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New Disclosures on Shareholdings Among TOPIX Core 30

Tighter regulation putting cross-shareholdings up for reconsideration

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Summary

- Firms that held their general shareholder meetings in June raced to update financial statements and other regulatory filings to comply with regulation enacted on 31 March (under Cabinet Office Ordinance on Disclosure of Corporate Affairs). This report provides an overview of disclosures on shareholdings at 28 of the TOPIX Core 30 constituents.
- The group averaged 526 strategic stock holdings and a weight in consolidated net assets of 15%. The average number of reasons for those holdings was 2.8.
- The FSA will begin phasing out transitional guidelines from FY10, meaning investors can likely expect more detailed information on shareholdings going forward. The increased scrutiny could provide a catalyst for reshuffling, in our view, as firms take stock of less beneficial arrangements.

1. Purpose and Focus of Report

FY09 filings marked compliance deadline for firms with March-year ends

The June shareholder meeting season for companies closing accounts in March has come to an end. Of those listing on the Tokyo Stock Exchange, roughly three-fourths, or 1,741 convened with investors in June, mostly on 29 June, to review FY09 results at the annual shareholders' meeting. These firms were the first to report results under the new disclosure requirements mentioned above.

Specifically, the ordinance spelled out new requirements for reporting on corporate governance structure, executive compensation, shareholdings (targeting cross-shareholdings), and voting results. June was the deadline for the former three, since firms are required to disclose them in annual securities filings, which must be submitted to the FSA, within three months of fiscal-year end. The deadline for disclosing voting results is "as soon as possible" after the annual shareholders' meeting.

Analyzed shareholdings at TOPIX Core 30 constituents

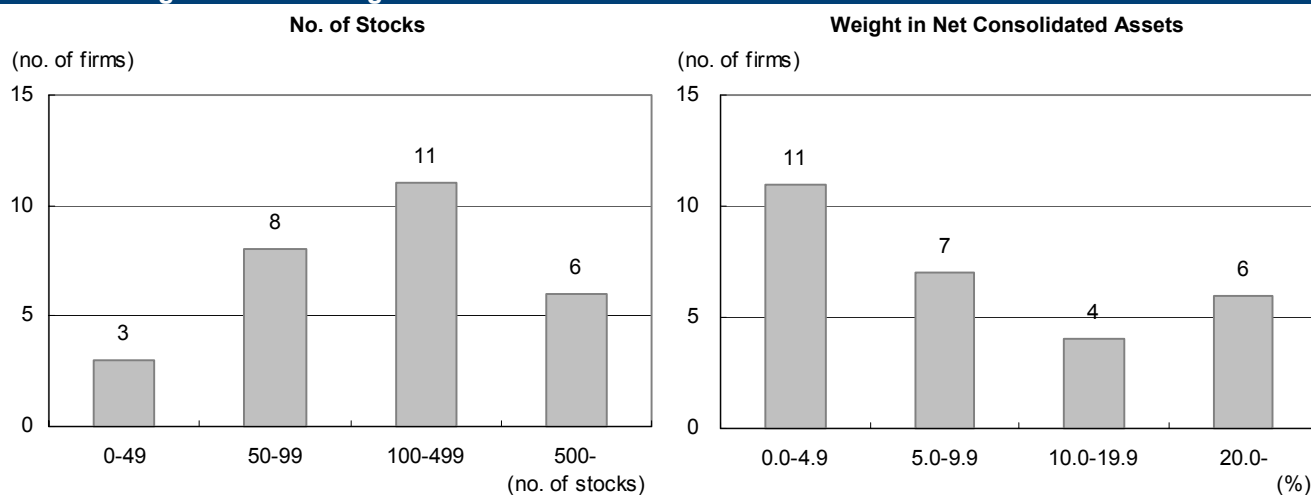
In this report, we reviewed FY09 filings for TOPIX Core 30 constituents to compile information on shareholdings as disclosed by the leading Japanese companies. We covered 28 companies in total, removing Canon and Seven & i Holdings, which close accounts in December and February.

