Mizuho Custody Newsletter

December 2022 | Japan

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I. Market News

1. A survey result on whether to send convocation notices of AGMs in paper due to the revised Companies Act

Under the revised Companies Act, which came into effect in this September, companies are required to present a convocation notice of the AGMs on their website at least 3 weeks prior to the AGM after 1 March 2023. Mailing of printed convocation notice, which was previously required, is no longer necessary in principle, but a notice with the website's URL address must be sent.

However, about 50% of the companies will continue to mail out the printed convocation notices, according to a survey conducted by a trust bank acting as a transfer agent, and only about 10% of the companies will switch to providing the URL of the website where the convocation notice is presented. The aim of the digitalization is to give more time for investors to analyze proposals, but the result of the survey reflects strong demand from individual investors to receive those documents in paper form, reports Nikkei Shimbun, Japan's leading financial daily.

A trust bank conducted the survey in July and August from 327 companies that provides stock transfer agency services to. 49% of them responded that they would mail the documents as before, and 12% of them responded to send the notification only on their URL.

A utility company will post the convocation notice of the AGM on its website, but also will continue to mail printed documents for the time being. Some companies will send a summary of their financial results and agenda items in paper.

An internet service company plans to post their convocation notice of the AGM on its website in principle, and will charge JPY 1,000 for mailing printed version.

The majority of the amendments to the Companies Act (revised Companies Act), which was enacted on 4 April 2019 and promulgated on the 11th of the same month, have been in effect since 1 March 2021. But the implementation of an electronic provision system for shareholders meeting materials, which had not been enforced, took effect on 1 September 2022.

Companies that issue shares in book-entry form, such as listed companies, are required to use the electronic provision system, and these companies will start using the system from the AGM that takes place on 1 March 2023 or after.

For the details of the revised Companies Act which became effective in this September, please visit the material in Japanese only prepared by the Ministry of Justice from the following URL:
https://www.moj.go.jp/content/001370229.pdf

Information compiled from Ministry of Justice, Nikkei Shimbun & Mizuho research

2. Abolishing statutoty quarterly securities reports (Shihanki Hokokusho) and maintaining

disclosure of earnings report (Kessan Tanshin) based on the Exchange's rule

On 15 December, the Financial System Council, an advisory body to the Prime Minister, published a revised proposal of the quarterly disclosures requirement of financial results. In order to abolish the mandatory submission of quarterly securities reports (Shihanki Hokokusho) to the government, a bill to amend the Financial Instruments and Exchange Act is expected to be submitted to the 2023 ordinary session of the Diet, reports Nikkei Shimbun, Japan's leading financial daily.

Listed companies are still required to publish their first and third-quarter financial results in the earnings report (Kessan Tanshin) based on the exchange's rules, but there were pros and cons to the proposal to make such reporting voluntary in the future and this issue was carried over to further discussion.

The Prime Minister Fumio Kishida's policy speech in October 2021 prompted the debate as to whether the quarterly disclosure should be reviewed. There were fierce discussion over whether or not to abolish the statutory disclosure, but the issue was settled tentatively by "abolishing the statutory disclosure" and "maintaining the disclosure of the earnings report (Kessan Tanshin)". A formal report on this subject will be submitted to the government by the end of the year.

Opinions were divided over whether to abolish the requirement to file earnings reports (Kessan Tanshin) in the future. In its draft report, the Financial Services Agency ("FSA") said it would make it uniformly mandatory for now, but implied it could become optional in the future. In its draft as of November, FSA said it would continue to consider when to make the filing optional as a "way to go," but it watered it down to "continue to consider it from a broader perspective".

At the Council held on 15 December, an officer of a leading asset management firm said, "In light of the current disclosure stance of Japanese companies in general, it appears to be extremely difficult to make it optional," and many attendants supported this opinion.

In the Disclosure Working Group Report published in June 2022, the Working Group on Corporate Disclosure of the Financial System Council ("Working Group") outlined measures to enhance the disclosure of non-financial information as well as measures to revise quarterly disclosure, with the aim of building a capital market that leads to an increase in corporate value over the medium- to long-term. The report suggested a direction to abolish the use of quarterly securities reports (Shihanki Hokokusho) under the Financial Instruments and Exchange Act (the 1st quarter and the 3rd quarter) in order to integrate quarterly disclosure into the quarterly earnings reports (Kessan Tanshin) of the exchanges. However, the Working Group decided to continue discussion on the issues to materialize.

