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Japan's Corporate Governance Code revisions: Implications for ESG indices

Revisions to Japan's Corporate Governance Code place greater emphasis on transparency, board effectiveness, and risk management. These are broadly aligned with existing FTSE ESG methodologies and, as governance practices evolve, may be more consistently reflected in ESG assessments and index construction over time.

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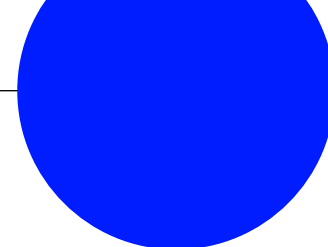
AUTHORS

Mizuki Awano
Sustainable Product Manager,
APAC – Senior Lead, Japan
mizuki.awano@lseg.com

Chuck Chang
Manager,
Equity Index Research and Design
chuck.chang@lseg.com

Written in collaboration with SGX

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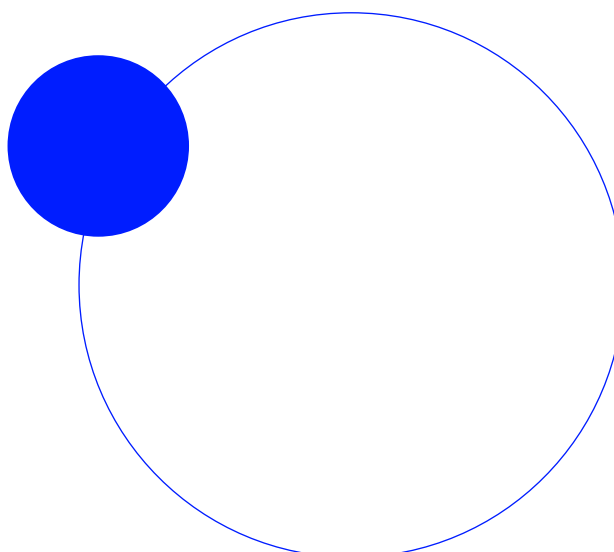


Quarterly analysis

This report, authored in collaboration with SGX, reviews the development of Japan's sustainability standards, the ESG performance of listed companies in Japan compared to market-specific indices, and the growth of index-linked SGX FTSE Blossom Japan Index Futures.

Key highlights from this quarter's analysis:

- From the December 2025 review, the FTSE Blossom universe adopted TOPIX constituents as its parent index basis, alongside the rebranding to the FTSE JPX Blossom Japan Index series.
- Japan's governance code reforms emphasise areas also captured by FTSE ESG. As governance practices evolve and become more comparable across companies, ESG assessments may more clearly reflect differences in governance practices, supporting greater transparency in index construction and performance interpretation.
- The FTSE JPX Blossom Japan Index delivered solid Q1 2026 performance, with ESG factors contributing positively, reflecting stronger ESG-driven stock selection relative to other factors. The Sector Relative Index also benefited from ESG contributions but showed more moderate relative returns due to tighter benchmark constraints.
- SGX FTSE Blossom Japan Index Futures remain the only liquid ESG derivatives contract in Japan, supporting broader adoption as a complementary or alternative exposure to TOPIX.



Ongoing developments in Japan's Corporate Governance framework

Japan is currently undertaking revisions to its Corporate Governance Code, building on the last major update in 2021. A public consultation process was conducted from 10 April to 15 May 2026. These developments reflect ongoing changes in Japan's approach to corporate governance, with increasing emphasis on effectiveness, transparency, and alignment with investor expectations.

The areas currently under discussion, including board independence, governance structures, disclosure, and risk oversight, are consistent with the core elements of Japan's Corporate Governance Code. These topics are primarily reflected in the Code's principles on board responsibilities and appropriate information disclosure. Recent discussions also indicate efforts to streamline the framework and maintain a principles-based approach, allowing flexibility in how companies demonstrate their governance practices.

This direction is broadly aligned with the structure of the FTSE ESG methodology. Within this framework, governance is assessed across corporate governance practices, risk management, anti-corruption, and tax transparency. The methodology combines qualitative assessments of policies with quantitative and disclosure-based indicators, supporting consistent evaluation of governance structures and their implementation. These ESG assessments are also used as inputs in ESG index construction.

