

## Development of Comprehensive Improvement Program for Listing System

June 22, 2006

Tokyo Stock Exchange, Inc.

Tokyo Stock Exchange, Inc. (TSE) considers that important duties of a securities exchange are enhancing investors' confidence in the market and strengthening its competitiveness in global markets, by promoting harmonization between vigorous corporate actions of listed companies and investors' protection. Last March, TSE announced "Discussion Paper on Improvements to the Listing System" which finalized basic matters to be studied as measures so as to achieve these goals. TSE absorbed a wide range of valuable opinions on the discussion paper from investors and market users at home and abroad.

Taking these opinions into account, TSE formulated "Development of a Comprehensive Improvement Program for the Listing System" as follows which are basic action guidelines to improve its listing system in the future.

### 1. Basic Thoughts

#### (1) Basic Policy

Soundness of the market can be ensured if successful efforts are undertaken to establish and develop an environment mechanism in which shareholders and investors can accurately assess corporate activities of the listed companies and in which market evaluation mechanism can fully fulfill its intended function. With this recognition, TSE has decided to develop the following principle for improvement of its listing system: in addition to encouraging listed companies to be more aware of their status as important actors comprising the TSE market, TSE should ensure the market transparency by enhancing disclosure of corporate information and take appropriate measures against any corporate activities which may hinder or impair well-functioning of the market.

#### (2) Practical Policies

- Corporation should in principle be allowed to carry out its corporate activities freely. However, for the purpose of fulfilling the market

function appropriately, TSE is determined to proactively be involved in such cases that any corporate activities hinder the timely and appropriate disclosure of information, impair the certainty of stock price formation, or lead to unfair transactions.

- Practical approaches on the basic policy include the followings: improvements to the criteria for the listing examination, more in-depth descriptions of the items to be disclosed, confirmation of the system to improve the disclosure after listing, grouping of stock issues in their attributes, and issuance of warnings from the view point of protecting investors.
- The rules for exit from the market may relate only to non-fulfillment of fundamental duties as listed companies, except for bankruptcy, insufficient liquidity or considerably low market capitalization. Given the magnitude of the effects of the exit rules on the market, TSE would like to consider increasing the kinds of enforcement actions.
- In improving its listing rules, TSE would like to address such improvements promptly and strive to initiate fully transparent discussions and deliberations which review the views and comments from various interested parties.
- For foreign listed companies primarily traded on the TSE market, various measures corresponding to their forms and operations shall be taken. For those which have their primary listed markets other than TSE, however, TSE is certain to respect the legal systems or market policies of their home countries.

## 2. Implementation Plan

### “Items to be immediately implemented”

:Items which TSE should finalize the outline of the system or carry out the requests to the listed companies by the end of the year at the latest.

### “Items to be considered for practical approaches”

:Items which TSE should develop specific approaches (setting up discussion sessions with experts by this fall, for example) and finalize the outline of the system and the like by the end of the next year.

### “Items to be considered for deliberation”

:Items which should be considered for clarification of underlying problems and the like in order to implement the system. Depending on the content of the problems, TSE may wish to consider the items with experts to finalize a more specific goal by the end of the year.

Items	Items to be immediately implemented	Items to be considered for practical approaches	Items to be considered for deliberation
Enhanced timely disclosure	<p>TSE will enhance disclosure with respect to share exchanges, share transfers, mergers, and divestures of businesses (e.g., more in-depth descriptions of the “basis for calculating ratios for the exchange of shares”, “disclosures of the relationship with third party organizations which determine exchange ratios”, and “relationships between listed companies and counterparty companies”)</p> <p>TSE will enhance disclosure when the issue price is set lower than the relevant market price, or in the case of moving strike convertible bonds (MSCBs), in addition to the presently imposed requirements for normal disclosure on the issuance of equity instruments and stock acquisition rights or bonds with stock acquisition rights (e.g., disclosures of “legal opinions on the adequacy of</p>	<p>In light of current practices, TSE will review items to be included in timely disclosures, the standards concerning immateriality, and the contents of disclosures to ensure that necessary information (information neither excessive nor insufficient) is provided to investors. Meanwhile, TSE will discuss the issues pertaining to the regulatory approach, including whether the disclosure is carried out according to the forms or substance, whether the contents of disclosures are specified in regulations, and the relationship between the items released in timely disclosures and items prescribed by regulations on insider trading.</p>	

