Mizuho Custody Newsletter

July 2025 | Japan

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I. Market News

1. T+1: Studying and Weighing

Efforts to shorten stock settlement periods are gaining momentum worldwide. Japan currently operates under a "T+2" framework, in which stocks are exchanged two business days after a trade is finalized. Meanwhile, North America transitioned to "T+1" settlement in May 2024, and Europe plans to adopt T+1 by October 2027. Considering these global developments, Japan's Financial Services Agency (FSA), the Japan Securities Dealers Association (JSDA), the Japan Securities Clearing Corporation (JSCC), and the Tokyo Stock Exchange (TSE) launched a study group last September to evaluate the feasibility of moving to T+1.

In July, the Financial Services Agency (FSA) released an interim report outlining the findings of its study group. While the group stopped short of endorsing the adoption of a T+1 settlement cycle, it stressed the need to closely monitor developments in other markets within Japan’s time zone, including Hong Kong, Singapore, and Australia. For the time being, Japan will remain in an observational phase, refraining from any immediate moves toward implementation.

The U.S. transition to a T+1 settlement cycle was largely spurred by the GameStop saga, a retail trading frenzy that triggered extreme stock price volatility. This event exposed vulnerabilities in settlement systems, particularly as brokers struggled to meet collateral requirements tied to unsettled trades, resulting in trading restrictions. By shortening the settlement period, regulators sought to mitigate risks tied to unsettled transactions and ease collateral pressures on market participants.

Japan faces distinct hurdles in transitioning to a T+1 settlement cycle, stemming from structural differences in its market. One key challenge is the time zone disparity with the U.S. and Europe, which could exacerbate communication delays and heighten operational strains for securities firms and international investors alike. Under the current T+2 framework, firms benefit from an extra day to reconcile trade confirmations. Moving to T+1 would demand 24/7 operations, forcing either Japanese firms or overseas investors to work through the night to ensure timely settlements.

The study group also noted that Japan’s current settlement system has not faced any major operational disruptions or trading avoidance from overseas counterparts, even a year after the U.S. transitioned to T+1. Skeptics contend that the advantages of shortening the settlement cycle may be outweighed by the increased costs and labor demands it would impose. Moreover, Japan’s market mechanisms—such as strict daily price limits on individual stocks—reduce the likelihood of GameStop-like scenarios that fueled the U.S. move to T+1.

Another issue highlighted during the study group’s discussions was the potential spike in settlement "fails" under a T+1 framework. Preliminary estimates indicate the fail rate could jump 56-fold to 2.8%, compared to the current T+2 system. While this figure remains within acceptable limits by global standards, Japan’s unique requirement for shareholders to physically hold stocks by the record date to exercise rights—unlike markets like the U.S., where ownership is confirmed upon trade—poses additional challenges. To mitigate this risk, participants suggested creating mechanisms to protect shareholder rights, including voting privileges, in cases of settlement failures.

Feedback from foreign investors during the study group indicated that a move to T+1 would have little effect on their investment strategies. Many remarked that Japan's longer settlement period has posed few challenges, supporting the group's decision to take a cautious approach by observing developments in markets such as Hong Kong, Singapore, and Australia before considering any changes.

Modernizing settlement systems will be pivotal in tackling many of the challenges tied to a potential shift to T+1. Enhanced automation of trade confirmations and settlement processes could ease the labor demands stemming from time zone discrepancies while minimizing the risk of settlement failures. The U.S. successfully transitioned to T+1 largely due to its sophisticated settlement infrastructure, highlighting the critical role of cutting-edge technology. Even if Japan decides against adopting T+1, investing in automation could still drive significant efficiencies, benefiting both the industry and investors alike.

FSA intends to convene regular follow-up meetings to gather further input from stakeholders and monitor international trends. By analyzing the strategies of regional markets and harnessing advancements in digital technology, Japan seeks to keep its settlement practices competitive and aligned with the rapidly changing global financial landscape.

Compiled from Nikkei Shimbun and Mizuho research.
FSA's interim report is available from below (Japanese only):
https://www.fsa.go.jp/news/r7/20250715_t1.pdf

2. Stewardship Code 3.0

On June 26, Japan's Financial Services Agency (FSA) unveiled the third revision of its Stewardship Code, marking another milestone in the country's efforts to align institutional investor practices with sustainable corporate growth and long-term value creation. Institutional investors adhering to the Stewardship Code are expected to update their disclosure items to reflect the revised guidelines no later than six months after the announcement, by the end of December 2025. These updates will include public disclosures and notifications to the FSA.

