

Minutes of the 14th Council of Experts Concerning the Follow-Up of Market Restructuring

Date: Wednesday, January 17, 2024 6:00 - 7:20 p.m.

Place: Tokyo Stock Exchange 15F First Conference Room

Attendees: See member list (Mr. Kanda and Mr. Koike were absent)

Kikuchi, Director, Listing Department, TSE:

Now that the scheduled time has arrived, we will convene the 14th Council of Experts Concerning the Follow-up of Market Restructuring. Thank you very much for your cooperation today.

Mr. Kanda and Mr. Koike are absent today.

We will begin by explaining today's agenda.

Ikeda, Senior Manager, Listing Department, TSE:

Thank you for joining us today.

We have three major agenda items today. The first item is action to implement management that is conscious of cost of capital and stock price. In Documents 1 through 4, we will report on the status of disclosure as of the end of last year and explain the key points and examples of company responses we have compiled based on our interviews with investors. Based on today's discussion, we plan to release this information later this month or early next month.

The second item is expansion of English disclosure in the Prime Market, as described in Document 5. We are presenting our future policy based on the feedback we received last time and would appreciate any comments you may have. We hope to publish the outline of the system in late February and proceed with the procedures for public comment on this matter.

The third item, in Document 6, is future actions to enhance the functionality of the Growth Market. We have put together a future policy on this as well, based on the feedback we received last time, and would appreciate any comments you may have. First, we anticipate that we will continue to discuss the listing standards at future meetings, while proceeding promptly with the practical steps that can be taken.

Also, we have attached comments from Mr. Koike, who is not present today, at the end of the set of materials, which I hope you will refer to as appropriate.

That concludes my explanation of today's agenda.

Kikuchi, Director, Listing Department, TSE:

Let me begin to explain the documents. Of today's three agenda items, I will first explain and receive your comments on the action to implement management that is conscious of cost of capital and stock price. After that, I would like to give a summary of our policy on the expansion of English disclosure in the Prime Market and future actions to enhance the functionality of the Growth Market, and would be happy to receive your comments.

Let me begin with an explanation of action to implement management that is conscious of cost of capital and stock price based on the Documents 1 through 4.

Monden, Manager, Listing Department, TSE:

I will now explain the documents.

First, Document 1 is a summary on the status of disclosure as of December 31, 2023, which was released on January 15 along with the company list.

Page two shows the overall disclosure status. Including companies under consideration, 49% of companies in the Prime Market and 19% in the Standard Market have disclosed, showing some progress in the number of companies disclosing since the last survey.

Our policy for future actions is described in the section below. It is important that we continue to work to encourage more companies to consider and disclose the information, and that the substance of our efforts is continually brushed up. We would like to encourage effective efforts through the publication of the key points and case studies that we will discuss today.

Page three shows the disclosure status by P/B ratio and market capitalization level for the Prime Market. While overall disclosure is progressing, the trend continues to be for companies with lower P/B ratios and larger market capitalizations to disclose more, with 78% of companies with P/B ratios of less than 1x and more than JPY100 billion disclosing more.

Page four shows the disclosure status by industry for the Prime Market. As was the case in the previous survey, the lower the average P/B ratio, the higher the disclosure rate, with 94% of companies in the banking sector disclosing.

Page five is the status of English disclosures for the Prime Market. Of the companies that make disclosures about cost of capital and stock price conscious management, almost half (47%) make the same disclosures in English.

Document 2 is the detailed data of the aforementioned aggregate data on disclosure status, including data that could not be included in Document 1, so please refer to it as appropriate.

Following these, Documents 3 and 4 are draft key points and examples of responses based on investors' perspectives on cost of capital and stock price conscious management.

The document is divided into two parts: Document 3 is the main document and Document 4 is the attached case studies.

See Document 3. First, under the title “Introduction,” the background and purpose of the document is summarized on page four.

After the request we made last March, domestic and foreign investors' expectations for companies' efforts have increased. In this context, as mentioned in the second point, this document is a compilation of the key points of initiatives that are expected from investors' viewpoints and examples of initiatives that are highly evaluated by investors. These key points are based on the feedback received from interviews with over 90 domestic and foreign investors conducted by TSE after the request, in order to provide listed companies with reference for their deliberations.

In addition, to avoid the misconception that simply imitating superficially the examples of such responses is sufficient, the third point describes that management and the board of directors should take the initiative and promote efforts after thoroughly analyzing the current situation of their company.

Page five shows the structure of this document. This document is divided into the three steps described in the last March's request, specifically, analysis and evaluation of current situation, consideration and disclosure of initiatives, and dialogue with shareholders and investors, and summarizes key points and examples of responses for each of the three parts.

