Minutes of the Eleventh Council of Experts Concerning the Follow-Up of Market Restructuring

Date: Tuesday, August 29, 2023 17:30 - 19:30
Place: Tokyo Stock Exchange 15F Special Conference Room
Attendees: See member list

[Kikuchi, Director, Listing Department, TSE]
The time has now come to begin the Eleventh Council of Experts Concerning the Follow-Up of Market Restructuring. Thank you for gathering here today at this late hour. I appreciate your joining us today.

First of all, regarding attendance, Mr. Koike is absent and Mr. Kanda is joining us online.

Now, I would like to begin proceedings straight away. First, we will have an explanation of today's agenda.

[Ikeda, Senior Manager, Listing Department]
Thank you for gathering here today.
To begin with, for the purpose of administrative communication, a list of members is attached in Document 2. As reported in the prior explanation, we have updated the titles of Mr. Ando, Mr. Nagami and Mr. Matsumoto, and we are grateful for their continued support.

We have three main agenda items today.
The first agenda item is an analysis of the status of companies' responses regarding the request made to listed companies at the end of March to implement management that is conscious of the cost of capital and stock price as outlined in Document 3. Also, we have received interest from a large number of investors, including overseas investors. We have interviewed them and will provide you with the feedback. We would like to hear your opinions on what we can do to further support the efforts of listed companies in the future.
The second topic is covered in Document 4 and is related to the first one. We would like to ask for your opinions on what issues need to be addressed in order to make dialogue and engagement between listed companies and

investors more effective, in terms of promoting “Better dialogue with shareholders and related disclosure” with a focus on how you perceive these issues.

The third item is covered in Document 5 and relates to the Growth Market. Based on the discussions at previous follow-up meetings, as well as the opinions of the listed companies on the Growth Market and parties involved in the TOKYO PRO Market (TPM), we would like to have a discussion today on the major directions we can take in the future.

Document 6 provides a report on the current situation regarding transitional measures. I hope we can review the situation at the next meeting, so we will have a brief explanation at the end of the meeting.

Thank you for your attention.

[Kikuchi, Director, Listing Department, TSE]

I would now like to start with explanations of the accompanying documents. We have three agenda items today. I will give an update and I would be very grateful for your opinions on each of these topics.

We will now give an update on the status of companies’ responses and follow-up on action to implement management that is conscious of cost of capital and stock price based on Document 3.

To allow more time for feedback, we already provided prior explanation, so we will keep the explanation brief.

[Monden, Manager, Listing Department, TSE]

I will now explain Document 3.

Firstly, page 1 shows the status of company disclosures.

The Board of Directors and other executives are required to discuss these matters prior to disclosure with no specific deadline set. However, 31% of Prime Market-listed companies and 14% of Standard Market-listed companies have already made their disclosures. However, a certain number of companies have indicated that they will disclose more specific details in the future.

Page 2 of the document shows the disclosure status based on Price Book-value Ratio (PBR) and market capitalization.

Disclosure progress is further along among companies with low PBRs and large market capitalizations, with 45% of companies with PBRs below 1x and market capitalizations of JPY 100 billion or more disclosing information. Companies with higher PBRs and smaller market capitalization have made relatively less progress.

On page 3, regarding the documents that are used for disclosure as shown on the left, many companies disclose their initiatives in their mid-term management plans and financial results presentation materials, at around 30% in each category. On the right side, this data which was updated at the time of the prior explanation, shows the initiatives of companies with a PBR of less than 1. As can be seen, many companies cite investment for growth and strengthening shareholder returns, while a lot of companies with relatively high return on equity (ROE) but PBR below 1x are also strengthening their investor relations initiatives. However, even where the companies disclose their initiatives, there are a certain number of cases where their statements are deemed to be insufficient from investors' point of view.

Page 4 shows the results of a survey conducted by the Japan Investor Relations Association on the challenges regarding these initiatives as perceived by the companies.

Many respondents said that there was a lack of internal resources and systems in place, and that it was difficult to incorporate them into management targets. From an investor perspective, many companies have highlighted the increase in passive investment and a decline in the number of analysts who take a medium- to long-term view in their analysis.

For reference purposes, page 5 shows the disclosure status by industry.

While companies in sectors with low PBRs to the left, such as banking, are making good progress on disclosure, sectors such as information and communication, services or retail with a high PBR on the right are making relatively slower progress.

Page 6 is a slide added during the prior explanation, but for your reference, it shows the disclosure status by ROE level and by distribution of shares. By ROE level on the left-hand side, just under 40% of companies with PBR below 1x are making progress with disclosures, regardless of whether ROE is low or high. Furthermore, if we look at disclosure by distribution of shares on the right, in case of companies with controlling shareholders, even if the PBR is less than 1x, the disclosure rate is as low as 21%, showing relatively slow progress.

Starting on page 7 there is some feedback from the investors. To begin with, many investors have expressed that they have high hopes of changes in future by the companies based on this request. Many said they were already seeing positive changes in [their investee] companies.

On the other hand, page 8 highlights some of the challenges with this. For example, there are some cases where companies mistakenly think that the request does not apply to them if their PBR is over 1x; cases where management is not fully convinced of the importance and necessity of responding to the request; cases where there is insufficient knowledge and resources to proceed with a response. Based on this, many investors have expressed the need for continued support for listed companies.

Page 9 outlines other feedback from investors and other interested parties.

Based on the above, page 10 summarizes the follow-up actions to be taken by TSE.

First, in terms of assessment of the current situation, the request has been taken seriously, particularly by companies with low PBRs. Although some companies' disclosures are still insufficient from an investor perspective, a certain number of companies have already taken action and investors are generally positive about this. On the other hand, based on actual disclosures and feedback, the factors that may be contributing to a lack of action by companies include the misconception among companies with high PBRs that the request is irrelevant if their PBR exceeds 1x, and, for other companies, management misunderstanding of the significance and necessity of giving a response, or a lack of resources in place to take action.

Based on these issues, TSE would like to follow up on the following three points in order to encourage companies to consider and disclose information.

Specifically, the first point is the continuous follow up on the status of companies' responses and investor feedback. Through actively providing such information, we can visualize companies that are making progress and those that are not, thereby raising awareness amongst company managers that they must respond.

The second point is, together with the first point, to reiterate the purpose of the request that all companies should respond, regardless of their PBR levels.

The third point is that a summary of key points and examples of best practice should be compiled based on investors' perspectives, taking care not to induce companies to have to take merely formal measures.

Promotion of constructive post-disclosure dialogue with shareholders and investors will be discussed in Document 4.

That concludes my explanation, and today we would like to hear our members' opinions about how the companies are responding and what follow-up is required in the future.

Please refer to the separate document for a detailed summary of the overall situation, as appropriate.

Thank you for your attention.

[Kikuchi, Director, Listing Department, TSE]

Now, I would like to hear from our members. Who would like to start?

[Kumagai, member]

Thank you very much for carefully compiling this information. The "action to implement management that is
conscious of cost of capital and stock price" that was announced in March this year has clearly had a very positive impact in terms of encouraging listed companies to increase their corporate value, as well as stimulating the stock market. I am fully aware that these follow-up points are an extremely important initiative that will determine whether this positive impact can continue.