While Japan's Corporate Governance Code adopts a principles-based "comply or explain" approach, FTSE ESG applies a structured, indicator-based methodology, enabling consistent and comparable assessments of governance practices. As such, even as the regulatory framework evolves, the underlying dimensions of governance can be assessed within established methodologies.

Many of the specific elements reflected in Japan's corporate governance framework, including board-level oversight, disclosure transparency, and governance structures, are incorporated into the FTSE ESG framework. This includes the assessment of board independence, risk management structures, and the availability and comparability of disclosed information.

Overall, these observations suggest broad consistency between evolving regulatory expectations in Japan and existing ESG assessment frameworks, including FTSE ESG. In some areas, such as tax transparency and the treatment of non-financial risks, the FTSE ESG framework may provide more detailed criteria relative to current regulatory requirements.

Governance-related corporate characteristics are captured in ESG assessments and incorporated into index construction. As companies respond to evolving corporate governance practices, these differences may become more comparable across companies. This allows ESG assessments to better reflect underlying differences in governance practices used in index construction.

These developments suggest that such characteristics may therefore be more consistently reflected in ESG-based index construction, enhancing transparency in index composition and supporting the interpretation of resulting performance.

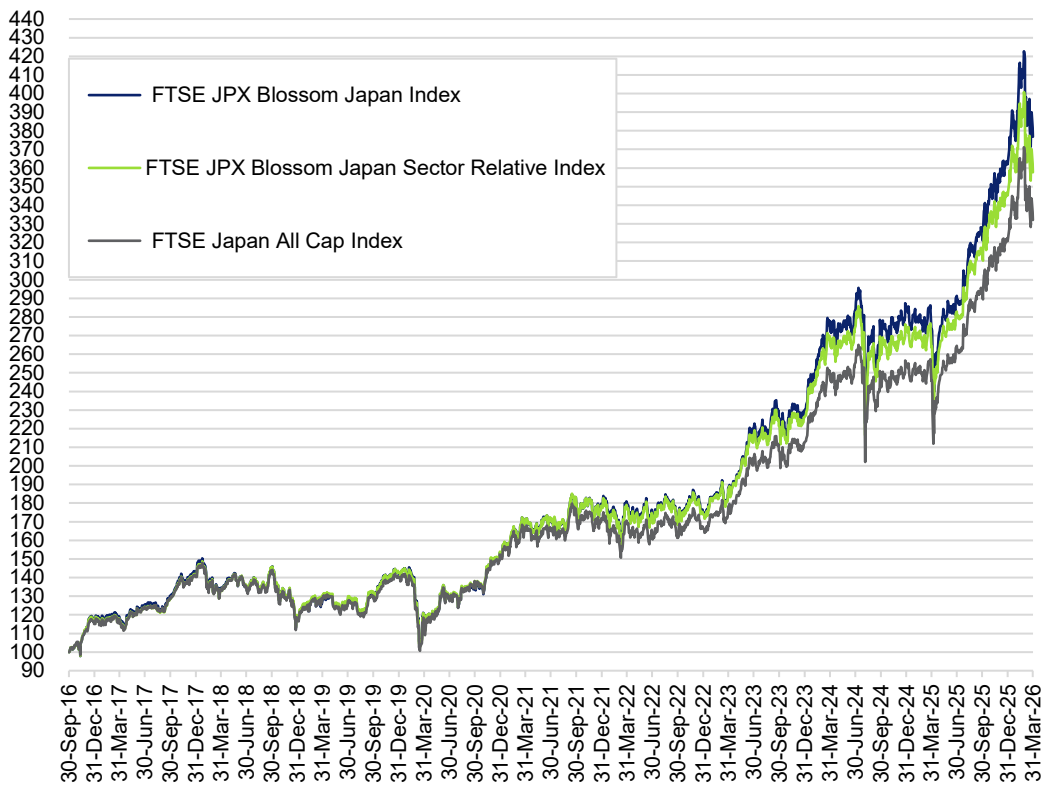
Exhibit 1. Mapping of key governance themes in Japan’s Corporate Governance Code to the FTSE ESG Assessment Framework