First, starting on page seven is “I. Analysis and Evaluation of Current Status.”

In each part, we present an overview of the key points at the beginning, followed by explanations of each point on subsequent slides.

See page eight.

The first point on page eight is that the starting point for the effort is to consider the cost of capital from the investor's perspective.

Background is provided in the examples of misalignment with investor's perspective section below right. Some companies may think that there is only one right answer to the cost of capital and seek a one-size-fits-all formula, or they may hesitate to disclose the cost of capital for fear that investors will point out the discrepancies in their understanding. This is something that we often feel when we communicate with listed companies at seminars and other events. We believe that the value calculated by a model such as CAPM is only one of the estimates, and that what is important is whether the company is in agreement with its shareholders and investors about the level of its perceived cost of capital, and whether there is a gap between the two.

In addition to presenting the model and parameters used to calculate the cost of capital along with the level of cost of capital known by the company, and using multiple models to calculate the cost of capital, it may be effective to ask investors about the level of cost of capital, which was an actual example.

We have listed on the right side a number of companies that have fulfilled the key points described here, and on the bottom right side, we have included anonymous descriptions of actual cases where there is a gap with the investor's perspective. The slides that follow will also include such examples.

On page nine, again, we introduce the seminars and e-learning programs that TSE provided in the past for listed companies to deepen understanding of the cost of capital.

The second point on page 10 is that multifaceted analysis and evaluation based on the investors' perspective are expected, not simply whether or not the P/B ratio is over 1x or whether or not the ROE is over 8%.

Specifically, a matrix analysis of profitability and market valuation, as shown on page 11, can be used to confirm the company's position, and if necessary, a comparison with other companies in the same industry, both domestic and overseas, a time-series analysis, and a segment-by-segment analysis can be conducted.

Please proceed to page 12. The third point is that, in conjunction with the profitability and market valuation analysis just mentioned, investors expect companies to inspect the balance sheet to ensure that it is in efficient condition.

Specifically, a company should periodically check to ensure that it does not have excessive cash and deposits and that assets other than cash and deposits are sufficient from the standpoint of earning profits as it proceeds with business operations and investments for growth.

Also, as it relates to the consideration of subsequent initiatives, if the results of the balance sheet inspection indicate that improvements are necessary, it is also important to present to shareholders and investors a plan for improvement.

Starting on page 14 is "II. Consideration and Disclosure of Initiatives."

Page 14 is a small summary slide. Here are four key points. The contents will be explained in the slides that follow.

First, page 15 is the first point. As we clearly stated in our request last March, what investors expect is not technical efforts to improve the index, such as share buybacks or temporary measures such as only increasing dividends, but rather drastic measures with an awareness of the appropriate allocation of management resources, such as investment in growth and review of the business portfolio, in order to realize medium- to long-term corporate value enhancement.

Recently, there have been a few examples of recap CBs. This is described in brackets at the bottom right as examples of misalignment with investors' perspective.

The second point on page 16 is that from the perspective of increasing corporate value, it is important to be aware not only of improving profitability but also of reducing the cost of capital.

Many investors pointed out that even among companies that have gone so far as to identify their cost of capital, there are still few companies that are consciously working to reduce their cost of capital. This means that it is also important to reduce the cost of capital by addressing factors that increase the cost of capital, such as inadequate disclosure of information to investors, in order to achieve higher corporate value.

The third point on page 17 is to use executive compensation as a framework for raising management awareness, in conjunction with the efforts just mentioned to achieve increased corporate value.

Specifically, it is important to design a management compensation system to function as a sound incentive for management to work on improving corporate value over the medium to long term, such as by incorporating a certain amount of stock compensation. From the perspective of shareholders and investors, whether such executive compensation is designed in such a way is a factor in investment decisions.

In addition, providing incentives to increase corporate value, such as the granting of stock or stock options, not only to management but also to other management personnel and general employees, is considered effective in promoting management aimed at increasing corporate value.

The fourth point on page 18 is about the method of disclosure. In some disclosures, we have seen cases where efforts are merely listed. In order to promote understanding among shareholders and investors, it is effective to clearly state the medium- to long-term goals and explain each initiative in relation to these goals.

For example, (1) breaking down the indicators into several elements and presenting the initiatives for each, (2) using a logic tree to show how each initiative will lead to the realization of goals, and (3) explaining each initiative while presenting a policy and path toward the realization of growth, such as disclosing growth potential in the Growth Market, are examples of initiatives that have actually been well-received by investors.

Starting on page 20 is “III. Dialogue with Shareholders and Investors.”

You see three key points on the summary slide of page 20.

