Mizuho Custody Newsletter

January 2025 | Japan

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I. Market News

1. Will Japan's AGM season shifting to October?

In Japan, "shareholder meeting season" typically refers to June, when companies with a March fiscal year-end hold their annual general meetings (AGMs) in quick succession. However, a discussion has begun that could shift this to October. This change could potentially serve as a symbolic message of transformation within Japanese corporations and the stock market, both domestically and internationally.

On December 20th, the Financial Services Agency held a meeting with a rather tongue-twisting name: "The Coordinating Council for Preparing an Environment for the Disclosure of Annual Securities Reports before AGMs." While it received little attention in the domestic media, it garnered significant interest from foreign institutional investors. For example, the CEO of the International Corporate Governance Network (ICGN), which includes major global pension funds and asset management firms, remarked that "the pre-meeting disclosure of annual securities reports is one of the final pieces of Japan's governance reform."

But why is the timing of the annual securities report's release so critical? Why can't financial statements and business reports attached to the meeting notices suffice? The underlying issue is the fiduciary responsibility that institutional investors, who manage pension funds and other assets, have towards their clients. They argue that "the materials attached to the meeting notices are insufficient for professional managers to fulfill their responsibilities," as stated by a major asset management firm.

In the U.S. and Europe, companies typically release their annual reports—equivalent to Japan's annual securities reports—after closing their books and before holding their AGMs. For example, a leading U.S. semiconductor manufacturer, whose financial performance and stock price are closely watched globally, closed its books on January 28, 2024, submitted its annual report on February 21, and held its general meeting on June 26.

Not just in the U.S., but in the U.K. and Germany as well, the flow generally goes: closing the books → annual report → AGM. Consequently, the timing of AGMs is later than in Japan. According to the "Report on Promoting Dialogue between Companies and Investors for Sustainable Growth" (April 23, 2015), U.S. companies hold their AGMs on average 135 days (about 4.5 months) after their fiscal year-end, while it is 137 days (4.6 months) in the U.K. and 151 days (5.0 months) in Germany. In contrast, Japanese companies hold their meetings 85 days (about 2.8 months) after their fiscal year-end, a notably shorter period.

Japanese companies are often seen as reluctant to disclose information and engage with shareholders, but when it comes to holding AGMs, they are world leaders. However, is this something to be proud of?

Generally, we believe that the sooner information is disclosed, the better. While it may seem desirable to hold AGMs shortly after closing the books, foreign institutional investors prioritize the annual securities report over the meeting. The ICGN, which has advised on Japan's governance reforms, exemplifies this viewpoint, but the practice of pre-meeting disclosure of annual securities reports remains largely unaddressed. Currently, fewer than 60 Japanese companies disclose their annual securities reports before their AGMs.

Annual securities reports contain detailed explanations of management conditions and the status of cross-shareholdings, which are not disclosed in regular financial statements or materials for investor briefings. They also include so-called non-financial information, such as climate change and human capital details. The reports are audited, making them highly reliable. The frustration among U.S. and European institutional investors is growing over not being able to base their voting decisions on the most comprehensive and credible information available.

Most Japanese companies have their articles of incorporation set the fiscal year-end as the reference date for the AGM and hold the meeting within three months. If this reference date were pushed back, companies with a March fiscal year-end could hold their meetings in July. This possibility is explicitly stated in the FSA materials presented at the December 20 meeting. In this scenario, companies could disclose their annual securities reports in June, allowing shareholders to base their voting decisions on this information.

The former CEO of the ICGN expressed a desire to read the annual securities report at least 30 days before the AGM. If shareholders could read the report 30 days before exercising their voting rights, a July general meeting for companies with a March fiscal year-end would be "a good idea," he said.

A listed company that currently uses IT and other tools to streamline its financial closing and auditing processes and issues its annual securities report about a week before the AGM admits, "30 days is a bit impossible." It might be more realistic to push back the reference date and delay the AGM. Given that the ICGN, an international investor organization with member firms managing $77 trillion in assets, supports this idea, it's unlikely that shareholders would strongly oppose a July meeting.

