

## Listing System Improvement FY2008

May 27, 2008  
Tokyo Stock Exchange, Inc.

### Introduction

Tokyo Stock Exchange, Inc. (TSE) will conduct a comprehensive review of its listing system in order to protect and respect shareholders and investors, properly fulfill the functions of the secondary market, and assist listed companies in their efforts to improve corporate value and international competitiveness. Adjustments to the system will be made in accordance with the following basic policies:

- To ensure the soundness of the market, the TSE will develop a system that encourages a further awareness among listed companies and other market participants of their role as members comprising the securities market.
- The TSE will ensure greater transparency by further improving disclosure of corporate information.
- The TSE will respond appropriately to corporate activities from the perspective of protecting investors and appropriately fulfilling market functions.
- The TSE will be committed to developing a more user-friendly market for listed companies and other market participants.
- In achieving the above goals, the TSE will take into consideration consistency with global practices.

The TSE prepared and published the Comprehensive Improvement Program for the Listing System 2007 in April 2007 based on these basic policies. Implementation or relevant review has largely been completed with respect to the primary and secondary items for implementation provided in the Program. In FY2008, the TSE will focus its efforts on the following two themes:

### I. Improving conditions to enhance the corporate governance of listed companies

As described in the Tokyo Stock Exchange Group's Medium-term Management Plan (FY ending 3/31/09 - FY ending 3/31/11) published in March 2008, the basic strategy of the TSE includes "facilitating enhanced corporate governance of listed companies." As such, the TSE considers the enhancement of the corporate governance of listed companies to be a key factor for the sound development of the Japanese securities market going forward, and will place highest priority on the development of measures to respond to corporate governance-related issues (including the improvement of the Corporate Code of Conduct) during the current fiscal year.

### II. Follow-up on the Comprehensive Improvement Program for Listing System 2007

The TSE will continue pushing forward with items from the Comprehensive Improvement Program for Listing System 2007 to be considered on an ongoing basis, in light of the projects that have already been implemented or reviewed, the subsequent environmental changes, and the opinions of the Advisory Group on Improvements to the TSE Listing System and other concerned parties.

## I. Improving conditions to enhance the corporate governance of listed companies

### 1. Background

Since active discussion on corporate governance began in Japan, certain statutory enhancements have been made, such as enhancement of the functions of corporate auditors and the introduction of a system of corporate governance called “Company with Committees.” Meanwhile, the TSE has promoted various measures including the establishment of Principles of Corporate Governance for Listed Companies and the development of the system for reporting corporate governance information. Efforts to improve and enhance corporate governance to boost corporate value by preventing corporate scandals and/or improving management efficiency have also been steadily ongoing at the individual listed company level. These efforts include incorporation of a system under which company management is monitored by external parties.

However, some have pointed out that there recently seems to be a movement to push out shareholders who run against the will of management, and that there is a certain lack of transparency with respect to the treatment of foreign investors. These arguments reference aspects such as several listed companies introducing takeover defense measures and signs of a resurgence in cross-shareholdings. Many are saying that efforts towards further improvement and enhancement of corporate governance in Japan is stagnating. Furthermore, some companies have been observed taking corporate actions that could infringe on the rights of shareholders. These developments bring into question the extent to which past efforts made for improving and enhancing corporate governance in Japan have any substance.

The TSE aims to raise its international competitiveness by attracting high-quality risk money from both domestic and foreign investors and providing them with attractive investment opportunities. In light of the above circumstances, many believe that in order for the TSE to achieve this, improving the conditions necessary for the role of corporate governance to be properly performed will be key for the exchange going forward, and as such, the TSE will give highest priority to this task during the current fiscal year.

The following are examples of issues requiring solutions that the TSE should be aware of during future deliberations:

- issuance of new shares, etc., causing substantial dilution to existing shareholders;
- issuance of new shares, etc., through private placement to a third party about whom transparent disclosure is not provided;
- reverse stock splits that deprive many existing shareholders of their shareholders’ rights;
- potential problems with respect to independence, such as a situation in which all of the outside directors/auditors of a listed subsidiary have come from the parent company;
- a situation in which takeover defense measures are introduced in a concerted manner;
- a situation in which takeover defense measures are introduced by an owner company that holds nearly half of voting rights;
- opinions among market participants that voting rights are not properly exercised by shareholders (excluding certain institutional investors); and
- lack of understanding about efforts being made by individual companies towards the improvement of the corporate auditor system and corporate governance.

