



# The Rise of Shareholder Activism in Japan and Implications for Japanese Listed Companies

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## <Summary>

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- ◆ The number of activist interventions in Japanese listed companies has been on the rise in recent years. This trend is driven by relatively low valuations of Japanese firms compared to their Western peers, alongside ongoing corporate governance reforms spearheaded by the Financial Services Agency (FSA) and the Tokyo Stock Exchange (TSE).
- ◆ Targeted companies typically exhibit certain financial and structural traits, such as low Price-to-Book Ratios (PBR), low leverage (debt-to-equity), and high cash-to-asset ratios. Furthermore, a lower percentage of shareholdings by financial institutions and a higher concentration of foreign institutional investors are often observed as indicators.
- ◆ Activist proposals are evolving significantly in both quantity and quality. Beyond traditional demands for enhanced shareholder returns or the appointment and dismissal of directors, there is a growing trend toward sophisticated proposals targeting firms' core business strategies. These include fundamental overhauls of business portfolios, M&A activity, and take-private transactions.
- ◆ There is an increasing prevalence of "bumpitriage," where activists intervene after the announcement of a Tender Offer (TOB) to demand an increase in the purchase price. This is particularly notable in privatization deals such as Management Buyouts (MBOs), the elimination of parent-subsidary listings, and making equity-method affiliates wholly-owned subsidiaries.
- ◆ As activist activity intensifies, the following three pillars are essential for Japanese listed companies and regulatory bodies:

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### **1. Enhancing Corporate Value by Avoiding Excess Cash Retention**

The most effective defense against activists is to maximize corporate value and drive share price appreciation. In light of the proposed revision to the Corporate Governance Code announced in April 2026, companies must implement disciplined cash allocation, effectively utilizing surplus funds for growth investments and shareholder returns.

### **2. Market Consideration during Corporate Actions**

When executing privatization deals like MBOs, it is vital to protect minority shareholders who may be disadvantaged. Establishing fair procedures – such as obtaining opinions from special committees and conducting active "market checks" – is imperative.

### **3. Curbing the Abuse of Shareholder Proposal Rights**

There is a need to restrain activist behaviors that risk damaging mid-to-long-term corporate value in pursuit of short-term gains. Specifically, the time has come to consider updating the Companies Act, including a review of shareholder proposal rights, to prevent the abusive exercise of such powers.

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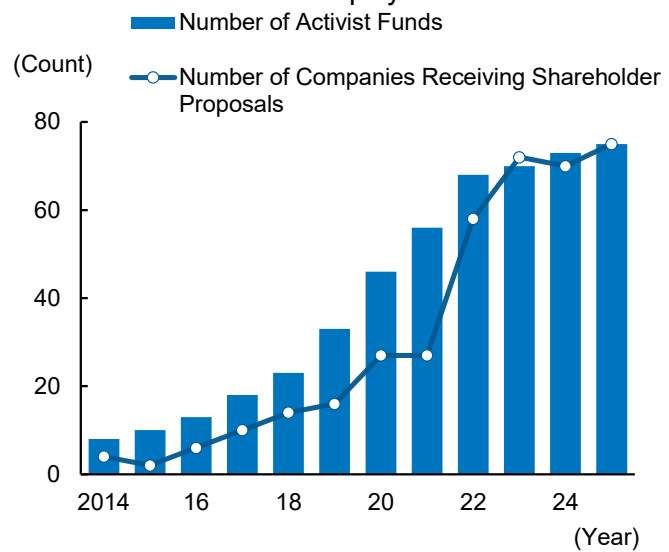
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## 1. Introduction

In recent years, there has been a notable increase in activist interventions targeting Japanese listed companies (Figure 1). While monitoring activist trends is essential for understanding the current environment surrounding Japanese corporations, the actual nature of their activities remains insufficiently understood. Accordingly, this paper begins by clarifying fundamental concepts, such as the definition of "activists," before outlining recent trends, the nature of their proposals, and the typical characteristics of target companies. Furthermore, this report examines the evolving regulatory landscape and discusses the necessary strategic responses for both Japanese listed companies and relevant authorities.

