

Mizuho Custody Newsletter

September 2022 | Japan

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I. Market News

1. TSE publish "Policy on review in relation to IPOs"

Tokyo Stock Exchange, Inc. ("TSE") has published "Policy on review in relation to IPOs" and has compiled items with regard to the rules and procedures of initial public offerings ("IPOs") that are subject to review.

Nurturing startups will be the key to stimulate dynamism and growth of Japanese economy and to solve social issues. The government of Japan is expected to take various measures, including those set out in the "Grand Design and Action Plan for a New Form of Capitalism".

From the perspective of maintaining the quality of IPOs while providing diverse means of IPOs with start-ups that may become core players in new industries, TSE will further explore various measures about IPOs, in cooperation with Japan Securities Dealers Association ("JSDA"), which is currently reviewing the IPO pricing process.

In relation to listing examinations of the companies that research advanced technologies such as space and

health care, TSE considers using corporate valuation methods by professionals, such as venture capital firms that have already invested in such companies. This will help smoothening the listing examination of high-tech companies whose technology level is difficult to assess properly, reports Nikkei Shimbun, Japan's leading financial daily.

In line with JSDA, TSE plans to allow companies to submit securities registration statements prior to listing approval and to allow to change the expected listing date after the listing approval, giving companies greater flexibility in arranging listing dates.

In Japan, listing dates tend to concentrate in March and December. "Many companies want to wait until the very last minute of the end of the fiscal year," said a TSE official, since they need to announce business performance forecast at the time of their IPO. Many of IPO applicants intend to avoid a revision to business performance forecast to happen. TSE plans to disseminate the rules, such as allowing a range for business performance forecast, to help diversify the listing date.

"Direct listings" that are not associated with funding are possible in the Prime and the Standard market, but TSE would discuss whether to expand it to the Growth market. The Growth market makes it a condition to fund by public offering to list, and does not allow "direct listings".

TSE also considers to encourage new entry of underwriters of IPOs and to clearly present key points of listing examination of cases using spin-offs. Listing cases using a special purpose acquisition company ("SPAC") are on the wane in the United States, but TSE continues to study introduction of SPAC as a way of listing.

"Policy on review in relation to IPOs" prepared by TSE is available in Japanese only from the following URL: <https://www.jpx.co.jp/corporate/news/news-releases/1020/nlsgeu00000615p2-att/nlsgeu00000615rt.pdf>

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

2. Appointment of female directors are accelerating

In the U.K., the Financial Conduct Authority (“FCA”) has finalized rules requiring listed companies to report information and disclose against targets on the representation of women and ethnic minorities on their boards and executive management, making it easier for investors to see how senior leadership teams of companies have been diversified. The rules apply to listed companies for fiscal year starting from 1 April 2022.

The ‘comply or explain’ statement targets on the above are as follows:

- At least 40% of the board should be women.
- At least one of the senior board positions (Chair, Chief Executive Officer (CEO), Chief Financial Officer (CFO) or Senior Independent Director (SID) should be a woman.
- At least one member of the board should be from an ethnic minority background excluding white ethnic groups (as set out in categories used by the Office for National Statistics).

The provisions similar to the above have been in place in the revised Japan’s Corporate Governance Code since 2021, which states as follows:

“The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity, including gender, international experience, work experience and age, and appropriate size.”

Although no specific numerical targets have been set, major companies have accelerated the appointment of female directors, according to Nikkei Shimbun, Japan’s leading financial daily. Companies listed on the Prime market at the Tokyo Stock Exchange (“TSE”) have 1,985 female directors altogether, and three quarter of them have 1 or more female directors, showing their consideration toward diversification of their board members that investors want. However, female directors only account for 11.9% of all board members in Japan, which is still behind the level of 30% in the

Western countries.

A corporate governance advisory firm in Japan researched 1,829 companies listed on the Prime market as of 1 July 2022. Of the total, 1,732 female directors were outside directors and 253 female directors were selected from within.

What is remarkable is the rapid increase of companies appointing female outside directors. Companies that appointed female outside directors account for 75.8% of the companies listed on the Prime market this year, compared to 52.6% among the 2,186 companies listed on the 1st Section of the TSE last year, though this is just a reference, since Prime market is a new market created by the reorganization of the market segments at TSE in this April.

