

Mizuho Custody Newsletter

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I. Market News

1. How should Japan migrate to T+1?

In this May, the settlement cycle for equity in the United States was shortened from T+2 to T+1. European markets are also considering to follow suit. Shorter settlement cycle contributes to reducing settlement risk, improving capital efficiency by lessening the burden of margin money. However, on the other hand, market participants are concerned about more settlements may fail and more operational errors may happen as operators would have to complete everything with much less time under T+1 settlement cycle.

In Japan, the Financial Services Agency (FSA) announced to start studying about shorter settlement cycle for equities in a report by the Financial System Council's Market System Working Group held under its initiative in July, and also in its annual publication "The JFSA Strategic Priorities" in August. Discussions on this subject have been going on among market participants.

In Japan, equities have long been settled on T+3 since 1950, as was in place in many other countries. However, to catch up with the trend in major Western markets, discussions to shorten the settlement cycle began in 2014. To be more specific, the Japan

Securities Dealers Association (JSDA) and other market participants established a study group called the "Study Group on Shortening the Equity Settlement Cycle (T+2)." in August 2014. In July 2015, this study group developed into the "Working Group on Shortening the Settlement Cycle for Equity". In June 2016, this working group drew up its final report, which suggested the transition to T+2. Followed by this recommendation, the market began to take practical steps toward T+2, which was implemented in July 2019. It took approximately five years from its kick off in 2014 to the goal.

At the same time, Japan also shortened the settlement cycle for Japanese government bond (JGB) transactions. In September 2009, JSDA established the "Working Group on Shortening the Settlement Cycle for JGBs." Based on the final report of this working group, published in November 2011, JGB settlement cycle was shortened to T+2 from T+3 in April 2012. Furthermore, in November 2014, JSDA publicized the "Grand Design for Shortening the Settlement Cycle for JGB Transactions (T+1)", and the settlement cycle for JGBs was shortened to T+1 in May 2018 (for resident settlements; non-resident settlements are still T+2).

Regarding the settlement cycle for equity, the transition to T+1 in the U.S. has prompted markets in other countries. Firstly, Canada and Mexico, both of which are geographically and economically close to the U.S., transitioned to T+1 in May, together with U.S. In the EU, the European Securities and Markets Authority (ESMA) hosted a public consultation in 2023 on T+1, which shows discussions are ongoing in Europe. The majority of European officials express their views that the point is no longer "whether" to implement T+1, but rather "when" to do so. According to a public hearing held by ESMA in July, many market participants assume T+1 to be put into practice by the end of 2027.

In the UK, the "Accelerated Settlement Taskforce" published a report this March, recommending transition to T+1 by the end of 2027. Furthermore, in the Asia-Pacific region, Australia is making practical studies under the initiative of the stock exchange, and

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Singapore and Hong Kong have also begun investigations at working level. Since the transition to T+1 requires institutional reforms and re-arrangements of practical matters, whether these discussions will proceed as planned is anybody's guess. However, it is certain that "T+1" is now one of the core topics in the global markets.

While the US has already implemented T+1, discussions already started in the EU, the UK, and also in countries with slight time differences from Japan, such as Australia and Hong Kong. Given the fact, it is essential for Japan to advance serious research towards T+1 from the perspective of enhancing competitiveness in global financial markets and making Japan market as an international financial center.

First of all, market participants should carefully analyze what is happening in the U.S market and the progress of researches by other major countries and regions in line with the policies presented by the regulators. They should make sure the level of settlement risk that could be mitigated by transitioning to T+1 and what type of new operational risks and operational workloads the transition to T+1 would bring to the market. It is crucial to draw up methods and structures that can mitigate overall risks under T+1, by carefully assessing their findings.

As Japan has a significant time difference with Western countries, possibly seven hours or more, a shorter settlement cycle could make post-trade processes (i.e. trade matching and settlement processing) even tighter for overseas investors, which may result in more settlement fails. During the transition to T+2, which took approximately five years to its implementation in 2019, several steps were taken, including i) addressing risks regarding settlement fail (e.g., formulating guidelines to avoid fails and revising rules), ii) quickly improving infrastructures and relevant rules for equity lending transactions, iii) frequent updates of the status to non-resident investors to facilitate them to be well-prepared.

By making full use of the lessons from the previous transition to T+2, it will be essential for market participants to actively engage in discussions and various tests regarding process and system reviews to achieve the transition to T+1.

