

Outline of Interim Report of Advisory Group on

Improvements to TSE Listing System

Basic Policy for Improving Listing System

- In working toward ensuring the market's soundness, TSE should make its system such that it will encourage market participants, such as listed companies, to develop an even greater awareness of themselves as one of the many important players who together make up the securities market.
- TSE should ensure market transparency by utilizing disclosure of corporate information to an even greater degree.
- TSE should respond appropriately to corporate actions from the perspective of appropriately ensuring investor protection and market performance.
- TSE should work toward making the market easier to use for its participants, such as listed companies.
- In working toward realizing the above policies, TSE should take into account an importance of being consistent with international markets.

Direction of System Improvements

1 Improvements to the System relating to Corporate Actions

(1) Timely Disclosure

- Timely disclosure of corporate information is crucial for ensuring that prices are formed reasonably and fairly in the securities markets and constitutes an important bedrock on which investors build their confidence in the securities market. It is therefore important that corporate information important to making investment decisions is disclosed accurately.
- It would be desirable to take measures that would encourage disclosure of events that are deemed to be of a high degree of practical importance for making investment decisions even if those events do not correspond to the formal disclosure requirements.
- It is appropriate to revise the Immateriality Standards with regard to disclosure of listed companies to be made based on, in principle, consolidated financial information, except for information regarding stock dividends and the like.

(2) Developing Codes of Conduct for Listed Companies

- It is appropriate for TSE to develop codes of conduct for corporate activities, while taking care not to excessively restrict the freedom of their conduct, from the perspective of protecting shareholders and investors and operating the fair and sound market.
- The Advisory Group envisages including among the details of such a code of conduct fundamental corporate governance items, items concerning the election by listed companies with parent companies of outside officers who are not from the parent company, and items concerning measures to be taken to prevent the harmful effects arising from conflicts of interest in such matters as MBOs and material transactions between listed companies and their controlling shareholders.
- The Advisory Group believes that it should continue to discuss such matters as codes of conduct that require shareholder consent for issuing shares as well as corporate governance issues, including having outside directors and testing the independence of outside officers.

(3) Listing System for Subsidiaries

- TSE should publicly announce its basic position that the listing of subsidiaries is not always an encouraged practice.
- It would be appropriate to boost measures aimed to prevent the harmful effects arising from conflicts of interest with minority shareholders.
- It would be desirable to continue discussions on the listing examinations relating to the listing of subsidiaries.

(4) Listing System for Class Shares

- It would be appropriate to proceed with discussions along the lines of allowing listing of class shares with respect to voting rights, in principle, only upon initial public offering.
- It would be appropriate to allow the issuing and listing by listed companies of shares with fewer voting rights than those of already listed shares, to the extent that doing so does not constitute “unreasonable restraint on the rights of shareholders.”
- If listing of class shares with respect to voting rights is allowed upon initial public offering, it would be appropriate to allow only the listing of class shares with respect to voting rights where the scheme respects shareholders’ rights, focusing on alleviating disadvantages that accompany class shares.

- The legal stability of such a scheme would need to be separately confirmed.

2 Improving the Market System

(1) Marketplace Sections

- It would be desirable to proceed with discussions along the lines of redesigning marketplace sections currently based on liquidity, focusing particularly on clear and quantitative standards coupled with market assessment.
- It would be desirable to consider (i) not continuing the examinations for eligibility requirements that are currently in place for when a company is designated to the First Section, and (ii) continually verifying business administrative structures of listed companies when they merge with larger non-listed companies or when there is a breach of rules on timely disclosure due to willful misconduct or gross negligence.

(2) Emerging Markets

- It would be appropriate for TSE to position Mothers as a market that provides an opportunity for access to capital markets in the early stages for businesses still in their initial stages of growth who aspire to list in the future on the Main Markets, and for TSE to improve the system so as to make it clear that TSE operates Mothers as a unified whole with the Main Markets (such as by reviewing TSE's regulations when such companies listed on Mothers move from Mothers to the Main Markets, abolishing provisions concerning change of markets from the Main Markets to Mothers, encouraging companies with growth potential to list their shares on Mothers , and so on).
- It would be appropriate, in working toward enhancing the reliability of Mothers, to improve the system by introducing measures to strengthen efforts to improve the operating and management system of companies (such as by examining companies listed on Mothers after a certain period of time has passed since they were listed, using examinations corresponding to the examinations for eligibility requirements undertaken on companies to be newly listed on the Main Markets).
- It would be appropriate to improve the system by applying delisting measures to any entity not achieving predetermined growth after a set period of time after being listed on Mothers.

(3) Combining Trading Units

- It would be desirable to integrate the current seven trading units into one trading unit, perhaps preferably (considering investment units and the like)

with the future aim to combine one unit to comprise 100 shares.

- However, in order to quickly realize any improvements in convenience of market participants, it would be appropriate for TSE to start making adjustments by first formulating a basic policy (an action plan) under which the trading units would be combined into two units, one of 100 shares and the other of 1000 shares, and then publicly announcing that policy this year.
- It would be appropriate to implement this promptly after 2009, when the Electronic Share Certificate System will commence.
- It is imperative that TSE undertakes these efforts not by itself but in cooperation with other Japanese securities exchanges.

(4) Reviewing Criteria for Liquidity

- It would be expected that the method to increase required number of shareholders based on the number of shares will be abolished and fix on certain criteria.
- Instead of having criteria for ratios of stock ownership by the special few, listed companies will be required to have a certain number of floating shares and a certain amount of aggregate market value of floating shares.
- It would be best make listing criteria more stringent than delisting criteria to some degree.
- It would be desirable to establish the listing criteria for Mothers similar to those used for the Main Markets.

3 Enforcement Measures of the Listing Rules

- Focusing on violations of rules relating to corporate activities, such as with regard to the requirement of disclosure, it would be desirable to introduce countermeasures, for ensuring efficacy, in addition to delisting, such as a system of imposing monetary sanctions and a system of allocating violating companies to new separated marketplace sections other than the current Main Markets.
- With respect to enforcement against companies violating the rules, it would be appropriate to firmly establish processes with an even higher level of transparency and fairness based on judgments by a newly-established self-regulatory organization with a high degree of independence.
- It is necessary to continue to proactively add to the discussions of the entire securities industry, with an eye to ensuring the liquidity of issues that have

been delisted.

How to proceed from here

- The Advisory Group would hope that TSE immediately revises the Comprehensive Improvement Program for Listing System dated June 22, 2006, based on the details of the Interim Report and prepare an action plan to implement the Program on and after fiscal 2007.
- The Advisory Group intends in the future to continue to consider, as necessary, matters that it was unable to consider enough this time.

Note: Relationship with listing systems of other Japanese securities exchanges

Listing systems vary from one exchange to the next in Japan, as each has its own unique features and its own operations policies, so as a matter of course each of them is expected to use their own efforts to improve or enhance their respective listing systems regardless of the contents of the Interim Report (the Interim Report, however, should clearly set out matters requiring TSE to implement in concert with other securities exchanges).

—End of Outline—