The percentage of companies with 2 or more female outside directors also increased from 11.9% (261 companies) to 19.2% (352 companies).

On the other hand, the percentage of companies with female internal directors made a small increase from 11.2% (245 companies) to 12.2% (223 companies).

In the corporate governance reform, it has become a global trend to entrust more supervisory roles to outside directors. It has also been pointed out that supervisory functions of management do not work efficiently if executive officers are appointed from within.

Information compiled from Financial Conduct Authority of United Kingdom, Tokyo Stock Exchange, Inc., Nikkei Shimbun & Mizuho research

3. Stewardship and engagement are gaining increasing attention with the penetration of ESG investment

Institutional investors have been putting more importance on stewardship and engagement than ever. The idea is that investors have a stewardship responsibility, which requires institutional investors to engage with companies they invest in, and lead them to higher corporate value, reports Nikkei Shimbun, Japan’s leading financial daily. The Financial Services Agency (“FSA”) introduced a Japanese version of the Stewardship Code as a guideline for institutional investors in February 2014, which was

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revised in May 2017 and in March 2020. It has attracted more attention in the market as ESG investment penetrates.

One of the reasons stewardship is gaining attention is that engagement has become recognized as a key component of ESG investment. Negative externalities brought by capitalism, such as climate change, have exceeded a tolerable level and people came to recognize the limit of capital markets. ESG investment emerged as one of the solutions as an investment technique that achieves economic returns by pursuing social contributions (social returns).

While ESG information (non-financial information) is used to evaluate investment targets in order to select companies that could deliver social returns, many investors do not believe that just selecting companies from publicly available ESG information would enable them to conduct investments to their satisfaction. This is because many companies are in the half-way through setting up their ESG structure. Therefore, it is critical for investors to take an investment policy to support investees to enhance their ESG structures through engagement.

Stewardship is also noteworthy in terms of improving investment performance. In recent years, active funds (excess returns relative to market averages) have not been performing well, which has led passive funds to attract more assets. This seems to be the case with ESG investments as well. Using ESG information to select issues does not ensure them to get excess returns. That's why attention has turned to new ways of generating excess returns by supporting companies in which they invest to develop.

It can be said that a role of institutional investors has changed from "selecting good companies" to "supporting companies to develop to good ones". Therefore, asset managers are getting more committed to their engagement activities. That may not be comfortable for companies, however they should rack their brains to find how they could take advantage of the new trend to improve their corporate value.

The FSA publishes the list of institutional investors who have notified the FSA of their intention to accept the Stewardship Code. The FSA updates the list at the end of every month.

As of 31 August 2022, there are 322 institutional investors in the list, classified as follows;

Trust banks : 6
Investment managers : 202
Insurance companies : 24
Pension funds : 79
Others : 11
Total : 322

To retrieve the details of the Stewardship Code, please refer to the following URL:

<https://www.fsa.go.jp/en/refer/councils/stewardship/20200324/01.pdf>

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

4. JPX start holiday trading in the derivatives market from 23 September

Osaka Exchange, Inc. ("OSE") and Tokyo Commodity Exchange, Inc. ("TOCOM"), both of which belong to Japan Exchange Group, Inc. ("JPX") began their first holiday trading in the derivatives market on 23 September 2022 (Autumnal Equinox Day). By starting holiday trading, the two exchanges further aim to enhance convenience for investors by providing hedging opportunities during national holidays, and consequently to strengthen the competitiveness of Japan's derivatives markets.

It increases opportunities to reduce risk of loss making when stock prices move significantly overseas. More than 20 companies, mainly online securities firms, participate in the holiday trading program, but leading securities firms did not join the program, according to Nikkei Shimbun, Japan's leading financial daily.

The subject of holiday trading includes "TOPIX Futures", "JPX-Nikkei Index 400 Options", "Gold Standard Futures", "Palladium Futures", etc. Options on individual stocks and futures and options on Japanese government bonds are excluded.

