

Mizuho Custody Newsletter

February 2023 | Japan

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I. Market News

1. TSE announce plans to end the transitional measure in four years

Tokyo Stock Exchange ("TSE") announced plans to end the "transitional measure" that allows companies to temporarily stay listed in the market they want, even if they do not meet the listing standards, such as those on the Prime market, virtually in four years from the implementation of the new market segment. The transitional measure will end in 3 years from the market restructuring started in April 2022, followed by 1 year improvement period. If a company still fails to meet the standards, it will be delisted after being designated as an issue under supervision. About 270 companies listed on the Prime market that have yet to meet the listing criteria will have to conduct management reforms urgently to stay listed, reports Nikkei Shimbun, Japan's leading financial daily.

In April 2022, TSE reorganized the market into 3 markets; Prime, Standard and Growth. It has set a new standard of market capitalization of tradable shares at JPY 10 billion or more, excluding holdings by major shareholders and executives, for the Prime market and JPY 1 billion or more for the Standard market.

In doing so, TSE allowed companies already listed on the TSE to be listed on the market they wanted, as an interim transitional measure even if they did not meet the standard of each market such as the Prime. As of the end of December 2022, there were 269 companies being subject to the transitional measure on the Prime, 200 companies on the Standard and 41 companies on the Growth, representing 10-20% of each market.

TSE initially said it would maintain the transitional measure "for the time being" and did not state when it would end, and thus, there were criticism in the market that TSE maintained "double standard". Based on the discussions at the panel of experts, TSE has compiled a plan to revise the system, setting a three-year plus one-year time frame. It could take effect as early as this spring.

Timing of the end of the transitional measure varies depending on the fiscal year of each company. For the companies with fiscal year ending in March, the deadline is March 2025, and for the companies with fiscal year ending in September, the deadline is September 2025. Improvement period of one year will follow the fiscal year end in 2025.

If a company fails to meet the standards by then, it will be delisted after designated as a securities for supervision and to be delisted. The period for the designation is usually three months, but as an exception, it has set a designation period of six months. It is to ensure that existing shareholders have an opportunity to sell their holdings.

Prime-listed companies on the transitional measure will be allowed to move to the Standard market without any screening within six months after the new system begins. Companies listed on the former First Section of the TSE moved to the Prime or the Standard market at the time of the implementation of the new market segment in 2022. Certain number of companies chose the Prime market as they wanted to stay on the top market, even though they were behind the listing standards of the Prime. It will be a remedy for these "companies that aimed too high".

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On the other hand, companies listed on the Standard market on the transitional measure have no remedies. This is because the Growth market, the market below the Standard, is for startups and other companies with growth potential, and "the nature of the market is different," a TSE official said.

Companies that don't meet the standards need to increase their market capitalization of tradable shares by improving earnings or increase their share of tradable shares by releasing the founder's stake.

TSE will make some necessary revisions to the handling of the transition measure and other matters relating to the listing criteria for companies to stay listed, and requests for public comments on these points until 1 March 2023. For details on the revisions and to submit public comments, please visit the website of the TSE from the following link:

<https://www.jpx.co.jp/english/rules-participants/public-comment/detail/d01/20230130-01.html>

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

2. TSE will require companies with low PBRs to disclose more information

Tokyo Stock Exchange ("TSE") will require companies with low Price Book-value Ratios (PBRs), which measures how many times a stock price of the issuer is to the net assets per share, to disclose more information on how they would improve their performance, as early as this spring. Investors have raised concerns that many listed companies are falling short of making effective use of the shareholders' money. This may prompt more shareholders to cast nay votes at the shareholders meeting, making it imperative for companies to improve their capital efficiency, reports Nikkei Shimbun, Japan's leading financial daily.

PBR of 1 time indicates liquidating value, and if marked below 1, profitability of a company is not in line with investors' expectations, and thus damaging shareholder value.

According to TSE, as of July 2022, 43% of the companies that constitute the Tokyo Stock Price Index (TOPIX) 500 had a PBR of less than 1, which is higher than the 5% of that of the U.S. S&P 500 and 24% of

that of European STOXX 600. A subcommittee of the Ministry of Economy, Trade and Industry pointed out, "Japanese companies are losing international competitiveness and ability to create value."

At the "Council of Experts Concerning the Follow-up of Market Restructuring" ("Follow-up Council") to discuss areas for improvement of the market reorganization, TSE proposed to require listed companies whose PBR consistently falls below 1 to disclose improvement measures and progress. It is expected to take effect in this spring. This is another reforms of TSE aiming at increasing corporate value, following the market reorganization in April 2022.

