

Mizuho Custody Newsletter

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I. Market News

1. Balancing Security and Investment

The Japanese government has recently made its screening system for inward direct investment much stricter, and the environment for foreign investors to enter the Japanese market is changing significantly. With growing concerns about national security and economic security, investments by foreign capital in Japanese companies are now subject to stricter screening than before. This move is in line with global trends, as the United States and European countries are also strengthening similar regulations, and Japan is following this trend.

Traditionally, Japan's inward direct investment screening system has been operated based on the Foreign Exchange and Foreign Trade Act (FEFTA). Under FEFTA, investments in certain industries or the acquisition of shares above a certain level require prior notification and screening. Especially for industries related to defense, advanced technology, and critical infrastructure, strict regulations have been imposed from a national security perspective. However, in recent years, the focus on economic security has increased, and the scope of screening has expanded to areas that were previously not regulated.

This background includes global issues such as cyber security risks, the risk of advanced technology leaking,

and supply chain vulnerabilities. For example, fields like AI, semiconductors, and biotechnology are seeing more cases where foreign acquisitions or investments raise security concerns due to intensified competition between countries. To address these risks, the Japanese government has clarified screening criteria and strengthened its operational system.

From 2024 onward, the system has been revised to expand the range of industries subject to screening and to make the screening process stricter depending on the type of investor. Specifically, some investments that previously did not require prior notification must now be reported if they are related to important national policies. Also, if the investor is a state-owned enterprise or a government-related fund, the screening tends to be even stricter. In addition, requirements for providing information after investment for follow-up and actual status checks have been strengthened, and investors are expected to operate with greater transparency.

On the other hand, there are concerns that these stricter regulations might discourage foreign investors from entering the Japanese market. To balance national security and investment promotion, the Japanese government is working to improve the transparency of the system and speed up the screening process. Guidelines on screening standards and procedures are published regularly so that investors can understand the risks in advance. Also, if there are any questions, a system for prior consultation with authorities has been established, allowing smooth communication between investors and the government.

Five years have passed since the revised FEFTA came into effect in 2020, the government is now reviewing the inward direct investment screening system. In an expert report issued in January 2026, it was pointed out that it is necessary to further strengthen the screening of investments in key technologies and infrastructure from an economic security perspective. Especially in fields such as AI, quantum technology, next-generation communications, and biotechnology/medical, which are sources of

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international competitiveness, careful handling of foreign capital inflows is needed. In addition, risk management for the entire supply chain and strengthening post-investment monitoring are also considered important issues.

At the same time, there are concerns that excessive regulation could hinder innovation and international cooperation. To balance investment liberalization and security, the Japanese government is introducing a risk-based screening system to respond flexibly according to the actual level of threat. For example, if an investment is judged to be low risk, the screening process will be simplified and sped up; but in cases with high national security concerns, strict screening will be maintained.

Furthermore, the report mentions the need for international cooperation. Strengthening regulations only in Japan would have limited effect in the global investment environment. Japan is working to share information and build cooperative screening systems with the United States and European countries, and going forward, operation of the system in line with international standards will be emphasized. This is expected to make the procedures and requirements for foreign investors to enter the Japanese market more consistent with those of other countries.

Also, with the progress of digitalization, making the screening process itself more efficient has become an issue. There is a possibility that the use of online notifications, information provision, and AI-based risk analysis will become more common in the future. This could reduce the burden on investors and make government operations more efficient at the same time.

Overall, Japan's inward direct investment screening system continues to evolve to achieve both security and investment promotion. For foreign investors, it is important to accurately understand changes in the system and ensure thorough risk management and transparent operations. The Japanese government has stated its intention to strengthen information provision for foreign investors to improve transparency. It is focusing on providing guidelines and system operation information in multiple languages, organizing necessary information in an easy-to-understand way, and creating an environment with high predictability. This is expected to reduce anxiety for foreign investors entering the Japanese market and strengthen the

foundation for smooth investment activities.

Compiled from Ministry of Finance, Nikkei Shimbun and Mizuho research.

2. Japan Governance Code Update

Japan's Corporate Governance Code is scheduled for a significant revision in 2026. This update, which reflects market expectations for the governance structures and capital policies of Japanese companies, is drawing considerable attention from both domestic and international investors. The Code was first established in 2015 with the aim of promoting sustainable corporate growth and enhancing enterprise value over the medium to long term. It has since undergone several revisions. A key focus of the upcoming 2026 revision will be the allocation of corporate resources, with a particular emphasis on the policies for holding and utilizing cash and deposits.

Japanese companies have traditionally tended to hold large amounts of cash and deposits on their balance sheets. This practice was historically seen to secure a stable management foundation and prepare for future uncertainties. The emphasis on maintaining ample cash reserves was reinforced by experiences such as the financial crises and economic stagnation that followed the collapse of Japan's "bubble economy" in the early 1990s. However, holding excessive cash has been identified as a challenge from the perspective of corporate value enhancement, as it can lead to lower capital efficiency and suppress investment in growth opportunities. In response to this situation, companies are now being urged to provide clearer policies on how they allocate their management resources, including cash.