Page 21 describes the first point. Some investors say that management of some companies is still reluctant to engage in dialogue with investors. It is important for management and the board of directors to understand the importance of dialogue and proactively engage in it in order to build a relationship of trust with shareholders and investors and make dialogue a driver of growth.

Specifically, allocating appropriate internal resources to IR/SR, as well as direct communication by management itself, can be effective.

In addition, outside directors, who are in a position to oversee management, should also participate in dialogue with shareholders and investors when requested, and discuss the current status of governance and their perception of issues, which is considered effective in helping shareholders and investors understand the effectiveness of governance.

The second point on page 22, as we have discussed in previous follow-up meetings, is about the challenge that dialogue does not mesh as a result of insufficient corporate understanding of investors. By understanding the attributes and materiality of the investors with whom they are engaged in dialogue, they can increase the effectiveness of the dialogue.

Even in cases where a company does not have sufficient recognition from investors due to its small size or other reasons, and investors do not approach the company, the company itself can target and approach investors who are willing to accompany the company's growth. This can be considered as a proactive approach to improve a company.

The page, page 23, explains the third point. It is effective to deepen dialogue and engagement with shareholders and investors by disclosing the status of dialogue, such as what insights were gained through dialogue with shareholders and investors and how these insights led to subsequent initiatives.

In March of last year, we requested all listed companies in the Prime Market to promote and disclose dialogue with shareholders along with management with awareness of cost of capital and stock price. As reiterated on the next page, it is expected that the disclosure of the matters indicated there will lead to further dialogue.

That's all for Document 3. Document 4 provides case studies.

This document also has an "Introduction" slide at the beginning. It is stated that based on interviews with over 90 domestic and foreign investors, the report compiles cases that investors have evaluated as examples of how the key points we have just introduced have been taken into account.

This collection of case studies features approximately 30 companies from a wide range of company sizes and industries, in order to provide a reference for many companies.

In each case, commentary on each of the key points is included along with the points of the evaluation received from investors, and is intended to be viewed in conjunction with the material on the key points of the response explained so far.

In addition, when we publish the documents after today's meeting, we will mask the case studies and publish the final version around the end of this month or early next month, after making revisions based on today's discussion and going through the process of obtaining the listed company's approval.

This is the end of the explanation of the documents.

Kikuchi, Director, Listing Department, TSE:

Now, we would like to get some input from you members.

Kumagai, member:

Thank you very much for compiling a very detailed document on cost of capital and stock price-conscious management, and for reflecting our comments on Documents 3 and 4 that we discussed at the preliminary briefing. Daiwa Institute of Research Ltd. has had numerous opportunities to speak with both listed companies and institutional investors, and I would like to offer my opinions based on these experiences.

I view the increase in the disclosure rate of listed companies as extremely positive. I have heard that institutional investors have high expectations for the publication of the list and are calling on listed companies to respond to TSE's request. I also feel that the publication of the list of disclosing companies has motivated listed companies to respond to the request, and has contributed to an increase in the number of disclosing companies. Even now, it appears that companies are continuing to move toward disclosure. I would expect the disclosure rate to increase further.

I believe that Documents 3 and 4 are very useful in encouraging further corporate movement toward disclosure. The documents are very easy for companies to use because they are divided into cases and contain a variety of examples, rather than just outstanding companies as is common in collection of case studies. From my conversations with listed companies, I have the impression that when examples are provided, the understanding of the person in charge rapidly progresses.

In the future, the situation should be monitored regularly and appropriate measures should be taken in a timely manner accordingly. For example, given the relative lack of progress in disclosure by companies in the Standard Market, we may consider measures that would promote disclosure in the Standard Market, although it would require some time.

In addition, although data is not available this time, previous data indicates that disclosure was relatively less advanced in companies with controlling shareholders. There may be circumstances where disclosure is difficult due to relationships with parent companies, etc. However, listed companies with parent-subsidiary relationships and listed companies accounted for by the equity method were asked by TSE at the end of last year to disclose information and were encouraged to communicate and disclose information. In light of this, I believe that companies that have a mutual relationship should communicate with each other and give a reaction.

Sampei, member:

First, thank you for compiling the documents. I think they are fairly detailed documents.

I think it is very important to note that Documents 3 and 4 are based on interviews with over 90 investors. However, on page four of Document 3, you mention "initiatives that are highly evaluated by investors," but at this point, I think this is an example of "relatively good initiatives." I hope that the correct positioning is conveyed so that there is no misunderstanding that they are best practices.

On page seven, I believe it states that what is expected in a series of requests is not a one-time response but a business portfolio review, etc. Therefore, it would be better to include the keyword "business portfolio" and it would be clearer if it is included before "balance sheet" on page seven.