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	<p>such issuances”, “bases for selecting parties for allotment”, and “holding policies of parties receiving allotments” (including requirements for enhanced disclosure when a party receiving an allotment is any fund) )</p> <p>Considering the results of study at “Research Group for Earnings Digest” on how earnings forecasts should be disclosed, TSE requires listed companies to offer more in-depth explanations on the rationales for performance forecasts and appropriate amended disclosures. (Implemented in March 2006)</p> <p>Since the timely and appropriate disclosure of corporate information underlines the fundamentals of sound securities markets, TSE will continue improving the environments in which listed companies can be more aware of the importance of timely and</p>		

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<p>Harmonization between corporate activities and market disciplines</p>	<p>appropriate disclosure and investors can access corporate information more easily.</p> <p>Listing rules should more explicitly stipulate that listed companies must respect or consider “impacts on the secondary market” and “respect of shareholder rights” while performing corporate activities.</p> <ul style="list-style-type: none"> <li>• Whenever TSE determines that a corporation engages in corporate activities that breach any respect duties, TSE will consider measures to penalize such activities, including publication of the details.</li> <li>• TSE will provide clear practical examples with respect to any corporate activities as many as possible, which the corporation must take some measures of the duty to respect for shareholder rights and impacts on the secondary markets, and strive to ensure clarity on these</li> </ul>	<p>In the context of the corporate activities noted in the discussion paper (excluding any activities subject to TSE’s measures from the beginning), TSE will discuss and summarize practical requirements and measures regarding the circumstances under which TSE should implement approaches to ensure compliance with the respect duties.</p> <ul style="list-style-type: none"> <li>• Discussion will mainly focus on the aspects of disclosure and procedures with respect to the issuance of MSCBs to specified persons or large private placements.</li> </ul> <p>TSE will consider developing a set of rules separate from the rules on timely disclosure with respect to the code of conduct for listed companies as</p>	<p>TSE will define corporate activities of TSE-listed companies viewed as desirable (and conversely, those which are viewed as inappropriate) from the viewpoint of investors and consider whether such activities should be explicitly stipulated as a certain code of conduct (recommended activities) with reference to the company manual of New York Stock Exchange and other code of conducts elsewhere.</p> <ul style="list-style-type: none"> <li>• TSE may consider presenting the listed companies which comply with a code of conduct (encouraged activities) separately from other listed companies.</li> </ul> <p>[ Major items of the code of conduct in the NYSE company manual ]</p> <ul style="list-style-type: none"> <li>• Voting rights policy;</li> </ul>

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Desirable level	<p>issues.</p> <p>{ Illustrative examples }</p> <ul style="list-style-type: none"> <li>• Implementation of a large share split and bonus allotment which may confuse the secondary market;</li> <li>• Implementation of a share split, bonus allotment, and change of the number of shares composing a basic lot with a view to intentionally realize an investment unit with a value of less than ¥10,000.</li> </ul> <p>• As in the case with the respect duty in relation to takeover defense measures, TSE will consider categorizing corporate activities against the respect duty as events which do not directly result in the forfeiture of the eligibility for listing.</p> <p>• Implementation of these requirements will replace the current requests for self-restraint on large share splits.</p> <p>TSE will review the relevant rules in</p>	<p>represented by the respect duties.</p> <p>While considering the level of acceptance</p>	<ul style="list-style-type: none"> <li>• Various codes of conduct on corporate governance</li> <li>• Respect of the rights of shareholders in a large share capital increase</li> </ul>

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of investment units          Review of delisting criteria	<p>order to set the desirable level of investment units.</p> <ul style="list-style-type: none"> <li>While TSE maintains the underlying meaning of the rules for primarily presenting the level which TSE deems desirable, it will amend the desirable level to more than ¥50,000 and less than ¥500,000 (in the case of investment units of ¥500,000 or more in value, TSE will require the corporation to explain prospective policy outside the earnings digest separately).</li> </ul>	<p>of desirable trading units, TSE will discuss and develop approaches for eventually converging the seven current types of trading units into a single trading unit from among those largely accepted on the market.</p> <ul style="list-style-type: none"> <li>In order to share the problems with the market participants in developing this approach, TSE will begin by undertaking a questionnaire survey.</li> </ul> <p>TSE will discuss and summarize the practical way to review of the criteria for the number of shareholders.</p> <ul style="list-style-type: none"> <li>In step with reviewing the desirable investment units, TSE will review the incentives contained in the criteria for the number of shareholders.</li> <li>TSE will review the current criteria which set the required number of shareholders in accordance with the</li> </ul>	<p>TSE will discuss on listing criteria for liquidity, including standards for ratios of stockownership held by "special few" (10 largest shareholders, persons having special interest in the issuer &amp; the issuer if the issuer also holds shares) as well as standards for the numbers of shareholders, in light of various issues currently pointed out in this context.</p> <p>&lt; Major issues currently pointed out &gt;</p>

