

Mizuho Custody Newsletter

June 2022 | Japan

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I. Market News

1. Asset Managers encourage companies to have more female directors

Asset management firms are increasingly casting nay votes to proposals of their investee companies with no female directors, reports Nikkei Shimbun, Japan's leading financial daily. Foreign asset management firms have been taking a lead on this issue, but some Japanese asset management firms followed suit and incorporated "female director requirement" to their proxy voting standards. As many as 50% of major Japanese companies have no female directors, they would have to tackle the issue.

A major asset management firm will oppose to the appointment of CEO of the companies that constitute TOPIX 100 if they have no female directors. Another asset management firm also considers to oppose to the proposal for the election of all directors who have been appointed for three years or more if companies do not respond to requests for dialogues on appointment of female directors or if companies make no improvement on this issue.

More and more female directors have been appointed at leading companies, but for listed companies overall, it is still only halfway. According to a survey of 970 listed companies conducted by an accounting firm and a trust bank, 51% of them had no female directors in FY2021.

Investors' demands for female directors are expected to intensify next year and further beyond. A major asset management firm considers to broaden the target from the current TOPIX 100 constituents to all listed companies on the Prime market. Another asset management firm will oppose to the appointment of top management if there are no female directors on the board from January 2023.

Companies are also taking actions. A company listed on the Standard market has appointed its first female board member at its AGM in April. Some companies are trying to increase the percentage of female board members. The holding company of a major insurance company group will add one more female director to its boards at its AGM in June, making 3 out of 11 board members to be female directors.

The challenge is how to develop female human resources. More than 30 years have passed since Equal Employment Opportunity Act was enforced in 1986, but there are still very few female candidates for directors within the companies. Currently, there are many cases in which female lawyers and/or university professors are appointed as outside directors.

Some investors are getting flexible in evaluating company's efforts in this regard. An asset management firm had been opposing to increase the number of internal directors, but changed its standards to allow the increase if it would lead to companies' acceptance of more female directors. A chief corporate governance officer of the asset management firm says, "We want to encourage companies to provide more training and opportunities with female workers to become executives by allowing increase in the number of female internal directors."

Further, it is expected that disclosure on gender pay

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gap become mandatory from July in Japan, following suit with other major European countries. Companies with 301 or more full-time workers will be subject to the disclosure requirement. The central and local governments will also be obligated to disclose it.

Labor Standards Act prohibits to set up a wage difference by gender for employees working under the same conditions. In addition, based on the Act on Promotion of Women's Participation and Advancement in the Workplace, the Japanese government has been calling for disclosure on how female workforces have been placed and treated at companies.

Currently, companies have to disclose the ratio of female managers and the gender difference in the average years of service at their office. It is recommended for companies to identify wage differences, but disclosure is not required.

Previous researches have shown that the gender pay gap is largely due to differences in the level of promotion and in the average years of service. It is expected that the new disclosure obligation will help companies analyze the cause and prompt many of them to improve the situation.

A college professor said, "Accurate understanding of gender pay gap requires statistical approach to compare men and women with the same basic attributes, such as age, length of service, education background, and professional background." Data processing method might be a next focus to see the essence of "gender pay gap".

Information compiled from Nikkei Shimibun & Mizuho research

2. Financial results announcements of the companies with their fiscal year end in March 2022

Tokyo Stock Exchange ("TSE") has researched the schedule of financial results announcement, the status of financial disclosures summary (Kessai Tanshin), and the status of English financial disclosures summary of the listed domestic companies with the fiscal year ended March 2022 and has released the results as follows.

(1) Number of days required to announce financial results

For companies with the fiscal year ended March 2022, 2,288 companies announced their financial results, which took 40.3 days on average to disclose. For the fiscal year ended March 2021, 2,302 companies took 40.8 days on average to disclose their financial results.

(2) Trend of concentration on the announcement date of financial result

The announcements of the financial results are concentrated in the second week of May. In particular, 900 companies (39.2%) announced their financial results on Friday, 13th May, which was unprecedentedly high concentration. Many companies make announcement on their financial result on the second Friday in May every year, but this year was extraordinary.

(3) Time of the announcement of the financial results

533 companies (23.3%) announced their financial results before closing of the trading hours at the exchange, and many other companies announced their financial results after the market close. With regards to the time of the announcement, many companies tend to announce sometime between 15:00 and 16:00, and exactly on 15:00 is most preferred when announcing on the second Friday in May.