For details of the draft report (available in Japanese only) discussed at the Working Group on Corporate Disclosure of the Financial System Council on 15 December, please visit the following URL:
https://www.fsa.go.jp/singi/singi_kinyu/disclose_wg/siryou/20221215/01.pdf

Information compiled from Financial Services Agency, Nikkei Shimbun & Mizuho research

3. The system which considers human resources as capital of a company have been finalized

Financial Services Agency ("FSA") has finalized details of mandatory disclosure on "human capital" which considers human resources as capital of a company. 4,000 major companies that issue securities reports (Yukashoken Hokokusho) will be required to state information such as amount of investment in human resources and employee satisfaction, in their securities reports for the fiscal year ending March 2023 and thereafter. Companies with fiscal year end in March, which make up most of the listed companies, would have to deal with it quickly, reports Nikkei Shimbun, Japan's leading financial daily.

Human capital refers to human resources, knowledge, skills, and motivation they possess. In recent years, there has been a growing trend, particularly in Western countries, to view employees not as costs but as "value-adding capital," and to look for the intrinsic value of a company that cannot be measured solely by financial information.

Japan spends less on employee development as a percentage of its GDP than Western countries. The Prime Minister Fumio Kishida's administration has made investment in human resources a pillar of its "new capitalism," and has indicated a policy to require companies to disclose information in order to accelerate investment.

Under the outline of the system finalized this time, companies that publish securities report after the fiscal year end in March 2023 are subject to the mandatory disclosure. Companies with fiscal year end in March will need to prepare disclosure on human capital for the current fiscal year.

An official of a listed company said, "It is burdensome for us to describe non-financial information in writing, as we are not used to it," and expressed concern about the early introduction of such requirement. In light of such opinions, FSA has made the disclosure mandatory on the items that appear relatively easy to disclose.

As a first point, a new column was added to describe sustainability information in the report. It seeks clarification of human capital strategies, indicators and targets. To begin with, companies are required to establish human resource development policies linked to business strategies and internal environment improvement policies related to creating a pleasant workplace.

Numerical indicators and targets will also be set on how well these things are realized. For example, employee satisfaction, retention and turnover rates, and investment in human resources will be used as indicators, and target level will also be set. It will be up to each company about what specific indicators to use and at what level to set the targets.

The second point is indicators to measure diversity of human resources. It calls for disclosure of three new indicators: the ratio of female managers, the ratio of male employees taking parental leave, and gender wage gap. Companies of a certain size are required to disclose these information under laws such as the Act on the Promotion of Women's Active Engagement in Professional Life, and companies that do so are required to include such information in their securities reports.

In Japan, lack of female managers and gender wage gap are often pointed out as an issue. A study by OECD found that Japan has the third-largest gender wage gap among its 37 member countries.

FSA encourages companies to endeavor for fair treatment and creation of comfortable working environment. In disclosing gender wage gap, the ratio of women’s salary to that of men's shall be used as the indicator, not the actual amount of salary. It will be disclosed by category of all employees, regular employees and non-regular employees.

Securities reports are one of the statutory disclosures under the Financial Instruments and Exchange Act, which are subject to penalties for making false statements. Statements on human capital in future will not be uniformly challenged as false statements, even if the actual results differ from those stated. The government will take care not to discourage companies to disclose information due to concerns about being held accountable for making false statements.

FSA expects companies to understand their issues through disclosure and to invest actively in people and working environments.

If investment in human resources improves corporate value and contributes to develop business performance, it would lead to a virtuous cycle to attract further investment.

An increasing number of companies are voluntarily disclosing information, but the mandatory inclusion of such information in the securities reports will make it easier for investors to compare their efforts among the companies. If companies that value human capital could attract more investment and human resources, companies that have viewed employees as a cost will also be led to change their mindset.

The Report published by the Working Group on Corporate Disclosure of the Financial System Council in this June recommended that the system should be developed to facilitate disclosure on corporate initiatives related to sustainability and disclosure on corporate governance. Based on the recommendation, FSA has compiled an amended draft to the Cabinet Office Order on Disclosure of Corporate Affairs, and has announced that the amendments will be applicable to some items in the securities reports and securities registration statements.