PBR is calculated by multiplying the Price Earnings Ratio (PER) and Return on Equity (ROE), and if the PER is constant, increasing the ROE will push up the PBR.

"Companies should focus on improving ROE, which can be raised through self-help efforts," said a deputy chief of corporate strategy development department at a trust bank. Companies would be required to improve net profit margin and total asset turnover, which are components of the ROE, and to increase financial leverage.

Some companies are working to reduce their assets. An oil company intends to "actively promote selling their assets, such as listed shares and real estate." A chemical group company is restructuring the businesses that have little prospects for high added value, and is considering to sell its petrochemical and carbon businesses in FY2024.

Expanding shareholder returns will also be an issue. A strategist at a securities firm mentioned, "In order to achieve 1 time PBR, a company should have its ROE at 9%," and said, "Share buybacks may be a good option as it can be conducted at the will of a company and have an immediate effect."

Assuming a profit is fixed, it is estimated that it would need JPY 75 trillion of share buy-backs to achieve ROE of 9% or more in the Prime market as a whole.

Investors are giving it a closer look. Many asset managers have included ROE requirements in their proxy voting policies, and a leading asset management firm raised a notch for their standards in November 2022. An increasing number of activist shareholders

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(activists) are requesting low-PBR companies to improve their business management plans and strategies.

"It is important to improve PBR to reduce risks of being targeted by activists," said the deputy chief at a trust bank.

TSE has published the "Summary of Discussions on Measures to Improve the Effectiveness of the Market Restructuring" which summarizes the discussions at the Follow-up Council to date and "TSE's Future Actions in Response to the Summary of Discussions of the Follow-up Council". For details, please visit the TSE's website from the following URL:

<https://www.jpx.co.jp/english/news/1020/e20230130-01.html>

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

3. The government decides to lower the country's COVID-19 classification

The government has decided to lower the country's COVID-19 classification to "Category 5" under the "Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases" from May 8. The government will place COVID-19 in the same category as seasonal flu and significantly ease measures so that people can resume normal socioeconomic activities. Support for patients' medical expenses will be phased out. The government plans to announce specific measures in early March, reports Nikkei Shimbun, Japan's leading financial daily.

Prime Minister Fumio Kishida said, "We will steadily move forward to have our normal life back at home, at school, at work, in the community and in every situation," at the Novel Coronavirus Response Headquarters.

The government has revised its Basic Action Policy for COVID-19, virtually removing capacity limits for public events such as sporting events. After the transition to "Category 5", the Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response will no longer apply to COVID-19, and the Basic Action Policy will no longer be effective.

The date of the transition was set for 8 May after the long holidays in May. The government avoided the transition in April when there are local elections or during the golden week holidays, in order to prevent any hindrance or confusion from happening for preparations by municipalities in this regard.

The Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases currently categorizes COVID-19 as a "Pandemic Influenza", which allows the government to take strong measures, such as recommendations for hospitalization and movement restrictions.

Transition to "Category 5" will make it unnecessary for those who are infected and those who had close contact with them to stay at home. The government may no longer declare state of emergency or take priority measures to prevent the spread of the disease based on the special measures law, and it will no longer be able to ask restaurants to shorten their business hours.

In principle, the government will gradually expand facilities for potential COVID-19 patients to all general medical institutions. Some medical institutions, now referred to as fever clinics, played a central role, having made those medical facilities overwhelmed.

Public spending for medical expenses for medical treatment and hospitalization will gradually be reduced. The government will also gradually reduce public spending support such as subsidies for medical institutions to secure hospital beds and addition of medical fees for fever clinics.

Cyclical spread of the infection may continue even from now. For the time being, the government will continue to provide certain supports to elderly people with risk for severe COVID-19 so that they can get the medical care they need.

Guidelines for wearing face masks will also be relieved. People will be allowed to take their face masks off at their own discretion even indoors, which used to be a virtual requirement. Based on the situation of the infection, the government will set a time to review as soon as possible.

The maximum capacity of stadiums which was up to 50% in case there are "loud voices", were revised to 100% from 27 January. Face masks will continue to

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be required.

The government plans to continue the free vaccination program beyond April for the time being. In the future, the government will consider asking people to cover part of the cost.

