



Status of Companies' Responses and Follow-up on "Better Dialogue with Shareholders and Related Disclosure"

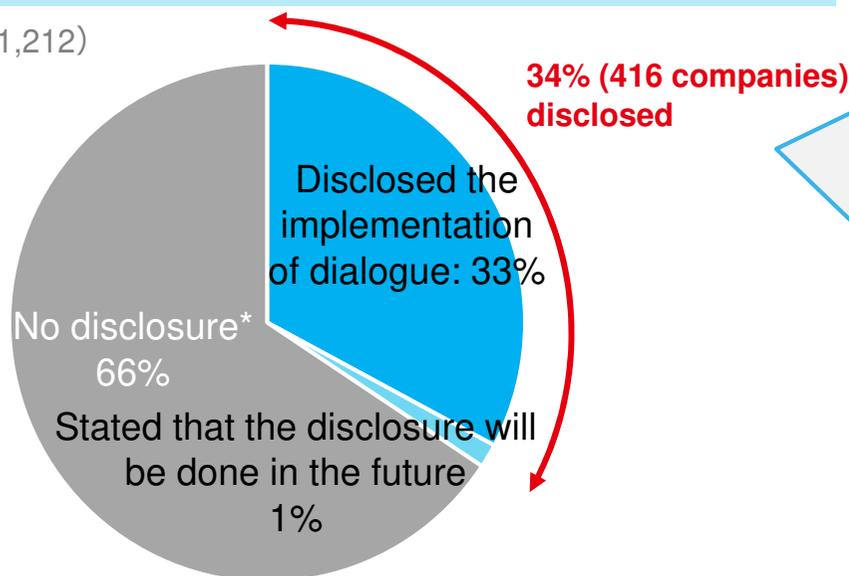
**Exchange & beyond
Tokyo Stock Exchange, Inc.**

August 29, 2023

- To position the Prime Market as a market that focuses on constructive dialogue with diverse investors to enhance corporate value, TSE made a request to all the Prime-listed companies in March of this year calling for "Better Dialogue with Shareholders and Related Disclosure."
 - As it is important to **respond sincerely when there is a request for dialogue from a shareholder**, TSE's request is to have listed companies disclose the status of their dialogues with shareholders to encourage the development of systems and initiatives to do so.
- Based on TSE's request, **34% (416 companies)** of the Prime-listed companies with fiscal years that ended March 2023 **disclosed their dialogue status.**
 - **Disclosure is more common among companies with larger market capitalization, as they are more likely to engage in dialogue with institutional investors. 40% (212 companies)** of the Prime-listed companies with a market capitalization of JPY 100 billion or more **disclosed their dialogue status.**

Status of disclosure on dialogue, etc. (Prime Market)

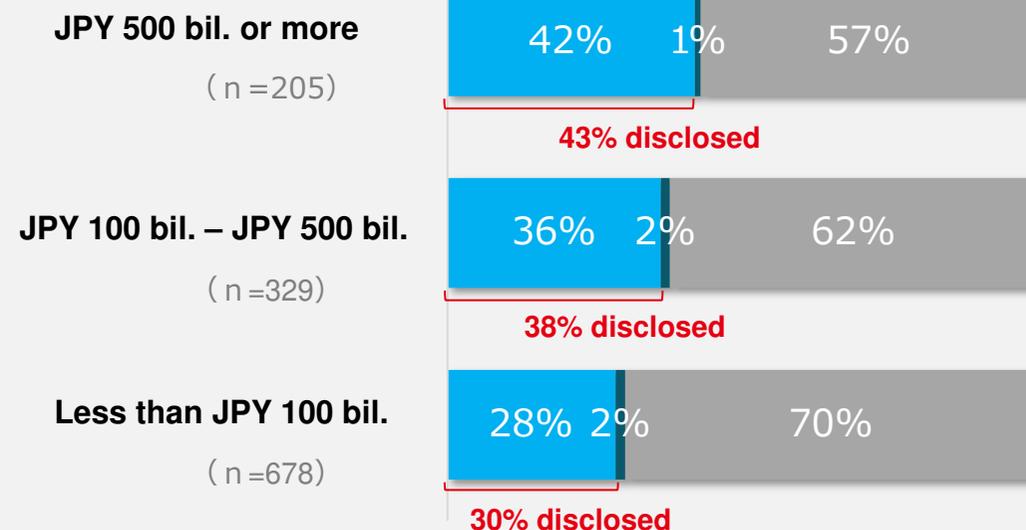
(n=1,212)