2. Shareholdings for Non-investment Purposes

Distribution by number of holdings and weight in net assets

Chart 1 breaks down shareholdings for non-investment purposes for the sample population by (1) the total number of strategic stock holdings and (2) their weight (based on balance sheet value) in consolidated net assets. JFE Holdings did not disclose any of its shareholdings, probably due to temporary exemptions (nonfinancial companies and subsidiaries of holding companies exempt under FY09 guidelines).

FY09 Strategic Stock Holdings at TOPIX Core 30 Firms **Chart 1**



Source: Company materials.

Investors' right to information on equity in firm

On average, the 28 firms reported strategic stock holdings in 526 companies. Four banks and insurance companies, Mitsubishi UFJ Financial Group, Tokio Marine Holdings, Sumitomo Mitsui Financial Group and Mizuho Financial Group, reported strategic stock holdings in excess of 1,000 stocks. Note that those totals include holdings at consolidated subsidiaries (those reporting highest amount of shareholdings in each case). The two other firms disclosing over 500 such holdings were general trading firms Mitsubishi and Mitsui & Co. Besides JFE Holdings (which did not disclose), NTT and Nintendo were the only two in the sample to report strategic stock holdings in less than 50 companies.

Strategic stock holdings, as reported on the balance sheet, accounted for 15% of consolidated net assets on average. Six firms, namely the four aforementioned financials, as well as Mitsubishi and Nippon Steel, reported weightings of 20% or higher. Four others—Mitsui & Co., Mitsubishi Estate, Toshiba, and Tokyo Electric Power—disclosed weightings between 10%-20%. With that much shareholders' equity at stake, we think firms have a responsibility to report in detail on the purpose and benefits of such holdings.

3. Disclosures on Strategic Stock Holdings

Specific disclosures on holdings in listed companies

Chart 2 provides an overview of specific disclosures on strategic stock holdings in listed companies at TOPIX Core 30 firms (excl. Canon, Seven & i Holdings and JFE Holdings). The table provides information on the number of specific disclosures, as well as information (name and purpose) on the largest such stake.

Strategic Stock Holdings and Largest Holding (FY09)			Chart 2
Firm	No. of strategic holdings	Largest holding	Purpose
Japan Tobacco	10	KT&G Corporation	Strategic holding to maintain/strengthen stable long-term business relations
Shin-Etsu Chemical	10	Mitsubishi UFJ Financial Group	To maintain/strengthen long-term business relations
Takeda Pharmaceutical	10	Medipal Holdings	Investment to maintain business relations in ethical drugs operations
Astellas Pharma	10	Medipal Holdings	To maintain/strengthen business relations in pharmaceutical sales
Nippon Steel	24	Sumitomo Metal Industries	To facilitate business activities
Komatsu	10	Cummins Inc.	To maintain/strengthen collaboration in engine operations and cement business alliance
Toshiba	10	Phison Electronics	Long-term holding to maintain/strengthen good business relations in NAND flash memory, memory card products, and Phison's controllers
Panasonic	14	Toyota Motor	To maintain/strengthen business relations
Sony	10	SKY Perfect JSAT Holdings	Strategic holding to maintain/strengthen relations and promote related businesses
Nissan Motor	6	Unipres	To maintain business relations with auto parts maker
Toyota Motor	26	KDDI	To maintain/develop auto-related business
Honda Motor	23	Stanley Electric	To stabilize material procurement
Nintendo	11	Bank of Kyoto	To build stable business relations with a financial institution
Mitsui & Co.	23	Seven & i Holdings	To strengthen relations and also boost earnings and corporate value by offering business proposals
Mitsubishi	51	INPEX	To build/maintain/strengthen business relations
Mitsubishi UFJ Financial Group	10	Toyota Motor	To maintain/expand general business relations
Sumitomo Mitsui Financial Group	10	Toyota Motor	To maintain/strengthen business relations
Mizuho Financial Group	10	Canon	Canon's request, and to strengthen business relations
Nomura Holdings	10	Toyota Motor	To strengthen business relations
Tokio Marine Holdings	10	Toyota Motor	Mainly to strengthen business relations
Mitsubishi Estate	20	Mitsubishi	To maintain/strengthen good relations with tenant and boost corporate value
East Japan Railway	21	Mizuho Financial Group	To maintain/strengthen stable business relations and close cooperation
NTT	6	Japan Tobacco	To facilitate business relations
KDDI	10	Inmarsat plc	For stable supply of satellite communication services
NTT DoCoMo	10	KT Corporation	Business tie-up in mobile phone operations
Tokyo Electric Power	10	KDDI	For facilitate smooth performance of operations
Kansai Electric Power	10	Sumitomo Mitsui Financial Group	For stable fundraising

