

Mizuho Custody Newsletter

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I. Market News

1. Disclosing use of cash and capital

A drive by the Tokyo Stock Exchange (TSE) started in 2023 to prod listed firms to focus more keenly on capital costs and share price performance has triggered a wave of Japanese companies unveiling detailed plans for future capital deployment. Investors are paying close attention, betting that greater transparency over how earnings will be allocated could fuel sustained share price appreciation in the medium to long term.

According to a leading domestic research firm, the number of companies disclosing cash or capital allocation policies—via financial statements or business plans—hit 309 between January and July 2025, double the figure from the same period a year earlier and the highest since records began in 2019. Firms actively engaging with the market are increasingly finding favor among foreign investors, and management teams are waking up to the merits of a shareholder-centric approach.

Typically, companies funnel cash raised from operations or financing into growth initiatives—such as capital expenditures, mergers and acquisitions, and research and development—as well as shareholder returns through dividends and share buybacks. The specifics of these so-called “cash allocation” or “capital

allocation” policies are emerging as crucial factors in investor decision-making and are attracting heightened interest.

In June, the Financial Services Agency announced an “action program” designed to foster dialogue between companies and investors, aimed at promoting sustainable growth and bolstering corporate value. With revisions to the Corporate Governance Code looming, regulators are expected to urge companies to spell out more clearly how they deploy management resources, including cash holdings.

As scrutiny intensifies over capital allocation, a researcher at a domestic think tank note, “This is creating an entry point for meaningful dialogue between companies and investors.” As investor pressure mounts and Corporate Governance Code updates are folded into listing requirements, disclosure of capital allocation policies is set to become increasingly de rigueur.

A disconnect persists between companies and investors over just how much cash firms should retain for financial stability. A survey published by the Life Insurance Association in April found that only 30% of companies deemed their cash reserves comfortable, compared with 82% of institutional investors.

Cash holdings at listed firms have soared to an unprecedented JPY 110 trillion (approx. USD 700 billion) as of year-end, leaving investors eager to see how companies intend to put these funds to work. Some asset managers are now incorporating efficient use of cash into their proxy voting guidelines. One major domestic investment house says it will vote against CEO appointments at companies with hefty cash reserves if management fails to clarify its plans for deploying those funds.

While shareholder returns remain in the spotlight, enduring gains in corporate value hinge on robust growth investment. An equity strategist at an international brokerage observes, “Shareholder returns are now largely priced in. Whether companies can step up their growth investments will be the critical

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driver for future share price gains.”

Compiled from Nikkei Shimbun and Mizuho research.

2. Who will buy the JGBs?

Since August 2024, the Bank of Japan (BOJ) has begun scaling back its purchases of Japanese government bonds (JGBs), resulting in a JPY 9 trillion (approx. USD 57.3 billion) reduction in its face-value holdings during the current fiscal year. With a wave of redemptions scheduled in the coming years, the BOJ's bond portfolio is expected to shrink by approximately JPY 40 trillion (approx. USD 254.8 billion) in both fiscal 2025 and 2026, marking the start of a significant downsizing. Assuming the volume of new JGB issuance remains unchanged, the amount of JGBs that must be absorbed by the private sector—excluding redemptions—will soar to an estimated JPY 100 trillion (approx. USD 636.9 billion) by fiscal 2026, according to a former director at the Ministry of Finance (MOF), who spoke in a recent interview with Nikkei Shimbun, Japan's leading financial daily.

As the supply-demand balance for JGBs begins to shift, the market has experienced periods of anxiety over the prospect of rising yields. This nervousness eased somewhat after the Government Pension Investment Fund (GPIF) stepped in as an active buyer, offering reassurance at a time when major domestic investors—including banks and life insurers—have been curtailing their purchases. Nevertheless, whether GPIF can continue to play this stabilizing role remains uncertain.

Attention is now turning to foreign investors and households as potential successors to the BOJ as primary buyers of JGBs. At the Government Borrowers Forum 2025, hosted by Ireland's National Treasury Management Agency in Dublin this June, the MOF emphasized the need to diversify the investor base beyond the BOJ. Since late last year, foreign investors have become increasingly prominent in the JGB market. According to MOF statistics released at the end of March, foreign investors now hold 11.6% of total JGBs and an impressive 55% of short-term issues.

Households, meanwhile, account for just 1.3% of total JGB holdings as of the end of March. However, the “from savings to investment” movement is gaining

traction among the Japanese public, with younger generations showing growing enthusiasm for investing. Equities remain the preferred asset, and bonds comprise only 0.7% of household financial assets—a modest share compared to international standards. With household financial assets exceeding JPY 2,000 trillion (approx. USD 12.74 trillion), the former MOF director estimates that if bond allocations rise to 5%—roughly the U.S. level—Japanese households could collectively hold JPY 100 trillion (approx. USD 636.9 billion) in JGBs.

Japan offers JGBs specifically tailored to retail investors, known as “JGBs for retail investors,” which can be purchased in units as small as JPY 10,000 (approx. USD 63.7). The government guarantees both the principal and a minimum annual interest rate of 0.05%. These bonds can be redeemed after one year, making them more accessible than standard JGBs.

