Mizuho Custody Newsletter

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I. Market News

1. FSA starts its studies to obligate companies to disclose analysis on climate risks

Financial Services Agency (“FSA”) starts its studies to obligate companies to disclose their analysis on climate risks, reports Nikkei Shimbun, Japan’s leading financial daily. FSA sets up a working group this summer to discuss whether to require statement about climate risks in their Annual Securities Report submitted by about 4,000 listed and unlisted companies. FSA intends to make the disclosure mandatory based on the Securities Reports rules, which is legally binding, to encourage more companies to tackle this issue so that investors could use the information for their decision making. This requirement may come into effect from the Securities Report for the fiscal year ending in March 2022 at the earliest.

A working group will be established within the Financial System Council to discuss how climate change could impact corporate activities. Once the items to be disclosed are unified, that will make it easier for corporate executives to engage in environmentally friendly businesses and provide more information to investors that puts weight on environmentally friendly approach in a long-term perspective, such as pension funds.

The Financial Instruments and Exchange Act requires companies to make out Securities Report at every fiscal year end. The report includes information on financial conditions and shareholdings. The working group would add analysis on climate risks as an item to be included in the report.

FSA and Tokyo Stock Exchange revised the Corporate Governance Code (“Code”) in this June, and the revised Code requires companies listed on the Prime Market, the most prestigious market from April 2022, to disclose analysis on climate risks. However, the Code is recognized just as a guideline to encourage company’s voluntary action. Therefore, if the statement on climate change risks would be required in the Securities Report, that would raise a disclosure level another notch.

The Code stipulates to disclose the items based on the recommendations of the "Task Force on Climate-related Financial Disclosures (TCFD)" led by financial regulatory authorities of major countries. The disclosure standards of the Securities Report will be likely to follow the recommendation.

Disclosure obligation on climate risks may result in more workload for companies’ financial department and companies that emit more greenhouse gases may call for a different approach to this obligation.

Information compiled from Nikkei Shimbun & Mizuho research

2. The number of M&As by Japanese companies marked record high in January-June 2021

More and more Japanese companies have been getting active in M&As, according to Nikkei Shimbun, Japan’s leading financial daily. In January-June 2021, the number of M&A cases hit the record high, and it also remained high in July. They are accelerating concentration in their core competence looking ahead of the post-pandemic situation. Further, many

companies have been looking for ways of business restructuring to meet the new listing standards to be implemented in the new market segments at the Tokyo Stock Exchange ("TSE") in April 2022.

According to a research by a M&A advisory firm, M&A cases in January-June 2021 amounted to 2,128, 17% up on a year-over-year basis which was the highest for the period since their inception of data collection in 1985. The total value of the M&A deal was JPY 8.4 trillion, which was 2.8 times higher on year-over-year basis and was the second highest for the period.

M&A cases for the period of January-July 2021 amounted to 2,473, which was also the highest record. The implementation of the new market segments is one of the causes boosting M&A cases. After the new market segments coming into effect, companies shall meet the listing standards of the market they are listed, such as market capitalization and the ratio of tradable shares.

In July, a security service company completed a tender offer of its listed subsidiary. The company concluded to go private as they found it difficult to list on the most prestigious market.

The Prime Market, the most prestigious market in the new market segment, requires companies to maintain the market capitalization of the trading shares at least JPY 10 billion to stay listed as one of its listing standards. For some companies, M&A seems to be an attractive option to boost corporate value to meet the requirement, and the present trend seems to continue.

Information compiled from Nikkei Shimbun, Tokyo Stock Exchange & Mizuho research

3. Companies using treasury stocks to pay executive remuneration increase

More companies started to use treasury stocks to remunerate executives, according to Nikkei Shimbun, Japan's leading financial daily. Many companies got interested in this scheme not only due to the reorganization of the stock segments by the Tokyo Stock Exchange ("TSE") in next April, but also that many more companies intend to have both their shareholders and executives look at the same direction to increase corporate value. Securities companies and trust banks are now working to support this demand by creating a specialists' team. It is anticipated that this trend would grow further.

According to a major securities firm in Japan, approximately 1,900 companies have introduced stock-based executive remuneration scheme as of the end of this June, which contains 210 companies more than what it did a year ago. It accounts for about half of all listed companies. In U.S. and U.K., about 95% listed companies already have a similar remuneration scheme as of 2018.

There are three major schemes for executive remuneration using treasury stocks, stock option (equity warrant), restricted stock ("RS") and board benefit trust ("BBT"). In all schemes, executives can get benefit when the stock price is higher than the one it was granted. This gives executives more reasons to work hard for better share price and business performance.

At present, BBT seems to be attracting attention in the market. Executives receive points based on the share price and business performance of the year, and they are awarded with the company's shares from their treasury stocks, according to the points given. Many institutional investors welcome the scheme because of strong correlation between company's performance and executive remuneration, and its high transparency.

One of the triggers is the reorganization of the stock market by the TSE in April next year. The Prime Market, which will become the most prestigious market, set a threshold of 35% or more of the stocks to be freely traded. By using BBT, the amount of stocks delivered to the executives can be calculated as tradable stocks, which has the effect of increasing the ratio of tradable stocks. At a trust bank, in the recent 5 years, 21 companies switched to BBT from equity warrant, which has been a trend until 2017.

RS has been growing at a higher pace than the BBT. The company allocates its treasury stocks to executives in advance, and the executives may sell the shares if they achieve their goal, and the transfer restriction is lifted. A major securities firm that set up the new dedicated department believes that RS scheme would grow further. Another major securities firm integrated a stock-based compensation department and benefit package department into one,

and allocate more people to the new department, aiming to further promote introduction of RS by being able to present wider variety of proposals.