*If a company only discloses its "Policy on Constructive Dialogue with Shareholders" in accordance with Principle 5-1 of Japan's Corporate Governance Code, it is counted as "No disclosure."

Note : Based on corporate governance reports submitted by listed companies with the fiscal year ended March 2023 from the time of TSE's request to July 14, 2023.

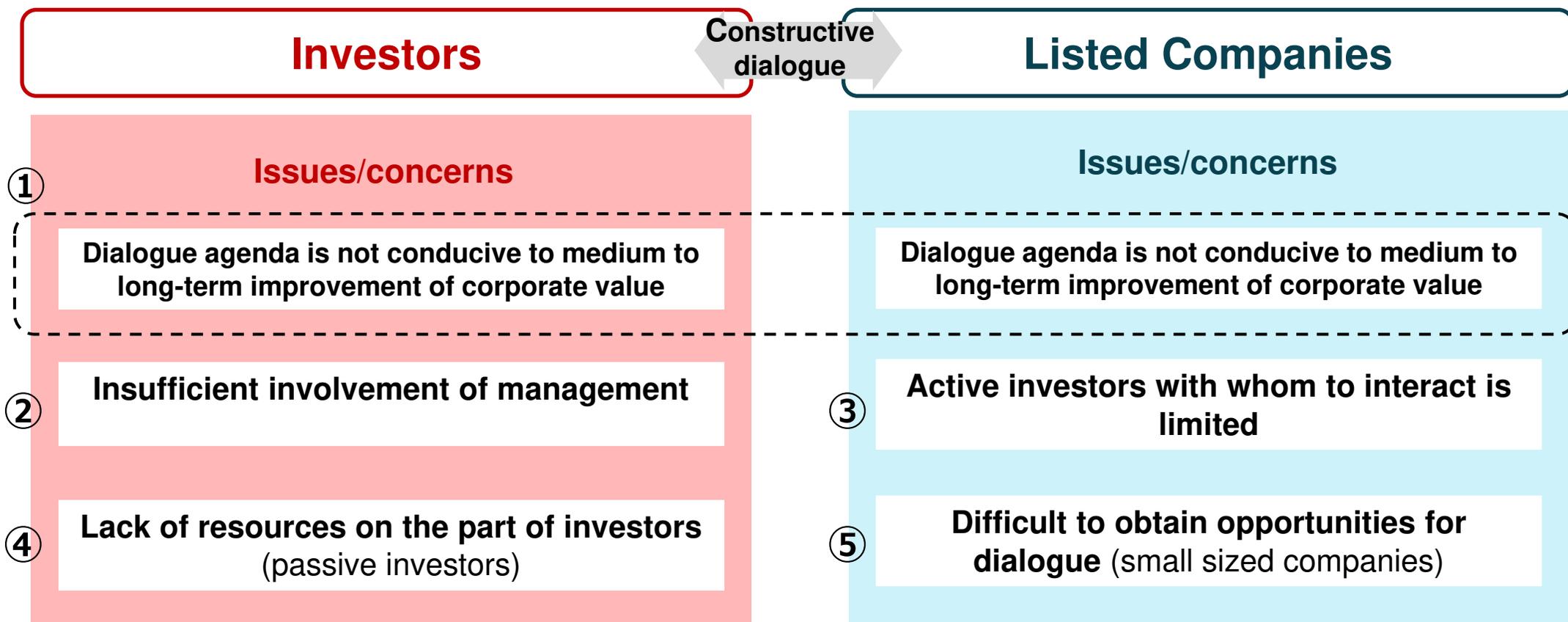
Disclosure status by market capitalization (Prime Market)



⇒ 40% (212) of companies with JPY 100 billion or more disclosed.