It is clear that domestic and international institutional investors are also paying close attention to the follow-up measures. In addition, the new NISA will start next year, accelerating the flow "from savings to investment", and the framework for the supply of funds will be drastically improved. The listed companies are the final piece of the puzzle since they are the ones with the demand for funds. They will be expected to work harder than ever before to increase their corporate value. From this perspective, I believe that our discussions at the Follow-up Council are essential to help listed companies increase their corporate value effectively and to ensure speedy reform of the stock market.

Following on from this, I would like to move on to the individual issues. In terms of measures taken with consideration of capital costs, page 2 of the document highlights that companies with lower PBRs and larger market capitalizations are more likely to make disclosures, while companies with higher PBRs and smaller market capitalizations are relatively less likely to do so. Following on from TSE’s request, Daiwa Institute of Research has also had discussions with a number of companies, and we have the same impression from our interaction with them.

To give you a little more detail on our impressions, we can distinguish three types of companies that are considering their response.

The three types of company are as follows: first, those that use the request as an opportunity to attempt internal reforms; second, those that lack resources or are waiting to see what other companies do; and third, those that are skeptical of the importance of undertaking the request.

Based on this point, I believe that it is necessary to implement measures and create an environment tailored to each type of companies in order to promote the consideration and disclosure of requests by listed companies. Specifically, I would like to share with you three ideas.

Firstly, as I have said before, I believe that the measure listed on page 10 of the document, “Compile/disseminate key points of responses based on investors' perspectives”, is a measure that meets the needs of companies. There are many cases where original ideas are derived from imitation, so I think it is important to brush up on best practice examples by replacing them with cases from one’s own company. Of course, it goes without saying that it is vital not to induce companies to take merely formal measures, as stated in brackets.

A key point or example could be, for example, the “cost of capital.” When looking at the disclosures of listed companies, you can often find detailed analysis and measures for capital return, but no reference to reducing the cost of capital. From this perspective, addressing issues where there is insufficient analysis or that companies would like to know about would be useful guidance for companies.

Secondly, I suggest making a list of companies that have disclosed. In addition to the status of disclosure responses by companies, one option would to prepare this based on the types of disclosure documents and initiatives shown on page 3 of the document. One idea for the detail of the initiative is an analysis in terms of “return on capital and cost of capital” and “market valuation.” This is typically Japanese, but when we speak to listed companies, they always talk a lot about how other companies are doing. There really is a “culture of shame” in Japan. It may be effective to utilize this corporate behavior to our own advantage and create an environment that encourages disclosure.

This information is useful for investors as well as for companies. When disclosing this information [i.e. the list of companies], it is important to take measures to maximize hits for the list in key word searches on search sites and to provide the list to information vendors so that the details are readily accessible to investors. I think the list of companies subject to transitional measures, which was requested at this meeting, is very useful, but it is hard to find on search sites. I feel it is a great waste that not many know of its existence.

Third, in addition to continuing to increase awareness of the purpose of the request, we could consider providing more in-depth guidance. Companies who question the request should receive careful guidance on the importance of allocating management resources with due consideration of capital returns and other factors and of generating growth in corporate value to meet the expectations of investors and other stakeholders. There should also be an opportunity to reconsider the responsibility of raising funds from an unspecified number of investors in the stock market in order to carry out business activities. This may be discussed later on, but it is likely to be addressed in the [TSE’s] Corporate Code of Conduct.

Finally, in addition to measures to promote corporate disclosure, I believe that the need for evaluation methods and objectives should be discussed at the Follow-up Council in order to follow up on the request. Given that the Follow-up Council will meet continuously for three years, I think it would be useful to discuss the definition of the evaluation parameters in order to ensure that the companies do not just provide ad hoc responses.

[Sampei, member]

I would like to highlight three points concerning challenges, measures to resolve these issues, and ways to improve general awareness.

Thank you for amending the material from the prior explanation on page 3 of Document 3. Many companies highlight improved investor relations as a measure to improve return on capital and market valuation. At first glance this may seem to be a positive initiative, but this improvement may miss the point. The bar chart on the right hand side clearly shows that there is a discrepancy. The typical challenges for companies with PBR of less than 1x can be simplified into two categories: one is that returns are below the cost of capital. To simplify, if the cost of capital is fixed at 8, when ROE is divided by 8, PBR is less than 1x because ROE is below the cost of capital. The other issue is that the PBR is very low, exceeding the cost of capital, but not significantly above or below 1x. PBR = ROE x PER. Since Price Earnings Ratio (PER, also known as P/E ratio) is a function of growth, this means that ROE exceeds the cost of capital but that the company is not considered to have much growth potential, or that the market is not convinced about the opportunity for growth. If we look at these two categories in the bar chart on the right, for example, more companies with ROE below 8% are focused on “investment for growth” compared to companies with ROE above 8%, but this should be the other way round. Companies with ROE above 8% need to change gear and shift to investment for growth. This would smooth out the unevenness in the bar chart. The bar chart is also the wrong way round for “strengthening shareholder returns” which should be less for companies with an ROE of 8% or more, since they are reinvesting more. The same applies to “sustainability initiatives”, which should be addressed by companies with a sufficiently high ROE and the ability to take on new business opportunities. With respect to human capital, companies with an ROE of 8% or more should be more proactive in focusing on investment in future growth, that is “human capital investment.” Therefore, as for all of the top four categories, the implementation ratio should have been higher among companies with a higher ROE, contrary to the results shown here. It is easier for companies to review their business portfolio if they have some leeway available, so I think this kind of result is achievable. A higher proportion of companies with an ROE of

8% or more appear to be working hard to strengthen their IR. The fact that they could direct their efforts differently suggests it would be good for the stock exchange to provide appropriate guidance for companies when considering how to approach issues and consider strategies.

The second point is on page 6, which shows something similar. Regarding the graph on the left, companies with PBR below 1x and ROE above 8% should have plenty of scope for improvement, but it will depend on their communication and whether they can implement initiatives that will resonate with investors. The graph on the right shows that only 21% of companies with a controlling shareholder and a PBR below 1x disclose this information. This shows a clear disregard for minority shareholders.

Thirdly, on page 10, there is a misconception that the current request is irrelevant for companies if their PBR is above 1x. This is not just the case for PBR, but also for ROIC and ROE. This is particularly true when evaluating each business segment as part of a portfolio review. Assuming that the business is successful just because the hurdle rate is exceeded is not how companies are rated by the stock market. The stock market values companies on a relative basis. The stock market's rating of companies is based on whether a company is continuing its efforts to achieve a stronger and more competitive advantage. Therefore if a management believes that it is enough simply to exceed a certain hurdle rate and thereby achieve a pass mark, that means they need to improve their mindset. It is necessary to carefully explain these matters and follow up to ensure that the content of company disclosures is sufficiently meeting investors' expectations.

[Ando, member]

Although the aggregate results you have provided are based on fact, this is just an analysis of the situation for the 242 companies listed on the Prime Market as disclosed in their corporate governance reports. Therefore it is a little premature to view this as an overall trend.