Looking back on the history of equity settlement cycle

shortening, turmoil in the financial market has always been the catalyst. Black Monday in 1987, the Global Financial Crisis in 2008, and the short squeeze stock frenzy in 2021 have raised public awareness of settlement risks associated with trading securities. Such events have urged regulators and market participants to seriously consider implementation of shorter settlement cycle. On each occasion, technology always brought us solutions, such as the digitization (paperless processing) of securities, the adoption of STP (Straight Through Processing) trading, and DVP (Delivery Versus Payment) settlements. If we envision further step ahead to shorten the equity settlement cycle (T+0), it might be necessary to consider the use of technologies such as blockchain. Japan is one of the countries participating in the "Project Agora," a unified ledger initiative launched by the Bank for International Settlements (BIS), the Institute of International Finance (IIF), and the central banks of various countries (the Federal Reserve Bank of New York, the Bank of France, the Bank of Korea, the Bank of Mexico, the Swiss National Bank, and the Bank of England). This project envisions a future model where cross-border payments are conducted using commercial bank deposits and central bank deposits on a blockchain-based platform. As we advance discussions toward T+1, it is also essential to leverage cutting-edge technologies and collaborate with authorities and stock exchanges of various countries to be prepared for an even further ahead of the industry.

To enhance competitiveness of Japan's financial markets as an international financial center, it is pivotal to keep working for improvements in financial infrastructure, including shortening of the equity settlement cycle. All market participants, together with company executives, should tackle the issue of how to enhance the corporate value of Japanese companies as investment targets. The eventual goal of these efforts is to make Japan's financial market look more attractive to a broader range of investors.

Compiled from Financial Service Agency and Mizuho research

2. Analysis on AGM in June 2024

In September 2024, the Tokyo Stock Exchange (TSE) published an analytical report on the annual general meetings (AGMs) held in this June by companies with fiscal years ending March 2024. (Approximately 68% of companies listed on the Prime Market set March as

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their fiscal year-end). We would like to describe some issues from the report, which appear to be of some interest to global investors.

< Date of the AGMs > In Japan, many companies have fiscal years ending in March, which is also recognized as the record date for entitling voting rights to be exercised at their AGM. Because of this, AGMs tend to concentrate in June. The peak day in 2024 was June 27th, with 29.7% of the AGMs were held on that day. From 1988 to 1998, it used to be over 90%. At that time, there were corporate racketeers called “sokaiya” who would make threatening demands to companies, and to keep them out of AGMs, many companies held their shareholders' meetings on the same day and time. Since 2000, with the establishment of laws to regulate such racketeers, the concentration rate has gradually declined, and since 2021, it has been below 30%.

Companies no longer need to worry about “sokaiya”. However, companies with fiscal years ending in March have a lot on their plate before the AGM. First, to comply with the stock exchange listing rules, they need to submit their quarterly financial results (kessan tanshin) by mid-May. Then, from the end of May to early June, they must publicize and send out the convocation notices (AGM notices) for their AGMs. The AGMs have to be held by the end of June in accordance with the Companies Act. Additionally, they are required by the Financial Instruments and Exchange Act to disclose their annual securities reports before the end of June. As soon as their AGM is over, they must promptly submit their corporate governance reports without delay.

Based on such situation, many companies find it extremely difficult to advance their AGMs in the first half of June. As a result of efforts by each company to disperse their meetings as much as possible, the current situation is that AGMs are concentrated in specific weeks in mid to late June, but not on a specific day. Nevertheless, for individual shareholders who hold the shares of multiple companies, the dispersion of AGM dates has made it easier for them to attend more AGMs than before. Although it is not so common for institutional investors to attend AGMs to exercise their voting rights, many of them take the dispersion of AGM dates favorable for them, since many issuers now stream their AGMs online in real time. Institutional investors are interested in obtaining

information about the AGMs (AGM notices) as early as possible so that they could complete proxy voting procedures before the meetings.

< Early provision of AGM notices > Many institutional investors exercise their voting rights at AGMs under the Stewardship Code and following the instructions from their clients as asset owners. However, it is rare for institutional investors to attend these meetings in person, except for some activists and cross-held shareholders. Most institutional investors exercise their voting rights based on their policies and standards, as well as the outcomes of their dialogues with issuers. Therefore, institutional investors could have sufficient time to analyze the agenda and make voting decisions as well as they could operate more smoothly, if they could receive AGM notices (Notices and reference documents) at earlier timing than in the past.

Before the revision of the Companies Act, AGM notices were sent out from issuers by snail mails. At that time, the only way to provide proxy information early was to send out the package at earlier date. Later on, the some issuers began to present their AGM notices on websites. As that practice became widespread, investors became able to access AGM information earlier than snail mails. After the revision of the Companies Act, issuers were allowed to provide AGM notices electronically, which enabled companies to provide information even earlier.