The 2026 revision will emphasize the need for companies to clearly disclose the purpose, appropriate level, and utilization strategy for their cash reserves and other management resources. Companies will be required to demonstrate their policies, such as making management decisions that take the cost of capital into account, strategically investing surplus assets, and enhancing shareholder returns. Since the optimal allocation of resources varies depending on a company's business characteristics and growth stage, each firm is expected to fulfill its accountability in a manner tailored to its own specific circumstances.

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This includes clearly explaining their policies and the rationale behind them, whether it involves allocating resources to growth investments, reinvesting in R&D and human capital, or strengthening shareholder return measures.

The revision is also set to increase the importance of dialogue between companies and investors. Companies will be expected to proactively disclose information regarding their resource allocation and capital policies, while investors will be encouraged to analyze and evaluate these disclosures. Furthermore, the revision will cover the strengthening of board of directors' functions and improving the transparency of governance systems. This is expected to lead to a clearer decision-making process for the allocation of management resources.

Resource allocation policies require a balanced judgment based on a company's medium- to long-term growth strategy, market environment, and business characteristics, rather than simply focusing on short-term numerical targets or shareholder returns. Investing resources in future growth—such as through new business ventures, overseas expansion, and R&D for innovation—is also a critical component. Companies will need to fully explain the reasoning behind these decisions and the expected outcomes.

The 2026 revision of the Corporate Governance Code is poised to bring new discipline and transparency to the capital policies and resource allocation of Japanese companies. The proper allocation of management resources, including cash, is believed to contribute to enhancing corporate value and strengthening the competitiveness of the market. For overseas investors, the analysis of a company's resource allocation policies and governance structure will become an even more crucial element in making investment decisions. It will be an essential perspective for evaluating investment opportunities in the Japanese market.

Compiled from Nikkei Shimbun and Mizuho research.

3. TSE Listings in Decline

As of the end of 2025, the number of companies listed on the Tokyo Stock Exchange (TSE) stood at approximately 3,782. The total number of listed companies has been on a downward trend in recent

years, and the underlying reasons and factors for this decline are drawing significant attention. Data from 2023 to 2025 shows an acceleration in this decline. A notable increase in delisting was confirmed in 2025 compared to previous years. Furthermore, the number of Initial Public Offerings (IPOs) has decreased for two consecutive years in 2024 and 2025, highlighting a structural shift in the Japanese market. This decrease in the number of companies is not a temporary phenomenon but rather the result of a complex interplay of multiple factors.

First, the realignment of the TSE's market segments in April 2022 was a major turning point. This restructuring transitioned the market from its previous four sections—the First Section, Second Section, Mothers, and JASDAQ—to the current three-tiered system of Prime, Standard, and Growth markets. With this change, the listing maintenance criteria for each market were clarified and made more stringent. As a result, an increasing number of companies found themselves unable to meet these new standards, forcing them to either move to a different market segment or delist entirely.

Corporate reorganizations, such as mergers and acquisitions, consolidations through absorption, and the transition to holding company structures, have also contributed to the decline in listed companies. Group-level restructuring aimed at improving management efficiency and optimizing business portfolios has become more active, leading to an increase in delisting. Additionally, some companies are voluntarily delisting after re-evaluating the benefits of being publicly listed against the associated costs and burdens. The rising costs of maintaining a listing and the heavy burden of complying with enhanced governance standards have become significant challenges.

The growing cost of maintaining a listing is a key factor encouraging companies to go private or delist. Some companies, particularly those prioritizing stable management control, are choosing to go private to avoid shareholder proposals from activist investors and pressure from foreign investors to strengthen corporate governance. Another challenge is the shortage of skilled Investor Relations (IR) personnel. This makes it difficult for some companies to provide adequate disclosure and engage effectively with investors, leading them to conclude that the burdens of being

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listed outweigh the benefits.

In addition, the number of IPOs has been sluggish in recent years. Following the market realignment, there has been a particular decrease in new listings on the Prime market, and listings on the Standard and Growth markets have also shown a generally subdued trend. This is attributed to a more cautious stance from companies seeking to go public and stricter screening by investors. Moreover, global financial market instability and changes in the economic environment both in Japan and abroad have also impacted the decline in new listings.

In summary, the decrease in the number of companies listed on the TSE is the result of the interaction of several factors, including the market realignment, the push for stronger governance, corporate restructuring, and the slowdown in IPOs. This downward trend is likely to continue for some time as the business environment and market structure continue to evolve. For overseas investors, it will be crucial to closely monitor the qualitative improvements and governance reforms in the Japanese market while deepening their understanding of this changing listing environment.

Compiled from Nikkei Shimbun and Mizuho research.

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Feb-27	Geekly, Inc.	JP3263750006	ST
Feb-24	Innovacell Inc.	JP3147850006	G
Feb-13	TO Books, Inc.	JP3538560008	ST
Feb-5	PRECIOUS PARTNERS Co., Ltd.	JP3833500006	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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