I feel very positive that so many companies have proactively made disclosures in such a short period of time. If one does not take account of the small sample size, there is a high risk of misunderstanding when these materials are published. In general, companies update their corporate governance reports after their annual general shareholder meetings, so companies with a financial year ending in December may not be included in this total. There is likely to be a significant number of companies that have already published targets and action initiatives in their medium-term management plans and integrated reports, but have not mentioned these in their corporate governance reports. Taking this into account, it is excellent that companies have made so much progress in a short period of time. This is due to the efforts of TSE and JPX Group actively raising awareness in various ways, but we need to monitor progress for a while longer and assess the key issues. However, I would like to ask TSE to once again ensure that companies are fully aware that it is mandatory for them to make disclosures in their corporate governance reports.

[Matsumoto, member]

Overall, I think this is well organized, and I believe that the follow-up is generally in accordance with the material. One thing that concerns me is the disclosure status by distribution of shares on page 6. Although this is unique due to the small sample size, 21% of companies with a controlling shareholder and a PBR of less than 1x have comply with the disclosure requirement: only 12% of these companies actually make disclosures and 9% of these companies just say that disclosures are “under consideration.” Appendix 1 shows that 0% of companies with a controlling shareholder, for example, in the Standard Market, set any specific objectives. In terms of specific initiatives, 50% of companies have strengthened investor relations and implemented sustainability initiatives. Therefore it seems that few companies with a controlling shareholder are responding to this matter. Anyway, there are very few companies that are taking any action. Even those that are taking action of sorts are not actually doing very much. I cannot help but think that having a controlling shareholder is a significantly negative influence for companies. In fact, with many companies with controlling shareholders, there is no dialogue or else they do not make themselves available for dialogue. This may not be related to “action to implement management that is conscious of cost of capital and stock price”, but the problems faced by listed companies with controlling shareholders appear to be significant and need to be discussed separately.

[Kanda, member]

I think the measures in the document are excellent, but I would like to make two comments.

The first concerns the point of disclosure “under consideration”. Although this was presented at our meeting as an example of an insufficient explanation in the Corporate Governance Code’s “comply or explain” section, it should not be acceptable for a company to state that its measures remain “under consideration” for another year. If the measures are “under consideration”, we need to ask the company to disclose a specific process and timescale, namely when they will make their disclosure and what they plan to disclose.

The second point is to do with the lack of resources. The specific meaning of this is probably a lack of financial personnel. However, if there is a shortage of resources, it is necessary to specify in detail in the disclosure what actions and measures will be taken.

[Nagami, member]

I am comfortable with the document in general. However, carrying on from the previous meetings, I think the most important theme is to continue to demonstrate our stance on market reform. From that perspective, page 2 of the document shows that companies with a high level of awareness of this issue are undertaking both disclosures and action as soon as possible. However, genuine reform of the market means that companies that say disclosure is “under consideration” or who have not made any disclosures will change their approach. I think it would be better to have a policy of enforcement or guidance. The other point is that, in terms of market principles, and I think this relates to the theme that follows, there should be engagement and pressure from the investor side. I believe that through such a process, there will be fundamental change by the 70-80% of companies that do not disclose their initiatives, and this will lead to market reform

[Okina, member]

If this initiative leads to a trend, not just among a few companies, of discussing cost of capital, return on capital and stock price performance at board meetings based on management evaluation criteria, I think this would be a first step. However, as has been pointed out, in addition to the fact that it is not enough if the PBR exceeds 1x, it is also necessary to highlight how the situation looks from a global perspective, and to confirm where we stand.

Also, as Mr. Sampei very logically commented earlier, it seems that we cannot resolve the issue unless we discuss the equity story in addition to portfolio review and balance sheet reorganization. Many companies are aware of this, but do not know what to do. Therefore it would be good if TSE could devise a way to communicate this, for example by introducing analysts' views.

We have also heard that this information is disclosed for a number of regional banks. One regional bank is very highly regarded and has a reputation for producing logic trees that can be applied to operations similar to those carried out by Omron. It is necessary to devise and put forward such examples, although we should take care not to induce companies to have to make a merely formal response.

Finally, it is ultimately important that PBR increases over the long term. Therefore, I would like TSE to establish a system that enables it to verify how such disclosures are linked to PBR over the long term.

[Kuronuma, member]

As pointed out by Mr. Kanda, there were fewer firm entries than expected in this tally. It is somewhat surprising, and also disappointing, that the number of companies stating that their disclosures are "under consideration" was particularly high, particularly in the Standard Market. I think the companies that did not state they were making disclosures may mean that their disclosures are "under consideration." However, I even got the impression that those companies that said they were "considering disclosures" may have given up and not done it this year. I thought it would be a good idea to send a message to companies that submit corporate governance reports in future that they are expected to include specific information, rather than just saying that their disclosures are "under consideration." I am not in a position to say whether the details of the initiatives are good or bad, but I would like to see a dialogue between investors and companies proceed, taking account of the companies' disclosures.

[Kikuchi, Director, Listing Department, TSE]

Thank you very much.

Next, we will explain the status of the companies' response and follow-up regarding the promotion of dialogue with shareholders and disclosure, based on Document 4.

[Yamawaki, Manager, Listing Department, TSE]
I would like to give you an explanation on Document 4.

Page 1 shows how Prime Market companies have responded to requests for dialogue. As of mid-July, 34% of companies listed on the Prime Market with their financial year end in March had disclosed the results of their dialogue with shareholders.

The recent request was discussed at this Follow-up Council. The first step was a request to companies to provide a sincere response to any requests for dialogue from shareholders. As can be seen from the disclosure status by market capitalization on the right, the larger the company and the more available it is for shareholder dialogue, the more advanced it is in making disclosures.

Page 2 concerns how follow-up should be done in the future. As a result of this request, we are already seeing positive changes in companies' attitudes towards dialogue. However, we must make sure that these changes do not end up simply just increasing the number of dialogues. In order to properly improve corporate value, it is important that we provide additional support within the scope of our position as an exchange, taking into account the issues and concerns of listed companies and investors.

Page 3 onwards describes some of the "issues and concerns" that were asked about as we communicated with listed companies and investors around the time of the request.

The first point is that both listed companies and investors recognize that setting the agenda for dialogue is not conducive to improving medium to long term corporate value.

For listed companies, it is recognized that there is an issue in that dialogue with investors has become overly short-term or has been held for the sake of formality.

In addition, investors point out the importance of understanding the differences between attributes such as active and passive for listed companies and setting an agenda.

Furthermore, the second issue or concern is that while it is necessary to select the appropriate responder on the company side according to the agenda and the investor concerned, there has been feedback from investors that company managements are not getting sufficiently involved in the dialogue.

Actually, we have compiled a list of companies that stated the results of their responses, as shown in the pie chart at the bottom right, and there were a certain number of companies where only someone from the department in charge of investor dialogue handled the matter.

Moving to page 4, as the third point, there have been some concerns, especially from companies that are proactively utilizing dialogue with investors to improve their corporate value, that their holdings by active investors who are expected to have individual and specific dialogue with them are limited.

