

Submission of a Large Shareholding Report

In the case of holding shares or other securities issued by a corporation listed on a Japanese Financial Instruments Exchange in excess of certain thresholds, submission of a Large Shareholding Report is required. This rule is commonly referred to as the “5% Rule.” Its purpose is to enhance market fairness and transparency, as well as to protect investors, by requiring the disclosure of information regarding large shareholding that can significantly impact stock prices.

There have been cases where non-residents living overseas (i.e. in most cases, foreign investors) have failed to submit or delayed submitting a Large Shareholding Report. As penalties are stipulated for failure to properly submit a Large Shareholding Report, attention is required.

The following is an overview of the rules concerning the submission of a Large Shareholding Report.

1. **Securities subject to a Large Shareholding Report**

- Securities subject to a Large Shareholding Report are shares and other securities issued by legal entities listed on a Financial Instruments Exchange (“listed shares certificates, etc.”).
- “Share certificates, etc.” include share certificates, share option certificates and corporate bond certificates with share options, etc. Several other types of securities are also classified as “share certificates, etc.,” so careful consideration is required in actual operations.

2. **Party Required to Submit a Large Shareholding Report**

- The obligation to submit a Large Shareholding Report lies with the “holder” of listed share certificates, etc., whose shareholding ratio exceeds 5%. Please note that when a listed company acquires or disposes of its own shares, submission of a large shareholding report is not required.
- The following persons fall into the “holder.”
 - i. A person who holds share certificates, etc. in its own name or in another person’s name
 - ii. A person who has the right to demand delivery of share certificates, etc. based on a contract of purchase and sale or other agreement

- ✓ This refers to persons who have executed a transaction but have not yet received delivery of the share certificates, etc. or who have purchased the share certificates, etc. on a margin trade.
- iii. A person who, based on a money trust agreement or similar arrangement, has the authority to exercise voting rights as a shareholder of the issuer and who has the purpose of controlling the business activities of said issuer.
- iv. A person authorized to invest in share certificates, etc. pursuant to a discretionary investment agreement and other contract or legal provisions.
 - ✓ For example, (a) investment advisory firms holding investment authority under discretionary investment agreements and (b) guardians in cases where minors hold share certificates fall into this category.
- Under the “5% Rule,” it is important to note that the holding ratio of share certificates etc. is determined by aggregating not only the share certificates, etc. held by the holder itself, but also those held by joint holders (meaning beneficial joint holders and deemed joint holders as described below).
 - A) Beneficial joint holders: Persons who have agreed to jointly acquire, transfer or exercise voting rights, etc. for share certificates, etc.
 - B) Deemed joint holders: Spouses, parent-subsidiary companies with over 50% capital ties and sister companies, etc.
- Calculation Method for Holding Ratio of Share Certificates, etc.
 (Number of shares and potential shares held by own + Number of shares and potential shares held by joint holders) / (Total number of shares issued + Potential shares held by own and joint holders)

3. Matters to be stated in a Large Shareholding Report

- The major items to be described in a Large Shareholding Report are: (a) information about the issuer; (b) overview of the submitter; (c) purpose of holding; (d) breakdown of the submitter's holdings of share certificates, etc.; (e) status of acquisitions or dispositions during the most recent 60 days; (f) important agreements concerning share certificates, etc., such as collateral agreements; and (g) matters concerning acquisition funds.
- Please note that revisions to the law made in 2024 resulted in a change to the large shareholding reporting system (the revised system will apply to reporting obligations arising on or after May 1, 2026). Regarding the above items “(c) purpose of Holding” and “(f) important agreements concerning share certificates, etc. such as collateral agreements,” the required disclosures will be expanded

and made clearer, requiring attention in the future. We will introduce other changes and important points at another opportunity.

4. Method for Submitting a Large Shareholding Report

- The report needs to be submitted via Electronic Disclosure for Investors' NETwork (EDINET) to the Director-General of the Local Finance Bureau with jurisdiction over the address (location) of the person who submits the report. However, if the person who submits the report is a non-resident living overseas, it needs to be submitted to the Kanto Local Finance Bureau.
- To submit via EDINET, it is necessary to obtain an EDINET code in advance unless the person who submits the report already has one. While obtaining the EDINET code itself takes only a few days, preparing and gathering the required documents and Japanese translation thereof takes a certain amount of time. Therefore, if there is a possibility that you may be obligated to submit a Large Shareholding Report, it is advisable to begin preparations early. For your information, non-residents are also required to prepare and submit a power of attorney to the resident person.

5. Deadline for Submitting a Large Shareholding Report

- The report must be submitted within five (5) business days from the day following the date on which the obligation to submit the report arises.

6. Penalties for person who fails to submit a Large Shareholding report, etc. or who make false entries, etc.

- Any person (i) who fails to submit a Large Shareholding Report or (ii) who submits a Large Shareholding Report containing false information shall be punished by imprisonment for not more than five (5) years or a fine not exceeding five (5) million yen, or both. Additionally, there is an administrative monetary penalty system (the amount of the penalty is set at one-hundred-thousandth (1/100,000) of the total market value of the shares, etc. issued by the issuer).

7. Change Report

- After submitting a Large Shareholding Report, it is required to submit a Change Report if any of the following events occur:
 - i. When the number of shares held increases or decreases, and the holding

ratio of share certificates, etc. stated in the most recently submitted report increases or decreases by 1% or more.

- ii. When the number of joint holders increases or decreases, or the nature of the joint holding (e.g., the content of agreements regarding the exercise of voting rights) changes.
 - iii. When there is a significant change in the purpose of holding.
 - iv. When the holding ratio of share certificates, etc. falls below 5% due to the sale of shares, etc.
- The deadline for submission and penalties, etc., are the same as for a Large Shareholding Report (see Sections 5 and 6 above).

[End]

* We provide legal advice for foreign companies on a daily basis to help them conduct appropriate business activities in Japan and realize their legal rights. If you have any questions regarding the matters described in this article, please feel free to contact us at [PG foregin@mmn-law.gr.jp](mailto:PG_foregin@mmn-law.gr.jp).