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		<p>number of shares outstanding, and the level of the investment units.</p> <p>TSE will review the delisting criteria to determine whether there are any requirements which fit poorly with the realities.</p> <ul style="list-style-type: none"> <li>• TSE will develop necessary measures, including deletion from and addition to the delisting criteria on the basis of the practices thereof.</li> <li>• For example, with respect to delisting criteria in the context of market capitalization and trading volume, TSE will review the level and application.</li> </ul>	<ul style="list-style-type: none"> <li>• Some of the companies even listed on the First Section with generally high percentage of institutional ownership have not satisfied the standards for floating shares.</li> <li>• Amidst increasing shareholding by foreigners, the calculation formula relating to the standards for the number of shareholders or ownership held by “special few” has been outdated.</li> </ul> <p>TSE will discuss the standards on the numbers of shares held by “special few” with a view to better protect the rights of minority shareholders, to ensure a certain level of liquidity, and to satisfy the principle of keeping shares publicly available for trading.</p> <ul style="list-style-type: none"> <li>• Since the standards for the number of shares held by “special few” have been set forth in order to eliminate any disadvantages arising from control by specified shareholders, some have</li> </ul>



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<p>Ongoing supervision of management system of listed companies</p>	<p>TSE will improve the system to examine the statements contained in improvement reports.</p> <ul style="list-style-type: none"> <li>• Any company which files an improvement report shall also file a report on the development and implementation of the proposed improvements within 6 months from the filing of the improvement report.</li> <li>• TSE may make necessary inquiries or confirmations on the development and implementation of proposed improvements.</li> <li>• If a company develops and implements improvements unsatisfactorily or fails to file an improvement report, TSE may additionally request it to file another improvement report.</li> </ul>	<p>TSE will discuss and summarize issues on the system for monitoring the organizational restructuring and other material changes in the current management system.</p> <ul style="list-style-type: none"> <li>• If and when organizational restructuring and other corporate initiatives result in large changes in the management system or business lines, it will be appropriate to examine the resultant management system of the listed company in addition to the examination to prevent so-called “back door listing”. TSE will make a comprehensive consideration together with the consideration of requirements regarding inappropriate mergers including requirements for assessing</li> </ul>	<p>argued that alternative requirements should be developed to better meet the primary objective (rather than the objective of ensuring liquidity).</p> <p>TSE will consider a subsequent examination of disclosed items.</p> <ul style="list-style-type: none"> <li>• TSE will discuss ways to enhance examinations when TSE acknowledges, through external comments or TSE practices, that an inappropriate disclosure has probably been made.</li> </ul> <p>TSE will consider to clarify the positioning of items in the rules which TSE has been calling on listed companies to improve on business management on a request basis.</p> <ul style="list-style-type: none"> <li>• For example, TSE deems it appropriate to clarify the positioning of internal rules to prevent insider trading in light of the actual level of improvements at listed companies.</li> </ul>

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<p>Measures when any problem takes place on the internal control system in the company</p>	<p>TSE will design and implement measures requiring related parties to endeavor further to prevent corporate scandals.</p> <ul style="list-style-type: none"> <li>As the prevention of any corporate scandals is expected to be improved through the enhanced awareness of corporate integrity by companies and CPA audits of the internal control of financial reporting, TSE will make necessary requests to relevant parties in light of compliance with the revised Company Law or considerations at the Japanese Institute of Certified Public Accountants.</li> </ul>	<p>inappropriate mergers and corresponding examination items.</p> <p>TSE will discuss and summarize measures against the companies when an auditor either refrains from issuing an opinion about internal control for financial reporting or concludes that the internal control for financial reporting is inappropriate.</p> <ul style="list-style-type: none"> <li>If an audit states that the internal control for the financial reporting has a material defect, TSE will consider to take significant measures, including de-listing, if the material defect is not corrected, then the similar opinions will be reissued in the year after the next.</li> </ul>	<p>TSE will discuss its method, in light of the enforcement of the revised Company Law, for encouraging listed companies to regain and improve sound internal control when problematic issues in relation to their internal control (other than financial reporting) become apparent that severely impair confidence in securities markets.</p> <ul style="list-style-type: none"> <li>TSE should fully consider the best measures to apply in different cases. TSE should also discuss cases in which the application of delisting criteria (for the purpose of public interest and investors protection) would probably be the ideal solution.</li> </ul>
<p>Review of operation of the Mothers market</p>	<p>TSE will carry out enlightenment activities to encourage managers of emerging companies to enhance their</p>	<p>TSE will discuss a system which encourages Mothers-listed companies to enhance their management systems in</p>	<p>TSE will discuss the improvement of investors education for those who participate in the Mothers market.</p>