According to TSE's announcement, 33.9% of companies on the Prime Market disclosed their AGM notices this year via TD Net (Timely Disclosure Network, a website ran by TSE) at least four weeks (28 days) before the AGM, a slight increase from 33.1% in 2023. When information is provided electronically at least four weeks before the AGM, it means that the AGM information is available by the end of May. Institutional investors, who have to exercise voting rights of over 1,000 companies they invest, could start handling them from early June, which had been an intense operational burden for them. If materials for June AGMs were available in May, they could start processing those voting rights immediately after completing the voting procedures for AGMs held in May (many companies in the retail sector hold their meetings in May since most of their fiscal year ends in February). Although their working days increase for voting, they now have more time for decision-making

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on voting rights, which allows them to analyze agendas more in detail and exercise of these rights in more careful manner. It is beneficial not only for asset managers and their clients (i.e. asset owners), but also for the investee listed companies that all parties concerned to proxy voting have more time than before.

< English disclosure of AGM notices > According to TSE's share-ownership survey for FY2023, 31.8% of Japan's securities was held by foreign investors. Under such circumstances, many listed companies are being actively engaged in investor relations (IR) and shareholder relations (SR) activities for global investors. Voting rights exercised by foreign investors has been getting more significant for listed companies, especially if their shares are a component of stock indices adopted by these investors.

On the other hand, AGM in Japan is governed by the Companies Act, which means preparation of AGM notices and the attached materials only in Japanese is "legally sufficient". As a result, many listed companies used to prepare these documents only in Japanese. Foreign investors who wished to exercise their voting rights had to rely on their local offices in Japan or to use information provided by major proxy advisory firms. However, as stewardship codes have widely recognized and dialogue with investee companies have become more common and proxy voting process have become more sophisticated, more and more foreign investors need ways that allow direct access to information on AGM notices and other referential documents. Thus, great many foreign investors now crave for English translation of such notices and other information related to AGMs.

The Japanese Corporate Governance Code states that "Listed companies should create an environment that enables shareholders to vote electronically (such as the use of an electronic voting platform) and promote preparation of English translation of AGM notices, considering the ratio of institutional investors and overseas investors among their shareholders." The code is encouraging companies to prepare the English translation of materials related to AGMs.

However, not a few companies are concerned about more workloads and more costs to incur to translate all information related to AGMs into English, as well as the risk of information leakage if they outsourced translation. In 2024, 96.1% of companies prepared

English translations of the "AGM notice and the attached materials" an increase from 90.8% in 2023.

On the other hand, companies that prepared English translations of "all documents, including business reports and financial statements" remained relatively low, accounting only for 27.3% in 2023 and 28.1% in 2024. As mentioned earlier, the description in the current Corporate Governance Code only focuses on translation of the "AGM notice" into English, and due to issuers' concern toward increased burden to translate "all" information (including business reports and financial statements), not everything related to AGMs had been translated into English. However, given the significant presence of foreign investors in Japan's capital market and the fact that AGMs are considered an important opportunity for dialogue to fulfill their stewardship responsibilities, it may make more senses to many issuing companies in Japan to seriously consider translating all information related to shareholders' meetings into English.

Compiled from Tokyo Stock Exchange and Mizuho research
The materials published by TSE is available from the below website:
https://www.jpx.co.jp/english/news/1021/dh30tn00000fqa9-att/20240920_e.pdf

3. TSE to accept listings for Asian startups

The Tokyo Stock Exchange (TSE) is going to start approaching startups in Asia to solicit listing on its market. Recently, it has selected 14 companies in Asia to preferentially support their listing on the exchange. The supporting framework includes securities companies, banks, law firms, and auditing firms, aiming to provide full range of supports as a whole nation to attract more overseas companies to come to the exchange.

Back in 1991, as many as 127 foreign companies were listed on TSE. However, the burst of the bubble economy and subsequent sluggish performance of Japanese stocks, the number dropped sharply. The global financial crisis in 2008 further exacerbated the situation. Due to economic slowdown and rapid appreciation of Japanese yen, more people found listing in Japan less attractive, and by the end of 2023, just only 6 companies stayed listed. Since Japanese individual investors can nowadays easily invest in foreign stocks online, foreign companies have little reasons to list on Japanese exchanges by paying

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costs. To break through the situation, TSE has been actively approaching more than 200 companies annually, including emerging companies in Asia and overseas companies managed by Japanese CEOs, to attract them to the exchange.

In March 2024, TSE established a framework called the "Asia Startup Hub". Around 50 Japanese companies are participating, so that the Hub could provide a wide range of support, such as setting up internal structure necessary for initial public offerings (IPOs), as well as legal and accounting consultations.

