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Feature Articles

This month's focus: Significance of the New TSE Disclosure Requirements and Related Issues

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Integrated Thinking in the Engagement and Disclosure

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GPIF promotes stewardship activities and ESG investment that increases the investee companies' corporate value and nurtures the sustainable growth of capital markets as a whole from the perspective of enhancement of long-term investment returns. GPIF requires its external asset managers to engage with investee companies and proactively take ESG into account. I expect that the Tokyo Stock Exchange's request for "Action to Implement Management that is Conscious of Cost of Capital and Stock Price" will help develop a common recognition to improve PBR and other related factors and promote engagement on remaining challenges. PBR remains the focus, but I believe that integrated thinking, including on non-financial matters like ESG, is becoming more significant, not only as a short-term approach to PBR but also for long-term growth and improvement of profitability. We need to think about how to monitor corporate improvement since non-financial strategies such as ESG take a long time to have a positive effect on corporate value.

An Active Investor's View of "Action to Implement Management that is Conscious of Cost of Capital and Share Price"

Kazuhiro Toyoda, CMA

In this paper, the importance of the TSE statement titled "Action to Implement Management that is Conscious of Cost of Capital and Share Price" is discussed from active investor's point of view. This initiative by TSE is intended to promote efficient capital allocation based on cost of equity, which is expected to work as a driver of a series of corporate governance reforms in Japan. In addition, a proposal is also made to accelerate this momentum from an active investor's perspective.

IR Activities that Contribute to Japan's Capital Markets Gaining Global Recognition

Yoshiko Sato, CMA

The Tokyo Stock Exchange requested "action" on cost-of-capital-conscious management in March 2023, and the IR activities of listed companies have increased as a result. For example, the number of companies whose top management has committed to improving both return on capital and PBR has been increasing, and some of them are providing concrete guidance. On the other hand, many companies have claimed they do not have sufficient human resources to gather and analyze the information required for disclosure. More active investors are also expected to evaluate each company's corporate value in depth.
In this article, I consider IR activities that contribute to achieving global recognition for the stock market based on the results of a questionnaire survey targeting Japan IR Association (JIRA) member companies and the efforts of companies vying for the "Best IR Award."

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A Corporate Governance Perspective on Requests Made by the Tokyo Stock Exchange

Seiichi Tominaga

I have been monitoring corporate governance for many years as a person who has many contacts with independent directors and company secretaries of listed companies. The requests by the Tokyo Stock Exchange are epoch-making. This paper reports on the reactions received from independent directors and company secretaries of listed companies. I then discuss how future boards of directors should respond when considering the TSE requests as an important corporate governance issue. Finally, I touch on future possibilities such as incorporating TSE requests into executive compensation and reflecting them in dialogues with shareholders.

Articles

Changes in the MSCI Japan Select Leaders Index Composition and Stock Market Evaluation

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This paper examines the stock price behavior in response to changes in the MSCI Japan ESG Select Leaders Index composition. We find that the stock prices of newly added firms with high ESG ratings go up, while the stock prices of firms delisted from the index go down. The results suggest that the ESG rating of firms affects their market evaluation.

The Economic Consequences of Stock Splits

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This research examines the economic consequences of stock splits for firms that implemented stock splits after the stock split bubble. We find that the number of individual investors increases and liquidity improves following stock splits and that stock prices rise on the day of the announcement. In addition, we find that stock splits reducing investment units to the range between 10,000 and 100,000 yen are the most effective.