In addition to Autumnal Equinox Day on 23 September, holiday trading for this year will take place on Sports Day on 10 October, Culture Day on 3 November, and Labor Thanksgiving Day on 23 November. There are some holidays the two exchanges are not open for trading due to, for example, a system inspection of

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JPX. Trading hours are the same as weekdays. It runs from 8:45 am to 3:15 pm during the day and at night from 4:30 pm to 6:00 am next morning.

Japan's financial markets are susceptible to that of the United States. When stock prices fell sharply in the United States and Japanese stocks are also expected to fall sharply thereafter, holiday trading could meet investors' demand to limit losses by using futures and options even on holidays. For example, if you would sell TOPIX futures and buy back the futures when Japanese stocks fell, that would generate trading profits and make up for losses from the price decline of Japanese stocks you own.

Market participants started to give serious consideration over holiday trading when they had 10 consecutive holidays in 2019. The discussion was prompted by a sense of risk perception that whether it is appropriate to close market during national holidays as global markets have been more closely linked to each other. JPX has set up a working group made up of securities firms and asset managers to discuss the issue.

In 2021, Japan had 16 market holidays due to national holidays. It was much more than those of the United States (3 full days and 8 half days), the United Kingdom (3 days) and Germany (5 days). The implementation of holiday trading is believed to benefit Japanese investors.

Some online securities firms started offering holiday trading on and after 23 September. One of the online securities firms welcomes the move as it gives individual investors more trading opportunities.

On the other hand, leading securities firms do not participate. The reasons are that they have fewer individual investors trading futures and options than online securities firms do, and that there have been almost no demand from institutional investors (such as banks and insurance companies).

Futures contracts underlying the Nikkei Stock Average are also traded on the Singapore Exchange and the Chicago Mercantile Exchange. The Singapore Exchange is closed only once a year for a national holiday, and investors can trade from Japan with little concern about the time difference. Institutional investors use such futures at overseas exchanges to

hedge their risk.

Only a few securities firms handle futures on overseas exchanges for individual investors. Holiday tradings are largely meant to support individual investors with limited opportunities to hedge risks.

Except during periods of sudden changes in market conditions, fewer investors are expected to participate in holiday trading than on weekdays. Fewer investors make it harder for orders to get through. So JPX invited high-speed traders ("HFT"), which is called market-makers, to participate. HFT facilitates to close trades by placing buy orders against individual investors' sell orders.

Trading futures and options requires opening a derivatives trading account separately from a regular securities account. According to the Japan Securities Dealers Association ("JSDA"), the number of derivatives trading accounts is about 200,000 (as of the end of 2020, including over-the-counter transactions), much less than that of the securities accounts which is around 30 million.

To retrieve the details of the holiday trading by OSE and TOCOM, please refer to the following URL: <https://www.jpx.co.jp/english/derivatives/rules/holidaytrading/index.html>.

Information compiled from Japan Exchange Group, Inc., Nikkei Shimbun & Mizuho research

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New Equities Listing Approvals

Please visit our Custody homepage on the Web at:
<http://www.mizuhobank.com/service/custody/index.html>

Listing Date	Name of Company	ISIN Code	MKT
Oct-01	KYORITSU	JP3253610004	ST
Oct-03	Aichi Financial Group	JP3104790005	PR/N
Oct-03	INEST	JP3104810001	ST
Oct-03	Chugin Financial Group	JP3520700000	PR
Oct-03	Shizuoka Financial Group	JP3351500008	PR
Oct-03	Iyogin Holdings	JP3149700001	PR
Oct-03	WOW WORLD GROUP	JP3990810008	PR
Oct-04	LUMBER ONE	JP3968900005	P
Oct-06	FIXER	JP3803130008	G
Oct-06	PBsystems	JP3801490008	G
Oct-07	CUBE	JP3244930008	G
Oct-12	Socionext	JP3433500000	PR
Oct-19	SBI Leasing Services	JP3163490000	G
Oct-20	Business Coach	JP3800230009	G
Oct-26	Atlas Technologies	JP3121870004	G
Oct-26	Linkers	JP3976900005	G
Oct-27	FCE Holdings	JP3166910004	ST
Oct-28	pluszero	JP3832750008	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

Click for up-to-date FOL information:

<http://www.mizuhobank.com/service/custody/actions.html>

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