- Positive change in attitudes of Prime companies toward dialogue
 - ✓ Companies not previously responsive to dialogue became more willing to be so after the request
- On the other hand, **it is considered essential to provide additional support based on the issues and concerns felt by listed companies/investors.** This is because the intention behind this request extends beyond a mere push to amplify the frequency of dialogues.

(Major issues/concerns raised by listed companies/investors)



Issues and Concerns for Listed Companies and Investors (1)

(1) Dialogue agendas are not conducive to medium- to long-term enhancement of corporate value.

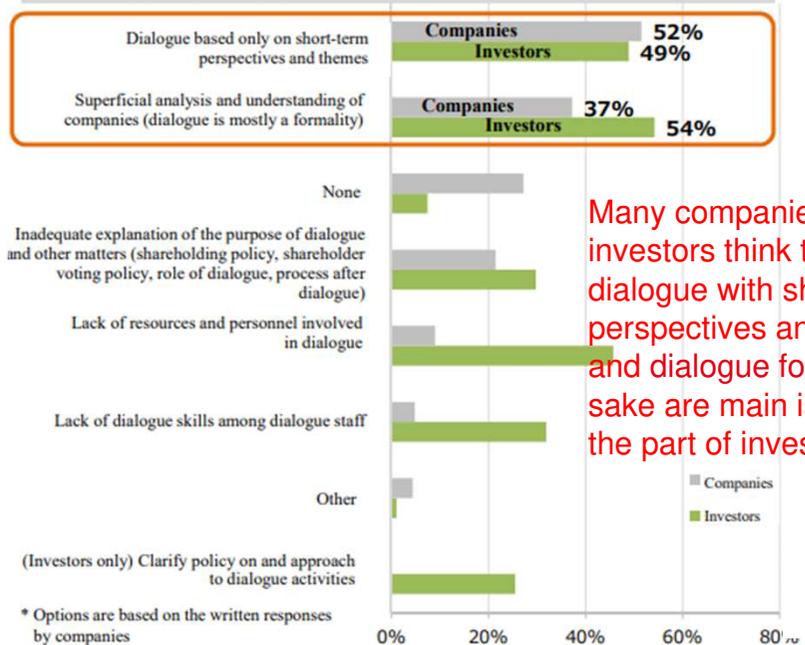
- Unproductive dialogue agendas are recognized as an issue to be addressed by both listed companies and investors.
 - ✓ Many listed companies have expressed their desire for investors to engage in dialogue that contributes to enhancing corporate value by taking a medium- to long-term perspective, rather than just a short-term perspective or dialogue for dialogue's sake. (Investors themselves recognize this issue.)
 - ✓ Some investors pointed out to listed companies that the emphasis on materiality differs depending on attributes of investors and that, at the same time, companies do not properly understand circumstances. Therefore, agendas are not appropriately set.

(2) Insufficient involvement of listed company management in the dialogue

- Investors think that, although it is important to select the appropriate personnel (senior management to a reasonable extent) to participate in dialogue based on the agenda and the attributes of the counterpart investor, management is not sufficiently involved in the dialogue.