CG ode area	Description	FTSE ESG Theme	Assessment Indicator
Board independence	Increase in independent directors, committee structure	Corporate Governance	Board independence, chair/CEO separation, board composition
Governance structures	Committee structures, nomination and remuneration processes	Corporate Governance	Board committee structure, remuneration governance, shareholder rights
Disclosure quality	Consistency, comparability, and decision-usefulness of disclosures	Corporate Governance / Risk Management / Tax Transparency	Disclosure completeness, voting disclosure, compliance transparency, external assurance
Risk management	Oversee strategy, risk-taking, and management	Risk Management	Board oversight of risk, risk responsibility, internal control frameworks, and supporting mechanisms such as anonymous whistleblowing

Source: FTSE Russell ESG Data Model Methodology; JFSA “Japan’s Corporate Governance Code (Proposed Revisions).

FTSE JPX Blossom Index Series: ESG remains the primary driver of quarterly returns

Exhibit 2. The FTSE JPX Blossom Index Series has maintained long-term outperformance vs the benchmark (Rebased to 100)



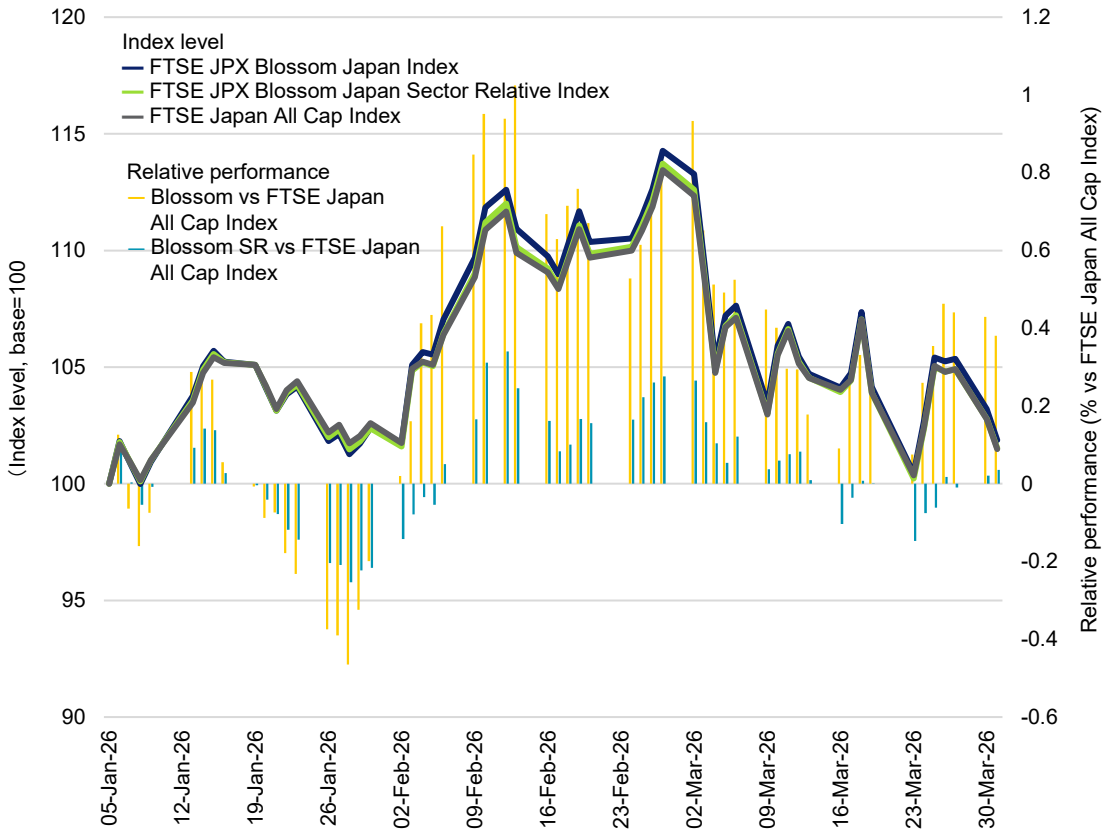
Source: FTSE Russell, Data as of March 31, 2026.