Figure 1. Activist Fund Presence in the Japanese Equity Market



Source: JRI based on IR Japan's financial results briefing materials

## 2. Definition and Evolution of Activists

### (1) Definition of Activists

While activists are sometimes referred to as "vocal shareholders" (or *mono-ju kabunushi* in Japanese), a single, unambiguous definition has not been established. Generally, the term refers to investors who target companies whose market valuation (share price) is low relative to their potential asset value. These investors typically acquire a stake ranging from a few percent to several dozen percent, and exercise their rights as shareholders to demand improved operational efficiency or enhanced shareholder returns. Their core strategy is "value investing," focusing on valuation discrepancies to drive up the stock price and generate returns upon the sale of their holdings. Most of these entities are hedge funds that raise capital through private placements.

### (2) The Rise of and Trends in Activism

The rise of activism in Japan can be broadly categorized into three distinct phases<sup>1</sup>.

The "First Wave" emerged at the turn of the millennium. Against a backdrop of prolonged stock price stagnation following the bubble's collapse and financial system fragility, the unwinding of cross-shareholdings by banks and life insurance companies accelerated, leading to an increased presence of foreign institutional investors. In 2000, following the hostile tender offer for Shoei by Yoshiaki Murakami's "Murakami Fund," several Western activists with proven track records, such as Steel Partners, entered the Japanese market. This wave eventually subsided due to factors such as Mr. Murakami's arrest for alleged insider trading and the withdrawal of capital by foreign funds triggered by the Global Financial Crisis.

<sup>1</sup> This classification follows Osaki [2025].

The "Second Wave" gained momentum from 2013 onwards amid the government's "Abenomics" policy. As part of a national growth strategy, corporate governance reforms were prioritized, leading to the establishment of the Stewardship Code (2014) and the Corporate Governance Code (2015). These frameworks fundamentally altered the behavior of both institutional investors and listed companies. Consequently, activist demands for enhanced corporate value and shareholder dialogue gained broader legitimacy. Furthermore, the 2017 revision of the Stewardship Code, which mandated the disclosure of individual voting results, shifted the stance of domestic institutional investors who had traditionally sided with management, making it easier for activist proposals to secure broad support at general meetings of shareholders.

The "Third Wave" was catalyzed by the Tokyo Stock Exchange (TSE) reforms from 2022 onwards. Following the restructuring of market segments in April 2022, the TSE requested in March 2023 that companies listed on the Prime and Standard Markets take "action to implement management conscious of cost of capital and stock price." This move effectively provided a *de facto* official endorsement for the structural reforms activists had long advocated, such as improvement demands for companies trading below a Price-to-Book Ratio (PBR) of 1.0x and the optimization of underperforming assets.

Taken together, the underlying drivers for the rise of activism in Japan include the persistent undervaluation of Japanese companies compared to their Western peers – offering significant upside for value investors – as well as the ongoing unwinding of cross-shareholdings and the heightened sense of fiduciary duty among institutional investors.

### **3. Characteristics of Target Companies and Nature of Proposals**

#### **(1) Activists Covered in This Report**

As previously noted, there is no single, established definition of an activist. For the purposes of this analysis, we have identified 27 hedge funds and institutional investors as "activists" based on investment entities trackable via Bloomberg<sup>2</sup>. The scope of this analysis generally spans the period from 2022 to the end of 2025 (the "Third Wave" period), focusing on proposals and interventions initiated by these 27 activists across 295 Japanese listed companies<sup>3</sup>.

#### **(2) Characteristics of Target Companies**

This section outlines the typical characteristics observed in companies targeted by activists (Figure 2). By market segment, Prime-listed companies account for over 70% of the total, indicating that activists often prioritize stocks with a certain level of market capitalization and liquidity.

