Swedish investment fund, submitted to Fujitec a non-binding initial expression of interest proposing privatisation at JPY5,500 per share of common stock. This proposal once again raised the question of whether it was rational to remain listed, and created a situation in which the target company was required to carefully consider the appropriateness of the proposed price and the potential for value creation after privatisation.
- On 18 October 2024, Fujitec established a special committee composed of independent members, including outside directors of Fujitec.
- On 30 July 2025, EQT announced its intention to commence a tender offer for Fujitec, with the offer price set at JPY5,700 per share. On the same day, Fujitec announced its recommendation in support of the tender offer. In addition, EQT entered into tender and support agreements with shareholders including Oasis Management.
- On 16 December 2025, the results of the tender offer were announced. As the offeror's ownership ratio reached 79.31%, the tender offer was successfully completed.

MBO for Topcon

- Since 2024, several shareholders often described as activist investors, including ValueAct Capital Management, GIC, and Oasis Management, acquired shares in Topcon.
- In December 2024, reports emerged that Topcon had entered a bidding process for a privatisation transaction, causing its share price to surge.
- On 28 March 2025, Topcon announced the commencement of a tender offer in connection with an MBO supported by KKR. The offer price was approximately JPY3,300 per share, and the company expressed its support for the transaction. It was also announced that, following the successful completion of the tender offer, JIC Capital would make an investment to participate in Topcon's capitalisation.
- On 16 April 2025, Topcon entered into a tender agreement with ValueAct Capital Management, pursuant to which ValueAct Capital Management

agreed to tender all of the Topcon shares it held and, subject to the successful completion of the tender offer, to invest up to approximately JPY28 billion in a KKR fund in exchange for limited partnership interests.
- The tender offer had a minimum acceptance threshold of 50.1% and was successfully completed upon its expiration on 10 September 2025. Thereafter, JIC Capital and Topcon's former president reinvested in the company.

Activist pressure

As these transactions show, one of the defining features of privatisation and MBO transactions in 2025 was pressure from activists. In particular, MBO transactions tend to attract activist attention because, in addition to structural conflicts of interest and information asymmetry, synergies are generally difficult to explain, which in turn tends to result in relatively low acquisition prices.

2025 was a notable year for which even privatisation and MBO transactions led by or involving PE funds often did not proceed smoothly and floundered, due to interventions such as activists' open-market accumulations during the tender offer period or competing proposals. The MBO for SOFT99 is a symbolic example, wherein Effissimo Capital Management launched a competing proposal during the tender offer period for the MBO led by the company's president, and ultimately Effissimo Capital Management's tender offer was successfully completed.

One reason why such competing proposals by activists have become more frequent is that the negative stigma associated with "acquisitions without consent" by activists is gradually easing. In the past, acquisitions conducted without prior consultation with the target company were referred to as hostile takeovers. However, since such acquisitions are not necessarily hostile in all cases, the Ministry of Economy, Trade and Industry proposed the term "acquisitions without consent" in its Guidelines for Corporate Takeovers (published in August 2023), and the term has since become widely accepted. Under those guidelines, a target company's board of directors that receives a bona fide offer is required to give it sincere consideration in order to ensure the protection of the interests of general shareholders.

Conclusion

As described above, revisions to both hard and soft laws are progressing in Japan in an interrelated manner, and it is expected that the rationalisation of rules for listed companies and the appropriate form of constructive dialogue between companies and shareholders and other stakeholders will advance.

In addition, privatisation and MBO transactions involving PE funds are expected to remain active, particularly in large-scale deals. These transactions may not always proceed smoothly, as other activists or PE funds could complicate the process, and companies aiming to go private will likely face an increasingly difficult balancing act.

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