## **2. Approach**

In order to realize a level of corporate governance on par with that of any other country, the TSE will identify relevant issues based on the actual practice of listed companies, case studies, matters that have been pointed out by investors, and other factors. Then, given the underlying systems and actual situation in Japan, the exchange will then broadly discuss remedial measures without limiting their scope to only listing system problems. The results will be grouped into appropriate categories, such as issues to be addressed through the listing system, issues to be addressed by the TSE outside of the listing system, issues to be addressed by outside parties through recommendations/requests, and other categories. With respect to issues to be addressed as part of the listing system, the TSE will promptly develop specific actions to be taken.

## **3. Steps to be taken during the current fiscal year**

The TSE will make it clear that one of its main objectives is to create, by strengthening its support for the improvement and enhancement of listed companies' corporate governance on various fronts, a market on par with those around the world that provides protection of shareholders' rights and the corporate governance based thereon, where both domestic and foreign investors can invest with peace of mind. Based on this, the TSE will develop comprehensive measures after promptly taking inventory of the different issues and tasks at hand; and for those to be implemented as part of the listing system, the exchange will compile specific plans to be enacted without delay.

In doing so, market participants have particularly high expectations for the TSE's addressing of shareholder rights protection issues as a market operator, especially those of minority shareholders. In light of factors such as the recent diversification of methods to ensure the efficacy of listing rules, the TSE will revamp the Corporate Code of Conduct and speedily create a concrete plan.

## II. Follow-up to the Comprehensive Improvement Program for the Listing System 2007 (Implementation Plan for FY2008)

### Implementation Plan

Parts of the plan are grouped into the following two categories:

“Items to be reviewed for the implementation of specific measures”

Items on which the TSE will deliberate specific measures in consultation with knowledgeable individuals, as necessary, in order to develop listing system guidelines or make requests to listed companies by the end of FY2008.

“Items to be considered on an ongoing basis”

Items for which the TSE will conduct on-going deliberations, such as identifying fundamental issues to be realized.

#### 1. Improving the System Regarding Corporate Activities

Item	Items to be reviewed for the implementation of specific measures	Items to be considered on an ongoing basis
(1) Enhanced timely disclosure	<p>Given the actual market practice that both investment assessment and corporate management are performed on a consolidated basis, the TSE will indicate that it is moving towards setting more appropriate formal criteria, and will request listed companies to disclose certain material corporate information on a consolidated basis.</p> <p>The TSE will clearly state in its listing rules that individual disclosure information that is not subject to disclosure requirements under the formal criteria but is substantially material needs to be disclosed voluntarily.</p>	<p>Given the actual market practice that investment assessment and corporate management is performed on a consolidated basis, the TSE will deliberate on specific amendments to be made to the listing rules and on the implementation timing in order to set up appropriate formal criteria (e.g. formal criteria applicable to figures on a consolidated basis, formal criteria for dissolution of a subsidiary, etc.). The TSE will take into consideration the extent to which such practices are established among listed companies among other factors.</p>

Referential Translation

Item	Items to be reviewed for the implementation of specific measures	Items to be considered on an ongoing basis
(2) Addressing listed companies owned by a parent company		<p>The TSE will readjust the areas examined and the contents of listing examinations of companies with a parent company.</p> <ul style="list-style-type: none"> <li>Given that the actual conditions of management of a subsidiary will vary widely depending on the management policy of the group to which the subsidiary belongs, the TSE will continue to consider what shape the listing examination should take.</li> </ul>
(3) Responses to internal control reporting system		<p>Given the developments in actual practice concerning internal control reporting systems, the TSE will also discuss and consider how to handle a listed company in terms of listing supervision if and when any material deficiency is detected in the company's internal control system and the deficiency remains uncorrected.</p>
(4) Development of the listing system for classified stocks	<p>The TSE will develop guidelines for the listing of stocks with classified voting rights.</p> <ul style="list-style-type: none"> <li>The TSE will develop guidelines on the basis of actual cases of such classified stocks being listed</li> </ul>	<p>Currently, some classified stocks of previously listed companies that in principle are not allowed issue are given exception as stocks that "in the opinion of the TSE do not have a significant risk of infringing on the rights of shareholders and investors." The TSE will consider whether it is feasible to develop guidelines for clarifying in which situations exceptions can be made.</p> <p>The TSE will review how to treat listed classified stocks in stock price indexes, etc.</p>

