

Mizuho Custody Newsletter

April 2025 | Japan

Contents:

I. Market News

1. Yuho before AGM
2. Firms face the final cut
3. Reforming the Growth market

II. New Equities Listing Approvals

III. Foreign Ownership Limit Ratio

I. Market News

1. Yuho before AGM

In Japan, annual reports are referred to as "Yuka Shoken Hokokusho," commonly abbreviated as "Yuho." The Yuho not only provides the latest financial condition of the company but also offers a comprehensive overview of the company's management, including current hot topics such as cross-held shares. It also encompasses non-financial information, such as details on climate change and human capital. Audited and assured, the Yuho is considered the most reliable source of corporate information in Japan.

On March 28, the Financial Services Agency (FSA) announced that it will require all listed companies in Japan—approximately 4,000 in total—to submit and disclose their Yuho before their annual general meetings (AGM). Starting with companies whose fiscal year ends in March 2025, FSA will conduct surveys to ensure their request is clearly understood by the companies. Furthermore, FSA will also conduct interviews with each company to expedite early disclosure.

The percentage of companies in Japan that disclose their Yuho before the AGM is extremely low. According to FSA, only 57 companies, or 1.5% of all listed companies, disclosed their Yuho prior to the

AGM. In contrast, 45% of companies disclosed by the day of the AGM, and 95% submitted within three days after. Although FSA believes shareholders should need at least three weeks to consider their vote based on Yuho information, achieving this given the current conditions will be practically challenging for companies. Many Japanese companies close their fiscal year in March, and AGMs are concentrated in late June. Companies and auditors are extremely busy during this period leading up to the AGM and Yuho submission. Considering that many companies currently submit their Yuhos just after the AGM, the FSA has deemed advancing the submission by at least a few days as a feasible step. An FSA official stated, "If more companies submit their Yuho even a few days before the AGM, it will foster the awareness that Yuho should be disclosed prior to the AGM."

Institutional investors, especially those from overseas, are keen to review the Yuho before the AGMs. The phrase "Yuho Before AGM" frequently arises when American and European institutional investors discuss their requests for Japanese companies. Some even consider this one of the final steps in Japan's governance reform. Although financial statements and business reports are included in the AGM notices sent to shareholders, these materials are deemed insufficient by these investors. A leading asset management company remarked, "Professional asset managers cannot responsibly exercise their voting rights with just the materials attached to the AGM notice." This firm, entrusted by pension funds, echoes the common sentiment among U.S. and European institutional investors: they feel uncomfortable making voting decisions without the comprehensive and accurate information provided by the Yuho.

In the U.S. and Europe, the typical sequence is fiscal year-end → annual report → AGM. In contrast, many Japanese companies follow the sequence of fiscal year-end → AGM → Yuho. U.S. companies hold their AGMs on average 135 days after the fiscal year-end, in the UK it is 137 days, and in Germany it is 151 days. In Japan, however, the interval is notably short: 85 days.

Information contained in this announcement is believed to be from reliable sources and is intended only for the use of individual or entity to which it is addressed and is strictly for information purposes as it may contain information that is privileged, confidential and exempt from disclosure under applicable law and inherently subject to change. If you are not the intended recipient, you are hereby notified that any use, distribution, re-transmission, re-publication or copying is strictly prohibited and may be illegal under applicable law. While due care has been exercised in preparing this announcement, we make no warranty, expressed or implied, regarding the accuracy, completeness or usefulness of this information, and we assume no liability with respect to consequences relying on this information for investment or any other purposes.

Even if companies comply with the FSA's request and manage to submit their Yuho a few days before the AGM, it is not significant for institutional investors, as they will have already exercised their voting rights by then. According to Nikkei, Japan's leading financial daily, the FSA's call may promote the mindset of "Yuho before AGM." However, to achieve a fundamental solution to the demand for using Yuho information in voting decisions, the sequence should be changed to fiscal year-end → Yuho → voting record date → AGM, effectively making it "AGM After Yuho."

The FSA recommends postponing AGMs by one to three months for fiscal years ending from March 2026 onwards. Companies can amend their articles of incorporation to reschedule their AGMs, providing ample time to prepare and submit their Yuho before the meeting. Currently, many Japanese companies hold AGMs within three months of their fiscal year-end, as stipulated by their articles. By adjusting the reference date for AGMs in their articles, companies with fiscal years ending in March could hold their AGMs from July onwards. The FSA has repeatedly emphasized that these changes can be implemented without altering any existing laws.

However, it is important to acknowledge that some companies already submit their Yuhos well before the AGM. Learning from the practices of these companies can be highly beneficial. These companies typically divide the Yuho content into "qualitative text (non-financial information)" and "quantitative text (numbers)." For instance, a company with a fiscal year-end in March may start working on the qualitative text, such as strategic goals and sustainability targets, as early as November. They then finalize the report by incorporating the quantitative data available around April. Additionally, they coordinate closely with their auditing firm to ensure that all necessary information is provided on schedule, guaranteeing that everything is in order before the Yuho submission deadline.

