

Mizuho Custody Newsletter

February 2025 | Japan

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I. Market News

1. Who owns my shares?

The government is making it easier for companies to identify "beneficial shareholders," those who effectively have voting rights behind the nominal shareholders listed in shareholder registries. In January, the Ministry of Economy, Trade and Industry released a report titled "The Report on Corporate Governance Study Group for Strengthening 'Earning Power' and Amendments to the Companies Act," which includes a proposal to establish a disclosure request system. This system would allow companies to obtain information about beneficial shareholders who, despite not being listed in the shareholder registry, exercise voting rights. Discussions on this amendment proposal began on February 10 in a council hosted by the Ministry of Justice.

Listed companies, prompted by requests from the Tokyo Stock Exchange to implement management that is conscious of cost of capital and stock prices, are working to unwind cross-shareholdings to improve capital efficiency. As a result, the composition of shareholders has become increasingly complex, leading companies to intensify their efforts to accurately identify their beneficial owners. This drive is largely motivated by the need to address the growing presence of activist investors and to prepare for unsolicited takeover bids (TOBs) from both domestic

and foreign companies.

Although methods to identify beneficial shareholders have existed, none have met the accuracy levels companies require. The large shareholding reporting system mandates information disclosure for shareholders holding over 5%, but it fails to capture beneficial shareholders holding less than 5% and often faces reporting delays. Additionally, shareholder identification surveys conducted by trust banks at the request of companies can be costly and do not always provide a complete picture of shareholders.

Before the move to amend the Companies Act, Japan's Financial Services Agency (FSA) had been working on revising the Stewardship Code (SS Code) through an expert panel on the subject. The panel has been considering adding guidelines to the Code, stating that "institutional investors should disclose to the companies in which they invest the extent of their shareholdings upon request to facilitate constructive dialogue." This directive would apply to institutional investors, who are often the beneficial owners that companies are keen to identify. However, beneficial owners encompass a wide range of entities, including foreign investors, not all of whom adhere to the SS Code. Given the inherent limitations of the SS Code as a "soft law" without binding legal obligations, it has become necessary to review the Companies Act framework moving forward.

Western countries have been ahead in establishing rules for identifying beneficial shareholders. In the United States, institutional investors with assets above a certain threshold must report their holdings and share quantities to the Securities and Exchange Commission (SEC), with the data publicly available on the SEC's website. Failure to report can result in civil penalties.

In the United Kingdom, companies can require nominal shareholders to disclose information about beneficial shareholders, and the responses must be reflected in the shareholder registry. Non-compliant shareholders may have their voting rights suspended as stipulated in the company's articles of association. While Japan's direction in amending the Companies Act resembles

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the UK's approach, careful consideration is needed to ensure these mandates do not hinder smooth trading in the securities market.

Compiled from Nikkei Shimbun and Mizuho research.

The report published by the Ministry of Economy, Trade and Industry is available from the below website (Japanese only):

https://www.meti.go.jp/shingikai/economy/earning_power/20250117_report.html

2. Japan Inc. Faces Foreign Pressure

In Japan, where many companies end their fiscal year in March, June is the month when AGMs concentrate. At the AGMs in June 2024, a record-high 133 companies received shareholder proposals, with nearly half (61) submitted by institutional investors such as activist investors, maintaining a high level similar to the previous year's 60. This trend was driven by some activist investors who made multiple shareholder proposals to various companies. The activity of activist investors is expected to remain robust for the AGMs in June 2025.

There has also been an increase in shareholder proposals to companies that close their fiscal year in December. On February 13, four companies opposed the proposals they received. These proposals, from activist investors, included demands for increased dividends and share buybacks.

One of the four companies, a major confectionery manufacturer, was urged by a French fund, through a U.S.-based activist fund, to buy back JPY 27 billion (approximately 180 million) of its own shares within a year. The French fund argued that the company's high net assets and low return on equity (ROE) justified the need for capital efficiency improvements through enhanced returns. The confectionery company opposed the proposal, as the requested buyback amount was far larger than its consolidated net profit of JPY 8.1 billion (approximately 54 million) for the fiscal year ending December 2024.

Another company, a stationery manufacturer, received proposals from a British investment fund for share buybacks and the expansion of outside directors. It opposed these proposals, citing that they already have both a nomination and compensation committee. Other companies were similarly asked for share buybacks and increased dividends but also opposed

these proposals.

A major domestic think tank analyzed 332 shareholder proposals at the June 2024 AGMs. Overall, shareholder proposals related to shareholder returns and financial capital policies accounted for about 30% of the total. However, when focusing solely on the 123 proposals from activist investors, this proportion increased to nearly 60% (33% for shareholder returns and 22% for financial capital policies). Proposals on shareholder returns mainly sought dividend increases and share buybacks. Proposals on financial capital policies mainly called for unwinding cross-held shares and disclosing plans on managing the company with an awareness of capital costs and stock prices, as requested by the Tokyo Stock Exchange.

In recent years, not only have activist investor activities increased, but unsolicited takeover proposals by business firms have also become more noticeable. In August 2023, the Ministry of Economy, Trade and Industry published "Guidelines for Corporate Acquisitions," which stipulate that "sincere proposals" must be "sincerely considered." Subsequently, in 2024, notable cases emerged, such as a major foreign retail company making an acquisition proposal to a domestic retail company and a major domestic electronics equipment manufacturer announcing a tender offer without prior consultation to a machine tool manufacturer.

The aforementioned domestic think tank pointed out that the presence of activist investors increases the risk of unsolicited takeovers. Activist investors typically target undervalued companies whose market prices trade below their intrinsic value (less than one times price-to-book ratio or net asset value). For listed companies, having activist investors on their shareholder list is akin to a "canary in a coal mine." The domestic retail company and the machine tool manufacturer both had activist investors among their top shareholders.