The fourth point is that passive investors, in particular, are generally recognized to lack the resources, in terms of personnel and time, necessary to achieve effective dialogue.

In addition, if this request leads to requests for individual dialogue from companies whom they have not previously targeted, there are also concerns that this will lead to further strain on resources.

Moving on to page 5, the fifth point is that there are a considerable number of companies listed on the Prime Market that have difficulty in obtaining opportunities for dialogue with investors in the first place.

Passive investors, in particular, have expressed their concerns about how to make these companies more aware of these issues from the perspective of the investors, when they do not have the opportunity for individual dialogue.

On page 6 is the item I wish to discuss today.

As the first point, I would like to hear your opinion on the issues and concerns raised by listed companies and investors from the perspective of improving the effectiveness of dialogue.

Secondly, I would like to ask for your opinion on what kind of support the exchange could provide based on these issues and concerns. For reference, we have included some examples of potential initiatives, but I would appreciate hearing a broad range of opinion, not just limited to these.

The following pages are examples of disclosures with respect to the implementation status of dialogue, but I will omit the explanations for these.

That’s all from me.

[Kikuchi, Director, Listing Department, TSE]

Now, I would like to hear from our members. I would appreciate your input.

[Kumagai, member]

I believe the follow-up measures are generally covered on page 6 of Document 4. The initiatives concerning Point 1 on page 6 (“Dialogue agendas are not conducive to medium to long-term improvement of corporate value”) are especially important.

I recognize that one of the goals of the series of requests made in March this year, including “action to implement management that is conscious of cost of capital and stock price” was to align the perspective of investors and listed companies and to bridge the gap in perception. The initiatives in 1) are exactly an effort to remedy the gap in perspective, and I believe that we should promote a common understanding between listed companies and investors through such efforts.

I believe that we can hold seminars as part of public awareness and education activities to promote common understanding between listed companies and investors. However, we should not forget to also promote the results of the seminars externally through the Follow-up Council meetings and other opportunities. It is also beneficial to create a virtuous cycle in which the new knowledge that we gain is further incorporated into measures.

Also, although it may be a little off the mark in terms of “encouraging the establishment of a system to respond to requests for dialogue from shareholders,” for companies who find it “difficult to obtain opportunities for dialogue with investors in the first place” (as in point 5 on page 6), we could think about conducting IR activities for individual investors in addition to supporting voluntary initiatives.

Smaller companies may not be eligible for investment by institutional investors, but in such cases, there are ways that they can boost their market capitalization and liquidity through developing trading by individual investors and other investors. Considering that “action to implement management that is conscious of cost of capital and stock price" is intended for the Standard Market, not only the Prime Market, and that the new NISA will start next year, it is necessary for individual investors to get to know the companies and also to understand the expectations of the individual investors.

[Matsumoto, member]

I think the follow-up is generally good, but one point that I am very concerned about is number 3 on page 6: "Limited number of active investors that have dialogue with listed companies, compared to passive investors."

Active investors can sell their shares, but passive investors cannot sell as long as their shares are in the index, so they can only encourage corporate value improvement through engagement.

Therefore, I believe that the notion on the part of companies that passive investors do not engage in dialogue or cannot be participants in dialogue is clearly wrong. In fact, in the US, companies such as BlackRock and Fidelity, which have large passive holdings under management, are putting a lot of effort into engagement.

If you are a listed company and think that there is no point in dialogue with passive investors, I think we need to correct this way of thinking. From the point of view of the investment management companies, saying that they do not have the resources because they are passive seems like an abdication of their fiduciary responsibility. I believe that such misunderstandings on both sides need to be corrected.

[Sampei, member]

First, regarding Document 4, thank you very much for summarizing what both investors and listed companies consider as their concerns and issues.

Then, the question of what to do about this is on today's agenda, and I am acutely aware of the feedback regarding these concerns and issues.

I myself have been focusing on engagement for many years and I have improved my approach through a process of trial and error.

Based on that experience, both investors and listed companies feel like they are being forced into doing this. It seems like both parties are grumbling and dissatisfied about this without showing a due degree of professionalism. Even if we take on board such complaints and dissatisfaction, it seems difficult to find ways to improve the situation.

For example, on page 2 of Document 4, point 1 “Setting the agenda for dialogue,” investors have pointed out that the agenda has not been set in the way they expected. Even on a global scale, agenda setting is led by investors. Of course, there are times when the approach comes from the company side and the company specifies an agenda. If investors believe that the agenda specified at that time is not appropriate, they can propose a more relevant agenda in addition to this, and can deal with both agendas.

Also, regarding point 2 on page 2, “Insufficient involvement of listed company management in dialogue,” if investors are saying that they requested a dialogue with management but that they did not respond, I think this means that the agenda set by the investor did not resonate with management in the first place. If the investor presents merely formal agenda and is refused a dialogue with management, then I believe that means there is a problem on the part of the investor. In fact, it is natural for person in charge of investor dialogue to try to deal with the matter first. When you convey your concerns about an issue or agenda to the person in charge, if they recognize that this is a high-level topic and that is necessary to speak to management, they will automatically connect you with management.

Regarding point 3 of the listed companies’ issues and concerns (“Active investors with whom to interact is limited”), I think this is natural since active investors have limited investment targets to begin with. First, in order to engage with active investors, companies need to highlight their investment attractions. Without going through this stage, I think it is misguided to say that it is not possible to have a dialogue because there are no active investors.

Also, with small companies, I think it is certainly possible that if the scale of a company is extremely small, it may be excluded from the scope of dialogue. However, investors are also willing to engage in dialogue with a company if they think the company will implement interesting initiatives as part of a transformation. Similarly, these companies may also have problems for their own part, such as not being attractive for investors.

Overall, I feel that both listed companies and investors are complaining and expressing dissatisfaction even though there is more they can do. Therefore I am concerned whether this is a good starting point for discussion. Rather, I feel it is important to show what we can do before we actually do so.

[Nagami, member]

Regarding the issues listed in Document 4, there is no discrepancy with the perspectives of the issuing company. If we are to restore an appropriate balance, I believe that issue 2 (“insufficient involvement of management”) for listed companies in dialogue is important. I think it all comes down to one point: whether the CEO and management team are committed to having a dialogue.

I am not saying that a lot of time should be spent on this, but I still think that the details should be monitored to see if the CEO and management team are responding properly with increasing financial literacy based on a certain number of interactions.

Even if a company goes public with a small market capitalization, there are many instances where companies that have since grown their market cap to hundreds of billions of yen, where the CEO is the top sales person and sells the company’s stock, thereby demonstrating a strong sense of commitment.

From that point of view, such as the example of Kobe Steel in the reference, disclosing the number of interviews with top management also seems to be very much a formality. However, I believe that this is an easy-to-understand fact that indicates a certain level of commitment, and I thought that one idea would be to encourage such disclosures.

