Mizuho Custody Newsletter

August 2023 | Japan

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I. Market News

1. Japan aims to raise female executive ratio to 30%

Following the election of directors at the shareholders' meeting held at the end of June, the total number of female directors at the companies listed on the Prime market at the Tokyo Stock Exchange (TSE) turned out to be 2,810. It accounts for 13.3% of the total number of directors from Prime Market companies, which increased by 1.9 points from the previous year.

The number of companies with no female directors was 200, accounting for 10.9% of the total. Given that 345 companies (18.9% of the total) did not have any female directors last year, it can be said the situation is taking a turn for the better. Companies are getting more serious to make their board members more diversified, partly because more investors, including non-Japanese ones, are taking a hardline stance against the reappointment of the top management for companies that have no female executive.

A company broadened the percentage of female executives on their board from 30% to 55.6% last year, from five out of nine in number. However, all of them were outside directors. Companies are required to develop human resources within the company and should rely less on outsiders for their board members. The government aims to raise the ratio of women in managerial positions to 30% in the early 2020s. Companies are required to establish procedures that promote more female managers to executives.

At a major brewery company, a female employee who joined the company in 1985 and had been promoted to a managing executive officer was selected as a director in March 2023. Previously, the brewer had four female outside directors, but with the addition of this new female director, the ratio of female executives rose to 29.4%. The brewer has implemented a training program in which female employees could experience many rolls and tasks during the first 10 years after the entrance to facilitate them to design their career from a long-term point of view. "We present them clearly how they would be promoted in our program, which we believe supports them to design their own career. We would do whatever we could support them." the CEO of the brewer said.

Institutional investors are urging Japanese companies to reform, under the belief that diversity is essential for better decision-making. Japanese companies still have a lower percentage of female executives than that of those in the United States and Europe. According to the Organization for Economic Cooperation and Development (OECD), the average ratio of female executives was 29.6% in 2022. In France (45.2%), Britain (40.9%) and Italy (42.6%), female executives account for more than 40% of the board members. One of the world's largest sovereign wealth funds announced to oppose the election of a chairperson of the board of directors of Japanese companies that have no female directors in their board room, from this year's shareholders' meeting. According to Japan’s Cabinet Office, about two thirds of institutional investors look at information how female employees are positioned as effective labor force for their investment decisions. In particular, they look at the ratio of female executives at each company most often.

In June, the government announced a policy to promote women's active participation to business and gender equality. On July 28th, the Tokyo Stock Exchange announced that it would require listed companies on its Prime Market to aim to increase the ratio of female executives to 30% or more by 2030 (Currently, there are 68 companies listed on TSE Prime Market that have 30% or more female executives, 3.7% of the total). TSE requires companies to appoint one or more female executive by 2025, and recommends them to institute an action plan to achieve the above mentioned goal.

Compiled from Nikkei Shimbun and Mizuho research.

2. AI Tech Companies bring efficiency to IPO preparation

In Japan, it has been an implicit standard for companies that whether they have raised funds more than 500 million yen a year to think seriously about IPO. According to a market information database company, domestic start-up companies at this level have amounted to 1,500 during 2018 to 2022, about threefold of that of 5 years before the above period. Despite more and more start-ups have potentiality for IPO recently, the actual number of IPOs per year has been around 100 cases recently.

This is partly due to insufficient labor resource at audit firms and securities firms. According to a major auditing firm in Japan, start-ups that can receive support through audit contracts are now limited to about 800 to 1,000, reflecting the above-mentioned situation. In addition, some start-ups cannot find an audit firm that is willing to support them as they are recognized not to have established appropriate organizational structure to carry out preparation for IPO.

To support those start-ups in such situation, more and more new tech companies are now providing services to them to streamline their IPO preparations. One of these companies provides a cloud based service that presents the client what has to be done by when, if the client informs their targeted date for listing. In this service, Chat GPT replies to the client’s questions if they ask questions on specific issues. On these services, companies seeking to go public would be able to develop and align their corporate structures such as personnel management, legal affairs, corporate governance, shareholder management, and also to draft and present accountable equity stories.

