Mizuho Custody Newsletter

May 2025 | Japan

Contents:

I. Market News

1. **Democratizing Investment**
2. **Parent-Child Listing Unwinds**
3. **TSE sets New Rules to Upgrade IR**

II. New Equities Listing Approvals

III. Foreign Ownership Limit Ratio

I. Market News

1. Democratizing Investment

The Tokyo Stock Exchange (TSE) announced on April 24 its plan to urge listed companies to lower the minimum investment amount for stocks to around JPY 100,000 (approximately USD 675). The initiative aims to broaden access to equity markets for individual investors by encouraging measures such as stock splits. This strategy could become an important avenue for absorbing the ongoing unwinding of cross-shareholdings—shares held by companies for strategic purposes—a practice increasingly embraced by corporate Japan. By making stock ownership more affordable and accessible, the TSE seeks to reshape Japan's equity ownership structure and take a pivotal step toward democratizing investment in the country's markets.

Japan's equity markets once saw individual investors as dominant players. Following World War II, the government distributed stocks at low prices to individuals during the "Securities Democratization Movement," which sought to share wealth broadly among citizens. In the late 1940s, individual ownership of stocks reached as high as 70%. However, a post-war fiscal austerity policy implemented by the GHQ, known as the Dodge Line, triggered a sharp stock market decline and brought an abrupt end to the investment boom. Over the following decades, financial institutions and corporations absorbed much of the equities shed by individuals, establishing Japan's unique cross-shareholding structure during the high-growth period of the 1950s through the 1990s bubble era.

The bubble collapse in the early 1990s marked a turning point in Japan's equity market. Financial institutions, burdened by mounting non-performing loans, began selling off their cross-shareholdings to generate capital. Overseas investors emerged as the primary buyers of these offloaded equities, steadily increasing their stake in Japanese stocks. By 2013, during the early stages of Abenomics—the suite of economic policies introduced by former Prime Minister Shinzo Abe to revitalize Japan's stagnant economy—foreign ownership of Japanese equities surpassed 30%. By the end of 2023, overseas investors held 31.8% of Japan's equity market—a record high, though the pace of growth has plateaued since 2013.

Japanese corporations, under governance reforms initiated by Abenomics and amid pressure from activist investors, are now rapidly selling off remaining cross-held shares. As the ownership of foreign investors shows signs of stagnation, individual investors are expected to become the next major pool of demand. Since the Bank of Japan is planning to eventually sell its substantial holdings of exchange-traded funds (ETFs), creating an environment where individuals can more easily invest in Japanese equities has become indispensable.

The TSE's decision to push for lower investment thresholds stems from this sense of urgency. The current minimum investment levels for Japanese stocks are significantly higher than those in Western markets, making domestic equities less appealing to individual investors. According to the TSE, an average minimum investment for companies that conducted stock splits between 2023 and 2024 still stands at around JPY 220,000 (approx. USD 1,500)—only about 90 companies have reduced it to less than JPY 100,000. By contrast, U.S. stocks, often traded on a per-share basis, allow investments in top-cap firms for as little as JPY 10,000 to JPY 30,000 (approx.

USD 65 to 200). In Europe and Australia, the per-share costs can be even lower.

While the TSE is not altering the current “unit share” system—In Japan, stocks must be traded in lots of 100 shares—its push for stock splits is seen as an intermediate step. Overhauling the system to allow single-share trading, as in Western markets, would require amendments to Japan’s Companies Act, which remains a longer-term consideration.

Challenges remain for listed companies implementing stock splits. One concern is the increased administrative burden and costs associated with managing a larger number of shareholders. Currently, Japanese firms send approximately 2.2 billion shareholder-related documents annually, incurring postal costs of JPY 30.7 billion (approx. USD 207 million) To mitigate these costs, companies may need to further transition to digital solutions, replacing traditional postal mail. Another concern involves shareholder proposal rights, which could see increased usage—or abuse—by individual investors. Some companies have advocated for implementing safeguards to address these issues.

Despite the hurdles, TSE’s push to create a more inclusive investment environment is well received. “This is a meaningful step in fostering individual participation in the stock market,” said one think tank analyst, who added that legal reforms like virtual shareholder meetings must also move forward to balance corporate burdens.