I will now discuss specific points.

On page 10, it says that the average levels of indicators such as P/B ratio and ROE vary by sector and business category, but I think this needs to be written in a different way. This is because if the idea that only peer groups in the same sector or business category are

comparable becomes widespread, it will lead to a so-called silo mentality, and efforts will be based on that. I mentioned this because there is a concern that if companies remain complacent in the current scope of the industry, a serious review of the business model and innovation will be delayed.

On page 11, thank you for reflecting the points raised in the preliminary briefing.

On page 15, you added the recap CBs to the misalignment example based on what I said in the preliminary briefing, but I think you should change where you add it. For example, it would be better to include it as an example after “one-time or transitory response” in the third point of the explanation or after “temporary response of share buybacks” in the misalignment examples section. Now it could be read as if the temporary response is limited to recap CBs.

The examples given in this document are based on interviews with over 90 investors, so I am not suggesting that they be removed, but there were two examples that I questioned whether they were appropriate.

On page 23, I found that it would be interesting to have companies disclose the status of their engagement. The objectives of engagement may be divided into two categories. One is information gathering. The other is to promote change to enhance corporate value, in other words, engagement to bring about change. The outcome of the former is an improved understanding or appreciation of the situation or improved disclosure. The outcome of the latter is the increase in value resulting from reform efforts.

The purpose of a series of governance reforms and various initiatives is to increase corporate value, and I believe that what is required for engagement is really the latter. Disclosure is one step before that, but many engagements stop there. Therefore, by making such a distinction and monitoring the implementation status of engagement at each company to see whether it is still limited to information gathering and disclosure in many cases, or whether it has reached the level of engagement that improves corporate value through business transformation, it will help visualize the challenges of substantiating engagement. I believe it would be useful to have such a monitoring system.

Ando, member:

First, thank you for your hard work on the 15th in releasing the materials and distributing the materials to the press club. Various news reports showed a better-than-expected response. Some companies have already begun to take this seriously, and the sense of urgency on the part of management to respond properly has certainly increased. I feel that the very “mountain has begun to move” and that this trend will not stop as the status of the disclosure will be updated on every month from now on. In this process, a virtuous cycle is sure to occur, in which the quality of efforts gradually improves. It is of great significance that companies took a step forward rather than seeking an ideal from the beginning, and I hope that companies will make steady progress by referring to other companies' case studies.

I have no comment on the content of the document, but I do have one request on a subject that has a different dimension than the one related to the cost of capital. On page 20, line

three of Document 3, you state “based on the content of the disclosure,” which is a very important message. This is because I feel that Japanese companies are clearly less conscious of fair disclosure than their Western counterparts. Therefore, I request that the phrase “based on the content of the disclosure” be left as it is easy to understand, and that a phrase such as “in accordance with the Fair Disclosure Rules” be added after it. For example, there still seem to be cases in which material facts are explained only to major shareholders, even though no disclosure is made. This point must be thoroughly improved in order for the market to become as disciplined and mature as in Europe and the United States. If there are no objections from other members, please add it.

Nagami, member:

There is no particular objection overall. On that basis, I would like to comment on two points.

The first is about page five of Document 3. The scope of this document or discussion appears to be primarily financial strategy and capital efficiency. However, from the perspective of being conscious of stock price and improving corporate value, I think it is important to talk about the pursuit of growth potential, not just the pursuit of efficiency. In a Prime Market-listed company, even if the top line did not grow, at least profits and cash flow should grow.

I am concerned that if too much focus is placed solely on financial strategies, the Japanese economy as a whole may improve in terms of efficiency and productivity, but will ultimately fall into a contracted equilibrium. Therefore, while it is not necessary to change the framework itself on page five, I think it might be a good idea to mention the growth strategy. For some companies, there should be a case that capital efficiency and profitability will decline for a certain period of time in order to make a bold investment or M&A in the future, but then the company will enter a harvest period. I would appreciate it if you could mention the counterpart perspective of growth strategy in order not to be misleading, because if there is too much pressure only to improve financial strategy and capital efficiency, Japan as a whole will end up in a contracted equilibrium.

The other point is about Document 1. At first glance, there do not appear to be many companies that have already disclosed the information, but as you have indicated in the document, these figures are as of the end of December last year, and the most movement will be seen in the corporate governance report following the annual shareholders' meeting in June 2024. If the information is disclosed at the time, the ratio should go up dramatically. So, I think it would be a good idea to make a specific approach to companies with a fiscal year ending at the end of March so that they can disclose at the time. I believe that this should lead to a situation where a critical mass will be reached and companies will consider disclosure to be a matter of course, etiquette, and manners.