FSA has conducted a public consultation to introduce this disclosure system until 7 December 2022. For the details of this announcement, please refer to the following FSA's website in Japanese only: https://www.fsa.go.jp/news/r4/sonota/20221107/20221107.html

Information compiled from Financial Services Agency, Nikkei Shimbun & Mizuho research

4. The government begin to coordinate the introduction of carbon pricing in earnest in 2030s

On 29 November, the government began to coordinate the introduction of carbon pricing in earnest in the 2030s, which charges for carbon dioxide (CO_2) emissions. It will collect money from the electric power companies that maintain high-emitting thermal power plants and oil distributors that import fossil fuels, and will use the money as a source to financially support companies tackling decarbonization, reports Nikkei Shimbun, Japan's leading financial daily.

At the fourth Green Transformation ("GX") implementation council held by the government on 29 November, the Ministry of Economy, Trade and Industry ("METI") reported the direction of the system, which was accepted.

The government has set a goal of net-zero domestic emissions by 2050. To achieve this goal, it is estimated that both the government and private sector would need to invest more than JPY 150 trillion in decarbonization over the next 10 years. Of that amount, about JPY 20 trillion will be raised through the issuance of new government bonds, tentatively called GX transition bonds, as prior financial support for companies' investment. It aims to issue the new bonds in the next fiscal year.

It will secure funds for redemption through carbon pricing. Prime Minister Fumio Kishida instructed in the implementation council on 29 November to present details of carbon pricing and GX bonds at the next council in December.

Carbon pricing encourages companies to decarbonize by charging for CO_2 emissions. Emissions trading and carbon taxes are two mainstreams in the world. It sets emission caps for each industry, and prompts companies to trade the excess in the market or impose taxes on companies that emit CO_2. That would lead companies try hard to reduce emissions to lessen the burden.

Japan also has both of the items, but its emissions trading is still in the pilot stage and its carbon tax is not working properly because the tax burden is very low. For this reason, an introduction of a levy system similar to the carbon tax is considered in the new proposal.

The framework of carbon pricing will demand companies to pay for emissions they generate when consuming fossil fuels. Targets will be electric power companies, gas companies, oil wholesalers and trading companies that import fossil fuels. The introduction of carbon pricing aims to prompt these companies to import less fossil fuels. Costs incurred in this framework could be passed on to consumers in the form of higher gas bills in the future.

The Tax System Research Council that consist of ruling coalition takes initiative in reviewing and instituting Japan's taxation every year. Some tax experts view that it is much easier to charge companies in the form of a levy than implementing a new tax. The ratio of the burdens is supposed to be reviewed annually. Full introduction of carbon tax will be postponed this time because it is necessary to change the relevant laws to change the tax rate, which is time consuming.

Japan imposes a tax of JPY 289 per ton of CO_2 emissions to combat global warming, a type of carbon tax, on top of the oil and coal tax that are paid by fossil fuels importers. In Europe, it sometimes exceed JPY 10,000 equivalent.

Along with levies, the government intends to make emissions trading one of the pillars of carbon pricing. Unlike Europe, Japan's emissions trading system does not require any public institutions to set emission limits for each company, leaving it up to companies as to whether they would join the emission trades. METI will gradually tighten regulations from the fiscal year 2026. METI plans to make the system mandatory for the electric power companies to buy their own CO_2 emission allowances from fiscal year 2031 onward.

The government is studying to establish a system in which new burden caused by carbon pricing would not harm the economy. Therefore, it intends to fully introduce carbon pricing when the burden of the oil and coal tax and the renewable energy levy, paid by companies and households, to fund the spread of renewable energy will decrease.

Oil and coal taxes could possibly start falling in the 2020s. Renewable energy levies are expected to start falling around 2032. Given these prospects, carbon pricing may be introduced in the 2020s, but full-scale introduction will be in the 2030s.

For the Japanese material “Materialization of Policy Initiatives to Realize GX” (the “Initiative”) used in the fourth GX implementation council held on 29 November, please visit the following URL of the Cabinet Secretariat: https://www.cas.go.jp/jp/seisaku/gx_jikkou_kaigi/dai4/siryou1.pdf

Based on the instructions from the Prime Minister at the council held on 26 October, the Joint Meeting for the Review of the Clean Energy Strategy held by METI led the discussion and examination of the Initiative. The fourth GX implementation council held discussed on the topics raised based on these discussions and examination on 29 November 2022.

Information compiled from Cabinet Secretariat, Ministry of Economy, Trade and Industry, Nikkei Shimbun & Mizuho research

New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Jan-26	TECHNOLOGIES	JP3545290003	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

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