To address these risks, the think tank recommends two main strategies for listed companies: (1) continuous enhancement of corporate value (ensuring a price-to-book ratio above one and expanding scale to avoid takeover risks) and (2) considering voluntary delisting. Enhancing corporate value requires revising financial capital policies and business portfolios to boost market value continuously. Regarding delisting, if a company

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cannot sufficiently enhance its value independently, it may need to leverage external expertise, such as that from friendly acquirers or private equity funds. The think tank warns that it would be too late to start considering delisting after receiving a takeover proposal from activists or industry peers, as share prices might already be too high due to delisting expectations, making it difficult to find suitable sponsors. Therefore, it stresses the importance of considering this well in advance.

The growing activities of activist investors and unsolicited takeovers in recent years are accelerating the "survival of the fittest" in the stock market, pushing listed companies towards higher ROEs and PBRs, and advancing the reallocation of resources. In Japan, being a "listed company" has long been seen as beneficial for branding, with little attention paid to the downsides. Listed companies are now required to reassess their ideals and whether listing aligns with their goals. They must re-evaluate the significance of being listed and the responsibilities that come with it.

Compiled from Nikkei Shimbun and Mizuho research.

3. MOF propose amendments for FEFTA

On February 10th, the Ministry of Finance (MOF) began accepting public comments on its website regarding proposed amendments to the Foreign Exchange and Foreign Trade Act (FEFTA) concerning inward direct investment. The principal of FEFTA is to uphold freedom of foreign transaction with minimal intervention, ensuring that sound investments from abroad are not hindered. On the other hand, it seeks to prevent the outflow of technologies related to national security. To this end, FEFTA requires foreign investors to submit Prior-notification for Stock Purchases (PN-SP) for certain investments in Japanese companies, which are then reviewed from the perspective of national security. Specifically, it mandates foreign investors to submit a PN-SP for review by relevant authorities when acquiring 1% or more of the shares in listed companies classified under "designated business sectors" vital to national security, such as weapons, aircraft, and nuclear power, or a single share in unlisted companies.

Under the FEFTA, there are rules in place to exempt certain investors from this PN-SP in order to avoid hindering sound investments. Investors are

exempted from this requirement if they meet specific criteria, such as not being involved in the management of the companies they invest in. Foreign financial institutions can generally take advantage of this exemption. Additionally, general investors and certified sovereign wealth funds are exempt from PN-SP when investing in sectors that are not classified as "core industries" crucial to national security among the "designated industries." (Investments in core industries are also exempted if the investment stake is below 10% and the investor does not participate in management, subject to certain conditions.)

The proposed amendment introduces a new classification of investors: "Designated Foreign Investors (Type A)," who are obligated to cooperate with foreign governments in intelligence gathering, and a corresponding group, "Type B." This amendment mandates that all such investors submit prior notification without exception. While foreign governments and state-owned enterprises have already been required to submit prior notifications, the newly defined Type A investors will now be included under this mandate. Type B investors, though not formally meeting the criteria for Type A, are those effectively controlled by a Type A investor in terms of decision-making.

Furthermore, the amendment introduces a new category within the "core industries" known as "Designated Core Business Operators," which includes critical infrastructure sectors such as power transmission and railway services. The proposal stipulates that Type B investors must submit prior notifications when acquiring 1% or more of the shares in these designated core businesses.

The exemption rules for PN-SP of inward direct investment are designed to prevent excessive restrictions on investments in Japan. However, concerns have been raised that the current system may be inadequate in preventing information leaks. As dual-use technologies—those applicable to both military and civilian purposes—become more prevalent, the importance of safeguarding against corporate information leaks has increased. Conversely, Japan's inward direct investment balance remains the lowest among OECD countries. While it is essential to impose necessary regulations for national security, it is also crucial to promote investments that attract foreign capital and talent,

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fostering the growth of the Japanese economy. The government is soliciting public comments on the proposed amendments to the Foreign Exchange and Foreign Trade Act (FEFTA) on its website until March 11.

Compiled from Nikkei Shimbun and Mizuho research

The English version of the gist of the proposal is available from the below Ministry of Finance's website:

https://www.mof.go.jp/policy/international_policy/gaitame_kawase/press_release/relateddocument_20250210_2.pdf

The details about the public consultation can be found from below:

<https://public-comment.e->

gov.go.jp/pcm/download?seqNo=0000287094

II. New Equities Listing Approvals

| Listing Date | Name of Company | ISIN Code | MKT |
|--------------|----------------------------------|--------------|-----|
| Jan-31 | Human Stage Holdings Corporation | JP3794440002 | P |
| Jan-31 | SMS Data Tech Corporation | JP3162360006 | P |
| Feb-05 | HIMEJI RIKI CO.,LTD. | JP3793700000 | P |
| Feb-13 | D&I,Inc. | JP3548470008 | P |
| Feb-28 | TENTIAL Inc. | JP3547500003 | G |
| Mar-03 | aero lab international Inc. | JP3161060003 | P |
| Mar-18 | TalentX Inc. | JP3472120009 | G |
| Mar-19 | JX Advanced Metals Corporation | JP3379550001 | PR |
| Mar-19 | Medix Inc. | JP3921370007 | S |
| Mar-21 | MEEQ Inc. | JP3880100007 | G |
| Mar-24 | Mirairo Inc. | JP3910640006 | G |
| Mar-25 | Visual Processing Japan Co.,Ltd. | JP3800240008 | G |
| Mar-27 | Dynamic Map Platform Co.,Ltd. | JP3491920009 | 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>

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