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Proposed Beneficial Shareholder Identification System in the Companies Act Reform Package

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1. Executive Summary

On March 18, 2026, the Ministry of Justice (the "MOJ") put together its Interim Proposal on the Review of the Companies Act (the "Interim Proposal") and its supplemental explanatory note (the "Explanatory Note") after holding discussions at the level of the Legislative Council of the MOJ. Among other proposals, the Interim Proposal proposes a new "beneficial shareholder identification" framework for listed companies. The proposal has two complementary pillars: first, a **company-initiated identification mechanism** under which a listed company would be entitled to request information through the chain of custodians and other intermediary institutions in order to identify the person who has voting instruction authority over the shares of the requesting listed company; and second, a **shareholder-side notification mechanism** under which persons subject to the large shareholding reporting rules under the Financial Instruments and Exchange Act (the "FIEA") would be required to notify the listed company issuing the relevant shares. The overall policy objectives are, respectively, to promote constructive dialogue between listed companies and their shareholders (for the company-initiated identification mechanism), and to secure the collection and disclosure of important information concerning the control of listed companies (for the shareholder-side notification mechanism).

From the perspective of foreign investors, the most important points are: (i) the above two mechanisms are limited to listed companies in Japan, but they are clearly designed with institutional investors using global custodians and similar intermediaries in mind; (ii) the company-initiated identification mechanism would require timely responses across multiple layers of intermediaries; (iii) the company-initiated identification mechanism contemplates sanctions for intentional or grossly negligent non-compliance; and (iv) in the shareholder-side notification mechanism, the reporting threshold is aligned in principle with the FIEA's existing large shareholding reporting framework, which may reduce conceptual novelty but will still require operational coordination for cross-border investors and custodial chains.

The MOJ conducted a public comment procedure on the Interim Proposal that continued until May 22, based on which the Legislative Council of the MOJ will hold further discussions. An amendment bill to the Companies Act, including matters related to the beneficial shareholder identification system, is expected to be submitted to the Diet in 2027 at the earliest.

2. Policy Rationale

The MOJ explains that, under current Japanese law, apart from the large shareholding reporting system under the FIEA, there is no general mechanism by which a company or one of its shareholders can identify the "beneficial shareholder" behind the nominee holder recorded on the shareholder register. The proposal was developed against the background of the increasing emphasis placed on ensuring constructive dialogue between listed companies and their shareholders signaled under Japan's Corporate Governance Code and Stewardship Code. The absence of a reliable way to identify the true decision-maker behind custodial holdings is viewed as an impediment to such dialogue, particularly in the context of institutional investors holding shares through asset managers, global custodians, and similar intermediaries.

The Explanatory Note also notes that the internal discussion at the Legislative Council level initially considered three possible approaches: (1) a company-initiated identification mechanism with administrative (non-criminal) fines for violations; (2) a company-initiated identification mechanism with suspension of voting rights for violations; and (3) a shareholder-side notification mechanism tied to voting-rights suspension for violations. The Interim Proposal proposes both a company-initiated identification mechanism with administrative (non-criminal) fines for violations and a shareholder-side notification mechanism tied to voting-rights suspension for violations, reflecting the view that the latter is more suitable for capturing persons with significant influence over listed companies, while the former is more directly aligned with constructive engagement.

It should be noted in this regard that, following the results of the public comment procedure, the information handout of the Legislative Council of the MOJ indicates that the proposal has been updated to include a company-initiated identification mechanism with administrative (non-criminal) fines as well as suspension of voting rights for violations. This update was presumably made in response to a majority of comments from the business community, whereas the asset management community and certain other communities supported the more cautious Interim Proposal approach. It is still unclear how this mechanism will be finally designed.

We examine the above two mechanisms in greater detail below.

3. Company-Initiated Identification Mechanism

3.1 Scope of application

The proposed company-initiated identification mechanism would apply only to listed companies (i.e., companies whose shares are listed on a stock exchange in Japan). The Explanatory Note states that beneficial shareholders are typically institutional investors that hold shares through custody banks in Japan or global custodians, and such shareholders are more likely to be found in listed companies than in unlisted companies. The Explanatory Note also observes that the corresponding EU framework (EU Shareholder Rights Directive II) is similarly limited to listed companies.