If there is any resistance to a June meeting, it might stem from companies' conservative attitudes, such as not wanting to change the annual schedule of company events or fearing an increase in difficult questions during the meeting. Overcoming these challenges could send a message that the company has broken free from its old shell.

Some CEOs of companies with a March fiscal year-end even suggest, "Rather than July or August, why not boldly hold the meeting in September or October?" They propose disclosing the annual securities report in June, allowing shareholders to thoroughly review the company's performance over the summer, and then holding the meeting in the more temperate autumn.

While it's not necessary to follow Western practices blindly, Japan's difficulty in allowing shareholders to base their voting decisions on the annual securities report is seen as quite odd internationally. For a country aiming to become a "nation of asset management" or an "international financial center," this is an issue that should be addressed. The disruption caused by delaying the AGM might only last a year or two. It could also be an opportunity to reevaluate and eliminate inefficient internal practices.

Compiled from Nikkei Shimbun and Mizuho research.
Details about the "The Coordinating Council for Preparing an Environment for the Disclosure of Annual Securities Reports before AGMs" can be found from below FSA website (Japanese only):
https://www.fsa.go.jp/singi/sokaimaekaiji/index.html

2. Learn from others' mistakes

Since March 2023, the Tokyo Stock Exchange (TSE) has been urging all companies listed on the Prime and Standard Markets to "Implement Management that is Conscious of Cost of Capital and Stock Price." These companies are required to disclose their strategies to achieve this, and the TSE publishes a monthly list of those that have made disclosures on its website. As of the end of December 2024, 84% (1,384 companies) of Prime Market firms and 36% (567 companies) of Standard Market firms have made these disclosures. Many Standard Market companies continue to face challenges, prompting the TSE to consider discussions on enhancing their investor relations (IR) functions.

While Prime Market companies are making notable progress, the substance of their disclosures presents a varied picture. After interviewing around 300 mid- to long-term overseas investors, the TSE released a compilation of exemplary ("good") disclosures in February 2024 and a collection of subpar ("bad") examples in November. These compilations, available in English on the TSE's website, illustrate gaps from investors' perspectives without naming specific companies.

The "bad" collection has been particularly well-received among European investors. "Disclosures that merely list superficial measures, such as ad hoc shareholder returns, need improvement," remarked the head of Japan research at a British investment fund, commending the TSE's initiative.

The "bad" examples are categorized into three levels based on the extent of the gap from investors' perspectives. Level 1 encompasses those failing to conduct a fundamental self-analysis, Level 2 includes initiatives that do not receive investor approval, and Level 3 covers efforts needing further improvement. This system allows companies to gauge their management standards.

Foreign investors view the "bad" collection as a potential catalyst for reform in Japanese stocks. The British investment fund mentioned earlier particularly resonates with Level 2 examples, which indicate insufficient examination of desired balance sheet and capital allocation policies. "In our dialogues with companies, we aim to engage in substantive discussions about their vision for capital policies from a medium- to long-term perspective," they emphasized.

A UK-based consulting firm advising investors and Japanese companies noted, "It will become easier for listed companies to understand their own positions. The emergence of a healthy sense of crisis, such as being left behind by others, will foster a mindset for improvement."

European investors are showing increased interest in Japanese stocks. In 2024, Europe's representative stock indices lagged behind other major regions, driving investors to seek opportunities abroad. Consequently, Japanese companies with room for improvement are becoming attractive targets.

"In Germany during the 1990s, banks and insurance companies divested their cross-shareholdings, leading to the dissolution of conglomerate structures through M&A (mergers and acquisitions)," observed a partner at a British asset management firm. They noted that Japan's current situation mirrors Germany's past, facilitating a better understanding of Japan's changes.

Interestingly, it wasn't just investors who called for the "bad" collection. Many companies also sought it as a tool for transformation. The TSE noted, "Although some Prime Market companies found it challenging to adopt the good examples, there was a strong desire to learn from the gaps and make steady improvements internally."