Among the 14 Asian companies selected this time eligible for the support, a company based in South Korea has gained popularity with its vertically-scrolling comics suitable for smartphones, and its sales exceeded USD 200 million. According to a survey by a U.S. research firm, the company's appraisal value is USD 1.33 billion (approximately JPY 200 billion), classifying it as a "unicorn" (a privately held company with a valuation over USD 1 billion). It is backed by big investors, including a major Singaporean sovereign fund.

Many companies with business models that involve artificial intelligence (AI) are selected. A company from Malaysia utilizes AI and drones to offer services for infrastructure inspection and precision agriculture. Six companies nominated are based in Singapore, one of which provides AI-powered electrocardiogram analysis services to medical institutions in some countries such as India.

TSE aims to bolster its Growth Market (the market for startup companies) by taking in promising stocks of Asian-based companies. Stock price index for the Growth Market continues to lag behind the Nikkei Stock Average. TSE still struggles with the "small-scale listing" issue, where startups were led to list in spite that their valuations had been still low, which keep them suffering from very limited financial supports from institutional investors even after they are listed.

If more Asian startups chose to list on the TSE, which would attract attention from institutional investors. Eventually, it might also benefit other companies listed on the Growth Market as they could also be subject to investors' attention, which might enhance their chances of securing long-term growth capital.

TSE intends to attract Asian companies by demonstrating its higher liquidity and market capitalization than those of other emerging markets in Asia. In 2023, the trading volume of the TSE Growth Market was USD 273 billion, whereas the emerging market of the Hong Kong Stock Exchange was USD 5 billion, and that of the Singapore Exchange was USD 1 billion. As of the end of 2023, the market capitalization of the TSE was USD 48 billion, compared to USD 7 billion for Hong Kong and USD 6 billion for Singapore.

An executive at a major Japanese securities firm, who has been involved in IPOs for both domestic and international companies, says "many Asian companies are keen on their shares being held by Japanese individual and institutional investors." They are also much interested in the uptrend of the Japanese stock market.

Alliance with Japanese companies is one of big reasons that prompt foreign companies to be listed in Japan. One of the companies selected from Vietnam, which distributes digital content such as anime and music, has such an intention. The company's COO stated, "We aim to list on the TSE in 2027." He added, "We hope that participation to the Asia Startup Hub would widen our connections with prominent investors and create business opportunities with new Japanese partners."

A Japanese trust bank has been handling transfer agent services, for non-Japanese companies since 2018. According to the bank, it received consultation from 89 foreign companies aiming to list on the TSE as of end of September, by more than 50% increase over this two years. The bank estimates that nearly 20 companies are going to list on the TSE sometime between fiscal years 2024 and 2026.

It is believed that insufficient support systems after listing have frustrated foreign companies. It is essential for TSE and other related companies to engage in long-term efforts, by changing their mindset of "listing startups is our goal" to "listing startups is where our support begins".

Compiled from Nikkei Shimbun, and Mizuho research.

More details regarding the Asia Startup Hub is available from the below TSE website:

<https://www.jpx.co.jp/english/equities/listing-on-tse/startuphub/>

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4. Prime Minister Ishiba to lure capital

On October 1, Ishiba Shigeru, Liberal Democratic Party President, was elected as the 102nd Prime Minister of Japan as a result of prime ministerial nomination elections held at the plenary sessions of both chambers of the Diet. Mr. Ishiba stated in the press conference on that night that he would "succeed the growth strategy of the former administration under Kishida Fumio" and "develop the policy of promoting Japan a leading asset management center." The following day, on October 2, he sent a video message to the annual meeting of the Japan Securities Dealers Association, known as the Securities Conference, demonstrating his positive intention towards the goals in financial businesses such as "making Japan a leading nation in asset management business" and "promoting formation of financial assets to be stable for a long term."

Based on his past career, Mr. Ishiba has been seen as strongly committed in areas such as military and diplomacy, but barely interested in finance and capital markets. During the Liberal Democratic Party's presidential election, he touched upon "taxation on financial income" in a debate between his rival candidates, which quickly gave market participants an impression as "anti-market" on him. As a result, his victory over the rival candidates, who was more popular among the market participants, the Nikkei Stock Average of the day dropped around JPY 2,000, to JPY 37,919.55 from JPY 39,829.56.

Some people saw Mr. Ishiba was anxious about the unexpected plummet of stock prices soon after his appointment as the Prime Minister, which seemed to have prompted him to raise topics such as "making Japan a leading nation in asset management business", that may sound positive to market participants. Some people found Mr. Ishiba's approach being awkward, however, they also believe his awkwardness is not necessarily a bad thing as a policymaker, since his approach could be a sign to sincerely listen to messages from the market to reflect his findings to his policies.