[Ando, member]

The details of Document 4 seem to show that both companies and investors feel quite stressed by the issue of dialogue. As I have said before, it is wrong to focus only on dialogue. I believe that the basis of all the stress is the current inadequate disclosure of management information on the part of companies. This is a prerequisite and a necessary condition for dialogue.

In order for a company to fulfill its corporate governance responsibilities and practice fair disclosure, it needs first of all to thoroughly disclose management information. Investors are also unable to engage in quality dialogue with companies that do not provide sufficient disclosure, and this must be the biggest point of stress. Therefore, I would like to emphasize once again the importance of disclosure of corporate management information.

Furthermore, if you are an active investor, if a company gives sufficient disclosure of management information as necessary, you can simply make fixed-point observations of business performance.
You can protect the health of your portfolio even without dialogue, and I think it

would be a good idea to use the opportunity to have a dialogue to highlight areas of deficiency or to give advice on how to improve corporate value.

To reiterate, we cannot expect to promote high-quality dialogue unless there is full disclosure of management information as a prerequisite for dialogue.

In addition, I would like to say this so that there is no misunderstanding for readers of today's minutes, but I feel uncomfortable about the assumption that passive investors should also engage in dialogue with individual companies. As a general rule I believe that passive investors are not involved with dialogue or engagement. I think it would be problematic if companies reading the minutes were to get the impression that they must actively engage in dialogue and interaction with passive investors as well from now on.

Also, since investors vary considerably in terms of the number of companies in which they hold shares, for example, there is the question of whether foreign and domestic investors can be discussed in the same way. Therefore the nature of dialogue and engagement should vary depending on the attributes of the investor. In any case, so long as a company is publicly listed, it is necessary to communicate the message to corporate managements that they have not fulfilled their corporate governance responsibilities unless they voluntarily disclose management information.

[Matsumoto, member]

Regarding Mr. Ando's comment just now, if a passive investor just buys the stocks covered by the index, and does not engage with company managements, then I do not think they are fulfilling their fiduciary responsibility.

I have also spoken directly with Mr. Larry Fink of BlackRock. He said that since passive investment is his focus and it is not possible to choose the stocks of companies held, it is important to conduct thorough engagement and increase corporate value of the companies held.

I am not aware of the details of the level of engagement of Japanese passive investors with their investee companies. However, from the perspective of fulfilling their fiduciary responsibility, they are naturally expected to engage in a robust dialogue and to enhance corporate value for the benefit of the asset owners.

[Ando, member]

I am not referring to what it should be, but rather what the current situation is, which is not necessarily what Mr. Matsumoto is referring to.

You also talked about BlackRock. However, I think that many other passive investors, based on the premise of buying an index, do not realize that they have a duty to undertake dialogue and engagement with individual companies, and that it is their responsibility to asset owners.

[Kikuchi, Director, Listing Department, TSE]

I would like to make a few comments for my part. Ultimately, I think it comes down to how we understand the meaning of the words, “dialogue” and “engagement.” As mentioned on page 5, I think there is an awareness that passive investors are also engaged. Personally, I think the difference is whether the content is limited to general content such as ESG, or whether the discussion extends to concrete measures to improve the corporate value of individual companies.

[Okina, member]

Currently, there is a trend to increase individual asset income through the NISA framework, but if engagement is not done properly, I think this is a major problem.

I also had a hard time understanding point 1. On the company side, as covered in the PBR discussion, I think we need to have a thorough discussion about how we think about the relationship between cost of capital and return on capital, how to increase corporate value, and what business model is best for this purpose. I believe that we need a thorough discussion on these matters, and that there is no point in having a dialogue that just ends up as a formality.

From this perspective, with respect to the person who responds on the company side, I think it is necessary for top management to have their own say. Also, on the investor side, I believe that it is vital that there are professionals in charge of this kind of dialogue, and it is important for both parties to improve the quality of their responses.

I also believe that it is very important to promote dialogue with foreign investors, and I believe that CEOs of Japanese companies must be able to talk about their business models to foreign investors.

I think that both companies and investors need to think about how to achieve engagement that will drive substantial increases in corporate value.

[Kanda, member]

After looking at the materials, I feel that the importance of dialogue has been gradually understood since the establishment of the Stewardship Code. I think we are making very gradual progress, but to put it simply, I do not think we have made much headway in this respect. This is a very difficult question, and I believe that TSE has its own problems when it comes to what TSE is able to do.

With that in mind, I would like to make two comments. In relation to the points raised by Mr. Sampei, the first point is that I do not think that all listed companies or all institutional investors should be involved in dialogue and engagement with each other from the point of view of clarifying concepts or clearing up misunderstandings. Therefore, it is not a problem at all if you want to have a dialogue with investors but do not have the opportunity to do so. Although the word “engagement” means more than dialogue, I believe that engagement basically refers to an approach from the investor side. I think we need to clear up misunderstandings based on the fact that dialogue and engagement occurs as a result of investor approaches.

Apart from that, I think that IR for individual investors is of course important. Therefore I think it is a good idea to proceed with this. I feel like there are a lot of misunderstandings about the word “engagement”, so we cannot just say everyone should do it. Therefore, I hope TSE can effectively communicate these points.

Second, having said this, I think it was a very good initiative to introduce examples of best practice.

Also, I would like to refer to the earlier discussion about passive investors. My understanding is that passive investors were not engaging with the companies in the past but are now starting to do so. And I think it is a coincidence that the time when they started doing this was exactly the time when ESG began to be more topical.

[Kuronuma, member]

In terms of the issue being addressed here, we position the Prime Market as a market for companies that strive to improve their corporate value through a focus on dialogue with various investors.

I think the question is what kind of initiatives can only be taken by companies listed on the Prime Market.

On top of that, regarding approaches on the part of institutional investors, there is also the Stewardship Code, and it is true that not all listed companies are subject to dialogue. Regarding the fact that there are companies in the Prime Market that do not have the opportunity to engage with investors, the important point is how the TSE supports this, and I think its efforts are described on page 6.

I think the efforts described on page 6 are reasonable, and I think the focus will be on support. However, for example, in the example of point 2, “Promote the designation of appropriate responders”, what kind of specific details are envisaged? For reference, I would be interested to know whether you would like to request the CEO to engage in dialogue, whether you would like to introduce some examples of best practice, and to what extent you think TSE is able to do this.

[Ikeda, Senior Manager, Listing Department]

As mentioned earlier in Mr. Nagami’s comment, we believe that the most appropriate way to do this is to highlight some examples of best practice.

I think the companies should decide who will respond depending on the agenda and the investors they are dealing with, so I think it would be a bit strange for TSE to make a blanket ruling about who should handle the response. Therefore, I plan to introduce the schemes for initiatives that companies are actually implementing.

[Kuronuma, member]

Thank you very much. Ideally, I would like to see many companies listed on the Prime Market engaging in dialogue. I felt it was necessary to discuss this by distinguishing between these aspects that should be pushed by investors and those aspects that can be handled by the exchange. That is why I asked the question I just asked.