## 2. Improvement of the Market System

Item	Items to be reviewed for the implementation of specific measures	Items to be considered on an ongoing basis
(1) Establishment of a “market for professional investors”	<p>The TSE will promptly establish a market for professional investors as outlined in the amended Financial Instruments and Exchange Act through a capital and business alliance with the London Stock Exchange, in accordance with the amendments to the applicable laws.</p> <ul style="list-style-type: none"> <li>• The new market will be designed to respond to the needs of domestic and foreign-based small and midsize companies and emerging companies with high growth potential. Many believe that such companies’ needs have not been sufficiently addressed by the current market for emerging companies, where individual investors are the main participants.</li> <li>• With regards to actual examination and supervision of stocks eligible for trading, the TSE will use the system that adopted in the AIM in London, which uses nominated advisors (NOMAD), as a reference .</li> </ul>	
(2) Review of market segmentation	<p>If a market for professional investors targeted at small and midsize growth companies is established, the TSE will review and reconsider the classification of Mothers and the First or Second Section market, as well as what characteristics the listing system for each market should have.</p> <ul style="list-style-type: none"> <li>• The TSE will consider necessary structural adjustments (e.g., separate indication for stocks that have been listed</li> </ul>	<p>The TSE will discuss and consider approaches to verify the internal management system of listed companies and how to treat listed companies which have had problems pointed out by the TSE.</p> <ul style="list-style-type: none"> <li>• For the purpose of continuously ensuring the effectiveness of a company’s internal management system after listing, the TSE will discuss and consider issues involved in introducing a system for verifying</li> </ul>

Item	Items to be reviewed for the implementation of specific measures	Items to be considered on an ongoing basis
	<p>for 5 years or less) to maintain Mothers' reputation as a market for growth companies.</p> <ul style="list-style-type: none"> <li>• Currently, Mothers has been popular as an IPO market among emerging companies, while companies contemplating a large-scale IPO go directly to the First Section and midsize companies often list their stocks on the Second Section after listing on other markets for some time. Given this, the TSE will review and discuss the relative position of Mothers and the market for professional investors, the difference in the characterization of Mothers and the Second Section, approaches for listing directly on the First Section, and will consider any necessary structural adjustments.</li> </ul>	<p>the internal management systems of companies. This system will be used when the TSE deems that some corporate action has taken place which will require a verification of the internal control system. Such cases include: a listed company whose management has integrated with a large-scale unlisted company, a major change has taken place in shareholders or directors/officers, a listed company who has violated the timely disclosure rules intentionally or through gross negligence, or a listed company for whom the nature of business has changed greatly in a short period of time. In considering and discussing the issues, the TSE will also conduct comprehensive reviews of the examination grace period etc., in the delisting criteria pertaining to inappropriate mergers and the current substantive examination carried out for First Section assignment.</p> <ul style="list-style-type: none"> <li>• The TSE will make adjustments with regard to designating securities on alert when the TSE indicates problems to the listed company as a result of the above verification. At that time, in order to make alerts more clear to investors, the TSE will consider adopting the Securities on Alert system in which securities on alert will be classified in a market section separate from the First and Second Section or Mothers, as opposed to the current approach that merely designates such stocks as belonging to a separate category within the same market.</li> </ul>