(4) Disclosure of earnings forecasts

The announcement of the financial results took place amid the ongoing efforts to normalize economic activities against COVID-19, such as vaccination and easing of restrictions on various public activities and events. On the other hand, the conflict between Ukraine and Russia and the subsequent economic sanctions brought various changes and impacts to the business environment, such as resource prices hike and volatile FX markets.

For the announcement of financial results for the fiscal year ended March 2022, 2,136 companies (93.4%) disclosed earnings forecasts, which was slightly higher than the same period last year (2,108 companies, 91.6%). In releasing earnings forecasts, some companies touched upon the preconditions for FX rates and resource prices as well as potential impact on profits and losses if they move drastically. Some companies elaborated on their business conditions in Russia and future outlook. Only 6.6% (152 companies) of the listed companies informed their

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earnings forecasts as "undecided" or "undisclosed". Many of them cited multiple factors as the reason for selecting "undecided" or "undisclosed". In particular, many companies in the "steel" and "electricity and gas" industries referred to unstable natural resource prices, and companies in the "service" and "retail" industries mentioned effects from the pandemic. In addition, 98 companies (64.5%) out of 158 companies that released their earnings forecasts "undecided" or "undisclosed" announced their intention to disclose their forecasts when it becomes possible to calculate the forecasts, and some of them mentioned when they could publicize the forecast.

(5) Disclosure method of earnings forecast

44.3% of the companies (2.4% up from the same period of the previous year) release only the full-year earnings forecast. They withdrew announcing earnings forecast for 2Q, because some of them conduct performance management on an annual basis and others did so because of the seasonal changes of business performance.

14 companies (8 companies less from a year ago) presented their earnings forecasts in a specific range. Some of them did so because they had taken a situation into consideration where they could not tell when the pandemic would subside and others did so because they planned to make flexible investments in their marketing.

In addition, 4 companies (4 companies down from the same period last year) presented earnings forecast for the 1Q and 2Q, but stated that they could not present earnings forecast for full-year.

(6) Use of TSE's English Materials Distribution Service

In total, 688 companies (176 companies up from the same period last year) disclosed their financial results in English through the TSE's English Materials Distribution Service. In particular, among the companies listed on the Prime market, a market for companies with a focus on constructive dialogue with global investors, 601 of them (48.2%, 16.7 points up from the same period of the previous year (compared with companies listed on the 1st Section of the TSE)) used the service, and 68.9% of them conducted their English disclosure simultaneously with their disclosure in Japanese.

Information compiled from TSE & Mizuho research

3. Keidanren proposes 84 indicators to promote impact investment

Japan Business Federation ("Keidanren"), a top business lobby group, has compiled a list of 84 indicators that companies should refer to, in order to raise public awareness of "impact investment" which is a scheme to evaluate companies' social contributions, eventually aiming to attract investors. It enables investors to measure companies' efforts in some fields such as medical care and urban development in figures, reports Nikkei Shimbun, Japan's leading financial daily. Keidanren presents guidelines for disclosure items with the aim of enhancing the transparency of companies' efforts.

Keidanren's announcement of the guideline is the first time for Japanese organizations, including both public and private sectors, to present disclosure items on social contributions by corporations. Up to now, companies' disclosure in this area has been far from united in format and level of disclosure, making it difficult for investors who place importance on ESG to evaluate objectively.

The list not only reflected opinions of corporations, but also the ones of financial institutions and investors. Keidanren will encourage its 1,700 member companies and organizations to use the guideline as a clue to deepen dialogue with investors.

As a concrete measure for the "new capitalism" proposed by Prime Minister Fumio Kishida, the government advocates "impact investment". It is assumed that investee companies will disclose level of their contribution to the environment and society through their business activities. The "indicators" for disclosure are what can be measured in figures, such as the number of jobs created, the one of cyberattack prevented, and the one of deaths and injuries caused by accidents and diseases.

In addition to 16 metrics on "universal themes," such as the number of new jobs created and energy efficiency improvements, 34 metrics on "health care" and 34 metrics on "resilience" related to urban development are included in the initial disclosure items that Keidanren created as its own indicators.

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Use of the guideline would enable companies to combine multiple metrics to better explain their business strategies to achieve their goals, in addition to disclosing information by each metrics. Investors could make investment decisions based on a specific level that an investee company achieved.

If a company that has developed a telemedicine service uses a metric of "number of deaths and injuries due to illness", it may set numerical targets in number of deaths and injuries reduced through the service. Comparison between annual results and the numerical targets would show the level of the company's contribution to social issues such as extension of healthy life expectancy and reduction of medical costs.