The service also has a messaging function which saves time for users to share documents with related parties such as securities companies, auditing firms and printing companies, which used to be time consuming under communication via emails and file sharing services. Some users of the service said to the function saved 40% of their time compared to using ordinary e-mails and external file sharing services.

Another company launched an AI cloud service that creates internal corporate rules. It is said that about 50 internal rules need to be instituted for an IPO. In this service, users can create their own rules that comply with the legal system by answering questions AI raises on a display screen. AI will also extract the parts that need to be revised in line with revision of the relevant laws, and will provide suggestions and references. 20 to 30 start-ups have already been using the service for IPOs. The company which launched the service aims to increase the number of users to 70.

According to a survey conducted by a job search website operator for working adults in their 20s and early 30s, nearly 70% of the respondents were interested in moving to a startup company. Most of the respondents stated that working at a start-up could provide them with opportunities to acquire various experiences and skills to brush up their career. If many of these start-ups could attract young and eager human resource, by utilizing above-mentioned supports to properly organize their corporate structure for IPO, the projects currently ongoing to develop infrastructure that enhance financial sources to these companies are expected to revitalize the market.

Compiled from Nikkei Shimbun and Mizuho research.

3. Effect of stock splits on companies

Tokyo Stock Exchange (TSE) had defined the desirable investment unit for listed shares to be "between 50,000 yen and less than 500,000 yen per unit", but on July 28 2023, it announced to eliminate the lower limit “50,000 yen”. In order to promote the trend “from savings to investment” to the households, the government aims to develop an environment for individual investors to facilitate their market research and investments.

Since October 2022, the TSE has requested listed companies whose investment units have been pricey to consider lowering their investment units. According to the Nikkei Shimbun, Japan's leading financial daily, 100 companies resolved to split their shares in 2023 by August 14, 2023, exceeding 97 during full year 2022 and this trend seems to continue.

More and more companies and investors are interested in stock splits, partly due to request from the TSE. As reported by the mass media about the national flag tele-communication company's decision to split its share into 25 in this June. The investment unit of this issue, which used to be around 400,000 yen (ca.USD2,800-), has dropped to about 16,000 yen (ca. USD110-). The company aims to widen its individual investor base, which now mainly consists of elderly individuals, to younger people by making their investment unit more affordable.

A leading Research Institute in Japan has released an analysis of effects of stock splits on companies. The analysis shows that i) stock splits push up prices, which would not last long ii) stock splits bring on average new shareholders by six percent to the companies, and iii) stock splits help increase companies' trading volume, soften price impact and improve liquidity.

i) Stock price increases for about 10 business days after the announcement of the stock split, but the effect fades away on about 30 business days after the event on average. From this analysis, stock splits does not seem to be an appropriate solution to bolster share prices for medium- to long-term.

ii) As for the number of shareholders, the lower the stock price would be (i.e. the smaller the investment unit), the more individual shareholders could be interested as the issue becomes affordable for them. The analysis describes an announcement effect of stock split to which some investors acquire the issue, and actual lower-pricing effect that more and more individual investors find the issue affordable.

iii) In terms of liquidity, trading volume (the number of shares traded) of issues increased for companies that engaged in stock splits according to the analysis. Some market analysts are concerned that a stock split could make the issue price erratic and volatile, but the analysis confirmed that the price impact actually is lessened because the issue becomes more liquid in the market.

As it turned out in the analysis, stock split could bring positive effects to companies wishing to attract more individual investors in its shareholders' list and those being keen on making their issues more liquid in the market. However, those companies should also note that the event would result in higher costs for managing their shareholders' data and distribution of various information and documents to them. For example, companies should promote digitalization of proxy materials and related documents to cut printing and mailing costs. In addition, introduction of a virtual AGM might be an option for them as a way to control costs for AGMs even if they have more shareholders than ever.

Compiled from Nikkei Shimbun, and Mizuho research.

4. Discussion on protection of minority shareholders rights

Since December 2019, the Tokyo Stock Exchange (TSE) has held a series of discussions on how to adjust interests with minority shareholders of listed companies, and the framework for minority shareholders protection. In 2021, the Company Act was revised in March and the Corporate Governance Code (CG Code) was revised in June based on these discussions.