First introduced in February 2014, the Stewardship Code has seen revisions in May 2017 and March 2020, marking this as its third update in nearly a decade. Together with Japan's Corporate Governance Code, the Stewardship Code has played a pivotal role in advancing corporate governance reform across the country. Yet, critics argue that mere box-ticking compliance falls short of the mark. To drive sustainable growth and bolster corporate value over the medium to long term, genuine reform rooted in proactive mindset shifts among both companies and investors remains imperative.

Collective Engagement

A key feature of the latest revision is the emphasis on "collective engagement," where institutional investors collaborate to hold discussions with portfolio companies. By pooling resources and expertise, this approach seeks to make engagements more effective, addressing the challenges of resource intensity often faced when conducted individually. While earlier versions of the Code described collaborative efforts as merely "beneficial," the updated framework now positions them as a "significant option."

Collaborative engagement efforts in Japan have long been hampered by unclear reporting requirements for "joint holders" under the Large Shareholding Reporting System. Under previous rules, entities agreeing to jointly exercise shareholder rights were obligated to aggregate their shareholding percentages for disclosure, creating significant hurdles. However, legal amendments introduced in May 2024 have redefined the scope of "joint holders," eliminating this long-standing ambiguity and paving the way for smoother collaborative engagements.

The latest revision highlights the importance of institutional investors fostering constructive dialogue with portfolio companies, aimed at driving sustainable growth. Collaborative engagements have now emerged as a practical and indispensable strategy to advance this objective.

Transparency of beneficial shareholders

Another significant aspect of the revised Stewardship Code is the enhancement of transparency concerning beneficial shareholders—those who hold decision-making authority over investments and voting rights. In Japan, outside of cases governed by the Large Shareholding Reporting System, no mechanisms exist for companies to identify their beneficial shareholders.

Institutional investors typically entrust their shares to trust banks, which act as the registered shareholders. While trust banks exercise voting rights, institutional investors instruct them on how to vote. This arrangement limits listed companies to identifying only the registered shareholders, leaving beneficial shareholder information opaque.

The revised Code seeks to tackle this challenge by urging institutional investors to disclose their shareholding details during engagements. This transparency is essential for companies to assess the broader context of discussions. However, some investors may hesitate to reveal their holdings, fearing that it might expose sensitive aspects of their investment strategies.

Under the previous version of the code, the recommendation for investors to explain the extent of their shareholdings in portfolio companies was relegated to a marginal footnote, stating it "may be desirable in certain cases." The latest revision upgrades this recommendation to a formal guideline, stating that investors "should disclose their shareholding details to portfolio companies upon request and publicly outline their policies for such disclosures."

In addition, broader reforms are underway to help companies more efficiently identify beneficial shareholders and their holdings. The Financial System Council of the Financial Services Agency has highlighted the need for institutional mechanisms to address this gap, prompting discussions on potential amendments to Japan's Companies Act. These proposals have been under deliberation by the Legislative Council, convened by the Ministry of Justice, since February 2025.

Japan's Stewardship Code follows a "comply or explain" framework, granting investors the choice to either adhere to its principles or justify their non-compliance. This approach classifies the Code as "soft law," offering flexibility in its implementation. However, ongoing discussions at the Legislative Council signal a potential shift toward "hard law." Proposals under review include imposing penalties—such as fines or the suspension of voting rights—on investors who fail to disclose their holdings when requested by a company.

Additional considerations include the treatment of foreign shareholders in cross-border private legal matters and cost-sharing mechanisms for companies issuing large-scale shareholder identification requests. A preliminary draft of these proposals is expected to be finalized within fiscal year 2025.

Japan's latest updates to the Stewardship Code signal a decisive effort to enhance the depth of institutional investor engagement and bolster transparency in shareholder relations. The ultimate impact of these reforms will depend on how willingly companies and investors adopt a culture of constructive dialogue and shared accountability.