Matsumoto, member:

The content of Document 3 is like a textbook, very wonderful and informative. However, there is a difference between what is disclosed and the actual situation I have observed in at least one of the companies listed as initiative examples. So, I now have the question of whether the examples of other companies are correct. What the company writes and what is actually implemented are two different things, and this can only be understood by talking to investors or otherwise carefully examining the information.

The overall content is so excellent that I have never seen anything so great in TSE materials. However, there are no guarantees regarding examples of initiatives, which may be a factor that reduces credibility, so I suggest that you think carefully about this. Perhaps the one company I noticed is the only such example, but there may be many others, and that is my concern.

Kuronuma, member:

I also think the material is very well done, and I have nothing special to order. I will refrain from commenting on the case studies, as I am not competent to judge which ones are truly in line with the investor's perspective, but I do have a few questions.

Regarding the status of disclosure, my impression is that it remains low. I would like to know if the reason is the fact that the corporate governance report has not been revised during this period.

In addition, the case studies cover financial results presentation materials, etc. and are not necessarily about the description in corporate governance reports. I would also like to know if you have previously recommended disclosing initiatives without waiting to update the corporate governance report.

In any case, this is not a hindrance to the publication of this material, but it occurred to me and I would be happy to know.

Monden, Manager, Listing Department, TSE:

Regarding the first point, on October 26 of last year, when we announced the start of posting the list in January of this year, we notified listed companies of our request to update their corporate governance reports, including the inclusion of keywords in their corporate governance reports. Basically, they have seen it, and we recognize that companies have updated their corporate governance report regardless of the timing of the regular update.

However, I believe that some companies have yet to update their corporate governance reports. If such companies renew in the future, we will assume that they will be added to the list for the following month.

As for the documents to be disclosed, as originally requested, the information does not necessarily have to be included in the corporate governance report, but may be disclosed in the financial results presentation materials or the integrated report. However, in such cases, we ask that they mention the document which the information is included in in their

corporate governance report, along with a link to the document. The examples of disclosures we provide this time are also examples of companies that have such statements in their corporate governance reports, and we have even checked the linked documents.

Okina, member:

Thank you for the compilation. There has been considerable media coverage of the disclosure of the list of disclosing companies on the 15th. I look forward to seeing more and more positive developments in the corporate world.

Earlier, Mr. Sampei pointed out the expression “highly evaluated” on page four of Document 3. I, too, felt that it would be better to be careful with expressions and use phrases such as “companies that can be considered as a reference at this point in time.”

Also, as Mr. Nagami pointed out, even on page seven, the focus is on the financial perspective, but it is essentially important to think carefully about the business itself, linking it to business model reform. Therefore, I felt that it would be good if you could devise a way to express this so that companies can understand it.

Since the material explains at the outset that it is introducing investors' viewpoints, I think it might be a good idea to change expressions such as “it is important” in the material into expressions such as “it is expected” by investors. Perhaps we do not need to be so particular, but this document is not a judgment by TSE, but only a summary of investors' views, so I felt it necessary to be careful with such expressions.

I also think it is important to include a word about the concept of fair disclosure, as Mr. Ando pointed out earlier.

Also, as Mr. Nagami pointed out, the “equity story” appears for the first time on page 18. I got the impression that this concept does not draw much attention, despite the fact that equity stories are extremely important in terms of the stock price for the cost of capital and stock price-conscious management we are requesting. I think it is also a good idea to emphasize the importance of a well thought out equity story.

Kumagai, member:

As you have discussed, I think the major issue is the positioning of the case examples. There are probably two things to be done. First point, in terms of screening, we need to have more people look through it, or a small number of top-notch experts look through it and check it carefully.

Secondly, I think it is necessary to deepen the discussion on the pros and cons of giving the impression that TSE has authorized them in the first place. As Mr. Sampei and Ms. Okina mentioned earlier, there may be a way to soften the phrase “highly evaluated” on page four; however, this is just one line of text on page one. More fundamentally, it would be better to organize and indicate whether the basic concept of the material and the

positioning of the case examples are based on some sort of authorization by TSE, or whether they are just a summary of the investors' perspective by TSE.

In extreme cases, it would be a problem if a company goes out of business in three months as a result of TSE authorization. So, I think that should be carefully considered.

Sampei, member:

I was reminded of this when I heard the current statement of Mr. Kumagai. It would be good to include information on the attribute distribution of the 90 investors interviewed, for example, whether they are domestic or international, active or passive, whether they are actively managed fund managers/analysts, or whether they are ESG analysts or responsible investment department.