Source: Company materials.

Note: The largest holdings for the three banks and one insurance company listed are held by their consolidated subsidiaries.

Average disclosure length was roughly three sentences

The group provided specific disclosures on 14.3 holdings on average. That number is likely to increase from next year as the FSA begins phasing out transitional guidelines. Mitsubishi shared the most information, disclosing details on 51 holdings. Another seven firms provided specific information on 20 or more holdings. Nissan Motor and NTT offered the least information, providing specific information on just six strategic stock holdings.

The sample population offered 2.8 reasons for the arrangements on average, depending on underlying relationships (sales and procurement, financial partners, etc.). Thirteen firms, or just under half of the total, summed up all strategic stock holdings with just one common phrase. In contrast, only three companies (Komatsu, Toshiba, KDDI) provided unique information on each stock. Most reported the purposes of the holdings in one to two lines, using phrases such as “maintain/strengthen business relations” and “facilitate business.”

4. Shareholdings for Investment Purposes

Majority of group recognized shareholdings as strategic

Only six firms in the sample population provided disclosures on stocks held for investment purposes, with the majority reporting shareholdings as those held for non-investment purposes. Among the six, four companies reported holdings in listed companies and four companies disclosed holdings in private companies (i.e., two reported holdings of both types).

5. Future Disclosure Requirements

Broader disclosure requirements from FY10

The FSA issued transitional reporting guidelines for FY09, requiring banks and insurance companies to provide detailed disclosure on their top ten shareholdings, and nonfinancial companies to report up to 10 (though requirements differ for nonfinancials with less than 10). However, the FSA will begin phasing out that support from FY10, mandating that banks and insurance companies disclose 30-50 of their top shareholdings vs. up to 30 at nonfinancials. It will also require nonfinancial holding companies to disclose shares held by the leading subsidiary (possibly up to two subsidiaries) in terms of total holdings. Beginning in FY11, banks and insurance companies will have to disclose all shareholdings whose amount reported on the balance sheet exceeds one percent of the capital in either the latest or preceding fiscal years.

In Chart 3 we have compiled a table of cross-shareholdings based on FY09 filings. We limited our sample size to the 28 firms mentioned in this report, but the actual list is far more extensive. We expect more shareholding arrangements to come to light as transitional disclosure measures are phased out. In our view, investors might compile their own table of cross-shareholdings to aid in investment and voting decisions.

In that sense, we think the new disclosure requirements are likely to cause companies to take stock of cross-shareholding agreements. While such arrangements probably made sense when they were initiated, we doubt that all of them have brought meaningful synergies to core businesses. Perhaps there are many cases where funds should have been used for other purposes rather than for shareholdings. In our opinion, there is a strong possibility that management will reconsider such arrangements in FY10, as cross-shareholding could be harder to justify as disclosures become more detailed. As such, we anticipate a rise in the number of firms reevaluating such holdings through FY10.