By sector, while higher proportions are seen in electrical appliances, chemicals, information and communications, construction, and services, there is no definitive bias toward specific industries. This suggests that activists select targets by focusing on the idiosyncratic challenges and latent potential of individual

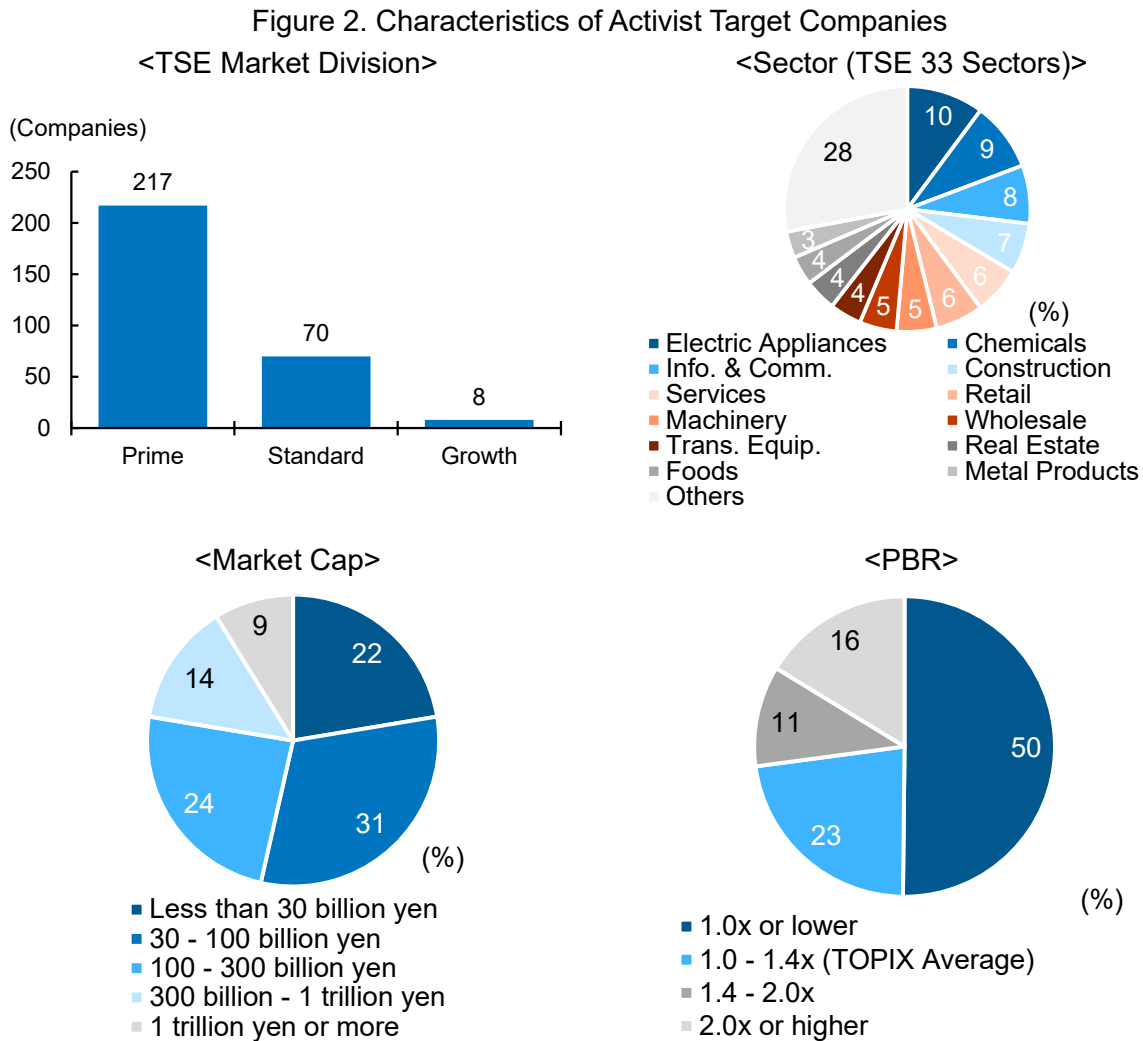
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<sup>2</sup> Activist entities were identified by cross-referencing corporate websites, the Nikkei, Yoshikawa [2025], and Kikuchi [2024], among other sources.

<sup>3</sup> In cases where a company was targeted by multiple activists, the intervention by the earliest-acting activist was analyzed. Of the 295 companies, 130 were subject only to large shareholding report filings (Schedule 13D equivalents) and did not face formal shareholder proposals or public campaigns during the period under review.

companies rather than industry-wide trends.

Regarding the distribution by market capitalization, companies valued at less than 100 billion yen represent more than half of the cases. However, as the market capitalization of TOPIX constituents follows a broadly similar distribution, this does not necessarily imply a deliberate concentration in small-cap stocks. Finally, looking at PBR distribution, companies trading below the TOPIX average account for more than 70% of the total, which aligns with the typical profile of activists as value investors.



