

## JAPAN'S PROPOSALS FOR BENEFICIAL SHAREHOLDER DISCLOSURE

The Japanese government is taking steps to introduce a new legal framework to identify the beneficial shareholders behind custodian banks which hold the shares as nominee. This effort aims to facilitate communication between Japanese listed companies and their beneficial shareholders.

On 10 February 2025, the Minister of Justice of Japan formally requested the Legislative Council, an advisory body, to review and potentially reform the Companies Act. The request by the Minister is the first step towards potential amendments to the Companies Act, which will be followed by thorough discussions by the Council and their recommendations to the Minister.

One notable area to be reviewed is the establishment of a legal framework that enables companies to identify the beneficial owners of shares held by custodian banks. Currently, many institutional investors hold shares in listed companies through custodian banks who are the registered legal owners of the shares. Listed companies can discover the identity of beneficial shareholders only if they hold more than 5% of the shares, because such shareholders are then obligated to file a large shareholding report, which is made public. This obligation does not apply to those holding 5% or less, and due to this limitation, companies are not able to engage with shareholders who build stakes of up to 5%, without public disclosure.

Companies wishing to identify their shareholders sometimes engage third-party agencies, such as trust banks, to investigate shareholder identities. This approach, however, is costly and often does not work, especially with foreign shareholders, as they are even harder for these Japanese third-party agencies to identify than domestic shareholders.

The Ministry of Economy, Trade and Industry (METI) has been discussing similar issues and published a report on 17 January 2025. The report suggests introducing a system whereby companies could require beneficial and nominee shareholders to disclose ownership details. The report further proposes that companies could then suspend the voting rights of non-complying shareholders under such system.

In addition, an expert panel organised by the Financial Services Agency (FSA) has been meeting since 18 October 2024 to discuss revisions to Japan's Stewardship Code. A proposed revision was presented to the panel suggesting that institutional investors who adopted Japan's Stewardship Code should be prepared to disclose the extent of their holdings in companies they

### Key issues

- Japan seeks a legal framework to identify beneficial shareholders, enhancing communication between companies and shareholders behind custodian banks
- The Minister of Justice has requested the Legislative Council to review the Companies Act for possible reforms
- The METI's report suggests beneficial shareholders' disclosure of ownership details, with possible suspension of voting rights for non-compliance
- The FSA's expert panel is considering amendments to Japan's Stewardship Code, advocating for disclosure of institutional investors' holdings when requested
- Preceding discussions at the METI and the FSA are expected to influence the Legislative Council's sessions beginning in April 2025

invest in, when requested by those companies. Several experts on the panel have expressed support for this proposal.

The preceding discussions at the METI and the FSA are likely to influence the direction of the Legislative Council's discussions. If this beneficial shareholder disclosure system is implemented in the Companies Act, especially with the introduction of penalties for non-compliance, such as the suspension of voting rights, it is expected to become much easier and less costly for Japanese listed companies to identify their actual shareholders. From an investor's perspective, even those holding 5% or less of a Japanese listed company's shares could find themselves more easily approached by the companies in which they invest, which may potentially influence their investment strategies.

The discussions at the Legislative Council are set to start in April 2025.

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