In the area of resilience, driverless technology companies will be able to quantify their achievements in reducing traffic congestion rates, improving users' satisfaction for public transportation services and increasing de jure populations.

Impact investment covers a wide range of social issues, which makes it hard for evaluators to analyze how corporate activities are related to social issues and assess them properly. In the past, some dialogue between companies and investors went sour, because the former intended to demonstrate how they have contributed to the society through their core businesses, but the latter wanted to focus on their achievement level of the targets in numerical figures.

In order to enhance effectiveness of the guideline, it will be more important for companies to set appropriate targets and how they would work to achieve them, as well as how investors would analyze and assess their achievements.

Internationally, the United Nations Development Programme (UNDP) and the Global Impact Investing Network (GIIN) have published indicators for impact investment. These are not unified indicators, and domestic companies have been seeking ways of appropriate disclosure by referring to these guidelines announced by international entities. Keidanren had studied impact investment standards to create one which fits domestic companies' planning. They will consider expanding the list of metrics.

Impact investment has been attracting more market attention worldwide. According to GIIN, the global

balance of impact investment was about USD 715 billion in 2020, 40% up compared to that in 2019.

According to a survey by a private sector company, the amount in Japan in FY2021 was JPY 1.32 trillion, more than double of the amount in FY2020.

Information compiled from Keidanren, Nikkei Shimbun & Mizuho research

4. Changes in pricing rules for IPOs in Japan

Pricing rules for initial public offerings ("IPOs") in Japan are going to change drastically. It will be designed to give securities firms more flexibility in pricing amid the criticism that IPO prices tend to be lower than they actually should be. The rule change is in line with the intention of the government to nurture start-ups and to build up structures for companies to raise more funds than ever, reports Nikkei Shimbun, Japan's leading financial daily. In Japan, many IPOs are still small in transaction size, and it is necessary for companies and IPO service providers to lessen their dependence on individual investors to make IPOs economically beneficial to as many parties concerned as possible.

The government has declared its policy to promote many startups be established as the centerpiece of its "new capitalism". IPOs are important financial resources for startups, but more and more market experts had been getting critical that IPO prices have been undervalued in general, and no appropriate measures had been taken for it.

Japan Securities Dealers Association ("JSDA") will review the self-regulation rules in two separate sessions. In the first session in July, securities firms are required to explain the basis of their IPO price calculation process in detail to the companies.

Rules applicable to issuers in allocating new shares to medium and long-term institutional investors will also be defined. Market participants anticipate this would make it easier for investors to envision the shareholders composition after the IPOs, which may facilitate issuers to meet the listing standards.

The second session in December will be a more drastic one with two big pillars. The first pillar is acceptance of an IPO price even if it would go beyond the scope of the tentative price range. The IPO price used to set at the upper limit level of the tentative price range in many

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cases in the past, particularly when investors showed strong appetite for the issue. This conventional pricing practice had been long to startups' dissatisfaction and the change will allow companies to set IPO prices above the limit based on investors' demand.

The second pillar is expansion of "pre-hearings" conferences, in which investors are interviewed in advance about their demand. This is to ensure a smooth listing, by getting understanding in what investors are interested and how serious they are even before the listing is approved. Securities firms had been cautious to do the pre-interview as it may fall under pre-solicitation which is not allowed, however, the rule will be aligned to international standards to make such opportunities possible.

A series of changes will also require changing the guidelines that explain Japan's legislations on disclosing companies' information. JSDA plans to cooperate with the Financial Services Agency in this regard.

The changes are generally welcomed by companies aiming for IPOs. Because a framework that closely reflects investors' demand in IPO price would give them more flexibility for their funding activities. An executive of a real estate company preparing for the IPO said, "We welcome rule changes putting a check on securities firms."

IPO market has been stagnant due to the recent market downtrend. The number of IPOs from January to June 2022 is 37, down about 30% from the same period last year. About 80% of the 25 companies that went public this year have been traded above their IPO prices. But the uptrend did not last long, with about half, or 12 companies, seeing their recent stock prices fall below their IPO price.

Prices of newly listed shares tend to overheat on the first day of listing mainly due to active purchase by individual investors, but trade often shrinks in a few days. A person in charge of IPO at a major securities firm said, "It's difficult to reflect individual investors' demand of earning short term profit to our IPO pricing strategy."