Note: Market capitalization is as of the day prior to the confirmed activist intervention.

Note: PBR is calculated using the financial figures from the most recent fiscal period at the time of the activist intervention and the market capitalization on the day prior to the intervention. The TOPIX average is the value as of the end of December 2025 published by the TSE.

Source: JRI based on Bloomberg L.P. and Tokyo Stock Exchange (TSE)

A more granular analysis of target companies, categorized by financial indicators, market valuation, and shareholder structure, reveals a tendency to target firms with the following features (Figure 3): (1) low PBR, (2) low leverage (Debt-to-Equity ratio), (3) high Cash-to-Asset ratio, (4) low ownership by financial institutions, and (5) high ownership by foreign institutional investors.

Figure 3. Characteristics of Target Companies  
(Financial Indicators, Market Valuation, Shareholder Composition)

	Target Companies	Target Companies - Peer Group Average	
	Average	Average	Statistical Significance
Total Assets (Millions of yen)	2,068,365	317,067	
Market Capitalization (Millions of yen)	412,469	-145,308	○
PBR (x)	1.9	-0.2	◎
ROE (%)	10.4	2.1	
Debt-to-Equity Ratio (x)	1.2	-2.0	◎
Cash and Cash Equivalents Ratio (%)	24.4	5.2	◎
3-Year Average Net Sales Growth Rate (%)	5.8	-0.6	
Operating Profit Margin (%)	9.5	0.4	
Total Payout Ratio (%)	75.8	17.2	
Public Organizations Ownership (%)	0.6	0.4	○
Financial Institutions Ownership (%)	22.6	-1.9	◎
Other Corporations Ownership (%)	20.3	-1.5	○
Foreign Entities (Corporations) Ownership (%)	21.5	3.0	◎
Foreign Entities (Individuals) Ownership (%)	0.1	-0.0	
Individuals and Others Ownership (%)	32.4	-0.4	

Source: JRI based on Bloomberg L.P. and TSE

Note: The peer group average represents the average of all companies within the same TSE 33-sector classification as the target company, subject to data availability on Bloomberg. Financial indicators and shareholder composition data for both target and peer companies are based on the most recent fiscal period preceding the activist intervention. Market capitalization data is as of the day prior to the intervention. Statistical significance was evaluated using a t-test to determine whether the mean difference ("Target Companies - Peer Group Average") equals zero. Based on the resulting p-values, ◎ indicates significance at the 1% level, and ○ indicates significance at the 5% level.

Regarding (1) PBR, 1.0x is often viewed as a critical threshold, and companies trading below this level are frequent targets. However, the data suggests that valuation relative to industry peers is also a significant factor.

Regarding (2) Leverage, companies with low debt levels are often considered more susceptible to "agency problems." Generally, higher leverage acts as a disciplinary mechanism for management due to the necessity of avoiding default. Conversely, in low-leverage firms, excess capital, which should ideally be earmarked for growth investments or shareholder returns, tends to accumulate internally. This makes them likely candidates for activists seeking improved capital efficiency.

Regarding (3) Cash-to-Asset ratio, companies holding significant cash or idle assets are frequently targeted. High cash levels often imply a deficit of promising investment opportunities and suggest ample resources for shareholder returns. This scrutiny extends to non-core real estate and strategic cross-shareholdings. Notably, major proxy advisory firms such as ISS, along with various Japanese institutional investors, have introduced

stricter voting policies, often opposing the election of directors at companies where strategic holdings exceed 10–20% of net assets.

Finally, regarding (4) Financial Institution Ownership and (5) Foreign Shareholder Ratio, companies with fewer stable shareholders (banks/corporates) and a higher concentration of foreign institutional investors are notably more receptive to activist engagement, as the latter group typically shows greater support for such proposals.