How companies will respond to the Financial Services Agency's (FSA) request remains uncertain. However, FSA has emphasized the importance of listening more attentively to shareholders and aligning more closely with global standards, which will benefit international investors.

Compiled from Nikkei Shimbun and Mizuho research.

2. Firms face the final cut

In April 2022, the Tokyo Stock Exchange (TSE) reorganized its markets, transforming the previous four segments—First Section, Second Section, JASDAQ, and Mothers—into three new segments: Prime, Standard, and Growth. At the same time, the criteria for maintaining the listing status (the continued listing criteria) were tightened, and to mitigate the impact of this dramatic change, the TSE introduced a transitional measure allowing listed companies to remain in their desired market segment provisionally. During this grace period, companies were required to meet the new continued listing criteria. As of March 2025, this transitional measure expired.

For companies with a fiscal year ending in March, failing to meet the continued listing criteria for their chosen market segment by the fiscal year-end will undergo a one-year improvement period. If they remain non-compliant at the end of this period, they face delisting six months later. Consequently, for firms with a March fiscal year-end that do not meet the criteria, delisting would typically occur on October 1, 2026. Companies with fiscal years ending in April or later will similarly enter the one-year improvement period if they fail to meet the criteria on their fiscal year-end.

According to research by a major life insurance company, as of late March, approximately 200 companies listed on the Prime and Standard markets have not met the continued listing criteria. Of these, 55 are listed on the Prime market, a number that has sharply decreased by about 80% since the market reorganization three years ago. In the Standard market, 140 companies fail to meet the criteria, representing a roughly 30% reduction compared to three years ago. TSE has launched a dedicated section on its website, where it will provide updates on companies entering improvement periods, as well as future schedules. The exchange is calling on companies entering improvement periods to thoroughly explain their plans for meeting criteria and their potential delisting risks to shareholders and investors during AGMs and IR briefings.

The Prime market's continued listing criteria require that the market capitalization of tradable shares be at least JPY 10 billion and the ratio of tradable shares be 35% or higher. Previously, the First Section's

Information contained in this announcement is believed to be from reliable sources and is intended only for the use of individual or entity to which it is addressed and is strictly for information purposes as it may contain information that is privileged, confidential and exempt from disclosure under applicable law and inherently subject to change. If you are not the intended recipient, you are hereby notified that any use, distribution, re-transmission, re-publication or copying is strictly prohibited and may be illegal under applicable law. While due care has been exercised in preparing this announcement, we make no warranty, expressed or implied, regarding the accuracy, completeness or usefulness of this information, and we assume no liability with respect to consequences relying on this information for investment or any other purposes.

standards were JPY 500 million and 5%, respectively. Among the 55 companies currently failing to meet the criteria, around 10 have not met the tradable share ratio requirement, while the majority fall short of the market capitalization standard. While the tradable share ratio can be relatively easily addressed through measures such as share buybacks, meeting the market capitalization requirement is considered significantly more challenging.

According to a researcher at a major securities firm, "It is not easy for companies entering improvement periods to boost their share prices within a year, and we may see an increase in MBOs or listings on other exchanges." Companies that cannot meet the criteria to remain listed on the Prime Market may consider re-listing on the Standard Market. Meanwhile, companies that fail to meet the listing criteria of the Standard Market have no transfer options within the TSE and may consider listing on regional exchanges such as the Nagoya Stock Exchange. TSE conducted a follow-up investigation on companies that did not meet its continued listing criteria as of the end of 2023. The study revealed that 20 companies went private through MBOs, while 17 pursued dual listings on other markets. Additionally, 38 companies currently listed on the Prime Market consulted with the exchange about switching to the Standard Market, with one company actually making the switch.

The research institute of the aforementioned life insurance company observes, "The market capitalization of these below-standard companies is relatively small and unlikely to significantly impact stock indices. However, their exit could make the Japanese stock market more attractive to investors." Three years after the market restructuring, the process of refining the pool of listed companies is set to intensify.

Compiled from Nikkei Shimbun and Mizuho research.

More details about this article are available from below TSE website:
<https://www.jpx.co.jp/english/equities/follow-up/04.html>

3. Reforming the Growth market

On April 22, the Tokyo Stock Exchange (TSE) convened a council of experts concerning the follow-up of market restructuring and announced changes to the continued listing criteria for its Growth Market, which caters to emerging companies. Under the revised criteria, firms must achieve a market capitalization of

JPY 10 billion within five years of listing. This is a significant change from the current requirement of JPY 4 billion within ten years. The revise was made following feedback from institutional investors who view JPY 10 billion as the minimum threshold for potential investment. The new criteria will be implemented starting in 2030 and will apply to companies that have been listed for five years or more by that time. Currently, approximately 70% of the 600 companies listed on the Growth Market fall short of the JPY 10 billion market capitalization threshold. To allow these companies ample time to adjust, the implementation date has been scheduled for 2030. TSE plans to conduct a public consultation before finalizing the new rules.