If individual investors—whose trading behavior differs from institutional investors—expand their presence, the Japanese market could benefit from reduced volatility and improved liquidity. The TSE is positioning the lowering of investment thresholds as a cornerstone of capital policy aimed at enhancing corporate value.

Nearly eight decades after Japan’s first Securities Democratization Movement, the country may be on the brink of a new era in equity ownership. By breaking down barriers to stock investment, the TSE is paving the way for a broader and more sustainable base of domestic shareholders.

Compiled from Nikkei Shimbun and Mizuho research.

2. Parent-Child Listing Unwinds

In Japan, the term "parent-child listings" refers to the structure where both a parent company and its subsidiaries are publicly listed. Such kind of case is not rare in Japan, with approximately 230 listed subsidiaries falling under parent companies, making up about 6% of all listed firms, while in the U.S. it is less than 1%. Japanese companies have long prided themselves on utilizing group management strategies as their key strength, and listed subsidiary companies could boost its brand recognition, attract talent, and diversify funding sources. However, this structure has faced criticism from investors—particularly international ones—over potential conflicts of interest. Many argue that parent companies often prioritize their own profits at the expense of minority shareholders in the subsidiaries.

In recent months, Japan’s corporate landscape has undergone a significant transformation, with major players across various industries taking steps to dismantle dual listings. Notable examples include a telecom giant and a leading trading house, both of which have announced plans to fully integrate their listed subsidiaries. This shift is being largely fueled by reforms introduced by the Tokyo Stock Exchange (TSE), designed to strengthen corporate governance practices.

A notable example that caught market participants off guard was the decision by a major retail conglomerate. On February 28, the company announced plans to fully acquire two of its listed subsidiaries—one focused on mall development and the other on shopping center management. This retailer, which oversees 15 listed subsidiaries, had long championed the independence of each group company as a core strength, standing apart from the broader trend of dismantling parent-child listings. However, the firm disclosed that dual listings had been a significant source of profit leakage, with approximately 60% of its consolidated post-tax profits flowing externally. To address this, it announced the absorption of the two subsidiaries into the parent company. At a press conference, the company's leadership emphasized that full ownership would “minimize external profit leakage and strengthen financial stability.”

A similar move by one of Japan's top automotive manufacturers has also drawn significant attention.

The automaker is considering the acquisition of one of its publicly listed subsidiaries through a tender offer. This subsidiary is widely regarded as the parent automaker's founding entity and is seen as the cornerstone of the corporate group. In addition to holding shares in its parent company, the subsidiary also owns stakes in other group companies. Since its corporate value closely tied to the valuation of these group-held shares, shareholders have expressed concerns about inefficiencies in capital allocation. The automaker's decision to unwind cross-shareholding within the group marks a pivotal moment in its governance reform, with potentially far-reaching implications for Japan's corporate landscape.

These moves by industry leaders could prompt other firms to follow suit. A securities analyst at a leading Japanese brokerage noted, "Japanese companies are known for their herd mentality. It's likely that we'll see more firms pursuing similar actions.".

According to a domestic think tank, parent-child listings grew steadily through the mid-2000s but have declined in recent years, partly due to the Tokyo Stock Exchange's (TSE) push for governance reforms. In February, the exchange published a report titled *"The Investor's Perspective on Such Matters as Parent-Subsidiary Listings,"* which highlights gaps between investor expectations and corporate practices and urges companies to address these issues.

Companies tend to become active in corporate governance reforms during April to June, as companies prepare for shareholder meetings and many fiscal year-end firms announce medium-term business plans. If the long-standing issue of parent-child listings becomes a mainstream reform trend, it could serve as a catalyst to attract greater foreign investment into Japan's markets.