### **(3) Nature of Activist Proposals**

The activist approach typically begins with a rigorous screening process to identify target companies. Once a target is selected, activists often acquire a stake just below the 5% threshold – the level at which the large shareholding reporting rule mandates public disclosure – to build their position "stealthily" via the market. Initial engagement usually occurs behind the scenes through private dialogues or confidential letters to management. If management's response is deemed insufficient, activists escalate to "public activism," including proxy fights at general meetings of shareholders or media-driven campaigns. Should these measures fail to yield results, they may resort to aggressive legal actions, such as shareholder derivative suits. In the final stage, an activist may launch an unsolicited (hostile) tender offer or intentionally invite a "white knight", such as a Private Equity (PE) fund or a strategic buyer, to acquire control of the company.

The most frequent topics of shareholder proposals in 2025 were amendments to the Articles of Incorporation regarding governance, followed by shareholder returns, the appointment and dismissal of directors, executive compensation, and amendments to the Articles of Incorporation regarding financial and capital policies (Figure 4).

Regarding amendments to the Articles of Incorporation (governance), proposals specifically addressed the abolition of takeover defense measures (poison pills), the strengthening of oversight functions by increasing the ratio of independent outside directors, the disclosure of policies regarding listed subsidiaries, and the prohibition of "*amakudari*" (the reemployment of former government officials) at subsidiaries. These points, centered on enhancing governance and protecting minority shareholders, often gain broad support from general institutional investors, including index funds.

Shareholder return proposals primarily focus on large-scale dividend increases, share buybacks, and amendments to the Articles of Incorporation concerning the decision-making authority for such actions. In terms of dividends, there is a growing trend toward demanding payout policies based on Dividend on Equity (DOE), moving beyond traditional requests for special dividends or higher payout ratios.

For director appointments, activist-backed candidates have occasionally been elected with the support of institutional investors. Furthermore, in instances where corporate value was significantly impaired by past M&A failures or scandals, some proposals have demanded the dismissal of incumbent directors to clarify management accountability.

In the area of executive compensation, proposals often highlight the introduction of performance-linked pay systems to heighten management's commitment to market valuation (stock price) and the individual disclosure of remuneration to visualize the correlation between executive responsibility and reward.

Regarding amendments to the Articles of Incorporation (financial and capital policies), many proposals call for the disclosure of the cost of capital and the accelerated divestment of strategic shareholdings.

Figure 4. Examples of Shareholder Proposals (2025)

Category and Number of Proposals in 2025	Examples
Partial Amendment to Articles of Incorporation (Governance) 60 proposals	<ul style="list-style-type: none"> <li>■ Abolition of takeover defense measures (poison pill)</li> <li>■ Change in the number of outside directors</li> <li>■ Abolition of advisor/consultant positions</li> <li>■ Verification of the purpose of cross-shareholdings</li> <li>■ Consideration and disclosure of policies regarding listed subsidiaries</li> <li>■ Prohibition of "amakudari" (appointing retiring executives) to listed subsidiaries</li> <li>■ Establishment of a special committee</li> </ul>
Shareholder Return 57 proposals	<ul style="list-style-type: none"> <li>■ Appropriation of surplus</li> <li>■ Execution of share buybacks</li> <li>■ Dividend on equity (DOE) ratio of X%</li> <li>■ Amendment to articles of incorporation related to share repurchases</li> <li>■ Amendment to articles of incorporation regarding the decision-making body for dividends of surplus.</li> </ul>
Appointment/Dismissal of Directors 56 proposals	<ul style="list-style-type: none"> <li>■ Dismissal of directors due to management failures or scandals</li> <li>■ Appointment of outside directors with necessary skills</li> </ul>
Executive Compensation 27 proposals	<ul style="list-style-type: none"> <li>■ Granting of restricted stock compensation</li> <li>■ Setting the amount of directors' remuneration</li> <li>■ Improvement of performance-linked compensation systems</li> <li>■ Amendment to articles of incorporation regarding individual disclosure of directors' remuneration</li> </ul>
Partial Amendment to Articles of Incorporation (Financial and Capital Policies) 16 proposals	<ul style="list-style-type: none"> <li>■ Amendment to articles of incorporation regarding initiatives to realize management conscious of cost of capital and stock price</li> <li>■ Disclosure of cost of capital</li> <li>■ Sale of cross-shareholdings</li> </ul>
Other	<ul style="list-style-type: none"> <li>■ Appointment of an investigator of the status of business and property</li> </ul>

Source: JRI based on Bloomberg L.P. and public materials from respective companies

Note: Regarding the appointment and dismissal of directors, each person is counted as one proposal.