The official announcement by the Prime Minister's Office of Japan on the determination of the transition at the Novel Coronavirus Response Headquarters can be referred to in Japanese from the following link: https://www.kantei.go.jp/jp/singi/novel_coronavirus/th_siryoku/kihon_r2_050127.pdf

Information compiled from Nikkei Shimbun, Prime Minister's Office of Japan & Mizuho research

4. Foreign investors continue to sell JGBs

It appears that foreign investors are leaning toward continuing selling the Japanese government bonds ("JGBs"). Even after the Bank of Japan ("BOJ") decided to keep its current monetary easing policy in January, their short position in JGBs has not declined. Many investors see BOJ's policy is unlikely to last long on the background of domestic inflation and market distortions, reports Nikkei Shimbun, Japan's leading financial daily. Some foreign investors started trading assuming the level of monetary easing would shrink in the near future.

According to the Ministry of Finance ("MOF"), foreign investors sold nearly JPY 4 trillion in medium- and long-term bonds on net from January 8 to 14, just before the BOJ's monetary policy meeting. Since June 2022, when the sell-off of JGBs by foreign investors began to intensify, they sold approximately JPY 14 trillion in total by 14 January, 2023. Buybacks have been slow since 18 January, when the BOJ left the upper limit of long-term interest rates unchanged, which made net sales unchanged at JPY 14 trillion.

Foreign investors have been selling JGBs in anticipation that the BOJ will revise its policy on yield curve control ("YCC") in January as it did in December and either raise the upper limit on long-term interest rates or remove the cap itself. Interest rates hike will push down JGB prices, and investors can take profits by buying back JGBs at cheaper prices.

If BOJ leaves its policy as it is, investors usually tends

to buy back JGBs to avoid losses. In fact, net selling of JGBs shrank in July and November last year. Buybacks of JGBs were particularly rapid in July, which virtually cleared up all the short positions occurred in June. The situation is different this time, and therefore foreign investors keep short positions in their JGBs trades.

Foreign investors keep selling JGBs because they see that monetary easing, which tends to cause inflation, and the YCC, which forces to keep interest rates low, are getting more unlikely to last long.

In December 2022, the consumer price index (CPI), a composite index excluding volatile fresh foods, rose 4% from a year earlier, which was the highest jump-up in 41 years since 1981. In January, following the trend from the previous month, CPI in the Tokyo metropolitan area exceeded the market expectations level, which impressed the market that inflationary pressures in Japan would persist. Unlike the U.S., where inflation is peaking out, prices are rising faster.

A chief investment officer at an asset management firm in UK pointed out, "It is getting increasingly obvious that the BOJ has already attained its inflation target of 2%." He says the firm will continue selling JGBs unless inflation rate declines rapidly. If the YCC is eliminated, they expect long-term interest rates to rise to around 1%.

A chief investment officer of another investment firm based in Europe also expects the BOJ to normalize its monetary policy, citing Japan's historical inflation.

Selling is also notable due to the deterioration in market function. A managing director at a U.S. investment firm said, "Market functions, such as liquidity in the JGB market and the smooth formation of interest rates, work less than they did in December, when the BOJ decided to revise the contents of the YCC," and the firm sees the BOJ has no choice but to make further policy changes.

The BOJ increased its purchases of JGBs to keep interest rates low. In bond market with duration around 10 years, there were several JGBs in which the BOJ's ownership ratio exceeded the outstanding balance. Liquidity in the JGB market has fallen to levels seen at the financial crisis in the U.S., and many investors do not believe that the BOJ would be able to

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control interest rates and to maintain market function at the same time.

In reality, it is getting harder to take profit by selling JGBs under the circumstances. With fewer JGBs circulating in the market, investors are selling short, "that behavior makes borrowing JGBs from brokerage firms more expensive," says a person in charge at an investment management firm.

Haruhiko Kuroda, the Governor of BOJ, who has led the bank's 10 years of unprecedented monetary easing, will complete his term of office in early April, and his successor will meet for the first monetary policy meeting in late April. A chief investment officer at another asset management firm said, "No matter who the next BOJ governor would be, a rational analysis of Japanese economy would lead to the conclusion that the YCC should be lifted."

Long-term interest rates, which once dropped to 0.36% on 18 January, have inched higher and are once again approaching the BOJ's ceiling. The trend could drive more investors to sell JGBs toward April.

The MOF announce the amount of investment in securities by non-residents every month. To retrieve the details of the announcement for January, please visit the MOF's website from the following link: https://www.mof.go.jp/policy/international_policy/refere/ncf/itn_transactions_in_securities/month.pdf

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

New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Mar-22	SHINKO	JP3372500003	ST
Mar-23	ibis	JP3105360006	G
Mar-23	halmek holdings	JP3773350008	G
Mar-23	Nihon Knowledge	JP3741150001	G
Mar-27	COVER	JP3218500001	G

**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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