Compiled from Nikkei Shimbun and Mizuho research.
The report published by TSE can be found from their below website:
https://www.jpx.co.jp/english/equities/improvements/study-group/b5b4pj0000032jkr-att/sjcobq000000hflb.pdf

3. TSE sets New Rules to Upgrade IR

In April 2025, the Tokyo Stock Exchange (TSE) announced plans to mandate listed companies to implement a comprehensive investor relations (IR) framework. The new rules, designed to strengthen communication with shareholders, is set to be incorporated into the TSE's " Code of Corporate Conduct " this summer. The new rules call for companies to appoint dedicated IR officers or establish specialized departments, while also urging improvements in investor presentations and disclosure materials. By fostering deeper engagement with investors, TSE aims to promote management practices focused on long-term value creation and sustainable stock price growth.

To support the development of such an IR framework, TSE provided specific examples, such as appointing executives to oversee IR activities and establishing dedicated teams or divisions for investor communication. Although the exchange has not laid out detailed requirements, it envisions the new rules facilitating regular investor briefings and the online publication of IR materials—steps aimed at fostering more effective dialogue between companies and their stakeholders.

For companies listed on the Prime Market, many of which already have well-established IR frameworks, the new rules pose little challenge. A prominent cosmetics company, which maintains a dedicated IR department, voiced confidence in its ability to comply. "Our IR framework is already robust, and we view this as an opportunity to further enhance dialogue with investors," the company stated. Similarly, a leading tobacco manufacturer affirmed that its existing IR framework meets TSE standards and vowed to continue refining its practices to adapt to the shifting dynamics of the capital markets.

Smaller companies listed on the Growth and Standard Markets may encounter difficulties in meeting the mandate. A 2024 survey by a domestic trust bank revealed that 24% of firms on the Standard Market had yet to engage in any IR activities. For instance, a restaurant chain without a dedicated IR department relies on one of its two financial officers to manage investor inquiries as a secondary responsibility. While the company accommodates investor meeting requests, it rarely takes proactive steps to initiate engagement. Under the new rules, non-compliance with the Code of Corporate Conduct could result in penalties, including public disclosure of violations or fines.

Investor demand for enhanced IR practices remains strong. In November 2024, TSE released examples of misalignments between corporate initiatives and investor expectations, urging companies to adopt more practical and aligned measures. Japan's Financial Services Agency has also highlighted the importance of shareholder engagement, requiring all listed firms to disclose annual reports prior to their general meetings.

Globally, the importance of investor-corporate dialogue continues to rise. A senior official at a leading trust bank with expertise in IR practices noted, "In the United States, while some companies opt not to disclose mid-term business plans, they often prioritize direct engagement with individual investors as an alternative."

Effective IR strategies benefit both companies and their investors. A study by the Japan Investor Relations Association analyzing the market performance of firms that received IR Excellence Awards between 2020 and 2024 showed that their average market capitalization grew fivefold compared to 2008—outpacing the Prime Market average of threefold growth. These companies demonstrated quicker stock price recoveries following external market disruptions and achieved greater long-term price appreciation.

A researcher at a domestic think tank remarked, "When investors have a clear understanding of the risks and opportunities within a business, they are more inclined to invest, which often leads to upward pressure on stock prices." However, the researcher offered a cautionary perspective, stating, "If IR is primarily aimed at driving stock prices, it risks devolving into nothing more than a PR exercise. For listed companies, disclosure is a fundamental obligation, not a promotional tool." The revisions to the TSE's Corporate Governance Code signal a broader effort to encourage companies to adopt investor-focused management strategies that align with long-term sustainable growth.

Compiled from Nikkei Shimbun and Mizuho Research

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Jun-06	EXEO HOLDINGS Inc.	JP3161380005	P
Jun-20-	IZAWA TOWEL CO.,LTD.	JP3133250005	ST
Jun-20	REBIBLE Co.,Ltd.	JP3974650008	P
Jun-23	Wellness Communications Corporation	JP3155430006	G
Jun-24	Primo Global Holdings Co.,Ltd.	JP3833220001	ST
Jun-25	Kitazato Corporation	JP3237550003	PR
Jun-26	DesigNET Inc.	JP3548430002	P
Jun-26	A-tie Co.,Ltd.	JP3160530006	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:

https://www.jasdec.com/en/description/less/for_pubinfo/for_pubinfo.html

Please visit our Custody homepage on the Web at:

https://www.mizuhogroup.com/bank/what-we-do/custody