[Ando, member]

Mr. Kanda pointed out earlier that even passive investors are beginning to engage on ESG. As I recall, about eight years ago, when I was in charge of IR, I had a meeting with an investor who was engaged in passive management who asked about ESG. However, at that time, the focus was on feedback about initiatives that Omron was taking as a typical example of a Japanese company, and what the direction was for Japan as a whole with regard to ESG. The focus was on general trends for Japanese companies rather than dialogue initiatives with individual companies.

However, since that was a very long time ago, it may be the case now time that individual companies are now being consulted about their own situation, especially with regard to ESG.

[Sampei, member]

I feel that unless the definition of engagement is hardened up, the various opinions will not get due attention. When defining engagement on a global basis, there are two definitions that many people agree on. One is “Engagement for Information,” and I believe that the consultation on ESG that Mr. Ando described falls under this category. Even institutional investors who are relatively unaccustomed to engagement can do so in this format. As Mr. Kanda said earlier, I think this means that engagement among passive investors has increased together with the ESG wave.

The other type is Engagement for Change whereby investors go to the company with a clear objective to get the company to change and say what they want the company to do. The difference here is that the counterpart in the dialogue must be someone who can bring the agenda to the board of directors, such as top management, the chairman of the board of directors, or an independent outside director. Naturally in this case, it is the investor who leads the agenda setting.

Therefore, I believe that the details vary depending on which type of engagement you talk about.

[Matsumoto, member]

The Stewardship Code and the Principles for Responsible Investment also clearly state that fiduciary managers should engage in dialogue and engagement. Although this may not be directly linked to the theme of this Follow-up Council, I believe that if an investor does not undertake dialogue and engagement with the companies, this is a clear violation of their fiduciary responsibility.

[Kikuchi, Director, Listing Department, TSE]

Thank you very much.
Next, I would like to explain our policy for responding to the functions of the Growth Market, based on Document 5.

[Isogai, Manager, Listing Department, TSE]
Let me now explain the document.

Thank you for turning to page 1. Today I would like to discuss our future policy to enhance the functionality of the Growth Market, based on our discussions and the opinions of companies listed on the Growth Market and parties involved in TPM.

The discussion so far is summarized on page 3 and the following pages. It has been pointed out that the biggest challenge for development of startup companies lies in scaling up, with the importance of proactive investment in growth and the participation of institutional investors being key towards this end.

There were also some other comments on page 5, including the need to provide opportunities for growth before going public.

On page 7 and beyond is a summary of the results of the call for feedbacks from listed company management.
As shown on page 10, a lot of listed companies have commented that it is difficult to raise funds and invest in growth because of concerns about dilution and declines in profits. On the other hand, some have highlighted the importance of properly explaining the growth story to investors, even with listed companies.
As shown on page 12, many respondents expressed concerns about the lack of points of contact with regard to the participation of institutional investors, as well as the lack of effective investor relations initiatives.

The following pages, starting from page 21, summarize the results of interviews with TPM stakeholders.
As well as the fact that TPM is a platform for listing for companies seeking to achieve growth, as the number of such companies increases, the number of investors who want to invest in TPM will also increase. The feedback was that

TSE should support and help realize the efforts of such ambitious companies.

And finally, on page 24, as a basic premise, there is the view that in order to generate growth after they get listed on the Growth Market, it is important that listed companies are able to smoothly implement proactive investment in growth. On the other hand, since there are many small-scale IPOs at present, we recognize that there is a lack of institutional investors participating as supportive partners post-IPO and this makes investment in growth difficult.

Under these circumstances, I think it would be good to proceed in future in accordance with the policy highlighted by the dashed line.

First of all, regarding point 1, I believe that in order to attract institutional investors, it is vitally important that the listed companies themselves proactively present their growth story. Therefore, I suggest that the exchange should establish contacts with institutional investors and provide IR support, as well as initiatives such as promoting the disclosure of information.

Additionally, as point 2 states, I believe that it is important to create an environment that allows these companies to grow a scale large enough to be easily accessible by institutional investors before they are listed. Toward this end, various measures are being implemented by the government and related organizations based on the Startup Development Five-Year Plan, and we will consult with related parties to consider whether there is anything that the exchange can do as well. As one idea, we believe that it may be possible to create a model that can grow significantly through leveraging and expanding the professional market.

In terms of point 3, regarding the raising of initial listing criteria, we will look into the improvement of the overall ecosystem through government initiatives from the viewpoint of whether the supply of funds prior to listing can be facilitated. Also, with regard to raising the criteria for maintaining a listing, we have just set a deadline for the transitional measures, so we will monitor the progress of the companies' efforts in this respect and consider the issue in future depending on progress.

In addition, we intend to continue to understand issues related to IPOs and the post-listing system.

Thank you for your attention.

[Kikuchi, Director, Listing Department, TSE]
Now, I would like to hear from our members. I would appreciate your input.

[Kumagai, member]
Regarding point 1 on page 24 of the document, it is important for listed companies to actively present their growth story from both a qualitative and quantitative perspectives through disclosure of information and briefing sessions, in order to gain investors' understanding. Generally, when companies raise capital or invest heavily in growth, there are concerns about equity dilution and short-term declines in profit. However, given that the market has a range of investors with various levels of risk tolerance, there will be both sellers and buyers in these circumstances.

To create this situation, it is crucial to gain the trust of investors. According to the survey results on page 13, one of the respondents pointed out, "It would be helpful to know some key points to be aware of when dealing with institutional investors so that we can use this to plan our IR policy." Investors have various investment rules, although they may be implicit. As part of the process of establishing contacts with institutional investors and promoting IR support, it would be good to provide some initiatives to help firm up IR policies, including detailed consultations on such investment rules.

As for point 2, it goes without saying that it is important to keep pace with the government's Startup Development Five-Year Plan and other plans. Taking into account our role as a stock exchange that supports the growth of startups within an ecosystem that produces and develops these companies, we ought to take action to realize these goals.

In terms of creating an environment for growth prior to listing on the Growth Market, utilizing TPM is one possible measure. By positioning the Tokyo PRO Market as a gateway for stepping up to other general markets such as the Growth Market, it can be used to expand options for start up companies to grow within the ecosystem. TPM is not clearly positioned as a gateway for this at present. The concept needs to be revised and marketed as such, along with promoting cooperation with J-Advisers and brokerage firms.

As mentioned in the comments from J-Advisers on page 21 and from companies on page 22, TPM has some companies that are looking to step up to another market and others that are not. Therefore if the concept of the market as a stepping stone is clearly defined, I think we ought to address existing listed companies as well.

In order to create an environment that is conducive to growth, as was mentioned in results of the consultation meetings, it may be possible to encourage the voluntary disclosure of “a business plan and areas of growth potential” which is a mandatory item for the Growth Market. TSE has already prepared an example that summarizes this disclosure, which should be utilized.

On the other hand, it is necessary to increase the number of professional investors. My impression is that this is not easy. As stated on page 21, the high standards for specified investors and the complexity of the transition procedure are bottlenecks and this need to be reviewed.

Regarding point 3, raising the standards for new and continued listings, if we make this a matter for “future consideration”, this gives the impression that the issue is being “shelved”. Therefore, it is preferable to have a stance of continually keeping the criteria under review, for instance through “stocktaking”. I think it is necessary to discuss the nature of the criteria for the initial listing and for maintenance of a listing based on the status of enhancement of the functionality of the entire ecosystem and the progress of companies that are subject to the transitional measures.