Compiled from Mizuho research.
The announcement from the FSA and the revised Code is available from the below website:
https://www.fsa.go.jp/en/refer/councils/stewardship/20250626.html

3. The Shifting Stock Ownership

Foreign investors are deepening their presence in Japan's equity markets, with foreign ownership of Japanese stocks reaching a record 32.4% at the end of fiscal 2024, according to a July 4 report by the Tokyo Stock Exchange (TSE). This represents a 0.6 percentage point increase from the previous fiscal year and comes on the heels of another record-setting year in fiscal 2023, when foreign ownership surged to its highest level in nearly a decade.

The momentum has carried into fiscal 2025, fueled by portfolio diversification among U.S. investors and the perception that Japanese equities remain undervalued relative to Western markets. Overseas investors have been net buyers for 15 consecutive weeks, amassing ¥5.3 trillion in purchases as of July 23. Analysts at a leading Japanese brokerage suggest that sustained foreign interest could hinge on the ongoing trend of improving ROE (return on equity) among Japanese firms, which is seen as closing the gap with their Western counterparts.

A recent survey by *Nikkei*, Japan's premier financial daily, analyzed 1,112 TSE Prime-listed companies with comparable fiscal 2023 and fiscal 2024 March-end data, shedding light on the influence of activist investors in boosting foreign ownership. A recurring theme among stocks with notable foreign ownership gains was the presence of overseas activist funds.

Despite foreign ownership reaching historic highs, the number of companies experiencing increases in foreign stakes fell sharply to 469 firms (42%) in fiscal 2024, compared to 745 firms (67%) in fiscal 2023. Activist investors have been increasingly selective, focusing their efforts on growth-oriented stocks while strategically raising their stakes.

Activists are also spurring tangible changes in corporate governance. A notable case involved a major pharmaceutical firm where a U.S.-based activist fund boosted its stake, leading to a pivotal vote at the company's June shareholder meeting. The meeting saw the fund's CIO elected as an outside director, underscoring activists' efforts to drive operational reforms and unlock shareholder value through tools like shareholder proposals.

Japanese equities continue to attract foreign interest due to their valuation appeal. According to a Japanese brokerage, approximately 40% of listed firms trade at price-to-book ratios below 1, reflecting significant undervaluation. Furthermore, Japanese companies typically maintain high cash balances, offering substantial opportunities for improving capital efficiency.

Domestic retail investors are making greater inroads into the market, driven largely by younger generations. According to TSE data, individual ownership rose by 0.4 percentage points to 17.3%, with younger investors emerging as key contributors to this growth. The launch of the revamped NISA investment program has spurred participation, with stock ownership among investors in their 20s soaring by 27% between December 2023 and May 2025. Investors under 20 also recorded a notable 19% increase. In contrast, older generations showed more subdued growth, with ownership among those in their 70s inching up by just 1%, while those in their 80s saw a 5% rise. These trends point to a generational shift reshaping Japan's retail investment landscape.

Meanwhile, corporate cross-shareholding structures—a hallmark of Japan's traditional business culture—are being dismantled at a rapid pace. The ownership ratio of business corporations fell by 0.6 percentage points to 18.7%, while financial institutions, including banks, insurance companies, saw their stake decline by 0.9 percentage points to a record low of 5.1%. Back in 1990, both sectors held over 30% of the market, cementing their status as Japan's largest shareholders.

The decline reflects a broader push by Japanese firms to dismantle cross-shareholdings, long used as a tool to reinforce corporate alliances. Critics argue that these arrangements undermine capital efficiency by diverting funds away from shareholder returns and growth-focused investments. Increasing scrutiny of cross-shareholdings has also amplified concerns about governance risks, particularly the entrenchment of management. In response, a growing number of companies are taking bold measures to unwind these legacy holdings, marking a significant shift in Japan's corporate governance landscape.

Compiled from Nikkei Shimbun and Mizuho Research
The survey conducted by TSE is available from the below website:
https://www.jpx.co.jp/english/markets/statistics-equities/examination/sjcobq000001p5n9-att/e-bunpu2024.pdf

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Aug-13	Axelspace Holdings Corporation	JP3108250006	G
Aug-06	REAL Quality Co.,Ltd.	JP3969540008	P
Jul-18	YAMAMOTO TRADING CO.,LTD.	JP3943700009	P
Jul-18	Hakko Automation Co.,Ltd.	JP3769320007	P
Jul-18	RitaX Inc.	JP3974440004	P

**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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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