Referential Translation

Item	Items to be reviewed for the implementation of specific measures	Items to be considered on an ongoing basis
(3) Enhancing confidence in Mothers	<p>The TSE will consider reviewing the following measures to improve the listing system to enhance confidence in Mothers, and will adjust the listing system according to the details compiled .</p> <ul style="list-style-type: none"> <li>• In light of the fact that the TSE has been carrying out substantive Mothers listing examinations considering high growth potential, the TSE will make such substantive examinations a part of the listing rules.</li> <li>• The TSE will require Mothers-listed companies to continuously hold corporate seminars twice a year (they are currently required to hold these seminars only within the first three years from listing on Mothers).</li> </ul>	<p>The TSE will consider measures to improve investors' understanding of Mothers.</p> <ul style="list-style-type: none"> <li>• The TSE will consider innovations to assist public investors in fully understanding the risks unique to investing in emerging companies with high growth potential.</li> <li>• The TSE will introduce a system in which it will verify the listing eligibility (internal management system) of a Mothers-listed company if the company has changed the nature of its business significantly, etc. (refer to 2. (2)).</li> </ul>
(4) Improving the listing procedure	<p>The TSE will take steps to eliminate the obstacles that make it difficult for foreign companies to be listed on the TSE market.</p> <ul style="list-style-type: none"> <li>• In reviewing the listing system for foreign companies, the TSE will consider adopting a system that will facilitate its efforts to meet the special needs of foreign companies, based on the premise that the treatment of foreign companies should be distinct from the treatment of domestic companies and the difference between them should be clearly identified.</li> </ul>	
(5) Review of trading units	<p>The TSE will clarify the methods to reviewing trading units for a certain period around the time share certificates are dematerialized, and will make them known to listed companies.</p>	<p>Taking how well dematerialization takes hold into account, the TSE will determine the approach for consolidating trading units into basic lots composed of the current goal of 100 shares and 1,000 shares.</p> <ul style="list-style-type: none"> <li>• The TSE will coordinate with concerned parties to</li> </ul>



Item	Items to be reviewed for the implementation of specific measures	Items to be considered on an ongoing basis
		<p>determine when consolidation can be completed.</p> <p>The TSE will continue to discuss and consider unifying trading units in the future.</p>

### 3. System Improvements for Ensuring Listing Rule Effectiveness

Item	Items to be reviewed for the implementation of specific measures	Items to be considered on an ongoing basis
<p>(1) Improving measures to ensure the effectiveness of the listing rules</p>	<p>Given the introduction of the Securities on Alert system and the fine system for violations committed by a listed company, the TSE will consider implementing a comprehensive revision to the current measures to ensure the effectiveness of the listing rules.</p> <ul style="list-style-type: none"> <li>• The TSE will revise the system of reprimands related to statutory disclosure requirements, in consideration of the existing redundancy in the intent of the system and the Securities on Alert system.</li> <li>• The TSE will consider how to treat an event that occurred a certain number of years prior in terms of delisting criteria.</li> </ul>	<p>The TSE will consider publishing a guidebook and other materials designed to clarify the approach to delisting criteria, etc.</p> <p>The TSE will consider revising examinations of inappropriate mergers, etc.</p> <ul style="list-style-type: none"> <li>• The TSE will consider introducing a system in which it will verify the internal management system of a listed company that has conducted management integration with an unlisted company which is larger than the listed company regardless of the existence of substantial corporate continuity or which effected a significant change in shareholders or directors/officers (refer to 2. (2)).</li> <li>• Subject to the introduction of the verification system described above, the TSE will consider revising the overall examination practices related to inappropriate</li> </ul>

Referential Translation

Item	Items to be reviewed for the implementation of specific measures	Items to be considered on an ongoing basis
		mergers, etc.
(2) Review of delisting criteria	<p>The TSE will consider revising the delisting criteria relating to public interest and investor protection.</p> <ul style="list-style-type: none"> <li>• Of those companies delisted by reason of the public interest or investor protection, the TSE will review whether it can provide examples of violating actions that can result in delisting.</li> </ul> <p>&lt; Tentative example &gt;</p> <ul style="list-style-type: none"> <li>• A case in which organized crimes and violent groups clearly effectively control a listed company.</li> </ul> <p>Based on the recognition that delisting is an action that has a significant influence on shareholders and other stakeholders in a company, the TSE will revise the delisting criteria as necessary to appropriately respond to the actual circumstances.</p> <ul style="list-style-type: none"> <li>• In cases where the auditor withheld an opinion with respect to notes made on the going concern assumption of a listed company, the TSE will review how to treat the delisting criteria-based examination, as such a situation may not necessarily affect the reliability of the financial statements, etc. in an immediate sense.</li> </ul>	