3.2 Mechanism

Under the proposal, a listed company may request information from a registered shareholder (nominee shareholder) that acts as an "intermediary institution". The request may concern either the nearest intermediary institution in the chain, or the person who has voting instruction authority over the relevant shares. If there is another intermediary institution behind the recipient intermediary institution, the request must be transmitted upstream through the chain until the final intermediary institution is reached. Each intermediary institution is then required to provide the information it holds to the listed company, thereby enabling the listed company to identify the "beneficial shareholder".

The term "intermediary institution" is intended to cover institutions such as Japanese trust banks, banks and securities firms, as well as foreign custodians, that provide custody, administration, or similar services for investors. However, this term is intended to exclude asset managers, asset owners (institutional investors who delegate investment authority to asset managers, etc.), and the Japan Securities Depository Center, Inc.

On the other hand, the "beneficial shareholder" identified by this mechanism is defined as the person who has authority to instruct the intermediary institution on how to exercise voting rights in respect of the relevant listed shares. Where such authority has been entirely delegated to a third party, the delegatee is treated as the relevant person for these purposes. However, it is still under discussion who should be treated as "beneficial shareholder(s)" where an asset owner is entitled to give voting rights to the intermediary institution but has delegated its voting authority to an asset manager.

3.3 Information to be provided

Where the intermediary institution has an upper-tier intermediary institution immediately above it in the custody chain, the former must notify the latter within a prescribed period to the effect that it has received the request or notice. The relevant intermediary institutions must then provide the listed company, within a prescribed period, with specified information for each layer of intermediary institution or each beneficial shareholder. The information includes, depending on the case, the name, company number (if applicable and known), address, e-mail address (if known), and the number of shares over which the relevant person has voting instruction authority or which are held through the intermediary chain.

3.4 Cost and enforcement

The Interim Proposal places the cost of the information provision process on the requesting listed company. At the same time, the MOJ notes concern that intermediary institutions might demand excessive fees, and the Explanatory Note indicates that further consideration is being given to possible safeguards, such as prior disclosure of fees or caps on the amount chargeable per request and in aggregate.

To ensure effectiveness, the Interim Proposal proposes administrative (non-criminal) fines if a person intentionally or through gross negligence fails to provide the information or provides false information. The Explanatory Note expressly states that mere clerical error should not be penalized, which is why the sanction is limited to cases of intentional misconduct or gross negligence.

Following the results of the public comment procedure, the information handout of the Legislative Council of the MOJ additionally proposes suspension of voting rights if a person intentionally or through gross negligence fails to provide the requested information or provides false information. It is still under discussion which approach will be finally adopted.

3.5 Related governance issues

The Explanatory Note also flags a broader policy issue: because the mechanism is designed to promote constructive dialogue, the introduction of the concept of a “beneficial shareholder” may justify future discussions of whether broader participation rights should be recognized. In particular, the MOJ notes possible future consideration of whether a registered shareholder (nominee shareholder) may appoint a given beneficial shareholder as proxy, and even whether such person should be allowed to attend and exercise voting rights personally, rather than solely through proxy arrangements.

4. Shareholder-Side Notification Mechanism

4.1 Purpose

The second pillar of the proposal addresses the shareholder-side notification mechanism. Its policy rationale is different from the company-initiated identification mechanism: it focuses on obtaining and disclosing important information concerning control of listed companies. The MOJ explains that persons who hold significant voting influence, and those who share economic interests with them through shareholdings, can exert influence over the management of a listed company. Accordingly, their identity and existence should be treated as basic information about the company's situation and operations, and this information should be disclosed to shareholders.

The proposed sanction for non-compliance under this mechanism is the suspension of voting rights in accordance with the judgment of the relevant listed company. The rationale is that a person who withholds such material information harms both the listed company and other shareholders, and should not be allowed to exercise voting rights in the shareholders' meeting while depriving others of the information needed for fair decision-making.

4.2 Scope and filing mechanics

The notification obligation would broadly track the scope of the existing large shareholding reporting rules under the FIEA. According to the Interim Proposal, in principle, a person required to file a large shareholding report or its amendment report regarding shares of a listed company under the FIEA would have to submit that report to the relevant listed company by the Companies Act filing deadline. The listed company would then keep the report at its head office for a prescribed period, currently contemplated as five years, and shareholders would be able to inspect or copy it.

