

Mizuho Custody Newsletter

May 2023 | Japan

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I. Market News

1. TSE will extend the trading hours for stocks

Tokyo Stock Exchange, Inc. ("TSE") announced that it would extend the trading hours for stocks starting from 5 November 2024. Extension of the trading hours has been a long-standing issue among TSE and its participants, and the extension is going to be limited to 30 minutes as a compromise with asset managers who are concerned about more workloads the extension may bring, reports Nikkei Shimbun, Japan's leading financial daily. It gives investors more trading opportunities, albeit it is just a short time. The next focus will be on whether the announcement timing of financial results will also be dispersed in line with the extension.

The exchange will close at 3:30pm not at 3:00pm they do now. This is the first extension of trading hours in 70 years since the exchange changed the closing time from 2:00pm to the current 3:00pm in 1954.

The extension makes the trading hours of a day to 5 hours and 30 minutes. While it is still behind the 6 hours and 30 minutes by the New York Stock Exchange and the 8 hours and 30 minutes by the London Stock Exchange, an executive of an online securities firm said, "The longer time investors can

have, the more opportunities investors can trade."

While it is just only 30 minutes extension, a market participant said, "the first extension in 70 years itself has meanings." This is a positive move, as interest in investing in stocks grows ahead of the launch of a new Nippon Individual Savings Account ("NISA") in 2024, which will allow more investments in stocks with tax-exemption.

The major system failure that occurred at TSE in October 2020 caused debates on the extension. It took long time to resume the system, leading to an all-day trading halt. TSE argued in a reviewing panel that was launched in the next year, that short trading hours was one of the causes that prevented the system recovery by the end of the day.

Asset managers expressed concerns to TSE's opinion. It is a long-standing industry practice to complete calculation of net asset value of mutual funds by the evening, adding that the later the closing time would be, the more their workloads would be. As the result of their long debate, a TSE official says that the 30 minute extension was decided as "a compromise on the premise of maintaining the current framework".

TSE officially announced its plan of trading hours extension in October 2021, and the specific schedule is now set. Major local asset managers are preparing for the launch in a businesslike manner, saying, "The extension will certainly bring us more workload, but we do not have any plans for major system upgrades or developments for this matter."

Now the market looks at how companies listed on the TSE will do for their information disclosure. The vast majority of companies now disclose their earnings and other major announcements after the market closes at 3:00 PM. The extension may lead more disclosures to be made after 3:30 PM.

TSE encourages companies to disclose any information even during the trading hours, if the information need to be announced very promptly. This is because for the longer it takes for disclosure,

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the more risks it would cause such as insider trading. If disclosures during trading hours would become common, it could help reduce concentration of time to disclose financial results.

Currently, only a handful of companies report financial reports during the trading hours. On the other hand, in the United States and other countries, many companies announce financial results before the trading hours, allowing securities analysts to take quick actions for their work.

A chief strategist at a domestic brokerage firm says, "I do not believe that it is appropriate the first action to financial results disclosures of a company occurs at a private exchange, not TSE, nor that many investors are unable to trade until the next morning of the announcement day either. I hope more financial disclosures announced during the trading hours would solve these problems."

TSE has started public consultation on the revisions to trading rules for extending trading hours and introducing Closing Auction. For the details on the announcement and to submit public comments, please visit the website of the TSE:

<https://www.jpx.co.jp/english/rules-participants/public-comment/detail/d02/20230511-01.html>

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

2. More listed companies are cancelling treasury stocks

More listed companies are actively cancelling treasury stocks, reports Nikkei Shimbun, Japan's leading financial daily. Cancellation cases in FY2022 rose by 18% to 302 cases from a year ago, making the record high for 2 consecutive years. The companies aim to boost the share price by canceling their own shares accumulated through past buybacks to dispel concerns about re-release to the market. Some companies are canceling their treasury stocks to meet the listing requirements introduced by the restructuring of the market segment at the Tokyo Stock Exchange ("TSE") in April 2022.

Treasury stocks are the ones owned by the issuer itself. It has no voting rights and is recorded as a negative item in shareholders' equity on the balance

sheet. They can be used to pay remuneration for executives and employees or as compensation in M&As. Cancellation would reduce the number of shares outstanding.