Exhibit 2 highlights the long-term performance of the FTSE JPX Blossom Japan Index and the Blossom Japan Sector Relative (SR) Index relative to the FTSE Japan All Cap benchmark. Over the full period, both Blossom indices have delivered sustained outperformance supported by their ESG-driven approach.

Focusing on the most recent quarter (January–March 2026), this outperformance trend remained intact. The FTSE JPX Blossom Japan Index continued to extend its lead, reaching new highs by the end of March 2026, while Blossom SR also maintained a positive trajectory, albeit with more moderate gains

At a more granular level, the pace of relative performance in the Blossom index series varied over the period. As shown in Exhibit 2, both indices steadily outperformed the benchmark from January through late February. This pace of outperformance slowed in March, alongside a period of heightened geopolitical uncertainty, including the escalation of tensions involving Iran at the end of February.

Exhibit 3. Short-term relative performance moderated in March following strong outperformance in January–February



Source: FTSE Russell, Data as of March 31, 2026.

Overall, the latest quarter reinforces the long-term pattern observed in the chart: both indices continue to deliver differentiated outperformance driven by ESG, with Blossom Japan demonstrating particularly strong momentum in recent periods.

Exhibit 4. Attribution analysis for the FTSE JPX Blossom Japan Index (bps)

	Industry	Value	Quality	Volatility	Momentum	ESG	Residual	Total Excess
2015/12 - 2024/3	-178	203	-158	-214	402	1,612	277	1,945
2015/12 - 2024/6	-250	210	-157	-221	319	1,875	266	2,042
2015/12 - 2024/9	-225	199	-187	-203	266	1,632	377	1,858
2015/12 - 2024/12	-281	214	-155	-215	322	1,910	418	2,212
2015/12 - 2025/3	-229	207	-92	-200	309	1,570	414	1,980
2015/12 - 2025/6	-248	210	-129	-238	326	1,571	417	1,909
2015/12 - 2025/9	-248	260	-104	-283	348	1,847	534	2,354
2015/12 - 2025/12	-275	284	-123	-318	376	2,389	728	3,062
2015/12 - 2026/3	-280	288	-134	-335	418	2,530	798	3,284
Quarterly Change 2024/4-6	-72	6	1	-7	-83	263	-12	97
Quarterly Change 2024/7-9	25	-11	-30	18	-53	-243	111	-184
Quarterly Change 2024/10-12	-56	15	32	-12	56	278	41	354
Quarterly Change 2025/1-3	51	-6	63	14	-12	-339	-3	-233
Quarterly Change 2025/4-6	-19	3	-38	-38	17	1	3	-71
Quarterly Change 2025/7-9	1	49	25	-44	21	276	116	445
Quarterly Change 2025/10-12	-28	25	-19	-35	29	542	194	708
Quarterly Change 2026/1-3	-5	3	-11	-18	41	141	70	222

Source: FTSE Russell, Data as of March 31, 2026. Data covers the period from December 31, 2015, to March 31, 2026.

As shown in the attribution table, the FTSE JPX Blossom Japan Index delivered a solid +222 bps of excess return in Q1 2026, demonstrating resilience in a mixed and uneven factor environment.

Performance remained primarily driven by ESG factors, which contributed +141 bps and clearly stood out as the main source of excess return during the quarter. This reflects the index's ESG-focused construction, where stock selection is anchored in ESG characteristics rather than incremental benchmark tilts.

In contrast, several traditional style factors acted as headwinds.

Momentum (+41 bps) provided a positive contribution, but this was more than offset by Volatility (-18 bps) and Quality (-11 bps), with Industry (-5 bps) also detracting. Value (+3 bps) provided only limited support.

These mixed factor dynamics highlight ongoing dispersion across traditional styles, in contrast to the more stable and positive contribution from ESG.

Despite this variability, the index maintained a clear positive outcome, supported by its differentiated ESG exposure and stock selection approach.