Main dialogue-related issues on the part of investors

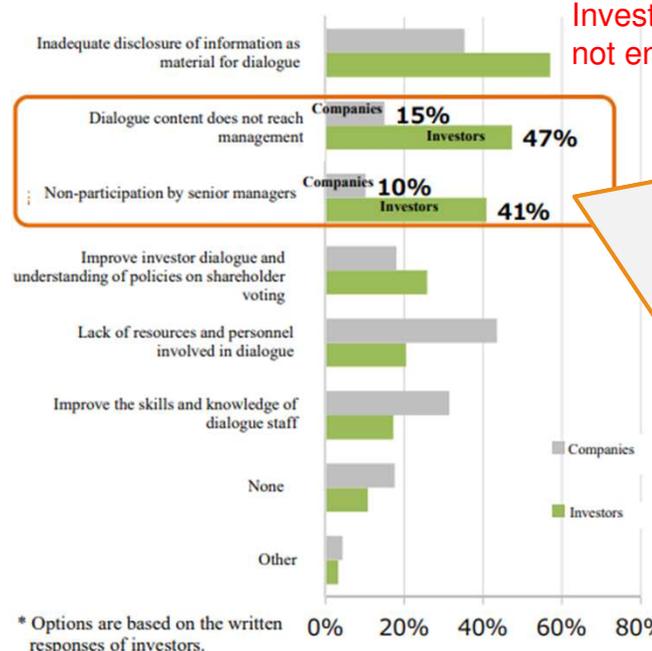
【 For companies/investors 】 (select up to three)
What are the main dialogue-related issues for investors/what do investors themselves see as the main issues?



Many companies and investors think that dialogue with short-term perspectives and themes and dialogue for dialogue's sake are main issues on the part of investors

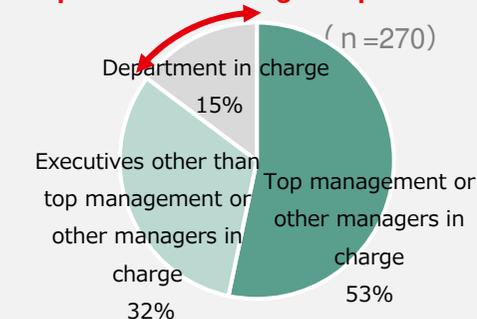
Main dialogue-related issues on the part of listed companies

【 For companies/investors 】 (select up to three)
What are the main dialogue-related issues regarding the systems and measures of your company / the systems and measures for companies?



Investors think that the management does not engage in dialogue with investors

Respondents to dialogue
At some companies, only the department in charge responds.



Note: Based on companies that disclosed persons who responded to individual interviews, small meetings, etc. in their disclosure of the status of dialogue, etc.

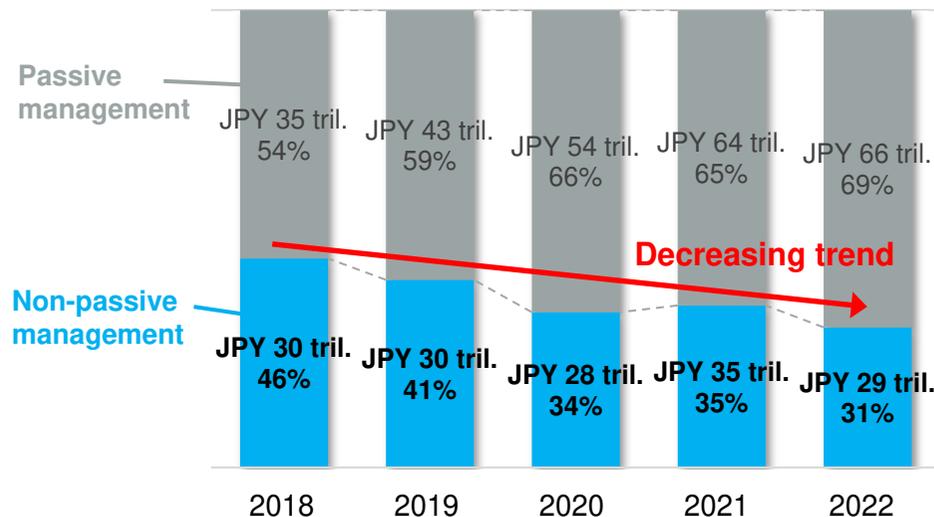
(3) The number of active investors targeted for dialogue is limited, compared to that of passive investors