Representatives of companies listed on the Growth Market have voiced concerns over the new rules, with some stating that the increased pressure might lead them to reconsider the value of remaining listed. Others have expressed doubts about their ability to meet the new standards and suggested that they might need to explore alternatives, such as merging with larger firms.

In April 2022, TSE restructured its market segments to enhance the appeal of the Japanese stock market to overseas investors. Beginning in March 2023, the TSE requested listed companies to adopt management practices that consider the cost of capital and stock prices, resulting in some success among firms in the Prime Market. However, companies in the Growth Market were not included in this request, causing their reforms to lag behind.

One of the major issues with the Growth Market is that many startups fail to reach a sustainable growth trajectory and struggle to secure new funding. According to TSE, 45% of companies listed on emerging markets between July 2004 and December 2024 had market capitalizations below their initial listing value.

In 2023, the average market capitalization of IPOs on the Growth Market was roughly JPY 15 billion (approx. USD 0.1 billion), significantly lower than the US average of JPY 320 billion (approx. USD 2.2 billion). Companies with smaller market capitalizations tend to draw less interest from major institutional investors. In a preliminary survey conducted by TSE, one institutional investor remarked, "There are no promising

Information contained in this announcement is believed to be from reliable sources and is intended only for the use of individual or entity to which it is addressed and is strictly for information purposes as it may contain information that is privileged, confidential and exempt from disclosure under applicable law and inherently subject to change. If you are not the intended recipient, you are hereby notified that any use, distribution, re-transmission, re-publication or copying is strictly prohibited and may be illegal under applicable law. While due care has been exercised in preparing this announcement, we make no warranty, expressed or implied, regarding the accuracy, completeness or usefulness of this information, and we assume no liability with respect to consequences relying on this information for investment or any other purposes.

companies among those that go public with a market capitalization of just around JPY 10 billion.” An underwriting securities firm for IPOs also emphasized, “To ensure sufficient liquidity and attract institutional investors, we believe that a minimum market capitalization of JPY 30 billion is necessary. Companies need to understand that the JPY 10 billion threshold is merely the baseline, and there are even higher standards required to secure high-quality equity financing from institutional investors.”

TSE has now requested Growth Market companies for “Action to Achieve Management that Strives for High Growth”. The companies are asked to analyze and evaluate their growth post-listing using quantitative metrics and to disclose their growth targets and strategies to investors. TSE plans to support companies by sharing best practices and facilitating connections with institutional investors.

For companies affected by the new criteria, TSE will ensure they can transition to the Standard Market, where the continued listing criteria require a market capitalization of JPY 1 billion or more for tradable shares. Some companies currently listed on the Growth Market will meet these requirements.

In April 2022, TSE designated the Growth Market as a platform for companies with high growth potential. However, the current reality does not align with this vision. Reforming the Growth Market is crucial to TSE’s whole market restructuring strategy. Having made significant progress in the Prime Market, TSE is now focusing on addressing the lingering issues in the Growth Market.

Nonetheless, achieving TSE’s vision for the Growth Market will require collective efforts extending beyond the exchange itself. To support funding for pre-listing companies, enhancing the liquidity of unlisted stocks and encouraging bank lending to startups are crucial. Furthermore, Japan needs more investors capable of advancing the seed capital provided by venture capital (VC) investments in early-stage companies to foster further growth.

Over the next five years, it will be imperative for the TSE, the government, financial institutions, and companies to collaborate in building an ecosystem that promotes growth.

Compiled from Nikkei Shimbun and Mizuho Research

Detailed information about the future measures in the Growth market is available from the below website:

<https://www.jpx.co.jp/english/equities/follow-up/b5b4pj000004yqcc-att/sicobq0000016yi7.pdf>

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Apr-04	GROWTH POWER CO.,LTD.	JP3274440001	P
Apr-18	Now Village Co.,Ltd.	JP3641380005	P
Apr-18	AXIS IT Partners Corp.	JP3108260005	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

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>

Information contained in this announcement is believed to be from reliable sources and is intended only for the use of individual or entity to which it is addressed and is strictly for information purposes as it may contain information that is privileged, confidential and exempt from disclosure under applicable law and inherently subject to change. If you are not the intended recipient, you are hereby notified that any use, distribution, re-transmission, re-publication or copying is strictly prohibited and may be illegal under applicable law. While due care has been exercised in preparing this announcement, we make no warranty, expressed or implied, regarding the accuracy, completeness or usefulness of this information, and we assume no liability with respect to consequences relying on this information for investment or any other purposes.