Overall, the results reinforce the strength of an ESG-led strategy, with ESG continuing to act as a key and reliable driver of excess returns even amid less supportive factor conditions.

Exhibit 5. Attribution analysis for the FTSE JPX Blossom SR Index (bps)

	Industry	Value	Quality	Volatility	Momentum	ESG	Residual	Total Excess
2015/12 - 2024/3	2	9	-3	-162	176	1,188	-63	1,147
2015/12 - 2024/6	-57	12	-3	-164	153	1,321	-99	1,164
2015/12 - 2024/9	-28	44	-170	-69	307	915	12	1,011
2015/12 - 2024/12	-60	45	-170	-74	324	1,056	0	1,122
2015/12 - 2025/3	-18	42	-152	-62	308	888	58	1,065
2015/12 - 2025/6	-23	50	-181	-89	328	898	72	1,055
2015/12 - 2025/9	-0	40	-167	-116	361	1,048	80	1,246
2015/12 - 2025/12	0	33	-189	-131	390	1,333	14	1,449
2015/12 - 2026/3	13	34	-200	-142	391	1,407	-30	1,474
Quarterly Change 2024/4-6	-59	4	-0	-2	-23	133	-36	17
Quarterly Change 2024/7-9	29	32	-167	95	154	-406	111	-153
Quarterly Change 2024/10-12	-31	1	1	-5	17	141	-12	111
Quarterly Change 2025/1-3	41	-3	18	13	-16	-169	58	-57
Quarterly Change 2025/4-6	-5	8	-29	-27	20	10	14	-10
Quarterly Change 2025/7-9	23	-10	14	-27	33	150	8	191
Quarterly Change 2025/10-12	1	-7	-22	-15	29	285	-66	203
Quarterly Change 2026/1-3	13	2	-11	-12	1	74	-43	25

Source: FTSE Russell, Data as of March 31, 2026. Data covers the period from December 31, 2015, to March 31, 2026.

The FTSE JPX Blossom Japan Sector Relative (SR) Index delivered a +25 bps excess return in Q1 2026, demonstrating stable performance within a constrained framework designed to maintain close alignment with the benchmark.

As in the FTSE JPX Blossom Japan Index, ESG was the key positive contributor, adding +74 bps to returns. However, within the SR structure, its impact is moderated by sector-neutral constraints and closer alignment to the benchmark.

Other factor contributions were more mixed and generally less supportive.

Momentum (+1 bps) was broadly neutral, while Volatility (-12 bps) and Quality (-11 bps) detracted from performance.

On the positive side, Industry (+13 bps) and Value (+2 bps) provided partial offsets, though not sufficient to fully offset broader headwinds.

Overall, the results highlight a more balanced and constraint-driven profile relative to the FTSE JPX Blossom Japan Index, where ESG continues to contribute positively but the overall outcome is moderated by tighter benchmark alignment and diversified factor exposures.

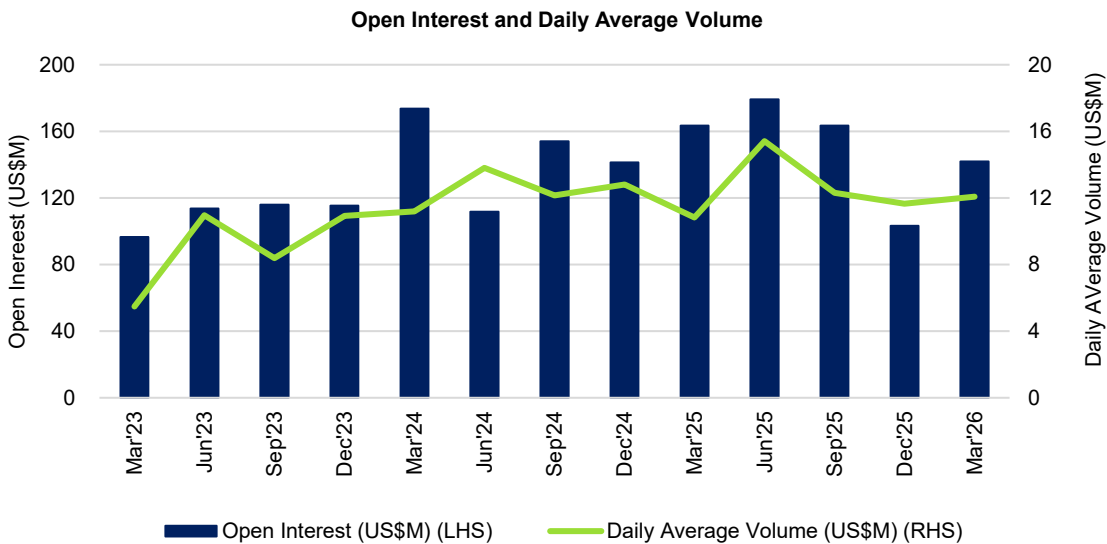
Increasing the flexibility in execution of SGX FTSE Blossom Japan Index Futures