Cross-shareholding Arrangements as Disclosed in FY09 Filings						Chart 3
Company	Cross-shareholding partners	Stake		Partners' reciprocal stake		
		No. of shares	% stake	No. of shares	% stake	
Nippon Steel	Toyota Motor	15,025	0.4	20,160	0.3	
	Honda Motor	10,080	0.5	6,600	0.1	
	Mitsubishi UFJ Financial Group	35,350	0.2	134,637	2.0	
	Mitsubishi	4,236	0.2	39,638	0.6	
	East Japan Railway	1,113	0.3	12,662	0.2	
	Toshiba	11,907	0.3	14,027	0.2	
	Mitsui & Co.	2,897	0.2	58,298	0.9	
Panasonic	Toyota Motor	27,393	0.8	20,700	0.8	
	Honda Motor	11,273	0.6	776	0.0	
	Sumitomo Mitsui Financial Group	5,179	0.4	57,025	2.3	
Toyota Motor	Mitsubishi UFJ Financial Group	149,263	1.1	48,924	1.4	
	Panasonic	20,700	0.8	27,393	0.8	
	Sumitomo Mitsui Financial Group	5,375	0.4	40,010	1.2	
	Nomura Holdings	16,380	0.4	3,553	0.1	
	Tokio Marine Holdings	3,138	0.4	77,432	2.2	
	Nippon Steel	20,160	0.3	15,025	0.4	
Honda Motor	Mitsubishi UFJ Financial Group	14,503	0.1	36,687	2.0	
	Tokio Marine Holdings	1,093	0.1	62,875	3.4	
	Nippon Steel	6,600	0.1	10,080	0.5	
	Panasonic	776	0.0	11,273	0.6	
Mitsubishi	Mitsubishi Estate	10,489	0.8	13,088	0.8	
	Nippon Steel	39,638	0.6	4,236	0.2	
	Tokio Marine Holdings	4,572	0.6	90,062	5.3	
	Mitsubishi UFJ Financial Group	18,286	0.1	25,621	1.5	
Mitsubishi UFJ Financial Group	Toyota Motor	48,924	1.4	149,263	1.1	
	Honda Motor	36,687	2.0	14,503	0.1	
	East Japan Railway	12,520	3.1	15,811	0.1	
	Mitsubishi Estate	45,028	3.2	48,852	0.3	
	Mitsubishi	25,621	1.5	18,286	0.1	
	Nippon Steel	134,637	2.0	35,350	0.2	
Sumitomo Mitsui Financial Group	Toyota Motor	40,010	1.2	5,375	0.4	
	Tokyo Electric Power	35,928	2.7	2,408	0.2	
	Panasonic	57,025	2.3	5,179	0.4	
	East Japan Railway	10,530	2.6	1,723	0.1	
	Komatsu	17,836	1.8	1,517	0.1	
Mizuho Financial Group	East Japan Railway	10,007	2.5	62,615	0.4	
	Tokyo Electric Power	23,791	1.8	26,414	0.2	
	Kansai Electric Power	12,978	1.4	27,593	0.2	
Tokio Marine Holdings	Toyota Motor	77,432	2.2	3,138	0.4	
	Mitsubishi	90,062	0.8	4,572	0.6	
	Honda Motor	62,875	3.4	1,093	0.1	
East Japan Railway	Mizuho Financial Group	62,615	0.4	10,007	2.5	
	Mitsubishi UFJ Financial Group	15,811	0.1	12,520	3.1	
	Sumitomo Mitsui Financial Group	1,723	0.1	10,530	2.6	
	Nippon Steel	12,662	0.2	1,113	0.3	
	Tokyo Electric Power	1,161	0.1	536	0.1	
Tokyo Electric Power	Sumitomo Mitsui Financial Group	2,408	0.2	35,928	2.7	
	Mizuho Financial Group	26,414	0.2	23,791	1.8	
	East Japan Railway	536	0.1	1,161	0.1	

Source: Company materials.

Notes: 1) The largest holdings for the three banks and one insurance company listed are held by their consolidated subsidiaries.

2) Holdings denominated in thousands of shares. Percent stakes vs. outstanding shares as of 9 Jul 2010.