Japanese listed companies use capital surplus as dividend resources

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Speedread

Japanese listed companies have been taking advantage of amendments to the Corporate Code made in 2001, aimed at enabling companies to become more capital efficient, to pay dividends this year.

Recently, many listed companies in Japan that have a business year ending on 31 March announced at their annual shareholders' meetings that they would not use retained earnings (because they have no retained earning to use) but capital surplus for dividends.

Since 2001, a company has been able, under the Japanese Corporate Code (Code), to apply a certain amount of its capital reserves and/or earned reserves (after conversion to "other capital surplus") to dividends subject to a shareholders' resolution approving it.

Before 2001, a company could only apply profits to the payment of dividends. This was due to the idea that capital was important to the stability of the company and ought not be distributed to shareholders. However, after the bubble economy in Japan, many companies were left holding vast capital reserves that hindered capital efficiency. Therefore, the Code was amended to account for this situation.

The aim of the 2001 amendments was to allow companies to shed themselves of excess capital. However, it is arguable that the amended provisions of the Code are now being misused by companies in circumstances for which they were not intended to provide a profit to shareholders where no profit exists. As such, a growing number of commentators are objecting to companies distributing capital reserves in this way.

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