SGX FTSE Blossom Japan Index Futures retains its position as the only active Japan ESG derivatives contract.

To further increase flexibility of execution for market participants and allowing for more precise management of positions, the minimum volume threshold for block trades on the SGX FTSE Blossom Japan Index Futures was reduced to 2 lots in March 2026.

Considering the consistent outperformance of the FTSE JPX Blossom Japan Index against TOPIX, investors have utilised SGX FTSE Blossom Japan Index Futures as a tool for TOPIX replacement while concurrently adding ESG exposure. The change above allows the minimum block trade on SGX FTSE Blossom Japan Index Futures to align more closely to the size of TOPIX Futures, facilitating this replacement in portfolios.

Exhibit 6. Evolution of activity on the SGX FTSE Blossom Japan Index Futures

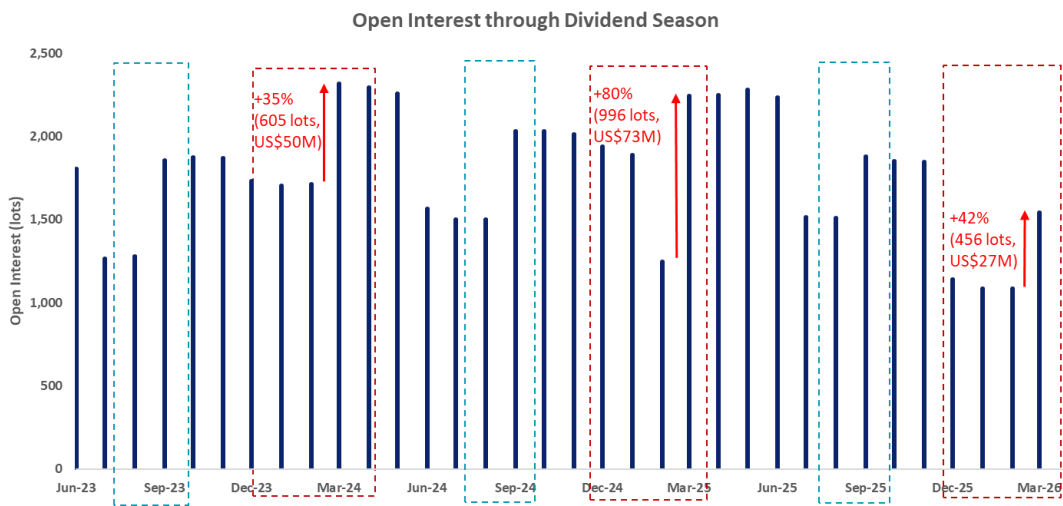


Source: SGX. Data as of March 2023 – March 2026. Past performance is no guarantee of future results. Please see end for important legal disclosures.

The **SGX FTSE Blossom Japan Index Futures** continued to be used as a tool for dividend equitisation in March 2026, with Open Interest increasing by US\$27M to US\$142M.

This has been a consistent trend through the major dividend seasons in Japan, in March (reflected the red boxes below) and September (reflected in the blue boxes below).

Exhibit 7. Increase in Open Interest around dividend seasons



Source: SGX. Data as of March 2026. Past performance is no guarantee of future results. Please see end for important legal disclosures.

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EMEA +44 (0) 20 7866 1810

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