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and the sections of marketplaces	<p>ethics in using the market.</p> <ul style="list-style-type: none"> <li>• TSE will prepare recommendations for the meaning of the listing and the fulfillment of responsibilities to the market.</li> </ul>	<p>line with their growth.</p> <ul style="list-style-type: none"> <li>• In response to comments calling for detailed and specific listing supervision according to the specific characteristics of each Mothers-listed entity, TSE will discuss and implement an improved listing system which encourages these listed companies to improve their management and disclosure systems on an ongoing basis.</li> </ul> <p>TSE will address issues pointed out with respect to the initial public offering of companies to be listed on Mothers.</p> <ul style="list-style-type: none"> <li>• TSE will consider standards relating to the number of shares publicly offered or shares held by “special few” in order to correct insufficient liquidity at the time of initial listing.</li> <li>• TSE will discuss and address issues arising from the current system with respect to the determination of the opening price on the date of initial</li> </ul>	<ul style="list-style-type: none"> <li>• TSE discuss any approach by which general investors may participate with full understanding of risk exposure of emerging entities.</li> </ul> <p>In light of the current conditions of the Mothers market, TSE will discuss the positioning of Mothers and the operation policy of that marketplace.</p> <ul style="list-style-type: none"> <li>• Taking into account the elapse of five years since the launch of Mothers, TSE will discuss the meaning and overall operation in order to respond to changes in international trends and to meet social needs.</li> <li>• TSE will discuss the relationship to the First and Second Section and the positioning of companies which have been listed on Mothers on an ongoing basis.</li> </ul> <p>TSE will newly discuss the meaning of separation of the First Section and</p>

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<p>Approach for listed subsidiaries</p>	<p>TSE clarified the contents of disclosure on independence to parent company (Implemented in March 2006).</p>	<p>listing.</p> <ul style="list-style-type: none"> <li>• TSE will discuss measures to prevent the use of differences in the listing criteria or the application of the listing system among markets for averting the disciplines of listed companies.</li> </ul>	<p>Second Section, including the advantages and disadvantages of maintaining the separation.</p> <ul style="list-style-type: none"> <li>• TSE should note that the change in the separation of market sections may have impacts on the trading system and other systems.</li> <li>• TSE could review the separation system to find ways to use the system to play a more proactive role. TSE could use the system, for example, to keep separate listed subsidiaries or companies which comply with the code of conduct set forth by TSE.</li> <li>• When TSE reviews the standards for reassignment of listing on the Mothers market to the First Section, considering the meaning of the Mothers and marketplace separation.</li> </ul> <p>TSE will discuss the approach for ensuring the independence of a listed company having a parent, from such</p>

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	<p>TSE will improve a method to provide information regarding listed subsidiaries to investors.</p> <ul style="list-style-type: none"> <li>• TSE will design and implement a page on the TSE website showing a separate section applicable only to companies having their parents via which investors may at any time review “the position of the listed company in the company group consisting of the listed company and its parent company, and the relationship of the listed company with other listed companies and the parent company within the group,” as well as “reasons and bases for ensuring a certain level of independence.”</li> </ul>		<p>parent.</p> <p>TSE will discuss the ongoing listing supervision for listed companies with parent and controlling shareholders.</p> <ul style="list-style-type: none"> <li>• For example, TSE should discuss and examine the advantages and disadvantages of separating listed companies whose largest shareholders hold 50% or more of outstanding shares from the current First Section or Second Section. TSE could also discuss the prudence of adding a requirement on corporate governance on such companies.</li> </ul> <p>TSE will discuss necessary measures from the perspective of the protection of investors when a listed company with a parent delists its stock by becoming a wholly owned subsidiary of the parent immediately after the listing.</p> <p>In addition to the above issues, TSE will</p>

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<p>Liquidity of listed companies after delisting</p>	<p>TSE will encourage the establishment of opportunities for all members of the securities industry to discuss the advantages, disadvantages, and methods of granting liquid markets to delisted companies after they become delisted.</p>	<p>TSE will discuss penalties and disciplinary actions other than delisting.</p> <ul style="list-style-type: none"> <li>• TSE will discuss and determine the types of measures (e.g., fines, reprimands, and restrictions on services such as temporary suspensions of trading) to be</li> </ul>	<p>fundamentally review the meaning of the listing of a subsidiary with a parent.</p> <ul style="list-style-type: none"> <li>• TSE should discuss this issue in depth, noting that the listing of a subsidiary with a parent or controlling shareholders gives rise to problems pertaining to the protection of the rights of the minority shareholders, that the full disclosure of such situations and the implementation of measures to mitigate problems arising as a result may justify the provision of such attractive investment targets, and that the number of existing listed subsidiaries, as well as the possible emergence of parents to existing listed companies through M&amp;A transactions.</li> </ul>