In IPO market in Japan, individuals account for about 70% of allotment. In contrast, in the U.S., institutional

investors account for 80% of allotment. Many IPOs in Japan are small in transaction volume, which look less attractive for large institutional investors.

It is essential for the market to support development of venture capitals in order to have them back up startups to grow further. It will also be necessary to diversify financial resources to create mechanisms that provide startups with risk money in various methods.

Information compiled from JSDA, Nikkei Shimbun & Mizuho research

5. New attempts for AGMs in June 2022

AGMs of the companies with their fiscal year end at March end began in early June. In response to the revision of the Corporate Governance Code, around three times as many companies listed on the Prime market enclosed "skill matrix," which lists the capabilities of their board members, in their convocation notices of AGM in comparison with the previous year, and companies that prepared proxy materials in English increased by 50%, reports Nikkei Shimbun, Japan's leading financial daily. It is expected to help investors make better decisions, as investors could check appropriateness of selection of board members and composition of the board. This arrangement could be a lead for companies to eliminate nepotism in selecting board members.

According to a trust bank acting as a stock transfer agent, 92%, or 591 of the 644 companies listed on the Prime market that had issued convocation notices by the end of May, distributed skill matrices. Among them, 196 companies also did so in 2021, so the number jumped up three-fold in a year.

The skills matrix is a table that lists up board members' knowledge and experience, such as "management" or "finance". Shareholders can easily grasp and assess aptitude of the board members and the balance of the board. The head of investor relations at a company listed on the Prime market said, "The strengths and weaknesses of each board member are clearly visible for everybody, and this should have a positive impact on the selection of candidates for directors, as it serves as an incentive to make up the weaknesses of the board." On the other hand, an unclear selection of board members could face a backlash.

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As part of efforts to attract foreign investors, more companies have started sending convocation notices of AGM in English. According to the TSE, 92% of the companies listed on the Prime market planned to start disclosure in English as of the end of April, 30% up from last year's results on the 1st Section of the TSE.

More companies are also working to increase the ratio of independent directors at the board of directors to strengthen their supervisory functions. Some manufacturers are expected to reduce the number of directors to bring the ratio to one third. Another manufacturer invited two new independent directors to increase the ratio to more than 50%. Many companies reorganize themselves into a company with Audit & Supervisory Committee, which could restrict increase in the number of outside directors by providing concurrent positions as Audit and Supervisory Committee members. According to a trust bank, 55 companies listed on the Prime market are planning the above-mentioned reorganization.

What drives companies to this change is the stricter corporate governance code which was revised in June 2021, and this year's AGM is the first time for companies with their fiscal year end at March end to act in accordance with the revised code. All listed companies are newly required to produce skill matrix for their AGMs. The companies listed on the Prime market had to take strict measures, such as adopting independent outside directors to one third or more (majority for a listed subsidiary) of the total board members and making disclosures in English.

Through this year's AGMs, most of the listed companies will have adjusted themselves to the revised code, but it remains to be seen how much these changes brought by the revised code will actually contribute to investors' decision making and improvement in corporate governance.

For example, the disclosure level on skill matrices vary widely by each companies. According to a survey by a trust bank, 2% of companies aggregated and illustrated the skills of the entire board of directors, while 9% of them made specific description on each skills listed. Definition of the skills varies by each company. A senior researcher at a research institute said, "The skill matrices do not show how the skills relate to the management strategy of each company, and companies should explain more about it."

Companies have been accepting more and more outside directors, but some companies seem to have problems in their selection policy. Even if a company nominates a candidate as an "independent outside director," some shareholders may find their independence doubtful. At several AGMs held in May, many shareholders voted against the appointment of independent directors who were selected from their major shareholders. A chief equity strategist at a major securities firm said, "It's not just the matter of how many a company select, but who it selects. Companies should look for those with business experiences more."

The corporate governance code has been revised twice since its introduction in 2015. Companies made efforts to meet the requirements at each AGM season, such as items to be disclosed and the ratio of outside directors. They seem to be catching up with what is practiced in Western countries in terms of formality. Their next challenge will be how they could improve the quality of disclosure and governance, such as how they describe about their business and how efficiently they would operate the board meetings.

Information compiled from Nikkei Shimbun & Mizuho research

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New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Jun-29	MicroAd	JP3860350002	G
Jun-30	AViC	JP3160990002	G
Jul-08	INTLOOP	JP3153180009	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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<http://www.mizuhobank.com/service/custody/actions.html>

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