The Nikkei 225 reached its highest level since the bubble era in 2024. The mindset of listed companies is evolving, and investor expectations are high. This could set the stage for the Nikkei to reach new highs and establish a sustained upward trend.

Compiled from Nikkei Shimbun and Mizuho research.
The “good” and “bad” disclosures can be found at TSE’s website:
https://www.jpx.co.jp/english/equities/follow-up/02.html

3. FY2025 Tax Reform proposal outline

The ruling coalition of Japan, consisting of the Liberal Democratic Party and the Komeito Party, unveiled the 2025 tax reform outline on December 20, 2024. Prior to the announcement, discussions were held with the Democratic Party for the People concerning amendments to personal income taxation. Despite these talks, the final outline was released without full agreement among the three parties. Debates on the tax reform bills, alongside the 2025 budget plan, are slated to commence in the House of Representatives in January, with an aim for enactment by March. The key elements of the proposed tax reforms are as follows:

Personal Income Taxation: Adjustments are proposed to alleviate tax burdens amid rising inflation and to respond to changes in working hours. These include raising the basic income tax exemption and the minimum guaranteed deduction for employment income. Additionally, a preferential tax scheme for child-rearing households is planned. To promote asset building for old age, the contribution limits for defined contribution pensions (both corporate-type DC and iDeCo) will be increased.

Tax System to Encourage SMEs: To create a virtuous cycle in regional economies, tax incentives for SMEs are set to be expanded. Specifically, incentives will be offered to encourage domestic investment and wage increases, targeting capital investments by high-growth-potential SMEs with expected returns on investments.

In response to the increasingly severe security environment surrounding Japan, the reform outline also includes measures to secure financial resources for strengthening defense capabilities, such as imposing a new surtax on corporate tax and raising the national tobacco tax rate.

The Tax Reform outline also proposes streamlining the tax filing environment, including enhancements to the e-Tax platform, which is used by withholding agents to electronically submit documents to tax authorities. Following the tax reforms of fiscal 2021, as of April 1, 2021, it became possible to electronically submit tax treaty-related notifications and other documents, previously submitted in paper form, using scanned images (PDF format) through e-Tax. This change also allows non-residents to electronically submit documents, such as tax treaty notifications, refund claims for tax withheld under tax treaties, and other supportive documents such as certificates of residency (CoR) to withholding agents.

Currently, electronic records submitted via e-Tax must meet specific criteria: a resolution of at least 200 dpi, color depth of 256 shades of red, green, and blue (24-bit color), and PDF format. These requirements also apply to supportive documents provided by non-residents, such as CoRs. The reform outline proposes modifying the color depth requirement to 256 shades from white to black and adding JPEG (JPG) format as an acceptable file type. The JPEG (JPG) format is slated for implementation from January 1, 2028. System upgrades to accommodate larger data capacities for e-Tax will be required.

The outlined tax reform plan will be debated in the National Diet, and further details are expected to take shape by around March. We will keep you posted for updates.

The English version of the Key Points for FY2025 Tax Reform (Proposal) is available from the below Ministry of Finance's website: [*https://www.mof.go.jp/english/policy/tax_policy/tax_reform/fy2025/07keyhighlight.pdf*](https://www.mof.go.jp/english/policy/tax_policy/tax_reform/fy2025/07keyhighlight.pdf)

The full text of the FY2025 Tax Reform outline (Japanese only) is available from below link: [*https://www.mof.go.jp/tax_policy/tax_reform/outline/fy2025/20241227taikou.pdf*](https://www.mof.go.jp/tax_policy/tax_reform/outline/fy2025/20241227taikou.pdf)

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Jan-17	Shinko Holdings Corporation.	JP3372550008	P
Jan-30	NPT CO.,LTD.	JP3165890009	P
Feb-5	Next Generation Technology Group Inc.	JP3264350004	G
Feb-20	Flier Inc.	JP3826330007	G
Feb-21	Booking Resort Co., Ltd.	JP3829960008	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