I would very much like to see issues related to the initial listing process and listing system being continually identified. Market participants have previously pointed out that there is volatility in the actions of corporate management pre- and post-listing. Implementation of M&A activity which had previously been scaled back, rapid investment, and adjustments to capital policy have increased the volatility of management actions, which hampers companies’ growth post-listing. I think it would be a good idea to discuss measures to control volatility as much as possible pre- and post- listing.

[Nagami, member]

First of all, I am comfortable with the general context and argument. I would then like to comment on each of points 1 to 3 on page 24.

First, regarding 1, it is a basic premise that companies, especially those listed on the Growth Market, have limited resources and essentially need to support themselves. However, since the number of IR seminars post-listing that used to be held at securities companies has declined considerably in terms of profitability and other factors, someone needs to step in to supplement these efforts. I am not sure what the specific format should be. However, I think it would be very meaningful if the exchange were to be supplemented with certain functions.

Regarding point 2, I am comfortable with the stated policy overall, but I believe that we need to specifically promote a thorough overhaul of TPM's positioning. I understand that this market was originally created with a specific objective, but I do not think it is an active market at the moment. I think you need to start the operation of the market from scratch. The concept should be completely changed to a secondary market for unlisted stocks, or a secondary market for unlisted startup stock options. I believe that this would work very well as a platform for creating large start-ups such as the one described in the document.

Regarding the last point 3, with respect to regeneration of the market through entry of new companies and exit of existing companies, I believe that the criteria for continued listing should be raised without raising the initial listing. In particular, with respect to the continued listing criteria, I believe it will be necessary in the future to raise criteria to a certain extent and not to be overly permissive.

[Sampei, member]

I would like to comment on points 1 to 3 on page 24 in Document 5. I was originally going to make a comment on points 1 and 3, but Mr. Nagami has made an excellent point on 2. I think that reviewing the positioning of TPM is a good idea and I would like to make a comment on this.

I think it is definitely worth trying the initiatives listed in 1. Among these, I think that the English language disclosure shown in brackets is particularly important. I think there is a general perception that the Prime Market should have particularly high criteria and that the priority for English-language disclosure should be first the Prime Market, then the Standard Market and finally the Growth Market. Actually, I do not think this is the case. If you want to attract foreign institutional investors, English disclosure is a must, even for the Growth

Market. In particular, it is important to attract institutional investors who have in-house research, namely investors who can analyze, evaluate, and make decisions on their own without the coverage of a securities company. Since such institutional investors are not allocating resources to Japan, we would like them to appreciate that there are many interesting companies in Japan which disclose information in English. I think the key will be to encourage them to allocate resources to Japan.

Regarding the initial listing criteria and the continued listing criteria in 3, there are three important criteria for investors to consider when investing in these companies (startups). In order of importance, the first is growth potential. The growth potential is not measured as a percentage, but rather as a multiple (in other words the company should be a “multibagger”). The second criterion is market capitalization, and the third is liquidity. If a company grows 10 or 20 times, its initial size (market capitalization/liquidity) is irrelevant at the point of exit from the market, so I believe that this ranking of criteria is important.

Although it is possible to set specific numerical standards for market capitalization and liquidity, I think it would be difficult to set such standards for growth potential. Rather than thinking about standards, it is important that a management commits to and effectively communicates the growth story described in 1. From the exchange’s point of view, one idea is to provide support through offering proper guidance on the key points to be conveyed at that time.

[Matsumoto, member]

I have been investing in startups for many years and I have also underwritten IPOs of startups. I believe that 90% of the value of a startup company value lies in the management. Therefore, I think the key is how to motivate managers over the longer term.

Developing startups has similarities with bringing up children. It does not help them if you are overprotective. It seems to me that they need an appropriate amount of competition in order to grow up successfully. In this regard, when thinking about growth in the Growth Market, the basic notion is whether a company wants easy access to funding or whether it needs have pressure put on it in order to grow. As Mr. Sampei pointed out, while it is difficult to utilize the criteria after listing on the Growth Market, it is important to set a clear objective of growth in say two, three, or five years post-listing on the Growth Market. In fact, it would be good to make this a criterion for maintaining a listing, but this is difficult to do, so we should need to ensure that the bar is raised in some way. Based on this, I think it would be good for TSE to provide some learning opportunities, such as sharing examples of best practice to raise awareness of TSE as a platform in this respect. However, in any case, the most important thing is making the companies compete, giving them motivation. This is a general discussion, but this is something we need to consider carefully.

The original idea behind TPM was to replicate London's AIM in Japan, but as it stands, it is clearly nothing like AIM. In this context, it is impossible to utilize TPM properly as it currently stands, and it would be difficult to do so without almost creating something entirely new. Since it has not turned out the way we originally planned, we should adopt the mindset of scrapping it entirely and creating something new. If it is more convenient to use the current format for legal reasons, then I think we can do this, but in any case, I think the idea of using TPM as it is at the moment is a non-starter.

[Kanda, member]

I know this is a difficult question, but I would like to make three points.

My first point is that the term "regeneration" [through entry of new companies and exit of existing companies] has come up a lot at this Follow-up Council, but the issue is that IPOs have solely become a mechanism for exits. After listing, there is some trading by individual investors, but many companies have no financing and diminishing liquidity. I think it is good that there are a fairly large number of IPOs and that the criteria for new listings are not too demanding, but I think the problem is that we do not really see "regeneration." In short, I believe that it is important to have measures in place to encourage companies to exit the market in due course.

Second, as mentioned in the document, I think it is important to increase contact with institutional investors. Also, as my third point, I think it is important to push the professional market, either to improve TPM or, as Mr. Matsumoto said, to create it as something completely new. However, Japan has a long-standing and deep-rooted problem of a lack of genuine professional investors, whether this means contact with institutional investors or a market for professionals. Without fostering such investors, I think it will be difficult for the market to function properly.

On a similar note, in Japan, securities firms have their hands full with work related to large issuers and there is an additional problem that they cannot afford to take on anything else. Of course, there are exceptions, but we need to work to expand the involvement of institutional investors, securities firms, and other participants in the capital markets. Based on this, I think the exchange should consider the undertaking of specific measures for the Growth Market.

[Kuronuma, member]

I would like to make two points.

First of all, regarding the use of TPM, there has been some negative feedback on this. There appears to be a disconnect between the ideal and the actual reality. I think the original concept of TPM was to be a market connecting Japanese venture companies and foreign companies with institutional investors. However, in reality, there was a problem that institutional investors did not participate fully in the market. The framework is in place and ready for use, and it is still possible to raise funds through private placement targeted at specified investors so that companies can grow before they list on the Growth Market. The reality is that until now it has not been possible to do so, so the process has not been working so well. Therefore, there is a major issue remaining that we may have to do something different from what we have done previously. While the notion of leveraging the professional market itself is a good one, I think there are a number of practical hurdles to overcome in order to make this a reality.