At a debt management policy meeting on May 8, the MOF announced plans to broaden the scope of eligible buyers for JGBs for retail investors starting in January 2027. In addition to small, unlisted companies, non-profit institutions such as schools will be able to invest. However, banks, listed companies, non-residents, and the central bank will remain excluded. Among prospective large-scale buyers, the MOF is pinning its hopes on condominium management associations. “While unlisted companies have larger pools of capital, we're hearing strong demand from condo associations,” a MOF official remarked.

According to the Condominium Management Companies Association, there are at least 105,100 management associations nationwide in Japan as of April 1, 2024. These groups use funds collected from residents for maintaining and repairing condominium buildings. A government survey for fiscal 2023 found that associations hold average reserve funds of JPY 115.21 million. With rising labor and material costs, many associations are facing concerns about funding shortfalls. Robust reserves are crucial to avoid mismanagement, but few are willing to take risks with the funds entrusted to them by residents, and the money often remains parked in ordinary bank accounts earning minimal interest.

As Japan considers its fiscal future, diversifying the investor base will be key to stable bond absorption. In

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this context, not only foreign investors but also household retail investors are emerging as important players to watch.

Compiled from Nikkei Shimbun and Mizuho research.

MOF issues a monthly newsletter for foreign investors which is available from below website:

<https://www.mof.go.jp/english/policy/jgbs/publication/newsletter/index.htm>

3. JPY stablecoin

Stablecoins, much like other crypto assets, rely on blockchain—a form of distributed ledger technology—and are designed to maintain a one-to-one peg with fiat currencies such as the US dollar. The global stablecoin market has surged past \$250 billion, with dollar-linked tokens at the heart of this expansion.

In July, the United States enacted the GENIUS Act, a landmark bill that aims to bolster trust in stablecoins by introducing regulatory frameworks governing issuance and management. These new rules have paved the way for financial institutions and corporates to utilize these stablecoins. In Asia, Hong Kong followed suit in August, implementing its own stablecoin ordinance to facilitate the issuance of tokens pegged to the Chinese yuan.

Currently, US dollar-based stablecoins dominate the sector, with Tether's USDT and Circle's USDC firmly entrenched as the two leading players. A major US financial group project the stablecoin market could balloon to as much as \$3.7 trillion by 2030—a more than tenfold increase from current levels.

On August 18, a Japanese fintech firm JPYC, based in Tokyo, secured approval from the Financial Services Agency as a licensed funds transfer operator and will become the country's first registered issuer of a yen-pegged stablecoin. In Japan the Payment Services Act was revised in June 2023 and stablecoins were defined as "currency-denominated assets," separate from virtual currencies. The new rule allowed banks, trust banks, and funds transfer operators to issue them. After more than 2 years of preparations, domestic issuance is finally coming to fruition.

"We finally have our first issuer. I want to encourage more local firms to enter so Japan doesn't fall behind global trends," said a senior FSA official, expressing

anticipation for stablecoin launches by Japanese companies. Regulators hope stablecoins will also facilitate the overseas expansion of Japanese industries, notably in gaming and content, where the country enjoys a competitive edge.

Foreign stablecoins such as USDC are already circulating in Japan, and several local companies besides JPYC are weighing entry into the market. Wider adoption will hinge not only on increasing the number of providers, but also on delivering user-friendly services that leverage the benefits of stablecoins.

JPYC's mechanism is straightforward: individuals, corporations, or institutional investors apply to purchase the token, transfer funds, and receive JPYC in their digital wallets. The token can be used for international remittances—for example, sending money to students studying abroad—as well as corporate payments and asset management on decentralized finance (DeFi) platforms. Each JPYC is backed by deposits or Japanese government bonds and can be exchanged at a fixed rate of 1 JPYC to 1 yen.

The company plans to issue JPYC on three prominent blockchains: Ethereum, Avalanche, and Polygon. JPYC's business model hinges on earning interest income from short-term government bonds held as collateral, with no transaction fees charged to users—at least for the time being. With an ambitious target of JPY 1 trillion in issuance over the next three years, JPYC estimates it could net around JPY 5 billion in interest income at prevailing rates and is also considering increasing its allocation to higher-yielding long-term government bonds.

Asked about the company's business model, JPYC's CEO commented: "Rather than charging users fees, we collect interest from government bonds. We want developers to freely build services and generate profits—we're here to support that. Think of JPYC as akin to the Bank of Japan; you can do business with banknotes without signing a contract with the BOJ. We hope this initiative will help more people experience the advantages of JPYC."

JPYC has secured license from Japan's FSA as a Type II funds transfer operator—a status that imposes a JPY 1 million cap on individual issuance and redemption transactions. For now, the stablecoin's use will be

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limited to smaller remittances, but the company is already in talks with regulators to obtain a Type I license, which would lift these restrictions. “We’re optimistic about regulatory relaxation,” said JPYC’s chief executive. “Our goal is to launch with JPY10 billion in issuance, then expand to JPY100 billion, and ultimately reach JPY1 trillion.”

Compiled from Nikkei Shimbun and Mizuho Research

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Sep-26	UNICORN Holdings Co.,Ltd.	JP3950870000	S
Sep-25	ORION BREWERIES,LTD.	JP3200010001	PR
Sep-25	GMO Commerce,Inc	JP3386970002	G
Sep-11	Koyama Miraie Co.,Ltd	JP3305820007	P
Aug-06	HOJYOGUMI.Co.Ltd	JP3839200007	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>

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