#### 4. Response for Listing Various Financial Instruments

Item	Items to be reviewed for the implementation of specific measures	Items to be considered on an ongoing basis
Response for listing various financial instruments	<p>Establishment of a listing system for funds (expansion of listing system for investment corporations)</p> <ul style="list-style-type: none"> <li>• Currently, the listing system that the TSE has established for funds is limited to only real estate investment trust beneficiary certificates. The TSE will make the required revisions to the listing rules to make listing available to investment companies with a wide variety of working assets and investment policies.</li> <li>• When the TSE lists an investment corporation, it will review not only the investment corporation itself, but also the management structure of the investment management company. It will examine and confirm whether the investment policies are sufficiently clear in a process similar to that for the listing of beneficiary certificates of real estate investment trusts.</li> </ul> <p>The TSE will implement necessary structural adjustments that will facilitate the listing of various types of ETFs.</p> <ul style="list-style-type: none"> <li>• Subject to future amendments in applicable laws, etc., the TSE will implement necessary structural adjustments that will facilitate the listing of various types of ETFs, such as money trust-type ETFs or ETFs based on foreign investment securities, taking into consideration of the needs of related parties.</li> </ul>	<p>In response to investors' needs, the TSE will consider providing a wide variety of instruments including those permitted to be listed on exchanges in the U.S. and Europe.</p> <ul style="list-style-type: none"> <li>• The TSE will consider the proper approach for listing a company that has a special business structure, such as a specialized company that is established for the purpose of acquiring unlisted companies.</li> <li>• In addition, the TSE will call on related parties to make necessary improvements with regards to not only the listing system, but also to other systems in order to list various instruments.</li> </ul>

5. Others

Item	Items to be reviewed for the implementation of specific measures	Items to be considered on an ongoing basis
(1) Reinforcing cooperation with CPAs	The TSE will include the requirement that listed companies be audited by firms registered through the system for listed company audit firms in the Corporate Code of Conduct.	
(2) Others	<p>In order to improve the system for preventing insider trading, the TSE and other exchanges in Japan will cooperate with the Japan Securities Dealers Association (JSDA) to smoothly introduce the Insider Information System developed by the JSDA and scheduled to start operation in spring 2009. The system is designed to collect and manage data on directors and officers of listed companies (the JSDA will also consider including directors and officers, etc. of securities companies, who have easy access to unpublished material facts).</p> <ul style="list-style-type: none"> <li>• Keeping pace with the development schedule of the Insider Information System, the TSE will request listed companies to cooperate and will conduct activities designed to increase understanding about the system.</li> </ul>	

(Supplemental information)

Status of listing system improvements based on the Comprehensive Improvement Program for the Listing System 2007

1. Improving the System with Regards to Corporate Activities

<p>Enhanced timely disclosure</p>	<p>Timely and appropriate disclosure of corporate information is an essential part of a sound securities market. The TSE therefore took steps to raise listed companies' awareness of such and create an environment in which investors can easily use corporate information, such as providing account settlement information in XBRL format through the Timely Disclosure network (TDnet). Introduction of this system is scheduled for July 2008. The TSE will continue to take additional steps to raise awareness and improve this environment as necessary.</p> <p>With respect to the issuance of instruments such as MSCBs and/or new shares through private placement, the TSE has requested listed companies to expand disclosure to include the use of the raised funds, discussion of the reasonableness of the terms of issuance, the names of subscribing parties, etc.</p> <p>In light of the adoption of the quarterly report system under the Financial Instruments and Exchange Act (including the integration of the semi-annual report system into the quarterly report system), the TSE integrated the interim earnings digest system and the quarterly financial and performance disclosure system into the quarterly earnings digest system, and established its format and instruction.</p> <p>The TSE reviewed and amended the Guidebook for Timely Disclosure of Corporate Information to ensure that it can be more easily used on a practical basis. The TSE will continue to review and amend the Guidebook, for example, to expand sections for matters to be noted and FAQs with respect to disclosure/presentation.</p>
<p>Enhanced corporate governance</p>	<p>The TSE identified "corporate governance" and the "effectiveness of the internal management system" as substantive listing examination items in tandem with development of the Corporate Code of Conduct.</p>
<p>Development of Corporate Code of Conduct</p>	<p>In addition to obliging listed companies to disclose corporate information appropriately and on a timely basis, the TSE incorporated the "Corporate Code of Conduct" into the listing rules. This code requires listed companies to take appropriate measures in their corporate activities to protect shareholders and investors and enable better market operation.</p>