When examining the overall scope of activist activity including public campaigns, it is evident that proposals between 2022 and 2025 have evolved significantly in both volume and sophistication compared to the 2018–2021 period (Figure 5). Notably, the quality of proposals has shifted away from mere demands for excess cash distribution or superficial board reshuffles. Instead, there has been a substantial increase in highly

sophisticated proposals that target core business strategies. These include bold M&A activity (such as divestitures and carve-outs), fundamental overhauls of business portfolios, and take-private transactions utilizing Leveraged Buyouts (LBOs). This shift is underpinned by top-tier activist funds with substantial assets under management (AUM). These funds often engage renowned management consultants and conduct exhaustive, long-term due diligence, including interviews with former employees and key business partners, to produce voluminous and meticulously detailed white papers.

Figure 5. Objectives of Activist Proposals



Source: JRI based on public materials from respective companies and Bloomberg L.P.

Note: For cases where activists conducted public campaigns or made shareholder proposals, the data, originally aggregated by Bloomberg into 25 objective categories, was reclassified based on the specific content of the proposals. Multiple proposals submitted to a single company are counted as distinct objectives.

#### (4) M&A Activism ("Bumpitriage")

A growing phenomenon is "bumpitriage"<sup>4</sup>, where activists intervene following the announcement of an M&A transaction to demand an upward revision of the purchase price. An analysis of cases between 2019 and 2025 where activists opposed acquisitions reveals that initial offer prices often resulted in a PBR below 1.0x or provided premiums lower than market standards. Consequently, such interventions have effectively forced significant improvements in terms, with revised premiums reaching 1.5 to 6.1 times the initial premium levels (Figure 6)<sup>5</sup>.

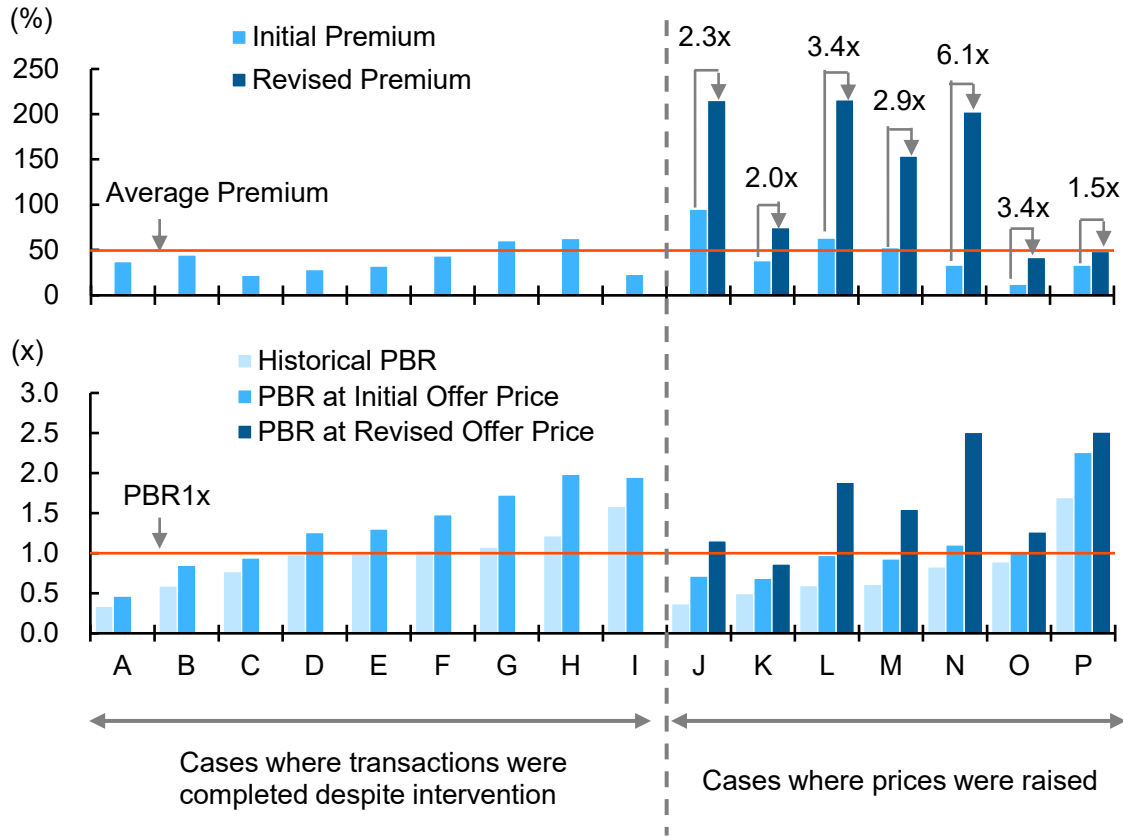
In some instances, activists launched counter-tender offers, leading to further price adjustments or an eventual takeover by the activist side. This trend is particularly prevalent in take-private transactions, such as