The second point is regarding the continued listing criteria. First, I would like to check whether the criteria requiring market capitalization to be 4 billion yen in 10 years after listing is still the current criteria for maintaining a listing?

[Ikeda, Senior Manager, Listing Department]

This was introduced as a requirement under the continued listing criteria for the Growth Market at the time of the market restructuring in April last year, that is, when the Mothers market was reorganized into the Growth market.

[Kuronuma, member]

If this is the case, unlike the Mothers market previously, there is a rather strict rule that if a company's value falls below 4 billion yen, it will not be able to switch to another market and will be delisted. For this reason, we have discussed raising the continued listing criteria in order to encourage growth from the beginning of the Follow-up Council. However, raising the criteria would be difficult under the current circumstances since it would entail forcing some companies off the market. I think it would be better to consider this another time in the future.

[Okina, member]

This time, TSE solicited opinions from managers of companies listed on the Growth Market. I think it is important to dig a little deeper into aspects such as the views of venture capital and overseas institutional investors, and what initiatives securities companies are putting in place. In particular, in the Startup Development Five-Year Plan, we are moving towards solid collaboration with overseas parties. However, since we have not yet consulted anyone from overseas, we need to ask for their opinions. Naturally, English language disclosure is necessary, but I would appreciate a little bit more information about what countermeasures can be considered.

Regarding TPM, I believe that this is not easy. You pointed out examples of companies moving up to the Growth Market and other markets from TPM. What we are trying to do now is to encourage companies to scale up after listing. It would be understandable if a company became large enough to be listed on the Growth or Prime markets, but I think we need to think a little more carefully about the transformation process.

[Ando, member]

Since the TSE Secretariat has taken the time to conduct a survey and consult with individual companies, I would like to ask some questions.

The issue of "difficulty in raising funds for investment in growth" has been talked about as a problem, but this does not give the full picture. While it is extremely difficult to continue conducting public capital increases due to concerns about dilution, I would be extremely interested in hearing about any companies that have mentioned raising funds from the banks.

[Isogai, Manager, Listing Department, TSE]
As can be seen in the blue circle at the top of page 11 of the document, some companies want to engage in new businesses to achieve growth, but have struggled because, in addition to the difficulty in equity financing, the banks' stance on indirect financing is that they cannot lend money where there is a high degree of uncertainty and risk.

[Ando, member]
Thank you very much. I was expecting someone to express exactly this opinion. I believe that financial institutions, especially banks, have a huge role to play in terms of the development of startup companies including companies listed on the Growth Market. Although startup development is a major policy in the government's "new capitalism", my impression is that until now there has not been much discussion about the role and measures involved with indirect financing. This is not something for the Follow-up Council or TSE to deal with, but for the government or the FSA to consider. There are many roles for banks to play in the development of start-ups, and I hope that this point will be discussed in another forum.

[Matsumoto, member]
Entrepreneurship finance is well-established as a discipline in the US, with many books published and various academics researching it. In Japan, it is known as "growth finance", but little research has been done on the subject. Only Dr. Kenji Kutsuna of Kobe University has studied it in detail. There is a large body of knowledge accumulated on the subject in the US. This may be related to what Ms. Okina mentioned earlier, but I thought it would be a good to confirm the research results.

[Kikuchi, Director, Listing Department, TSE]
Thank you very much.
All members expressed their opinions, and now I would like to ask a representative of the Ministry of Economy, Trade and Industry, who is participating today as an observer, to make some comments.

[Kameyama, Director, Industrial Finance Division, Ministry of Economy, Trade and Industry]

I have been in charge of startup policy for the past year and have focused on tax reform, the budget, as well as the Startup Development Five-Year Plan. In that sense, I am aware that there are various challenges: in addition to expanding the scope of startups, as the Secretariat explained, how to scale up. I believe it is extremely important to create players who can drive the Japanese economy forward. In this sense, in terms of the unlisted stage, the government will also cooperate with the FSA on what to do with the primary and secondary markets at the unlisted stage, supplying risk money through public-private funds, attracting foreign institutional investors, diversifying exit strategies and supporting overseas expansion. Although it is important to improve the environment in the unlisted market, I also believe that it is vital to create a system for sustainable growth even after listing on the Growth Market.

I know that the Growth Market currently has a lower growth rate than the Prime or the Standard Markets. In order for a company to grow after listing, it is important to have the participation of institutional investors who can support that growth. However, due to the low growth rate of the market and the small size of companies listed on it, the participation of institutional investors is limited. The issue with small-sized IPOs and growth post-listing being hard to achieve is an urgent point that we have been aware of for a long time. Naturally, it is important to have more contact with institutional investors and to support IR, but there are also more fundamental issues, such as those pointed out by our members. There are various points to discuss concerning how we create an environment for growth, including consideration of the continued listing criteria and thorough implementation of the delisting criteria. It may not be possible to change the system immediately, but I look forward to continued discussions at this meeting.

As Mr. Ando has mentioned, I am also aware of the issue of venture debt and the use of banks, and as the equity market cools down, for startups, my feeling is that there is an increasing need for debt, and that the number of players using debt funding is also increasing. The government has also provided debt guarantee support for venture debt, for example, and we should continue to consider what kind of support can be offered, including the use of public-private funds.

[Nakajima, Director for Exchanges and FMIs Supervision, Financial Services Agency]

The term “FSA” has come up several times in today's meeting and I would like to talk about this.

First, in terms of passive management in the second agenda item, I recognize that this is naturally incorporated in the Stewardship Code. However, with approximately 2,000 issues in the TOPIX, for example, there is still a concern as to how this will actually be done. I recognize that this is an issue that has been raised in the Stewardship Code.

In addition, regarding how indirect finance such as banks will work to foster startups, which was discussed by Mr. Ando and the Ministry of Economy, Trade and Industry, In addition to the discussion in the Startup Development Five-Year Plan, we have also released the Financial Administration Policy today for FY2023. This policy addresses the major issue of how to support startups through indirect financing, including flexible checks and follow-up of the status of funding and other support, including loans, through monitoring banks and such entities.

[Kikuchi, Director, Listing Department, TSE]

Thank you very much. With that, we will conclude today’s discussion.

Finally, we would like to explain the schedule for the next meeting.

[Ikeda, Senior Manager, Listing Department]

Thank you very much for the lively discussion again today.

As a brief explanation of Document 6, we have updated the most recent status of companies to which the transitional measures are applied. The number of companies to whom the transitional measures apply is 569 according to the latest total. However, if we exclude companies that have already announced their intention to reclassify to the Standard Market, the number is actually 450, down 60 compared to 510 at the end of last year.

The deadline for changing market classification to the Standard Market is the end of September, and so far over 100 companies have applied. We expect to see a significant increase in this area in September, and would appreciate a follow-up on the situation at the next meeting.

With regard to the schedule and agenda for the next meeting, we will contact you separately or discuss this in advance.

Thank you for your attention.

[Kikuchi, Director, Listing Department, TSE]

With that, I hereby declare today's meeting adjourned. Thank you very much for your participation today. We look forward to talking to you all again at the next meeting.