It is possible that for ESG analysts and responsible investment departments, only the content of the disclosure is important, and they are less interested in whether it actually improves corporate value or affects valuations. On the other hand, for an active fund manager, it is very important that the company delivers results, so I think the perspective is a little different.

Even just the description of what the distribution of the attributes of the investors interviewed is, I think it conveys that not all cases were selected from the same perspective.

Matsumoto, member:

Considering the story so far, I think there is some risk in the case study collection. A company that, from one investor's perspective, may not seem to be carrying out at all, another type of investor may say it is a good case study because all boxes are ticked. I think it is very difficult to handle case studies because of the variety of viewpoints.

Ando, member:

As for the case studies, while they should of course be treated with caution, I think it makes sense to publish them. Generally, such documents have a disclaimer on the last page, but why not rather explain the purpose in detail at the beginning of the document?

Of course, there may be a possibility that it will not be read, or that it will be perceived as a collection of good practices even if it is explained that it is only a collection of case studies of initiatives.

However, since Document 3 is very well done, the absence of Document 4 may mean a lack of finishing touches. As other members have pointed out, this is an instructional document in the best sense of the word, so there is a concern that it will not be fully understood by companies without specific examples.

Of course, there are concerns that this may cause misunderstandings, but I believe that the good thing about this follow-up meeting is that we recognize the concerns, but overcome them and fully explain the positioning before making it public.

Kikuchi, Director, Listing Department, TSE:

Thank you very much.

We would like to continue with a discussion on the policy on the expansion of English disclosure in the Prime Market and the future actions for improving the Growth Market function. We will explain them based on the Documents 5 and 6, respectively.

Nakamura, Associate, Listing Department, TSE:

I will now explain Document 5. We have put together a draft policy on the expansion of English disclosure based on the previous discussion. See page three.

Basically, this follows the direction we presented in our previous presentation. As you pointed out in the last meeting, based on the Prime Market concept, it is still desirable that all information that is important for investment decisions be disclosed in English at the same time. In light of this, we will establish a general duty-of-effort provision in the Code of Corporate Conduct, as described in item 1.

As for the details of the mandatory disclosure, as described in item 2, the first step is to require disclosure of financial results and timely disclosure information in English at the same time as disclosure in Japanese, starting in March 2025, in stages for each fiscal period.

On the other hand, taking into consideration the practices of listed companies, it is assumed that there are cases where it is difficult to disclose the full text of financial results, and cases where it is difficult to simultaneously disclose the full text of timely disclosure information, especially the facts of occurrence. So, as for the scope of disclosure, we will accept a part or an excerpt of the content of the disclosure in Japanese.

In addition, even if a part or an excerpt is allowed, the application of the mandate itself will be postponed if a company discloses a plan that describes the specific timing of implementation, etc., because it is expected that some companies will need time to develop the necessary systems.

With regard to enforcement, as described in item 3, the English disclosure is positioned as a reference translation of the Japanese disclosure, and the accuracy of the content is not subject to measures to ensure effectiveness. On top of that, if the English disclosure itself is not made and the plan is not disclosed, it may be subject to the measures to ensure effectiveness.

In addition, we would like to continue to consider setting deadlines, such as expanding the number of documents to be disclosed or terminating the grace period by disclosing the plan,

which you have previously suggested, based on the status of responses by listed companies.

As Mr. Ikeda mentioned at the beginning of this meeting, we hope to announce the outline of the system late next month. We would also like to provide guidance such as Q&A so that listed companies will not be confused in practice.

If you have any suggestions, we would appreciate your feedback.

Isogai, Manager, Listing Department, TSE:

In Document 6, we have summarized the specific proposed future actions for improving the Growth Market function based on your previous discussion.

Basically, this is following the previously proposed initiatives, and we would like to promptly implement the items from number 1 to number 4 as soon as we can.

In addition, we hope that numbers 5 and 6, especially the listing criteria, on which we received many comments last time, will be discussed at the next follow-up meetings in light of the facts.

We would be happy to receive your comments if you have any suggestions.

Kikuchi, Director, Listing Department, TSE:

Now, we would like to receive your comments.

Kumagai, member:

I basically agree with the policy for expansion of English-language disclosure in Document 5. The burden on companies will be heavy to some extent, but in light of the Prime Market concept of constructive dialogue with global investors, I believe that companies that can basically handle English disclosure well should be listed on the Prime Market.