It had been pointed out mainly by the overseas investors that limited linkage between executive remuneration and the company's performance explains low earning capacity of Japanese companies in general. The corporate governance code ("Code") which was announced in 2015 calls for introduction of executive remuneration system that consists of cash and company's treasury stocks. The government has also paved the way for this purpose by allowing remuneration linked to the company's business performance as deductible expenses to reduce its tax burden.

Many companies try to ensure consistency with the Code by promising to introduce executive remuneration linked to business performance. A person in charge of stock-based executive remuneration at a major securities company says, "Summer is usually a quiet period for us since most of the companies finished AGMs at the end of June. But not this summer. We receive inquiries from many companies about executive remuneration scheme all the time.

From now, it would be important to ensure quality of the remuneration scheme. The more executive receive compensation via treasury stocks, the more the compensation for CEO would be. According to an accounting firm, the median remuneration amount in FY2020 was about JPY 1.6 billion equivalent in the U.S., while it was just a little more than JPY 0.1 billion in Japan. In the U.S., remuneration amount seems to have been inflated due to the linkage with share prices. Excessive disparity in compensation between CEO and other employees may cause frictions.

A bank dealing with many mid-sized corporations said more than 10 companies were considering introducing an employee stock ownership plan ("ESOP") so far, which is double the number compared to usual years. If the companies' share held in the ESOP, the shares will not go outside, which causes little concern for the company. It is also expected that ESOP may help prevent a pay gap between executives and employees to become too big.

Some experts say while rewarding the executives that meet expectations, companies should consider introducing a claw-back clause that enables the executives to return remuneration for large losses associated with investments and scandals.

Information compiled from Nikkei Shimbun, Tokyo Stock Exchange & Mizuho research

4. Expanding "Core Business Sectors" to secure stable supply of critical minerals

On 18 August, the Ministry of Finance ("MOF"), together with other competent ministries, announced to start public consultation to add new industrial sectors handling important mining resources including rare earth to the "Core Business Sectors" under the revised Foreign Exchange and Foreign Trade Act ("FEFTA"). This addition is aiming to secure stable supply of critical minerals.

Business sectors of (i) metal mining, (ii) manufacturing, repair/maintenance or software for devices or products used for metal mining, and (iii) component analysis services of minerals, pertaining to 34 critical minerals including rare earth, as well as construction service business etc. which improves or maintains port facilities on "designated remote islands", such as Okino-Tori-shima and Minami-Tori-shima, to secure smooth activities by mineral exploration vessels will be added.

The government now works on enhancing economic security, reports Nikkei Shimbun, Japan's leading financial daily. Japan has been dependent on imports for most of rare earth minerals, which has been a concern for a long time to ensure stable supply even in the event of emergency. In recent years, rare earth minerals have been becoming the key item for production of electric vehicles in the growing trend of de-carbonization and digitalization. The government concluded that it had to promptly establish a framework to prevent inappropriate investments from overseas to companies that are involved in research of domestic natural resources.

FEFTA requires foreign investors to report in advance when they purchase shares of companies important to national security. The revised FEFTA enacted in November 2019 has tightened the requirement to foreign companies investing 1% or more, from 10% or more.

Initially, FEFTA defined "Core Business Sector(s)", which was subject to the strictest controls to cover 12 industries, such as weaponry, atomic power facilities, railway, cybersecurity, etc. In 2020, manufacturers of medical supplies for infectious diseases and manufacturers of highly controlled medical devices were added to the list amid the global pandemic.

More companies have been added to the list of MOF that shows ones subject to the advance notification requirement. The list included 518 companies in May 2020 and it has 715 in July 2021.

Explanatory material on the addition to the "Core Business Sector(s)" of the FEFTA to secure stable supply of critical minerals is available from the following URL:
https://www.mof.go.jp/english/policy/international_policy/fdi/relateddocument_20210818.pdf

Meanwhile, in the following Japanese page over e-gov website, public consultation is being made until 17 September 2021 in Japanese only:
https://public-comment.e-gov.go.jp/servlet/Public?CLASSNAME=PCMMSTDETAIL&id=395122111&Mode=0

Information compiled from Ministry of Finance, Nikkei Shimbun & Mizuho research

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Sep-02	Media Research Institute	JP3921330001	M / F
Sep-02	Mobilus	JP3922990001	M
Sep-13	Geolocation Technology	JP3386740009	F
Sep-22	Simplex Holdings	JP3383270000	T
Sep-22	YMIRLINK	JP3952890006	M
Sep-22	Core Concept Technologies	JP3284100009	M
Sep-24	Renascience	JP3981100005	M
Sep-28	Livero	JP3974830006	M
Sep-28	DIGITALIFT	JP3548950009	M
Sep-28	ROBOT PAYMENT	JP3985100001	M
Sep-28	Global Communication Planning	JP3386780005	M
Sep-29	ProjectCompany	JP3833840006	M
Sep-29	Safie	JP3413100003	M
Sep-30	Asterisk	JP3119860009	M

**Information compiled based on postings from the TSE (T), Mothers (M), NSE (N)、FSE (F), SSE (S) & JASDAQ (J), Tokyo Pro Market (P)*
***Board lot size is unified to 100*

III. Foreign Ownership Limit Ratio

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http://www.mizuhobank.com/service/custody/actions.html

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http://www.mizuhobank.com/service/custody/index.html