In 2023, the TSE resumed discussions on this subject, as it came to be aware of some cases where the mechanism of minority shareholders protection had not been functioning properly, especially where the company became to be owned by a controlling shareholder after being listed through capital alliance, TSE held discussion four times at its workshops by August, mainly on issues such as disclosure of information in relation to management of corporate group and conflicts of interest, and governance structure on selection of independent outside directors.

The TSE conducted a survey to some listed companies which are controlled by its parent companies (listed subsidiaries) and to listed companies that had other affiliated companies (listed affiliates), to investigate whether they had contracts that were related to governance and what the content of the contracts were like, if they did have one. As a result, it turned out that disclosure of details of those contracts to minority shareholders were not sufficient. The survey also revealed that only a few companies had disclosed their policies on corporate group management and the positioning of its listed subsidiaries within the group in detail.

Based on discussions at the workshop held in March 2023, TSE decided to revise the guidelines its Corporate Governance (CG) reports such as to organize what points should be stated in disclosure items and to publicize disclosure samples, to enhance the quality of disclosure made in the CG report.

TSE made another progress in the discussion on the role of independent outside directors and their election method, which was another major issue for the workshop. For listed companies with controlling shareholders, it is important to establish a governance system consisted of independent outside directors who are not under the influence of the controlling shareholders, in order to protect minority shareholders. This point has already been stipulated in the revised CG Code in 2021, which reminded the workshop members the importance of independent outside directors' active involvement to the management.

In May and August 2023, the workshop discussed ways how the existing exchanges and listing rules should be, to utilize independent outside directors more, to proceed review and development of the governance structures. Definition of roles of independent outside directors and how their independence from the controlling shareholders can be secured were also on the agenda. Three typical situations that cause conflicts of interest with minority shareholders were raised to discuss at what point independent outside directors need to be involved and what kind of actions the directors should take, as follows i) direct transactions involving real estate and finance between the parent company and the subsidiary; ii) business assignment between the parent company and the subsidiary; and iii) subsidiary to become wholly-owned by controlling shareholders.

Measures to ensure that independent outside directors are not influenced by controlling shareholders were also discussed at the workshop, such as MoM (Majority of Minority), in which the majority of minority shareholders approve the election of independent outside directors, and disclosure of the proportion of minority shareholders who approved election.

Protection of minority shareholders is gaining its importance in the market, under the circumstance that more listed companies have a controlling shareholder after being listed through capital and business alliances. It is anticipated that many items debated at the workshops would be reflected in relative rules and guidelines in years to come.

For details of the current situation of the reviewing process of the minority shareholder protection, please refer to the website of the Tokyo Stock Exchange from the following URL:

https://www.jpx.co.jp/english/equities/improvements/study-group/index.html

Compiled from Tokyo Stock Exchange, and Mizuho research.

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Aug-30	Inbound Platform Corp.	JP3153350008	G
Sep-12	Rise Consulting Group, Inc.	JP3965420007	G
Sep-13	Daishinsha Inc.	JP3484450006	P
Sep-15	Chordia Therapeutics, Inc.	JP3283730004	G
Sep-20	Integral Corporation	JP3152910000	G
Sep-21	AGEHA Inc.	JP3108300009	G
Sep-22	Fast Accounting Co., Ltd.	JP3802130009	G
Sep-22	Sasatoku Printing Co., Ltd	JP3319050005	ST
Sep-25	J.E.T. Co., Ltd.	JP3386770006	ST
Sep-26	NETSTARS Co., Ltd.	JP3758280006	G
Sep-26	AUTOSERVER CO., LTD	JP3172490009	ST
Sep-27	AVILEN Inc.	JP3105370005	G
Sep-27	Okamura Foods Co., Ltd	JP3192300006	ST

**Information compiled based on postings from the Prime (PR), Standard (ST), Growth (G), Tokyo Pro Market (P), NSE (N)、FSE (F) & SSE (S).*

***Board lot size is unified to 100*

III. Foreign Ownership Limit Ratio

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