During September 30 to October 4, Japan hosted "Japan Weeks," an event to cheer up the country's asset management industry with both public and private sectors. Financial market experts from various countries joined this event. They paid close attention

to Mr. Ishiba's statements on asset management business. Some fund managers even attempted to have a direct contact with the Prime Minister's office. These might be what Mr. Ishiba's message at the Securities Conference brought to the market.

An executive of a U.S.-based activist fund expressed optimistic view on Mr. Ishiba's policy by saying, "Industry reorganization may gain steam in Japan". His expectation is based on the analysis of their own information network across Japan nationwide, and one of the reasons comes from a book Mr. Ishiba wrote. In the book, he highlights his stance on economic policy by clearly evaluating Abenomics (An economic policy lead by former prime-minister Mr. Abe). For example, here is some of his remarks.

"The economic policy known as Abenomics, which had been in place over the past ten years, intended to achieve 2% of inflation in around two years, by extraordinary monetary easing to an unprecedented level, which doubled the monetary base." "It is crystal clear that Abenomics created a very comfortable environment for some companies through low interest rates, weak yen, and corporate tax cuts. However, as a counter effect, the policy may have led other companies unwilling to make efforts to enhance their value, or allowed them to stay as they were in spite of their low productivity."

If his ideas were reflected onto the policy and put into practice, that would kick low-productivity zombie companies and businesses out of the market under the economy now with positive interest rate. For activists, this would create an environment where they could convince investees' management to allocate excess cash to growth investments or return shareholders, and to sell off businesses that do not meet their capital costs. Private equity (PE) fund officials, who have many opportunities to work with activists, did not seem to have pessimistic views about Mr. Ishiba's policies.

Some people view that Mr. Ishiba is emphasizing terms like "a leading nation of asset management" and "investment powerhouse" to calm down speculative movements in the market. However, now that he has made such statements, he must put his heart and soul into it so that it would quickly take shape.

The next step might be to create an environment where asset management companies and various funds can

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operate easily. Specifically, that would be to advance reforms related to corporate governance so that market discipline is more effectively communicated to management. In fact, Mr. Ishiba referred to "reform of corporate governance and management" at the Securities Conference.

In addition to "corporate governance," U.S. and European asset managers visiting Japan are closely looking at "de-carbonization" and "GX" (Green Transformation). The policy head at an UK based asset management company, which is known for sustainable investment, says "green finance and transition finance are extremely important" for revitalizing Japanese asset management industry. This view aligns with the former Kishida administration's "International Financial Center" strategy. Although Mr. Ishiba has not emphasized on this subject, some market experts predict that he would touch upon this subject sometime soon.

On October 22, an auction for GX government bonds, in the amount of approximately JPY 350 billion (circa USD 2.3 billion), was conducted. Issuance of the bonds was one of the fruit of former Prime Minister Kishida's strong political initiative. He emphasized that the GX government bonds was "the world's first transition-related bonds". Prime Minister Ishiba also stated that he would "steadily succeed the growth strategy promoted under Mr. Kishida's administration." In the financial market, "greenium", where the yields on green bonds are lower than those on regular bonds, often attracts attention. Generally, green bonds are in high demand among investors who prioritize scarcity and contribution to ESG (Environmental, Social, and Corporate Governance), that is why they are often purchased even the yields are lower (at higher prices). Although the last auction ended without any turmoil, this "greenium" did not occur at all. It is essential to expand the investor base and enhance liquidity, which remains to be a challenge.

Some commentators assess that the Ishiba administration does not have a solid foundation in terms of the capacity to carry out policies that are not very welcomed by public, or in other words, "political capital". However, the evaluation from the stock market can literally become "capital" for Mr. Ishiba. If he could obtain support from domestic and international long-term investors, who expect structural reforms in the corporate sector, that should add up the

capital with the highest quality to its core.

Compiled from Nikkei Shimbun and Mizuho research.

II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Oct-18	DigitalCube Co. Ltd.	JP3549110009	P
Oct-23	TOWARISE CORPORATION	JP3637350004	P
Oct-25	Glocal Marketing Co.,Ltd.	JP3274270002	P
Oct-31	Accelia, Inc.	JP3108240007	P
Nov-22	Garden Co.,Ltd.	JP3233650005	S
Nov-28	CCReB Advisors Inc.	JP3266240005	G
Nov-29 -Dec-05	Globe-ing Inc.	JP3274430002	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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