However, as a practical matter, there are a wide variety of companies listed on the Prime Market. Some companies have adequate response resources, while others lack them. Under these circumstances, since the current policy leaves some of the efforts to companies, it is possible that companies will ask to present a bottom line that will allow them to determine that the request has been fulfilled. The recommended guidelines and responses to public comments could clearly indicate the TSE's approach and the requests of overseas investors, and encourage a certain degree of disclosure. In addition, if English disclosure is not made and the plan is not disclosed, it would be subject to measures to ensure effectiveness. It would be one idea to indicate specific measures in the recommended guidelines and in the responses to public comments.

I agree with the proposed future actions in Document 6. Raising the listing criteria and promoting the use of the professional market need to be discussed in the future, but I hope that you will proceed with the other items in a phased manner so that listing on the Growth Market will be an opportunity for growth. In addition, as I have said in the past, I believe that we must also increase the metabolism of the market.

I feel that existing listed companies should make particularly good use of the assist in the sharing of information with institutional investors that is included in the proposed actions. While it is obviously important for listed companies to improve their business performance, it is also extremely important to conduct effective and appropriate investor relations.

In our previous discussion, a member mentioned that there is a gap with investor perceptions regarding the granularity of information. I sometimes get the impression from some of the listed companies that they have not asked many questions of their investors. Not only are there companies that do not have the opportunity to meet with investors, but also those that do have the opportunity to meet with investors but do not ask many questions. It may be that the company answers investors' questions passively, but has yet to actively ask investors questions about their own company's questions, or is not prepared to respond to investors' questions if they develop into a discussion. Under these circumstances, it will be difficult to bridge the perception gap with investors. Since each company's situation is different, I don't think TSE can give specific instructions on how to do this. However, I hope that this will be an opportunity for companies to address any questions they may have about investor attitudes and capital markets, ranging from the granularity of disclosure information required by investors to medium- and long-term strategies.

Sampei, member:

Thank you for your explanation of Documents 5 and 6.

First of all, I think Document 5 is a good and clean summary of the overall discussion so far.

In this context, regarding the "disclosure of plans" section in the "applicable period" table on page three, it appears that as long as the timing of implementation is written down, the application will be postponed forever, i.e. there appears to be no fixed deadline. On this point, I think a maximum of one year is fine. A lack of a deadline may cause problems similar to those that occurred with transitional arrangements for market restructuring. The lack of a set deadline raises the question of whether it is acceptable to allow companies to come up with a long-term plan of, say, five years.

Regarding the scope of English disclosure, as long as a portion or a summary is acceptable while the full text is desirable, I believe that companies should address within a year and otherwise it will become a dead letter. If so, in the figure on page four, although there are two "plan disclosure" timings for a company with a fiscal year ending in March, the second (2026) plan disclosure would not be allowed, and the company would be required to make an English disclosure from there.

Regarding Document 6, in our previous discussion of Growth Market issues, a problem was pointed out that many companies have a larger offering amount than the amount of

funds raised at IPO. In light of this, I think it is necessary to disclose the concept of the ratio of the amount of funds raised to the amount of funds offered in disclosing the reasons for listing, etc. in item 1. I think it is necessary to have them think once about why the amount and ratio are the way they are, and then explain why it is the right ratio, otherwise I don't think the fundamental issues can be resolved.

I also have one question regarding item 3. In the Growth Market, only the basic principles of the Corporate Governance Code are applied, and indeed listed companies in the Growth Market have a surprisingly simple description of their response. However, when it comes to the description in the corporate governance report, it can also be supposed that you ask them to include a detailed one. What description do you actually expect?

Isogai, Manager, Listing Department, TSE:

We assume that they will write as much detail as possible. For example, we hope that they describe the actual situation of the information session or individual meeting in as much detail as possible, such as the person who responded, the attributes of investors, and the content of the Q&A session. Last March, we asked Prime Market-listed companies to disclose the status of their dialogue with shareholders. In a similar image, we envision that Growth Market-listed companies will disclose the specific status of their IR activities.

Sampei, member:

If so, how does this relate to the fact that only the basic principles are applied?

Isogai, Manager, Listing Department, TSE:

As you pointed out, only the basic principles of the Code are applied, but even today, the corporate governance report has a column titled "Status of IR-related Activities," which is not directly linked to the status of compliance with the Code. In the future, we will provide information on what items to be written in that section.

Nagami, member:

I have no objection to the both documents as a whole. On that basis, I would be grateful if you could highlight the description that it shall be sufficient to disclose in English a part or a summary of the content of the disclosure in Japanese. I think there would be a lot of panic if companies misunderstood that you are demanding the English disclosure in full.