According to a research by Nikkei Shimbun, 302 cases of stock cancellations by listed companies between April 2022 and March 2023 (based on the date of cancellation) took place, which was 45 up from the previous year. On a number of company basis, 271 companies did cancellation, which is 33 companies more than last year, and recorded a historical high in both the number of cases and companies.

The companies actively cancelling their treasury stocks aim to dispel concerns about re-releasing them into the market. When a company repurchases its shares, shareholders' equity is reduced, which improves return on equity (ROE), calculated by dividing their net income by shareholders' equity.

Corporate share buybacks increase in response to investors' calls to improve ROE, marking the record high of about JPY 9.4 trillion (1,007 deals which is 1% up) in FY2022, which is 17% up in transaction amount from the previous year. If a company cancels its accumulated treasury shares, they won't be released back into the market, in which will never lower their ROE.

The other reason of this trend was the market restructuring in April 2022 at TSE. The stock exchange added a new requirement to maintain tradable shares ratio at a certain level to the maintaining listings standards.

The number of tradable shares are calculated by deducting the company's treasury stocks and those held by major shareholders and the company's executives, generally recognized as "immobilized shares". Dividing this by the number of listed shares (the number of shares outstanding, including the company's treasury stocks) is the tradable shares ratio. If the company's treasury shares are cancelled, the tradable shares ratio increases as the denominator in the formula decreases. Companies listed on the Prime market must maintain at least 35% and at least 25% for the Standard market and the Growth market. In the past, companies listed on the TSE 1st section (current Prime market) had to be delisted if they were unable to maintain 5% of the tradable shares ratio.

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TSE's maintaining listing standards include the market capitalization of tradable shares, which is calculated by multiplying tradable number of shares by their share prices. The criteria is at least JPY 10 billion for the Prime market, JPY 1 billion for the Standard market and JPY 500 million for the Growth market.

Unlike the market capitalization of outstanding shares, which is calculated by multiplying the number of shares outstanding by the share price, cancellation of the company's treasury stocks do not have any effects to the above figure. So this drove 30 companies to cancel large amount of their treasury stocks in FY 2022.

Some companies also announce cancellations of treasury stocks in conjunction with share buybacks, in an attempt to increase the effectiveness of their stock price hikes.

Treasury stocks are rarely used as compensation for M&As. "Given the cost of capital, corporate bonds and bank borrowing are more advantageous than using stocks," said a strategist at a research institute in Japan. He said, "Another driving force for cancellation of treasury stocks is requests from investors to cancel shares if they don't plan to use them for M&As."

For the outline of continued listing criteria, please visit the TSE website from the following URL:
<https://www.jpx.co.jp/english/equities/listing/continue/outline/01.html>

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

3. Classification of COVID-19 has changed under the Infectious Diseases Act

Under the Infectious Diseases Act in Japan, COVID-19 has been reclassified to Class 5 since 0:00am on 8 May, a less severe category than "Class 2 or above". It is now legally the same as seasonal flu. The central and local governments will no longer limit people's social, private and economic activities under the law, and whether to take infection control measures, such as mask-wearing, will be left up to each individual, reports Nikkei Shimbun, Japan's leading financial daily. The reclassification makes a major turning point in Japan's special restrictions due to the disease, which

lasted for more than three years.

It had been classified to Class 2 or above, such as tuberculosis and SARS until 7 May. The classification led people to set up various restrictions in their daily and commercial activities, such as strong recommendation to stay home unless there are compelling reasons.

Although it took longer than the Western countries did, the medical system and social life will basically return to normal, which is anticipated to revitalize the economy. The border control measures have been eased, which could boost spending by foreign visitors.

Infection control measures will be left to own decisions of individuals and companies. Quarantine is no longer requested for infected people or for those who had close contact with infected. The government has set a recovery period standard as five days from the day after the onset for those infected. In some restaurants and bars, sanitization, temperature checks and partitioning may no longer be required.

More medical facilities are now allowed to accept those who are infected with COVID-19. To date, 42,000 fever clinics had been taking care of outpatients for COVID-19. The government aims to expand the number to 64,000.

The reclassification allows all hospitals to accept COVID-19 inpatients. 7,400 hospitals, or 90% of the total, are now ready to accept inpatients. Up to 58,000 inpatients could be accepted, up from 53,000 during the most recent corona outbreak.