	<p>&lt; Key contents &gt;</p> <ul style="list-style-type: none"> <li>• Consideration of the secondary market and shareholders' rights</li> <li>• Existing matters having elements relating to the code of conduct (e.g., setting a desirable level of investment units, items to be respected in introducing takeover defense measures, efforts regarding large stock splits, etc.)</li> <li>• Matters that the TSE has already requested (e.g., structural development for preemptive prevention of insider trading, earlier delivery of general shareholders meeting notices, etc.)</li> <li>• Requirement to establish a board of auditors (or an audit committee) and accounting auditors</li> <li>• Establishing an internal control system (structural development to ensure the appropriateness of activities) pursuant to the provisions in the Corporation Law</li> <li>• Issues to respect when issuing MSCB, etc.</li> </ul> <p>The TSE requires listed companies to develop an internal system to prevent damage caused by organized crimes and violent groups in the Corporate Code of Conduct.</p>
<p>Addressing listed companies owned by a parent company</p>	<p>The TSE published its views as follows with respect to the listing of companies owned by a parent company, and disseminated them through the Handbook for Initial Listing and other media.</p> <ul style="list-style-type: none"> <li>• It is inappropriate under the listing system to prohibit the listing of a company owned by a parent company.</li> <li>• However, given that there are several inherent problems and risks, such as potential conflicts of interest with minority shareholders (whether the company has had a parent from the time of its initial listing or gains a parent through corporate restructuring after listing), and given that listed companies have been required to substantially consolidate their management under the recent management environment, the listing of a company owned by a parent company may not necessarily be viewed as a desirable capital policy for investors and many other market participants.</li> </ul> <p>In cooperation with other domestic exchanges, the TSE clarified its policy that the listing of a parent company and subsidiary that are substantially a single entity is not permitted.</p>
<p>Responses to internal control reporting system</p>	<p>The TSE announced to the public the direction it intends to follow for the foreseeable future in handling listing examinations and listing supervision vis-a-vis the internal control reporting system.</p> <ul style="list-style-type: none"> <li>• For initial listing examinations of companies' internal control system status before the reporting system is introduced, the TSE will make the required verifications in accordance with the current rules. In principle, the same</li> </ul>

	<p>approach will also be applicable after the introduction of the reporting system. Meanwhile, if any documents equivalent to internal control reports are prepared, the TSE will take such documents into account when making these verifications.</p> <ul style="list-style-type: none"> <li>• Material deficiencies in an internal control system will not immediately result in any false statements appearing in a listed company’s financial statement. In light of this, the TSE will not decide to delist stocks simply on the basis of the contents of the internal control report and related audit report.</li> </ul> <p>In line with the introduction of the internal control reporting system, the TSE reviewed and amended the listing rules regarding listing applications filed by companies listed on other exchanges.</p> <ul style="list-style-type: none"> <li>• In cases where the applicant for initial listing is a company listed on another exchange(s), the TSE will begin requiring the applicant to submit an internal control report and related audit report, starting with business years that begin after April 2008. If management fails to represent assessment results or an auditor states “no opinion” in the report, the TSE will deem this a basis for not accepting the application.</li> <li>• When and if an auditor either states an opinion of “improper” or withholds opinion in its internal control audit report of a listing company, the TSE will consider this grounds for timely disclosure.</li> </ul>
<p>Development of the listing system for classified stocks</p>	<p>The TSE added instances in which a listed company lists classified stocks that 1) have a larger number of voting rights than previously listed shares and/or 2) restrict the voting rights of such as cases in which listed companies are not permitted to issue classified stocks (i.e. fall under “undue restriction on shareholders’ rights”), unless the TSE deems that special circumstances apply.</p> <p>The TSE is currently taking steps to establish the listing system for stocks with classified voting rights</p> <ul style="list-style-type: none"> <li>• The TSE's efforts are based on the direction determined through discussions held with practitioners and knowledgeable individuals regarding when listing of stocks with classified voting rights should be permitted.</li> <li>• Since it is highly probable that stocks with classified voting rights are used as a scheme for controlling a company with a small shareholding ratio, the TSE is obliged to conduct careful deliberation before it approves the listing of such stocks, in a manner similar to the careful consideration given to the listing of a company owned by a parent company.</li> </ul>