<sup>4</sup> According to Ota [2023], "bumpitriage"—a portmanteau of "bump" and "arbitrage"—refers to the strategy of accumulating shares following an M&A announcement to profit from an upward price adjustment (a "bump"). It is an investment tactic frequently employed by activists. For instance, following the announcement of a tender offer, an activist may acquire a significant stake to influence the deal's success and demand improved terms, such as a higher price or a revised structure. Profits are realized by selling the shares when terms are improved or when market expectations of such improvements drive up the stock price.

<sup>5</sup> Cases where tender offers are completed at the initial offer price often involve the privatization of listed subsidiaries (or affiliates) by parent companies. This is primarily because the acquirer already holds sufficient voting rights to ensure the transaction's completion, thereby limiting the efficacy of activist intervention. It should be noted, however, that legal disputes, such as petitions for the determination of the share purchase price (appraisal rights), have emerged even after privatization has been finalized.

Management Buyouts (MBOs), the elimination of parent-subsidary listings, or making equity-method affiliates wholly-owned subsidiaries.

**Figure 6. Premium Levels of Tender Offer (TOB) Prices Facing Anti-Acquisition Campaigns (Target Side)**



Source: JRI based on public materials from respective companies and Bloomberg L.P.

Note: The analysis covers 16 companies targeted between 2019 and the end of 2025. Historical PBR is calculated using the average stock price for the three-month period ending one day prior to the activist intervention (\*1) and the book value per share (BPS) from the fiscal quarter immediately preceding the intervention (\*2). PBR at the initial offer price is based on the initial tender offer price and \*2. PBR at the revised offer price is determined by the revised price (where the tender offer price was adjusted due to activist intervention) and \*2. The initial premium is calculated relative to the initial tender offer price and \*1, while the revised premium reflects the adjusted tender offer price and \*1. The red line in the upper chart represents the average three-month premium for privatization transactions targeting TSE-listed companies between 2022 and the end of 2025.

#### 4. Required Responses from Japanese Listed Companies and Authorities

As activist activity intensifies and proposals grow in both volume and sophistication, it is imperative for Japanese listed companies, financial institutions, and regulatory authorities to take the following actions.

##### (1) Enhancing Corporate Value by Avoiding Excess Cash Retention

The most effective defense against activist intervention is to preemptively maximize corporate value and drive share price appreciation. In line with the proposed 2026 revision of the Corporate Governance Code,

companies are expected to persistently review the allocation of business resources, including financial assets like cash and real assets, to ensure they are utilized efficiently in growth investments (Figure 7).

Specifically, companies must implement optimal cash allocation by deploying surplus funds – beyond what is necessary for operational liquidity – into growth opportunities with a positive Net Present Value (NPV). This approach is essential to improve capital efficiency metrics such as Return on Equity (ROE) and Return on Invested Capital (ROIC), thereby driving sustainable, mid-to-long-term corporate value.

Figure 7. Draft revisions to the Corporate Governance Code

- **Principle 4.2. Interpretive Guidance (excerpt)**
  - Based on its business strategies and plans, the board should persistently review the allocation of company business resources that support appropriate risk-taking and that lead to sustainable growth and increased corporate value over the mid- to long-term, including whether business resources, such as financial assets like cash and real assets, are utilized efficiently in growth investments. The board should effectively supervise the allocation of business resources and the implementation of business portfolio strategies to ensure that they contribute to the sustainable growth of the company.

