

# Mizuho Custody Newsletter

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## I. Market News

### 1. FSA plans to establish social bond guidelines

Financial Services Agency (FSA) plans to set up guidelines to expand issuance of social bonds that raise funds to resolve social challenges. While demands for social bonds are growing worldwide, the ways to confirm use of funds and progress of projects are unclear, which has caused extra work to potential issuers and rating agencies, according to Nikkei Shimbun, Japan's leading financial daily. FSA intends to set up the guidelines this summer, to encourage issuance of social bonds by making clear standards for items to be checked, aiming to boost the bond market.

Social bonds are issued to support businesses and projects that promote to make social infrastructures more accessible and help solve social challenges such as education and healthcare. "Corona Bonds", funding for the measures against COVID-19 infections, are one kind of social bonds. FSA plans to draw up "Social Bond Guidelines" reflecting social challenges and industrial characteristics that are unique to Japan. An advisory panel of experts is established in February, planning to put everything together in early summer.

The guidelines is supposed to provide specific criteria on types of project/business considered appropriate for issuance of social bonds. The guidelines will also provide some samples of numerical targets (KPI) for

the projects that the issuers present to investors, which rating agencies can also refer to for their decision making. FSA intends to encourage use of the guideline, by making the procedures more transparent.

In December 2020, Japan Business Federation (Keidanren) and Japan Securities Dealers Association (JSDA) made a request respectively to the Minister of State for Financial Services to set up a Japanese version of the guidelines in order to facilitate the process. In line with growing global trends to aim for sustainable society, companies could have opportunities to appeal their positive stance to investors through the issuance. Supported by low interest rate environment, demand for social bonds remain strong.

With increasing issuance of "Corona Bonds", total amount of social bonds issued in Japan from January to September 2020 was JPY 648 billion, which is 30% increase from the full year 2019. So far, majority of social bonds issued in Japan has been Fiscal Investments and Loan Program ("FILP") agency bonds issued by independent administrative agencies, and social bonds issued by private sectors remain low being only about 30%. FSA draws up the guidelines that are unique to Japan at the earliest possible date to facilitate the companies' fund raising to realize a sustainable society.

*Information compiled from Financial Services Agency, Nikkei Shimbun & Mizuho research*

### 2. Expansion of virtual AGMs in December 2020

More issuers have been holding "virtual AGM" that allows shareholders to join online. According to a research by a trust bank in AGM notification of about 180 listed companies that held AGM in December 2020, 17 companies that equate to about 10% held virtual AGM, reports Nikkei Shimbun, Japan's leading financial daily. As the global pandemic continues, more companies may host virtual AGM in 2021 to mitigate infection risk.

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Most of the 17 companies held "virtual observation type" AGM which can be viewed online, while only a few held "virtual attendance type" AGM which allow shareholders to vote and ask questions online. The trust bank that conducted the research noted that some companies may have notified virtual AGM by media other than the conventional AGM notification letter.

Virtual AGM got attention in the market in the wake of the outbreak of coronavirus, and the research says that about 100 companies held virtual AGM in June last year. The government is studying whether to allow full online AGM without the need for a physical venue.

*Information compiled from Nikkei Shimbun & Mizuho research*

### **3. CONNEQTOR to go live on 1 February 2021**

Tokyo Stock Exchange (TSE) has been developing the RFQ (Request for Quote) platform, CONNEQTOR, to improve market liquidity of the ETFs. TSE announced that the development of the CONNEQTOR had been completed and it would go live on 1 February 2021. CONNEQTOR is designed for institutional investors to trade ETFs "faster and cheaper".

Additional features to be released in the 1st quarter 2021 are (i) function which automatically asks for a trade if the price exceeds (or fall below) a specified value, and (ii) function that allows investors to choose English view on a screen. Other features to be released after April 2021 are (i) function to register viewer's favorite issue that will be displayed initially, (ii) function which provides direct connection to the execution system, allowing to enter into investors' electronic trading, and (iii) function to request pricing including commission. Content and timing of the release may change.

For the institutional investors to use CONNEQTOR, "1. User Registration" "2. Registration of brokerage firms" and "3. Registration for the live use of CONNEQTOR" will be required. For details, please refer to the following URL (in Japanese):

<https://www.jpx.co.jp/equities/products/etfs/rfq-platform/01.html>

For an overview of the CONNEQTOR, please refer to the following URL:

<https://www.jpx.co.jp/english/equities/products/etfs/rfq-platform/index.html>

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*Information compiled from Tokyo Stock Exchange & Mizuho research*

### **4. The revised Companies Act become effective on 1 March 2021**

The revised Companies Act will come into effect on 1 March 2021. The revision aims to strengthen the corporate governance by reviewing ways AGMs are conducted and disciplines applicable to board directors. Some of the requirements such as mandatory appointment of outside director, have mostly been met in practice already, but there are many points that will affect AGMs to be held this year, according to Nikkei Shimbun, Japan's leading financial daily. Companies that have not been able to cope with the revised act due to the global pandemic are also urged to take immediate measures.

The revised act requires listed companies to appoint outside director(s). 99% of the company listed at the Tokyo Stock Exchange have already complied with it, but there are many revised items in relation to board directors. If a large company did not determine remuneration details for each directors at the AGM, the company would have to resolve the determination policy at the board meeting and disclose the outline. This is to prevent the top management from deciding remuneration of directors, including the top management to suit themselves, as delegated by the board.

The revised act also defines rules on directors' and officers' liability insurance and those on company's indemnification for the damages against directors. This is to create an environment in which management can make decisions without fear of risks of being filed a class action, etc. It had been pointed out that there have been concerns on conflict of interest for a company indemnifying claims for damages against directors, however as the revised act clarifies the procedure, some companies may start to adopt it.

As the act becomes effective in March, it should be noted that companies whose fiscal year ends on or before February may have to take different approach from those whose fiscal year ends on or after March. For example, companies whose fiscal year ends on March will have to disclose more items on director remuneration in 2021, but those with fiscal year ends on or before February will have to meet this

requirement from 2022.

In relation to agenda proceeding at AGM, number of proposals that one shareholder may make is limited to ten as a way to restrict abuse of shareholders' proposal rights.

From FY2022, a system to provide AGM materials in electronic form is supposed to be introduced. Even now, many companies post AGM materials on their websites, but they are also required to send originals by snail mail regardless of whether they post the materials on internet. Companies would not have to send paper forms in principle from FY2022. Companies would send paper forms by snail mail if so requested by shareholders, who have difficulties or issues in using digital devices, such as elderly.

*Information compiled from Ministry of Justice, Nikkei Shimbun & Mizuho research*

## II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Feb-05	QD Laser	JP3244720003	M
Feb-10	Arr Planner	JP3100570005	M
Feb-18	AXXZIA	JP3108220009	M
Feb-19	WACUL	JP3991800008	M
Feb-25	Appirits	JP3122490000	J
Feb-26	Muromachi Chemicals	JP3914800002	J
Feb-26	coly	JP3305910006	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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