- **Active investors** are largely expected to make specific proposals that give suggestions to companies that are conducive to medium- to long-term enhancement of corporate value during dialogue and engagement. However, **listed companies have expressed concerns that share holdings by active investors are limited compared to passive investors, and that it is difficult to find active investors to approach.** (see Document 1)

(4) Lack of resources necessary to achieve effective dialogue on the part of investors (passive investors)

- While a **lack of resources (human and time)** has long been identified as an issue for passive investors in conducting dialogue, **some are concerned that TSE's request will lead to a further strain on resources.**

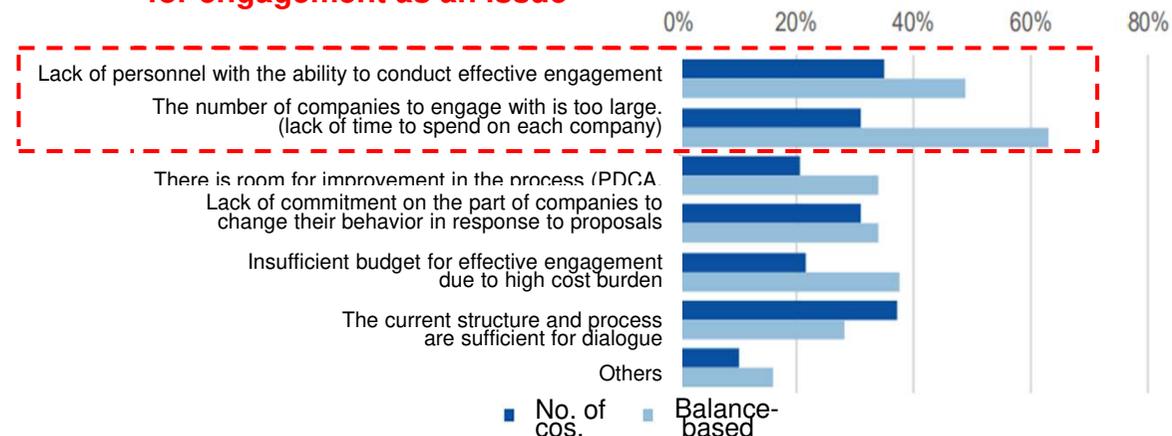
Ratio of active management in Japanese stock investment balance



Source: Prepared by TSE based on "Results of Questionnaires on Responses to Japan's Stewardship Code," Japan Investment Advisers Association
 Note: Survey for investment management members and other members who have announced their acceptance of the Japanese Stewardship Code. Status as of June of each year

Issues for stewardship activities to present new implications to listed companies

Many investors identified a lack of resources (human and time) for engagement as an issue



* No. of valid responses: 74 cos. (Domestic stock investment balance: JPY 190 tril.)