However, where a larger shareholding report or its amendment report is filed with the competent authority under the FIEA and is made publicly available on the electronic disclosure system called EDINET (which is usually the case), the EDINET filing would be permitted to substitute for the submission to the relevant listed company. In that case, the issuer's obligation to keep the report available for the shareholders' inspection and copying rights would not apply.

4.3 Voting-rights suspension

The proposal contemplates that voting rights may be suspended if the relevant person fails to file a report, or files a report containing material misstatements or lacking material information. In order for the suspension of voting rights to take effect, a prescribed period must elapse after the listed company gives a "notice of suspension of voting rights" to the violator. The suspension would apply to shares held by the violator, including shares acquired after the notice, and the suspension would continue for as long as the violator retains the shares. The violator can lift the suspension by curing the reporting defect.

The "notice of suspension of voting rights" must specify the violation. It is proposed that a listed company be given the option to issue the notice by board resolution. The Explanatory Note also indicates that the person receiving the notice should be given an opportunity to seek provisional relief and contest the existence of the violation before the suspension becomes effective, which is why a short waiting period, such as three weeks or one month, is being considered. In addition, it is still under discussion whether, in the case of institutional investors eligible for the special reporting rules under the FIEA, the violations that may trigger the voting-rights suspension rule should be limited. These special rules are available to certain financial institutions that satisfy certain prescribed conditions, including that their purpose in holding the shares is not to carry out significant proposal activities toward the issuer.

5 Key Takeaways for Foreign Investors

5.1 Listed companies and custodial chains are the primary target

For foreign institutional investors, the practical significance of the Interim Proposal regarding the company-initiated identification mechanism lies in its design assumption that listed shares are commonly held through multilayer custody chains. This mechanism is expressly built around intermediary institutions and upstream transmission of requests through those layers. Foreign investors using global custodians, local sub-custodians, and nominee arrangements should therefore expect a new compliance and response workflow if the mechanism is enacted.

5.2 Response speed and record-keeping will matter

The MOJ emphasizes that the usefulness of the company-initiated identification mechanism depends on whether beneficial ownership can be identified promptly in the narrow period leading up to a shareholders' meeting. In practice, foreign investors should expect pressure for fast internal escalation, accurate holdings data, and clearly documented authority structures across their custody chains. While the notification periods are still under discussion for (1) when an intermediary institution must give notice to its immediate intermediary institution, and (2) when an intermediary institution must provide information to the listed company, there is a possibility that deadlines similar to those set by the EU Shareholder Rights Directive II will be adopted, that is, (1) within the same day, or by 10am of the next business day, and (2) within the next business day.

5.3 Voting authority, not just title, is central

The Interim Proposal's concept of "beneficial shareholder" is not based simply on economic ownership. It turns on who has authority to instruct the intermediary institution on the voting of the rights in question. This means foreign investors should review not only legal title and nominee arrangements, but also delegated authority, voting instruction processes, and any arrangements where authority is sub-delegated to third parties.

5.4 Sanctions raise compliance stakes

Although the company-initiated identification mechanism uses administrative (non-criminal) fines rather than voting-rights suspensions for violations, the proposal still penalizes intentional or grossly negligent non-compliance. In the shareholder-side notification mechanism, the consequences of violations are more substantial: non-compliance may lead to suspension of voting rights. Foreign investors should therefore treat both mechanisms as substantive governance obligations rather than mere disclosure formalities.

6. Conclusion

The proposed beneficial shareholder identification system represents a notable step toward greater transparency around the true holders of voting power in Japanese listed companies. The company-initiated identification mechanism is intended to improve dialogue and engagement, while the shareholder-side notification mechanism is aimed at disclosure of control-related information and fairer shareholder decision-making. For foreign investors, the central operational challenges will be custody-chain transparency, rapid response capability, and alignment between Japanese-law reporting, proxy voting, and internal compliance processes.

That said, these mechanisms are still under discussion and are expected to be finalized towards the end of this year. We will inform our readers of the latest developments in this matter as they unfold.

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