Source: JRI based on Financial Services Agency

## (2) Market Considerations During Corporate Actions

As the costs associated with maintaining a public listing escalate due to factors such as intensifying activist activity, there has been a recent surge in privatization transactions. These include Management Buyouts (MBOs) as well as deals initiated by controlling shareholders (those holding 50% or more of the target's shares) or affiliates to convert listed subsidiaries and equity-method affiliates into wholly-owned subsidiaries. In executing such privatizations, it is vital to follow appropriate procedures that account for market principles and the interests of minority shareholders.

In this regard, the TSE published the "Revisions to the Listing Rules Regarding MBOs and Subsidiary Conversions" in July 2025. This revision mandates that in cases of MBOs or acquisitions by controlling shareholders and other related companies, two requirements must be met: (1) obtaining an "opinion stating that the transaction is fair to general shareholders" from a special committee, and (2) providing necessary and sufficient timely disclosure, including the disclosure of the full written opinion. Specifically, companies are required to provide a thorough explanation regarding the fairness of the procedures to ensure they are objectively secured. The guidelines explicitly state that companies should consider Fairness Ensuring Measures, such as conducting active market checks and setting "majority-of-minority" (MoM) conditions.

At present, however, active market checks and MoM conditions are rarely implemented. As the shift toward privatization is expected to accelerate in response to rising listing costs, demands for fair and transparent processes will likely intensify, not only from activists but also from general institutional investors. To safeguard the health of Japan's capital market and ensure that the "common interests of shareholders" are not compromised, companies considering privatization are expected to implement these rigorous processes, thereby fulfilling their final obligation as a listed corporation.

### **(3) Curbing the Abuse of Shareholder Proposal Rights**

As observed, while many activist proposals now delve into the core of business strategy, it remains a reality that some activists continue to focus solely on self-interested demands aimed at securing short-term returns. Consequently, regulatory authorities are expected to implement appropriate measures against the abuse of shareholder proposal rights for the pursuit of short-term profits.

Japan has long been noted as a market where these rights are easier to exercise compared to other jurisdictions. An examination of the requirements for exercising shareholder proposal rights in major advanced economies reveals that while the monetary threshold in the United States is low, a continuous holding period of at least one year is required. In major European countries such as the United Kingdom, Germany, and France, the requirement is generally the holding of 5% or more of the outstanding shares. Conversely, in Japan, shareholders can exercise these rights by holding 1% or more of the total voting rights, or 300 or more voting units, continuously for six months. Furthermore, Japan's shareholder proposal rights are considered powerful due to the broad range of topics that can be proposed at a general meeting and the legal binding force that approved proposals hold over the company.

Moreover, the requirements for exercising proposal rights based on voting units are becoming increasingly relaxed in Japan. This is a result of a series of measures by the TSE, such as the "Standardization of Trading Units" to 100 shares in October 2018 and the request to listed companies regarding the "Reduction of Investment Unit" in April 2024.

Given these conditions, there are growing expectations for a review of shareholder proposal rights to foster a healthy capital market. In March 2026, the "Interim Proposal on the Review of the Companies Act (Regarding Shares, Shareholders Meetings, etc.)" was published. This proposal presents a review of the rules on the "Shareholders' Right to Propose", in addition to the "Beneficial Shareholder Identification System" used by companies to identify their beneficial shareholders. Specifically, regarding the Requirements for the Number of Voting Rights for Shareholders' Right to Propose, the proposal considers either that the requirement "shall be abolished" or that the required number of voting rights "shall be increased to a certain number". Regarding the deadline for exercising shareholders' right to propose, the current deadline (up to 8 weeks prior to the date of the shareholders meeting) is deemed insufficient for companies to deliberate on proposals or prepare board opinions; thus, the proposal considers that the "8-week" period shall be extended. Accelerating these discussions and curbing the abuse of shareholder rights will be essential for maintaining sound market functions.

## **5. Conclusion**

The growing presence of activists is an irreversible trend in Japan's evolving capital market landscape. Listed companies are expected to constructively integrate proposals that contribute to corporate value creation while maintaining disciplined capital strategies. Simultaneously, regulatory authorities must continue to update legal frameworks to foster market dynamism while preventing actions that hinder sustainable corporate growth.

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