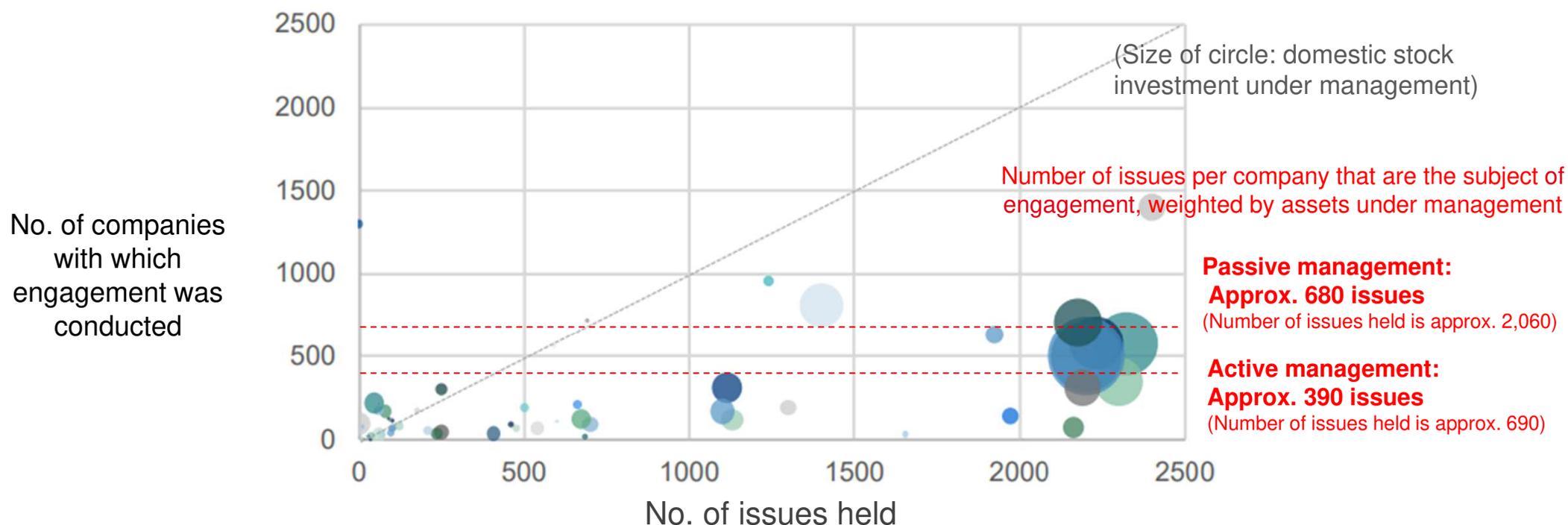
Source: Final Report "Survey on Stewardship Activities of Institutional Investors, etc." by Mizuho Research & Technologies, Ltd.

(5) It is difficult to obtain opportunities for dialogue with investors in the first place

(small-sized listed companies)

- To a certain extent, investors limit the stocks they hold that are the subject of dialogue, and **relatively small-sized companies find it difficult to obtain opportunities for dialogue with investors in the first place.**
 - ✓ Some investors commented that it is difficult to make these companies aware of investors' viewpoints without opportunities for individual dialogue.

Distribution of the number of issues held by institutional investors and the number of investors listed companies conducted dialogue with



* No. of valid responses: 74 cos. / Domestic stock investment balance: JPY 173 tril.

** “Number of issues held” refers to the number of issues held under active or passive management, whichever is higher.

“Number of companies with whom engagement was conducted” refers to the number of companies with whom a 1:1 dialogue was held over the past year. The area of the circle indicates the size of the domestic stock investment balance under management.

1. What are your thoughts on the issues and concerns felt by listed companies and investors when it comes to improving the effectiveness of dialogue?
2. What kind of support would the exchange provide to address these issues and concerns?

(Examples of possible initiatives)

| Issues and concerns | Examples of initiatives <Initiative targets> |
|--|---|
| ① Dialogue agenda is not conducive to medium-to long-term improvement of corporate value | <ul style="list-style-type: none"> ● Promote a common understanding of issues to make dialogue more constructive <listed companies and investors>. ● Help listed companies understand an overview of investors and set the agenda based on that understanding <listed companies> |
| ② Insufficient involvement of listed company management in the dialogue | <ul style="list-style-type: none"> ● Promote the designation of appropriate responders <listed companies>. |
| ③ Limited number of active investors that have dialogue with listed companies, compared to passive investors | <ul style="list-style-type: none"> ● Promote dialogue with overseas investors (English disclosure) <listed companies> |
| ④ Lack of resources on the part of investors necessary to achieve effective dialogue (passive investors) | <ul style="list-style-type: none"> ● Thoroughly promote awareness of the purpose of TSE's request for "Better Dialogue with Shareholders and Related Disclosure" (which calls for a sincere response to requests for dialogue from shareholders) <listed companies and investors>. ● Develop a framework for efficient acquisition of corporate information <investors> |
| ⑤ Difficult to obtain opportunities for dialogue with investors in the first place (small-sized listed) | <ul style="list-style-type: none"> ● Provide support for voluntary initiatives (consideration of the company's issues from the investor's perspective, discussions at board of directors meetings, information disclosure and IR, etc.) <listed companies>. |