Also, I believe there are stakeholders in this matter, for example, auditing firms. For many auditing firms, it is normal not to check the English versions, but this request raises the issue of whether English must be checked in the future. It is also important not to confuse the audit firms, and I think it would be better to include some comments that take into account the audit firms as stakeholders. In addition, TSE usually conducts prior

confirmation of timely disclosure, but I do not know if TSE has the capacity to confirm both Japanese and English disclosures. I think the key point is whether you can actually get around to the English disclosure while the workload is simply expected to more than double.

I agree with the other members about enforcement and other matters, and I don't have any objection.

With regard to the Growth Market, the implementation of stricter listing criteria is perceived as a very strong concern, including whether or not to raise them in the first place, and I also have received inquiries about it. Regardless of the outcome, I believe that it is preferable to decide on the policy itself as early as possible to avoid confusion.

Ando, member:

Even on the premise that mandatory English-language disclosure is stipulated in the Code of Conduct, it is important to foster an atmosphere in which companies are willing to make voluntary efforts, i.e. companies do not feel that they are forced to do so, but rather that they should actively do so.

Specifically, I request that the following two points be clearly stated when English disclosure is made mandatory.

The first point concerns the assumption that the Prime Market is, in the first place, a market that focuses on constructive dialogue with global investors. In other words, it is important to take as a starting point that the companies themselves are choosing the Prime Market.

Second, since foreign investors may become not only current shareholders but also potential future shareholders, it is necessary to emphasize that making English disclosures is a responsibility to shareholders, in other words, a corporate governance responsibility itself for a company.

Lack of awareness on the part of companies on these two points will result in a lack of progress in a short period of time on extensive and high-quality English disclosure. We must not allow excuses from Prime Market-listed companies such as “we don't need English disclosure.”

Incidentally, I also think that the deadline for plan disclosure pointed out by Mr. Sampei should be clarified.

Kuronuma, member:

I would like to make two points regarding the English disclosure.

With regard to the points to keep in mind regarding the scope of disclosure, I stated at the last meeting that while it is better not to allow partial or summary disclosure of financial information, it is better to allow partial or summary disclosure of timely disclosure because it would be a complete turnaround if disclosure itself is delayed by requiring full text to be disclosed at the same time. Is there any reason why partial or summary disclosure of

financial information is acceptable? If you have in mind financial results briefing materials, etc., it would be better to set forth more limited points to note. In other words, it would be better to require that the full text of annual earnings reports and quarterly earnings reports be disclosed in both languages at the same time.

On another point, regarding the disclosure of the plan, as Mr. Sampei mentioned, I agree that it would be preferable to clearly state the grace period from the beginning, specifically one year.

Nakamura, Associate, Listing Department, TSE:

I will answer your question regarding the reasons for approving some or a summary of the financial information. For financial results information, we assume financial results briefing materials, which are voluntary disclosure documents, in addition to earnings reports. If a company prepares financial results briefing materials, it is conceivable that a summary of the earnings report and the financial results briefing material would be sufficient. We think it would be a good idea to start by requesting partial or summary disclosure as a minimum.

Kuronuma, member:

I understand your explanation, but could you please incorporate that into the points to note? For example, could it be possible to write that if the briefing material is disclosed in English, only a summary of the earnings report is acceptable?

Ikeda, Senior Manager, Listing Department, TSE:

When we issue the outline in February, we hope to present something that serves more as a guide.

Specifically, including the point about financial information you made earlier, we can assume the question of whether all timely disclosures, for example, TOB and financing disclosures, third-party committee reports, etc., which are in large volumes, are to be provided in English. We will include those points in the document.

Okina, member:

This will partly overlap with other comments, but as Mr. Ando mentioned, English disclosure is voluntary, and since the listed companies themselves chose the Prime Market, they are naturally expected to do so. In addition, about 70% of foreign investors are dissatisfied with the current English-language disclosure of Prime Market-listed companies. So, first of all, I would like to ask for an explanation that will successfully convey the minimum requests. I also agree with setting a time limit of one year for the disclosure of the plan.

Regarding the Growth Market, I think it is necessary to send out a message that successfully conveys the purpose of having the company think carefully about the timing of listing and then disclose how it will set the timing of listing in the process of growth.

Matsumoto, member:

I was relieved to hear the additional explanation from TSE about the English disclosure. However, I wonder to what extent investors read earnings reports in detail, and there are various issues to be discussed, such as the difficulty for auditors if the full text is included in the scope of the English disclosure. The document says “effective for earnings reports for the fiscal years” and I misunderstood that the earnings reports were the focus. I am sure it will be refined through the public comment process, etc., but I hope you will keep that in mind.

Kikuchi, Director, Listing Department, TSE:

Thank you very much. With that, we will conclude today's meeting.

Thank you very much again today. We look forward to working with you again next time.