## 2. Improvement of the Market System

<p>Enhancing confidence in Mothers</p>	<p>The TSE took measures to improve the listing system, including, among others, abolishment of the listing rules regarding reassignment from the First or Second Section markets to Mothers, in order to more clearly define the nature of the Mothers market. This provides opportunities to gain earlier access to the capital market to companies that are in their initial stages of growth and that intend to list their stocks in the First or Second Sections in the future.</p> <p>The TSE took measures to improve the listing system by requiring a certain ratio of tradable shares at the initial listing of a company to enhance liquidity when it is initially listed on Mothers.</p> <p>The TSE held seminars for the management of companies listed on Mothers.</p> <ul style="list-style-type: none"> <li>• The TSE held seminars for management to ensure that directors/officers will deepen understanding of their responsibilities as managers of publicly traded companies.</li> </ul>
<p>Review of trading units</p>	<p>The TSE developed and published action plans to realize eventual trading unit standardization to a unit of 100 shares per basic lot, and consolidation of units to basic lots of 100 shares and 1,000 shares prior to the eventual standardization.</p> <ul style="list-style-type: none"> <li>• Setting a specific transitional period from the introduction of stock certificate dematerialization, for the time being, the TSE will aim to consolidate trading units per basic lot to units of 100 shares and 1,000 shares (the TSE will implement a schedule in consideration of practical issues).</li> <li>• The TSE amended the listing rules to require, in principle, companies planning to either complete an initial listing or set up/change the number of trading units per basic lot in or after April 2008 to adopt trading units composed of 100 shares as a basic lot.</li> </ul>
<p>Review of criteria for liquidity, etc.</p>	<p>The TSE reviewed and amended the listing standards regarding the number of shareholders and shareholding ratio of the special few as follows:</p> <ul style="list-style-type: none"> <li>• With respect to the criteria for the number of shareholders for initial listing, First Section assignment, Second Section reassignment, and delisting, the TSE reviewed and amended the criteria so that the required number of shareholders will be fixed at a certain level instead of an increasing number.</li> <li>• The requirement for the shareholding ratio of the special few was replaced with the requirement for the ratio of</li> </ul>



	<p>tradable shares.</p> <p>The TSE introduced criteria for the number of tradable shares and criteria for the market capitalization of tradable shares.</p>
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### 3. System Improvements for Ensuring Listing Rule Effectiveness

<p>Improving measures to ensure the effectiveness of listing rules</p>	<p>The TSE plans to introduce a system that will require listed companies who breach their listing contract to pay a fine. The system will be applied to companies whose corporate actions violate the listing rules and are deemed to impair confidence among shareholders and investors toward the markets operated by the TSE and companies listed on these markets in general.</p> <p>The TSE established the “Securities on Alert” system under which a listed stock will be designated as “on alert” if the company is deemed to have committed a material violation of the listing rules that does not fall under delisting criteria, but the TSE nevertheless concludes that it is highly necessary for the company to improve its internal management system, etc.</p> <p>The TSE reviewed and revised the name of the process used to disseminate information on issues that may possibly be delisted. Issues for which the TSE will judge whether the gravity, etc. of a violation meets delisting criteria are indicated as “Securities Under Supervision (Under examination),” and issues for the TSE will confirm whether a violation meets the numerical criteria, etc., for delisting are indicated as “Securities Under Supervision (Confirmation)”.</p> <p>The TSE plans to introduce a system to postpone the expiration of the period an issue is designated as a “security to be delisted” by up to one month, if such securities are treated as Phoenix Issues under the system operated by the Japan Securities Dealers Association. The purpose of this is to provide investors with extended opportunities to liquidate.</p>
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#### 4. Response to Listing of Various Financial Instruments

Response to Listing of Various Financial Instruments	<p>The TSE took measures to improve the listing system for foreign exchange-traded funds (ETFs)</p> <p>The TSE took measures to improve the listing system for ETFs linked to commodity prices.</p> <p>The TSE took measures to improve the listing system for beneficiary certificates issued by beneficiary certificate issuing trusts (Japanese Depositary Receipts or JDRs)</p>
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#### 5. Others

Reinforcing cooperation with CPAs	<p>The TSE established the Corporate Code of Conduct, which requires listed companies other than large scale companies defined in the Corporation Law to strive to set up accounting auditors.</p> <p>The TSE took measures to facilitate smooth cooperation with CPAs, such as disseminating information on the registration system for listed company audit firms administered by the JICPA.</p>
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