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Reinforced collaboration with Securities and Exchange Surveillance Commission	<p>Promotion of collaboration with the Securities and Exchange Surveillance Commission (“Commission”).</p> <ul style="list-style-type: none"> <li>• TSE will keep a close collaboration with the Commission by establishing a liaison conference regarding listing issues.</li> </ul>	<p>taken under various circumstances (e.g., some false statements or violations of the disclosure rules which do not automatically lead to mandatory delisting).</p>	
Reinforced collaboration with certified public accountants	<p>Promotion of reinforced collaboration with the Japanese Institute of Certified Public Accountants (“Institution”).</p> <ul style="list-style-type: none"> <li>• TSE will set up a liaison conference with Institution succeeding the joint project developed by Institution and TSE.</li> <li>• Japanese Institute of Certified Public Accountants announced that it would introduce a registration system of offices auditing listed companies in the next</li> </ul>	<p>TSE will clarify issues to do with the disclosure of views of outgoing certified public accountants at the time of their replacements.</p> <ul style="list-style-type: none"> <li>• Some have argued that the views of outgoing public certified accountants should be disclosed when they are replaced. TSE will discuss this and develop a practical approach.</li> </ul> <p>TSE will clarify the extension of the duty</p>	<p>In light of the role of certified public accountants, TSE discuss the responsibilities of auditors for listed companies (e.g., auditor rotations, qualifications of auditors for listed companies, and the relationships between newly listed companies and certified public accountants).</p> <ul style="list-style-type: none"> <li>• In light of the reinforcement of self-regulatory rules of the Japanese</li> </ul>

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Enhanced implementation of self-regulation	<p>fiscal year. TSE will cooperate with the registration system as part of mutual collaboration so that the system will be operated in an appropriate manner so as to ensure the trustworthiness of the securities market.</p> <ul style="list-style-type: none"> <li>• TSE will make efforts to provide more information to both listed companies and certified public accountants.</li> <li>• TSE will request the support of the Japanese Institute of Certified Public Accountants pertaining to active cooperation by certified public accountants in the context of listing examination and ongoing listing management.</li> </ul> <p>As for the self-regulatory operation in the listing division, TSE reported to and requested advices from its SRO Committee that is fully independent from interested parties. (Implemented in June 2006)</p>	<p>of listed companies to cooperate in terms of hearings with certified public accountants, and practical approaches for this purpose.</p> <ul style="list-style-type: none"> <li>• TSE will discuss and develop procedures which enable hearings with certified public accountants by imposing the duty of cooperation on listed companies.</li> </ul> <p>In light of the amendments to enact the Financial Instruments Transaction Law, TSE will clarify the way of more appropriate governance and the execution of business of the listing division of TSE.</p>	<p>Institute of Certified Public Accountants and the discussion by the Working Group for Certified Public Accountant System at the Finance Council, TSE discuss how TSE could address these issues in the context of the listing system, and whether or not TSE should address them to begin with.</p>



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Others	<p>Reinforced criteria for listing on the REIT market</p> <ul style="list-style-type: none"> <li>• TSE will review the criteria for listing REITs in order to reinforce the supervision of organization of investment companies originating REITs.</li> </ul>	<p>TSE will discuss and decide the regulations and the listing fees to be applied to foreign companies primarily listed on the TSE markets by referring to similar examples in foreign markets.</p> <ul style="list-style-type: none"> <li>• Stock exchanges in Singapore and Hong Kong have made it mandatory for foreign companies listed only on the exchange to station their directors or hold the general meeting of shareholders domestically for the purpose of protecting domestic investors. TSE will discuss this and determine our view on the matter.</li> <li>• On the other hand, TSE will also consider relaxing rules for foreign companies listed on TSE not as a main market.</li> </ul>	<p>TSE will discuss the listing system for various class shares.</p> <ul style="list-style-type: none"> <li>• TSE will discuss the scope for handling them on the existing market under the current listing rules, or the necessity to create another market for them in light of the needs for both investors and issuers.</li> </ul> <p>TSE discuss whether registration system for directors, officers, and managerial employees should be implemented in order to enhance the system for preventing insider trading.</p> <ul style="list-style-type: none"> <li>• In light of the discussions at meetings at the Financial Services Agency, TSE discuss the probability of realization.</li> </ul>