As a general rule, patients have to pay 10-30% of medical expenses. Expensive medicines for COVID-19 will continue to be free, and the government continues subsidy for hospital inpatient expense. The vaccination will still be available for free of charge for the rest of FY2023.

The reclassification to "Class 5" does not change the natures of COVID-19 viruses such as high infectivity and mutation risk. Experts say basic measures such as hand washing and "Avoiding the 3Cs" are still recommended.

WHO also announced on 5th May that it was ending its state of emergency declaration over the new coronavirus. Measures are being eased worldwide.

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To retrieve the details of the response to COVID-19 after the classification change, please visit the website of the Ministry of Health, Labour and Welfare from the following URL:

https://www.mhlw.go.jp/stf/seisakunitsuite/bunya/0000164708_00079.html

Information compiled from Ministry of Health, Labour and Welfare, Nikkei Shimbun & Mizuho research

4. Nikkei Stock Average hit a new post-bubble high

On 19 May, the Nikkei Stock Average hit a new post-bubble high on the Tokyo stock market. Foreign investors are pushing stock prices higher, based on their expectation for changes in Japanese companies, reports Nikkei Shimbun, Japan's leading financial daily. During the past 30 years, presence of banks and other institutions as stable and silent shareholders through cross-shareholding has weakened, and the proportion of shares owned by foreign investors reached more than 10% in the majority of companies. On the other hand, individual investors are not so optimistic about the future of Japanese stocks. It is essential for companies' management to change their mindset through moderate degree of tension with the market, in order to keep and further strengthen the market uptrend.

According to the Tokyo Stock Exchange ("TSE"), foreign investors have bought a cumulative total of JPY 1.3 trillion on net since the beginning of the year, the biggest buyer among any investor categories. A global equity portfolio manager of a British investment firm, has also bought Japanese stocks on net in the last six months. He said, "It seems companies' managements have been getting more aware of improvement of their ROE."

It is essential for top management of listed companies to maintain dialogue with foreign investors. According to an analysis of 1,300 Japanese companies whose data during some decades have been available, only 6% of them had 10% or more foreigners on their shareholders list in 1990. In 2022, 660 of them do, which account for more than half of them.

Foreign investors were the main buyers when banks and insurance companies released their cross-held

shares in the market. According to a research institute, the proportion of "shareholders with some political backgrounds" accounted for 70% of listed companies in FY1990. In FY2021, it dropped to 31.7%. The decline in the number of "stable and silent shareholders" that used to protect the company management from activists, often described as "vocal shareholders" now brings moderate degree of tension between companies and shareholders.

"It's no longer 'debates between foreign shareholders versus Japanese management,'" said an old professional Japanese equity manager at a US investment firm. Through corporate governance reforms that began in 2015 under the administration of the late Prime Minister Shinzo Abe, domestic institutional investors also have become less hesitant to express their opinions to issuers than before. A rejection of company proposals at shareholder meetings are no longer "newsworthy incident" as what it used to be in the past.

Managements are changing their mindset on this subject. The aggregation of dividends amount paid and proceeds of share buybacks paid by Japanese companies hit the record high of JPY 24 trillion in FY2022, more than 10% up from the previous year.

But individual investors are still skeptical about if Japanese companies are really changing. On one day, retail investors rushed to retail branches of domestic brokerage firms for profit-taking sales at the post-bubble highs. According to TSE figures, retail investors have sold JPY 1 trillion on net so far this year. Japanese individual investors find US equities with good growth potential more promising.

TSE's announcement on the statistics of "trading by type of investors" is available from the following URL: <https://www.jpx.co.jp/english/markets/statistics-equities/investor-type/index.html>

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New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Jun-13	ABEJA	JP3122650009	G
Jun-14	Globee	JP3274410004	G
Jun-21	CUC	JP3347080008	G
Jun-21	O.B.System	JP3173250006	ST
Jun-22	Aidemy	JP3104780006	G
Jun-22	REALGATE	JP3969520000	G
Jun-23	AR advanced technology	JP3160010009	G
Jun-26	Bridge Consulting Group	JP3831060003	G
Jun-27	Elitz Holdings	JP3167720006	ST
Jun-27	Cuorips	JP3266030000	G
Jun-27	GSI	JP3386870004	S
Jun-28	Prodelight	JP3759560000	G
Jun-28	Noile-Immune Biotech	JP3759560000	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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